

STATEMENT OF:

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**ON BEHALF OF:
THE LATINO COALITION
AMERICANS FOR SECURE RETIREMENT**

**To the:
U.S. Department of Labor
U.S. Department of Treasury**

Joint Hearing on Lifetime Income Options for Retirement Plans

September 14, 2010

I am Hector Barreto, National Chairman of The Latino Coalition (TLC), a non-profit nationwide organization that addresses policy issues directly affecting the well-being of Hispanics in the United States. TLC's agenda is to develop initiatives and partnerships that will foster economic equivalency and enhance overall business, economic and social development of Latinos.

The Latino Coalition is pleased to submit for the record our statement for this joint hearing on Lifetime Income Options for Retirement Plans. We commend the Obama Administration and the Departments of Treasury and Labor (the "Agencies") for this effort. Given the increasingly difficult retirement challenge facing Americans, we strongly support encouraging and providing incentives for Americans to secure a steady stream of guaranteed income in retirement.

Our organization is a leading member of Americans for Secure Retirement (ASR), a broad-based coalition of 70 member and affiliate organizations representing women, farmers, Hispanic-Americans and small businesses, among others. For the past few years, we have worked as a leading member of ASR to raise awareness about the difficult challenges Hispanic Americans face to enjoy a secure retirement.

As is now well documented, the Hispanic community in the United States has grown exponentially over the past decade. Hispanics are now the largest minority group in our country, making up about 48 million people. By 2050, that number is expected to increase to 132 million, accounting for nearly 30 percent of the total U.S. population. This growing population, combined with a longer average life expectancy and a mere 16 percent of Hispanics in their pre-retirement years means that Hispanics will make up a significant number of those entering retirement in the future.

Hispanic Americans face greater challenges in obtaining a secure retirement than the average population. Within our community, there is a general lack of retirement preparation, less access to employer-sponsored retirement plans, lower levels of personal savings and inadequate financial literacy. These findings were outlined in a report issued last year by ASR and the Hispanic Institute, entitled "Hispanics and Retirement: Challenges and Opportunities."

One of the main reasons for the difficulty Hispanics face in having a secure retirement is that as many as two-thirds of our community are employed in the service sector, where employer sponsored retirement plans are less common than in other industries. In fact, only 25.6 percent of Hispanics are covered by employer-sponsored retirement plans, compared to 42.5 percent of whites and 40 percent of African-Americans. This leaves a large majority of Hispanics overwhelmingly reliant on Social Security benefits for their retirement income. And of Hispanics receiving Social Security benefits, almost 80 percent rely on them for at least 50 percent of their retirement earnings. Among people 65 and older receiving Social Security, on average Hispanics receive about \$2,124 less in earnings than non-Hispanics.

While the portrait of Hispanics in retirement may seem dire, there is light at the end of the tunnel. Hispanics are an increasingly upwardly mobile community. For instance, between 1979 and 1999, middle-class Hispanic households increased by nearly 80 percent. In the same period, Hispanic households earning between \$40,000 and \$140,000 grew to include about one-third of

the total Hispanic households nationwide. Hispanics also continue to show their entrepreneurial spirit through the increased operations of small business around the country.

Solving this problem will not be easy, but there are many simple steps the Agencies can take to increase savings, planning, and retirement security for Hispanics. First, increasing financial literacy in the workplace by providing bilingual educational opportunities to Hispanics will ensure they are informed and aware of the retirement options available.

Second, given the rapidly changing dynamics and diversity of the Hispanic community, we believe that policymakers need to consider multiple retirement vehicles to supplement Social Security and bridge the gap in access to employer plans. Instruments that provide guaranteed lifetime income are important for the Agencies to pursue, not just to help Hispanics but all Americans. Options such as annuitization not only minimize financial risks but provide retirees with the means to build retirement savings and secure guaranteed income lasting as long as they live. In fact, annuitization of all or a portion of retirement assets is the only method that can provide a guaranteed stream of lifetime income through retirement – a “paycheck for life” – to ensure that they will not outlive their income. An annuity provides lifetime payment at regular intervals. These lifetime payments begin when the retiree determines they are needed and continue for the lifetime of the retiree and, if selected, his or her spouse.

Increasing access to sources of guaranteed lifetime income that will supplement Social Security is a critical component of planning for a secure retirement. To encourage and incentivize the use of secure retirement vehicles such as annuities, they must become more accessible and affordable.

To that end, we urge the Agencies to promulgate rules that will remove obstacles and instead provide incentives to encourage employers to afford their employees with the option to annuitize all or a portion of their defined contribution retirement accounts, and to encourage employees to take advantage of such options. Additionally, your Agencies should develop policies to provide similar incentives for the large number of Americans whose retirement savings are held outside of employer plans, such as in individual retirement accounts and personal savings. The need for guaranteed lifetime income vehicles to help manage retirement savings is not limited to participants in employer based retirement programs.

Undeniably, helping Americans save and plan for their golden years is the right thing to do for the future security of our nation and its retirees. Beyond making steady, lifetime benefits more accessible to Americans, it is important to ensure these opportunities reach the populations, particularly women and minorities, that have the least access to employer based retirement programs, or get the least from these and Social Security.

Earlier this year, the Obama Administration announced initiatives to help middle income Americans achieve a financially secure retirement, recognizing the challenges faced by vulnerable Americans and the need to do more to give families better choices to reach a secure retirement. Of note, the Administration stated their commitment to increasing the availability of guaranteed lifetime income through annuities and other forms of guaranteed income.

As you are no doubt aware, many policy experts argue that favorable tax treatment of non-qualified retirement plans, or lifetime annuities, as well as the incentives to convert a portion of a person's savings into a guaranteed income stream can help retirees obtain financial security in retirement. As the Agencies work to ensure the financial soundness of America's retirees, guaranteed income through annuities must be part of the discussion.

Current legislation pending in Congress achieves these goals. While the specifics of the particular legislation are unimportant, the policy solutions put forth are worth consideration. They are:

- Providing a 50 percent tax exclusion on the annual income from a non-qualified lifetime annuity, up to \$20,000, creating significant tax savings for middle income Americans, and an incentive to help secure ones retirement.
- Encouraging workers to annuitize some of their retirement savings by providing a 50 percent tax exclusion for up \$10,000 of lifetime annuity payments each year. Additionally, an exclusion from taxes, 25 percent of lifetime income payments from Individual Retirement Accounts (IRAs), qualified plans and similar employer-sponsored retirement savings plans other than defined benefit plans.

Both of these policies would sensibly encourage Americans to invest a portion of their savings in lifetime annuities to secure a guaranteed source of income in retirement. Lifetime payments serve as personal insurance that eliminates the risk of outliving one's assets and protects against sudden economic downturns. As part of the ASR coalition, we also support efforts that make it easier for Americans to turn their 401(k) assets into lifetime income through annuitization.

Annuitization is a retirement planning vehicle that can provide lifetime payment at regular intervals. By taking the risk and guesswork out of managing of retirements savings, annuitization of assets can help members of the Hispanic community ensure a regular stream of income to augment Social Security and other savings they may have.

The aforementioned policy solutions take a sensible approach to encouraging Americans, especially Hispanics, to plan for the long-term. It should be among our top priorities to make sure that members of America's Hispanic community have the tools to help them adequately prepare for retirement and manage those savings so they last a lifetime. We are encouraged by this demonstrated interest in helping American secure lifetime income for their retirement. The Latino Coalition stands ready to assist the Agencies in developing or refining rulemaking proposals. We look forward to helping you in these efforts. Thank you.

Hector V. Barreto

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