



Testimony of Melissa Kahn
Vice President
MetLife
on behalf of the American Benefits Council

Hearing on Financial Literacy and the Role of Employers

Working Group on Financial Literacy
ERISA Advisory Council
on Employee Welfare and Pension Benefit Plans
U.S. Department of Labor
Washington, DC

July 10, 2007

Good morning. My name is Melissa Kahn and I am a Vice President at MetLife. I am testifying today on behalf of the American Benefits Council (the "Council"), as the Chair of the Council's Retirement Income Task Force.

The Council is a public policy organization representing principally Fortune 500 companies and other organizations that assist employers of all sizes in providing benefits to employees. Collectively, the Council's members either sponsor directly or provide services to retirement and health plans that cover more than 100 million Americans.

We want to commend the ERISA Advisory Council for establishing a working group to examine the issue of financial literacy and for inviting the Council to testify on this very important issue. The Council believes that financial literacy is the foundation upon which a solid retirement nest egg must be built. Without the knowledge and ability to make sound financial decisions, individuals will be left with inadequate resources to meet their income and health needs in retirement. Financial literacy has taken on even more significance over the past few decades, as we have been moving from traditional models of providing "defined benefits", both for retirement income and health, to models that place more responsibility on individuals to fund, invest, and manage both income and health plans for themselves.

In 2002, the Board of Directors of the Council established a task force to undertake the drafting of a ten-year plan for restructuring the employee benefits system in order to promote personal financial security. The Board believed that it was the responsibility, as well as the traditional role, of the Council to work with public policymakers to develop a longer term vision of how the health and retirement benefits systems could be improved and reformed.

The final report, *Safe and Sound*, was released in 2004. It contains nine aspirational goals that the Council believed were achievable within ten years that would greatly improve the financial security of the American workforce. The first goal set forth in the plan is to raise financial literacy. Specifically, the goal states that, by 2014, virtually all households should have access to some form of investment education and advice and 75 percent of households should have calculated the amount of retirement savings needed to maintain their standard of living throughout retirement, as well as the savings rate necessary to achieve this target.

The goal of 75 percent was chosen because it represented a significant increase from the peak level reported in the 2000 Retirement Confidence Survey. The amount-needed-to-save calculation was chosen as a goal because it indicates that a worker has achieved enough financial literacy to begin retirement planning and is prepared to take steps to act on what has been learned.

We believe that financial literacy is quite broad in its scope and can mean different things to different people and organizations. For the Council, we view financial literacy as encompassing all stages of planning and living in retirement, and should focus on both accumulating sufficient assets for income and health needs (including the possibility of requiring long-term care) as well as managing those assets in retirement so that they last as long as the individual lives.

Financial literacy, to be successful, must be taught at an early age. We believe that in most instances waiting until someone is in mid-career will be too late. Rather, financial concepts such as compounding of interest asset allocations, diversification, and risk tolerances should be taught in school. That is why one of the Council's financial literacy recommendations is to establish financial education as a high school and college graduation requirement. We have been somewhat heartened to see since the publication of *Safe and Sound* that various school districts around the country, including in Virginia, have established such programs, in some cases as early as elementary school. While this trend is encouraging, we would urge that this effort be pursued on a national basis. It would be appropriate to explore different means of achieving this goal, including coordination among the federal government agencies and between federal and state and local governments.

Once one is in the workforce, one of the first steps toward building an adequate retirement income is to calculate how much one needs to save to reach one's retirement goals. In 2004, 42 percent of U.S. workers reported that sometime in the last three years they or their spouses had calculated how much money they will need to save in order to live comfortably in retirement, according to the Employee Benefit Research Institute's Retirement Confidence Survey. This number has since remained virtually stagnant, with 43 percent reporting in 2007 that they had made the calculation. Between 1994 and 2007, the proportion of workers who have engaged in this key retirement planning activity has varied from a low of 31 percent in 1994 to a high of 53 percent in 2000.

Workers, however, may be underestimating how much they need or may not be able to make a determination at all. Thirty-eight percent of those surveyed in 2004, for example, expected they will need an income of less than 70 percent of their pre-retirement earnings. By contrast, most retirement advisers suggest that a retirement income of at least 70 percent or more of pre-retirement earnings is needed to maintain an individual's pre-retirement lifestyle. (Some advisers suggest 100 percent of pre-retirement income.)

In order to improve individuals' understanding of how much they need to save for retirement, we recommended that the Social Security Administration ("SSA") include in workers' annual statement information on how to calculate a rough estimate of the amount one needs to save in order to, when combined with one's

projected Social Security benefit, provide a replacement level income of at least 70 percent of one's pre-retirement earnings.

In addition to this basic retirement calculation that could be performed by SSA, we also recommend that public sector and private foundation funding be provided in order to develop educational tools that can be used by employers, governments, and other stakeholders in educating workers about saving, investment and income management principles. Education efforts also include information about future longer life expectancies, and how workers can financially prepare for longevity risk, which will have an impact on their income and health needs in retirement.

Once individuals determine that they need to save and how much they need to save, they must then understand how to appropriately invest that money so that they can reach their savings targets. In this regard, it was very helpful that Congress directed the Department of Labor ("DOL") to provide participants with on-line information regarding investing and diversification. But more is needed. For most individuals who are not sophisticated investors, investing can be extremely intimidating. Therefore, it is important that workers have access not only to investment education (such as the DOL information), which is very important, but to investment advice as well.

As one of our recommendations in *Safe and Sound*, we urged Congress to enact legislation to allow employees to receive financial education and advice through their workplace and/or from a retirement plan administrator. If provided through the employer, qualified advisers affiliated with plan investment offerings could participate (with certain worker protections provided) and employers should be protected from fiduciary liability for the specific advice provided to individual participants. We believe that Congress took an important step in the Pension Protection Act last year in acknowledging the need to provide investment advice in the workplace and we look forward to continuing to work with the Department of Labor as it issues regulations in this area.

While the number of people who have access to investment advice is small, it is growing. According to a Hewitt Associates 2007 survey, 31 percent of the employers surveyed offer investment education (education regarding asset class allocation) and 30 percent offer third party investment advice. However, of the employers who do not currently offer education or advice, 59 percent and 52 percent, respectively, indicated they were somewhat likely to begin offering it in 2007. Nevertheless, when advice is offered, participants do not always seek it out. One report indicates that only 24 percent of those eligible to receive advice actually take steps to obtain the service.

Unfortunately, the road to retirement security does not end once one accumulates sufficient assets to retire. Actually, in many ways, the challenges are at least equal, if not greater, once one retires. Although one can make good estimates of asset sufficiency, there are so many unknowns in retirement that it is almost impossible for most people to be fully comfortable in knowing that they will be able to meet their income and health needs in retirement. Questions regarding how long one will live, what inflation will be during retirement, how investments will fare, and what types of unexpected health and long-term care needs one will have are just a few of the many issues that individuals will face once they retire. In order to be complete and fully effective, financial literacy programs must address these issues and how to effectively manage assets throughout retirement.

As I stated earlier, many employers, when they do offer benefits, are offering benefits where the worker must fund and invest those assets. With the creation of Health Savings Accounts, which in many respects are similar to 401(k) plans, individuals are assuming a more prominent role in ensuring their retirement income and health coverage needs. But, when individuals reach retirement, they may have no roadmap for how to draw down those assets in a manner to ensure that they can comfortably live in retirement (and meet their health and possible long-term care needs). Therefore, it is critical that financial literacy programs address this phase of the retirement equation: managing assets in retirement. The fact that individuals are assuming more responsibility for ensuring personal financial security does not mean that there is not a critical role for employers and the government. To the contrary, the extent of the personal financial security challenge is so significant that the government needs to do more and needs to facilitate voluntary participation in this effort by employers. One of the most important tasks for employers and government to undertake is to help provide the tools that individuals need to assume their increased responsibility. Facilitating financial literacy is one example.

For a long time, the public policy focus has been solely on the pre-retirement accumulation phase. A critical development in this regard is the recent legislative promotion of automatic enrollment arrangements. With increased life expectancies and the decline of defined benefit arrangements, however, it is essential that financial education also address how individuals can protect themselves against post-retirement uncertainties, such as how long one will live and what health care and long-term care needs one will have. Individuals also need help determining how long they need to work to achieve their post-retirement goals. We need to heighten awareness of the post-retirement issues, and at least refer to this issue in all education efforts regarding the pre-retirement period.

We applaud the recently introduced resolutions (H. Res. 507 (which has passed the House of Representatives) and S. Res. 240) to declare the week of October 21, 2007, "National Save for Retirement Week". Such a week would be a great start in heightening awareness of this issue. A permanent "Save for Retirement" month would also help shine a light on the need for retirement education.

Again, I would like to thank the ERISA Advisory Council for holding this hearing today and for inviting us to testify. I would be happy to answer any questions you may have.