RETIREMENT SECURITY: WHAT SENIORS NEED TO KNOW ABOUT PROTECTING THEIR FUTURES

HEARING

BEFORE THE

SUBCOMMITTEE ON
CAPITAL MARKETS, INSURANCE, AND
GOVERNMENT SPONSORED ENTERPRISES

OF THE

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RETIREMENT SECURITY: WHAT SENIORS NEED TO KNOW ABOUT PROTECTING THEIR FUTURES

Thursday, May 15, 2003

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE,
AND GOVERNMENT SPONSORED ENTERPRISES
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to call, at 10:08 a.m., in Room 2128, Rayburn House Office Building, Hon. Richard Baker [chairman of the subcommittee] presiding.

Present: Representatives Baker, Lucas of Oklahoma, Kelly, Ryun, Tiberi, Brown-Waite, Harris, Kanjorski, Inslee, Lucas of Kentucky, Clay, Baca, Emanuel and Scott.

Chairman BAKER. [Presiding.] I would like to call this meeting of the Subcommittee on Capital Markets to order. This morning our purpose is to examine the subject of retirement security and what seniors do or do not know about the availability of retirement products in making their planning.

As those of us who are baby boomers are realizing when we begin to retire, we present a unique problem to the country. There are more of us than any other model ever manufactured. We are going to live a longer time. We are going to demand higher levels of care and we are going to sue more. So we probably need to examine what the landscape will look like when this significant group of retirees begins to avail themselves of that opportunity.

Retirement security is very essential for everyone, but especially important for those who face it in the near term. It has taken particular urgency for 77 million baby boomers who will turn 60 by 2006. Traditionally, securing retirement income depended on three sources, from Social Security, income from an employer pension plan, and individual savings. Over the last decade, experts have begun to alter this strategy by adding medical insurance and even a fifth alternative, earnings from retirees' continued employment. As a result, a number of innovative products have been introduced in an attempt to fill seniors' changing needs.

But few consumers know that private long-term care insurance has the potential to protect the policyholder and, equally important, the policyholder's family from the extraordinary costs of long-term care of nursing home care that is often not covered by government security programs. Few seniors are aware of how annuitization, the trading of assets for a guaranteed stream of pay-

outs, can help guard against outliving the planned asset program. And it is necessary to increase consumer awareness of how long-term care, annuities and other financial products can fit with a sound retirement strategy. That is the reason why we are here this morning, is to first gain understanding, but secondly look at the regulatory oversight of the current State structures and to examine whether or not any actions are required by Congress to assure seniors of long-term income stability with adequate planning.

To that end, I welcome all our witnesses here this morning, and recognize Mr. Kanjorski for any opening statement he may choose.

Mr. KANJORSKI. Mr. Chairman, today we will explore the issues that individuals should consider as they plan for retirement. Because investor protection and financial literacy are top priorities for my work on this panel, I am therefore very pleased that we are meeting to examine matters like annuities, life insurance and long-term care insurance, among others.

The aging of the American population has made retirement planning an issue of increasing concern for our nation's policymakers and we should review a number of trends before hearing from the witnesses. Today, 12.4 percent of the population is 65 years of age or older. By 2025, according to Census Bureau projections, this statistic will rise to 18.5 percent. Moreover, over the next 30 years as baby boomers reach retirement age, America's elderly population will likely double, rising from 35 million to nearly 75 million. Life expectancy rates also continue to increase. Someone who lives to age 65 can now expect to live an additional 18 years, up from an extra 13 years in 1940. Although Americans are living longer than ever before, many are retiring earlier. For many of these individuals, retirement will last 20 or 30 years or even longer.

In light of these trends, individuals must plan prudently and early in order to ensure a secure retirement with a steady stream of income to cover expenses. While retirement planning is important for everyone, it is especially important for women. Women, after all, generally live longer and with less income when compared to men. For many years, we have described retirement planning as a three-legged stool based on Social Security, employer-provided pensions and personal savings and investments. In reality, it consists of more than these three supports. Genuine retirement planning should also incorporate insurance products, including medical, long-term care and annuities. Experts also advise that really effective retirement preparations should include either a will or, if appropriate, an estate plan to protect one's loved ones.

With more Americans living longer and retiring earlier, pensions and Social Security benefits will have to be paid over even longer periods of time. Personal savings and investments must also be stretched out. The troubles of the stock market over the last three years, however, has resulted unfortunately in significant declines in pension plans and retirement investments. Today, the sagging economy has produced an under-funding of pension plans of more than $300 billion. It also disturbs me that the retirement plan participation rates have recently dropped for full-time employees, standing at just 55.8 percent in 2001. Savings for retirement is just one step toward achieving financial security.

I am therefore pleased that we are examining the issue of annuities. Annuities can help seniors to manage their savings so that they will not out-live their assets. In today's complex financial marketplace, we also need to ensure that individuals preparing for retirement understand the benefits of receiving a guaranteed stream of payouts via an annuity, instead of taking a lump-sum payment. As the American population continues to age, experts predict that the number of individuals requiring long-term care will greatly rise. At some point, one in five seniors will require nursing home care for at least a year. The costs of such care now average $55,000 annually, but by 2030, according to at least one estimate, these services could cost or $200,000. To reduce the burden on Medicare and Medicaid, we have worked in recent years to adopt policies aimed at encouraging individuals to purchase long-term care insurance. Today's hearing will help us to understand what else we can do through the private sector to meet this growing need.

Finally, Mr. Chairman, because we are talking about retirement planning, I feel it is important to raise the issue of Social Security. This program presently covers about 160 million workers, providing them with a safe, secure and steady stream of income in retirement. As a result of Social Security, the poverty rate among America's elderly has dropped dramatically, and without this vital retirement program the poverty rate among older women would increase from 12 percent to more than 50 percent. Social Security is a success. We should not tinker with this program with proposals to privatize the system. I will be particularly interested to hear what our witnesses have to say about this issue.

Mr. Chairman, I want to thank you for bringing these matters to our attention. Retirement planning is an issue of utmost importance. I look forward to working with you on these endeavors.

[The prepared statement of Hon. Paul E. Kanjorski can be found on page 39 in the appendix.]

Chairman BAKER. Thank you, Mr. Kanjorski.

Ms. Kelly?

Mrs. KELLY. Thank you, Mr. Chairman. Good morning, and I thank you very much for holding this important hearing on retirement security. It is an issue that is of great concern to today's seniors and tomorrow's retirees.

With tens of millions of baby boomers approaching retirement, the need to focus on proper planning and financial literacy continues to grow. The cornerstone of retirement security is the consumers' ability to anticipate their future financial needs and adjust their assets, using several diverse financial products, from investments and pension funds to life insurance policies and long-term care insurance, annuities and Social Security. As more sophisticated financial products are introduced to fill the evolving retirement needs of seniors, we need to ensure that consumers have a clear and objective base of information. The arrival of new and improved products for seniors is welcome, but it also comes with an additional responsibility that financial regulators keep pace with the changes in the marketplace to protect consumers.

Last year, my Subcommittee on Oversight and Investigations held a hearing on one product known as a viatical settlement, the practice of buying life insurance policies from the elderly or termi-

nally ill at a discount, and then marketing them as investments. A properly conducted viatical transaction can be a benefit to all parties involved. Sick individuals can access much-needed cash to pay for medical expenses. Companies that sold the original policies receive premiums that are important to market stability, and investors and settlement companies who buy policies are able to make a return on their investment. Unfortunately, as we learned at that hearing, bad actors have taken advantage of these arrangements to create or buy phony policies and fraudulently bilk unsuspecting investors. While it is extremely unacceptable, it is no surprise, given the complex nature and inconsistent State of regulation of viaticals. The State regulation is inconsistent. I strongly believe that we have to address the lack of uniformity and regulatory gaps among the States in regulating life and viatical settlements that leave some citizens, particularly elderly Americans, at the risk of being defrauded.

I thank the witnesses for appearing here today before the subcommittee and I look forward to hearing their testimony on these issues.

Thank you, Mr. Chairman. I yield back.

[The prepared statement of Hon. Sue W. Kelly can be found on page 41 in the appendix.]

Chairman BAKER. Thank you, Ms. Kelly.

Mr. Scott, do you have an opening statement?

Mr. SCOTT. Thank you very much, Chairman Baker.

Chairman Baker and Ranking Member Kanjorski, I want to thank you for holding this important hearing, and thank the witnesses for coming today regarding the retirement security for seniors. Of course, I want to also thank this distinguished panel of witnesses today for their testimony on this important subject.

This hearing is held at an opportune time, given that this past Sunday was Mother's Day. Of course, when you consider the average age of those of us on this committee, you can accurately say that many of our mothers are either retired or certainly close to retirement. We should honor them by taking a serious, serious look at retirement and security for seniors. My own mother just retired this past year.

Of the many issues related to a secure retirement, two stand out in my mind. One is the exploding Federal deficits which threaten Social Security and Medicare. The other is the lack of basic savings among African Americans. These two concerns relate to traditional retirement planning, which includes Social Security benefits, employer pension plans, and individual savings and investments. Since future retirees cannot depend on Social Security or basic savings for retirement income, they must begin to consider additional financial planning tools. For example, promotion of financial literacy is of utmost importance. In that regard, I have introduced legislation which is entitled The Prevention of Predatory Lending Through Education Act, that uses financial literacy and a 1-800 number as tools to fight predatory lending, so that families can keep more of their money and invest it for their retirement use.

In today's paper of the Washington Afro, there is a headline story that shows the timeliness of this hearing. If I may share the first paragraph, there is a picture of four elderly African American re-

tired women. The headline is, "The Victims Fight Back, Predatory Lender Pays Elderly Women $4.3 million." It starts out by simply saying, if I may add this into my record, "It all started with a telephone call. Eugene Duncan says her husband Vincent was recovering from a stroke, confined to a wheelchair, when a representative from a company called First Government Mortgage made an unsolicited offer for a secondary mortgage loan. The representative then came to the elderly retired couple's home and smooth-talked them into signing a loan application. Then without their knowledge or consent, according to court documents, he prepared fictitious documents that helped them to get the loan. The couple got the loan, but between the high interest rates and payments they could not afford, they almost lost their home," this pattern of predatory lending targeting the elderly and the retired.

That is why I am so excited to work on this committee in such a bipartisan way with my colleagues in addressing the needs for our retirees. I will work with the committee to discuss ways to increase basic savings and investment rates through financial education and predatory lending.

I just want to take this opportunity, Mr. Chairman, to thank you personally for your encouragement for us in support of this effort; certainly, Chairman Ney, Chairman Oxley and our Ranking Member, Representative Frank, for addressing this very, very important issue as we approach ways to help our seniors to save their money and live more productive lives.

Thank you.

Chairman BAKER. Thank you, Mr. Scott.

Mr. Lucas? Ms. Harris?

Ms. HARRIS. Thank you, Mr. Chairman. Thanks for holding this very important hearing, and I wanted to thank all the members of the distinguished panel for their testimony today.

As Congress debates how we can most effectively revitalize our nation's economy, we must address the concerns of the people who built our prosperity in the first place, our seniors. We cannot truly restore economic security without bolstering Social Security as well. We must all have the same goal, both the Federal and the State level, to protect and help our seniors. In recent years, our seniors have borne the consequences of the greed of corporate executives who rocked markets and robbed shareholders, suffering through undeserved sleepless nights after a lifetime of hard work, saving and thrift.

Moreover, they have endured the continued uncertainties surrounding whether we will keep our nation's moral obligation to protect Social Security, strengthen Medicare and provide a prescription drug benefit. While we address issues that impact today's seniors, we must also plan for the retirement of tomorrow's seniors. During the next decade, 77 million baby boomers will reach the age of retirement, thus we must marshal the resources, creativity and courage to address an array of challenges. While a large part of this effort involves the development and the refinement of policies and programs, we still must focus a significant portion of our energies upon helping our seniors understand their rights and choices in today's financial services marketplace. I look forward to our continued consideration of this critical matter.

Thank you, Mr. Chairman.

Chairman BAKER. Thank you, Ms. Harris.

Mr. Baca?

Mr. BACA. Thank you very much, Mr. Chairman. I am glad to be here and to hear the panelists discuss what is very important to us in terms of retirement Social Security for our seniors and for our future, not only as we look at the seniors, but the baby boomers looking at the long effects, too, as well, because many of our seniors are on fixed income, and we have to look in terms of long-range. What is actually going to happen? What kind of retirement plan are they going to have? What are they relying on in reference to Social Security? Where is their income coming from? And especially as we look at Hispanics, Social Security is made up 75 percent of their annual income, especially for retirement for Hispanics, so they rely on Social Security, compared to 63 percent of other retirees.

I am very much concerned about the effect Social Security will have and what the president's Social Security privatization plan will have on the Hispanic community and impact, so we are very much concerned there. And also as we look at Social Security, we have to look at health insurance, what are the affects it is going to have on future plans for the ability to pay for health insurance, prescription drugs, and then the ability to save plans, too, as well.

So hopefully the panelists will begin to look at the overall generic. As we look at the diversity within our communities right now, we are seeing many individuals that will be retiring and would like to retire. We want to make sure that they are protected and their pension plans will be there. And then if there is privatization, what affects will it have on our seniors in the long run, too, as well; what affects will it have on Medicare and the ability to have health coverage. Many of our seniors right now, when we look at Social Security as their only form of income, if in fact they have any kind of medical problems they end up losing their homes because they do not have the income to provide, they do not have the insurance to provide, they do not have the planning to survive, and they do not have the pension plans that is in place too, as well.

So I am very much concerned with hopefully coming up with some kind of a Social Security pension plan that will safeguard them now and in the future, and also protecting out baby boomers that will be following into this category. That is all of us here right now and those future ones to come too, as well. Hopefully, the deficit will not be on them or anybody else, based on what we are proposing even right now through the president's tax initiative that he has just passed.

Thank you very much, Mr. Chairman.

Chairman BAKER. Thank you, sir.

Mr. Ken Lucas?

Mr. LUCAS OF KENTUCKY. Thank you, Mr. Chairman. I will be brief.

In my prior life before coming to Congress, I spent 32 years as a financial planner and a CLU and a ChFC. I was surprised that there are not that many of us up here with that background. Again, we spent a lot of time preserving people's net worth and

protecting their retirement assets. I look forward to hearing your testimony today.

Thank you.

Chairman BAKER. Thank you very much, Mr. Lucas.

I would certainly like to welcome our witnesses to this hearing this morning. I look forward to your insights and perspectives. I certainly want to welcome our first witness. I think for the purposes of introductions, I would yield to Mr. Lucas for appropriate comment.

Mr. LUCAS OF OKLAHOMA. Thank you, Mr. Chairman. I appreciate that yield.

Nine years ago this week, I was elected in a special election to serve in this fine body. At that time, as I worked my way up and down one-third of the State in the old Sixth Congressional District, then-citizen Keating was working all over the entire State in preparation for a run for governor that fall. And much, I suppose, to the chagrin of a lot of people back home, not only did I get reelected that fall, but so did Governor Keating, a fellow who in his eight years as governor not only accomplished something that is rarely done in Oklahoma, and that is to be reelected governor, but he stewarded us through some very, very difficult times, both manmade, in essence, and by mother nature. His leadership helped propel, I think, Oklahoma rather dramatically along in a progressive way towards both economic and political reform. His career there could best be summarized as enabling, I think, my fellow Oklahomans, his fellow Oklahomans, the opportunity to better live up to their potential.

So I am particularly pleased, Mr. Chairman, that in his role now as president and CEO of the American Council of Life Insurers, he is here today to testify before us again, I suspect with a focus on how to enhance the quality of life for all of our fellow Americans.

Thank you, Mr. Chairman, and thank you, Governor Keating, for being here today.

Chairman BAKER. Thank you, Mr. Lucas.

Welcome, Governor Keating. We are pleased to have you here this morning.

STATEMENT OF GOVERNOR FRANK KEATING, PRESIDENT AND CEO, AMERICAN COUNCIL OF LIFE INSURERS

Mr. KEATING. Mr. Chairman and members of the subcommittee, after Congressman Lucas' very kind and undeserved introduction, I think I will not say another word.

[Laughter.]

I have a formal statement that I have submitted for the record. I would appreciate the committee at their leisure to examine that statement, because some of the things in there I think are very important. First off, as a citizen, I want to thank Chairman Baker and the members of the subcommittee, for examining these issues. As the ranking member said and as the other members of this subcommittee have pointed out, this is a very serious business.

As an older baby boomer, those of us between the ages of 55 and 64, unfortunately most of us do not have enough money to retire on. That is a demographic time bomb which is ready to go off. The average cash assets of the older baby boomer is $47,000. If you add

in a house and if you add in retirement assets, maybe, maybe $100,000, which at $40,000 a year is a couple of years of income. If you consider a point and a half in interest, that is not a significant income as a companion income to Social Security.

So as Congressman Scott mentioned, the importance of retirement planning; the importance of the state-regulated industry which I represent, the life insurance industry, and members of Congress, and the private sector working together to sensitize people to the important of retirement security and retirement planning is extremely significant. As Congressman Kanjorski noted, the cost of nursing home today alone is $55,000 a year. The cost of having someone come to your home if you do not have a meals-on-wheels program, but to come to your home and attend to your needs just on an ad hoc basis is some $16,000 per year. The fact of the matter is, for the first time ever, financial magazines and newspapers are beginning to speak in terms of people outliving their assets. This is remarkable, the fact that today people are thinking about stopping the accumulation part of their life, and looking at fixed income when they reach about 75. And yet just two or three generations ago, 60 was considered old.

So we do have this very serious demographic challenge. We have a very serious education challenge. For those of us who represent, as ACLI does, some 400 life insurance companies, there is sensitization toward long-term care and the need to examine at an early age long-term care policies and what they will do for your own financial security and the financial security of your family. The need for us to examine our own life insurance needs, so that if we have dependents and something were to happen to us even at a later age, if we are taking care of grandchildren; if we are taking care of step-children, or even children who have returned home, to have life insurance is important across all age groups. And of course, the issue of annuities. After the challenge of the stock market over the course of the last three years, don't we all like defined benefits? An annuity is in effect a defined benefit to provide a companion investment for Social Security.

So Mr. Chairman, we see this industry and this organization as advocacy and research, obviously of assistance to the Congress on tax matters, but most importantly assistance to our citizens, our fellow citizens on the sensitization of the need for income for life; the sensitization of need for retirement security and life security for our children and in many cases our children's children. We do not do enough of it. We do not have enough money saved for retirement, and we welcome this debate and discussion because it is long overdue.

Thank you, Mr. Chairman.

[The prepared statement of Hon. Frank Keating can be found on page 99 in the appendix.]

Chairman BAKER. I want to thank the governor. We appreciate your participation this morning.

Our next witness is Mr. David F. Woods, CEO of the National Association of Insurance and Financial Advisors. Welcome, Mr. Woods.

STATEMENT OF DAVID F. WOODS, CEO, NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS, PRESIDENT, LIFE AND HEALTH INSURANCE

Mr. WOODS. Thank you, Chairman Baker. I am probably the only card-carrying person in the room today, that is, Medicare card-carrying person in the room. I am a senior. I understand very well the concerns of seniors and the needs of seniors.

I represent the National Association of Insurance and Financial Advisors. I am the brand-new CEO. We have 800 local associations across the country representing 325,000 insurance agents, financial advisers and their staffs. Our mission is to provide professional education and support to our members, to establish and to maintain ethical standards for them, and to provide help to committees like yours, members of the various legislative bodies as you and we together try to wrestle with the response that we collectively can make not only of seniors, but to all citizens in various aspects of their financial lives.

I also represent the Life and Health Insurance Foundation for Education. We are a nonprofit organization founded about 10 years ago to address the need of the population at large for more education about the role that insurance and insurance products play in their financial lives, and to help them understand that a financial plan without these insurance products at its base is really nothing more than a savings and investment program that really dies or becomes disabled or grows old and disappears when they do.

So I am privileged to be here today. My primary purpose is to really introduce myself to the members of the committee. My hope is to be with you on a number of future occasions, not only on the issue of seniors, but other issues that may come before this committee where we can be, either or both of my organizations, can be helpful. I am also privileged to be here with Governor Keating. We both started our new jobs together in January and really have renewed a longstanding partnership between the National Association of Insurance and Financial Advisors and the ACLI, to bring the help, support, dues, resources of the life insurance industry to this and other committees which may be interested.

Let me if I can just give you a very brief overview of the role that an agent-adviser plays. I know Mr. Lucas has long experience in doing that, so you may correct me if I miss anything. My written testimony covers it in full detail, but let me just give you a thumbnail. I was an insurance agent for 30-plus years; still carry a license; still do a tiny bit of business when I have some time. The role of the agent-adviser, financial adviser, has several aspects to it, first and foremost, to understand the needs of our clients and our prospects. Not just in terms of how much money do you have, how much money do you need, but understand them as human beings; understand what their personal needs are; what their cares, what their concerns are, so that not only can we make the numbers add up, but we can make them add up in terms of what is important to them in their lives. And then to do the research, to find the appropriate products that may address those needs, and to bring those needs to their attention; to help them evaluate them; to provide competitive analysis for them, so that they can make an

informed and intelligent decision about the products that are important in their lives.

As it applies to seniors particularly, I think the members here have mentioned all of them, annuities, long-term care, life insurance being the most prominent and important among them, for seniors, and then to provide ongoing service to our clients over a long period of time. Seniors particularly find their needs changing. The early years of retirement are much more active than the later years. Money begins to run out as time passes, typically, the longer people live. Long-term care needs become critically important, nursing home care, home care: frightening prospects, frightening prospects for seniors. Some of you may have had your own parents in that situation, as I have. It is a terrible prospect. So the role of the agent-adviser is to constantly work with our clients to help them understand their changing needs, to evaluate their options for them, and to help them work through those options and take advantage of whatever may be there for them.

I appreciate the opportunity to spend some time with you today. I am more than happy to answer any questions you have. I particularly applaud the committee for addressing this issue. All of you have pointed out the needs of this burgeoning crop of baby boomers, but I would submit that there are millions and millions of people who are already retired who have the same concerns and the same issues. So I am looking forward to working with you as together we address these problems.

Thank you, Mr. Chairman.

[The prepared statement of David F. Woods can be found on page 104 in the appendix.]

Chairman BAKER. Thank you very much, sir. We appreciate your testimony.

Is it Mrs. Lavada DeSalles, is that correct, Ms. DeSalles, who is a member of the board of directors of AARP? Welcome.

STATEMENT OF LAVADA DESALLES, MEMBER, BOARD OF DIRECTORS, AARP

Ms. DESALLES. Thank you. It is Lavada DeSalles. You were close.

[Laughter.]

Good morning, Chairman Baker, Ranking Member Kanjorski, and other distinguished members of the Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises. I am a member of AARP's board of directors, and I appreciate this opportunity to offer our views regarding what seniors need to know about protecting their economic security.

Today, my testimony will focus primarily on the role that private insurance can play in financially securing retirement for older Americans. Private insurance products can and frequently do play an important and valuable role in accumulating, managing and protecting the financial assets necessary for having a secure retirement. We believe that privately financed insurance products have the potential for playing a more integral, but supplemental role to Social Security, if the marketplace includes, first, strengthened enforcement of consumer protection statutes and regulations; second, ready access by consumers to well-qualified, independent and af-

fordable financial planning resources; third, reliable and accurate measures for comparing insurance products. Lastly, additional progress should be made in the standardization and licensing of insurers, their agents, and in the way products are approved.

Also important is that these products be integrated as supplementary options for what we at AARP describe as the four basic pillars of retirement income security for the 21st century. That is, Social Security, pensions and savings, investments, health care insurance coverage, and increasingly earnings from working during one's retirement years. Unsurprisingly, commercially offered personal insurance products pose the very same cost, availability and sustainability challenges for individuals that are so familiar to policymakers in addressing national issues.

However, the responsibility for the selection among a complex array of insurance companies, policy options, shifts to the individuals and their families when they are at the same time attempting to manage their daily financial affairs. We do not view this challenge as an unbreachable barrier, but rather one that will require a concerted effort by policymakers, the insurance industry, consumer advocates, and consumers to address.

Chairman Baker, today's hearing represents an important first step in launching this effort. AARP has long been active in efforts to assist mid-life and older Americans to improve their prospects for achieving personal financial security. In this regard, we have conducted research; designed, tested and provided financial education and counseling services to our members, as well as mid-life and older adults in general. But because of the rapidly growing population of retirement-age Americans, the demand for high quality, non-conflicted financial literacy programs will continue to grow.

In conclusion, we believe that efforts should continue to be made to increase consumer awareness of insurance options; options for assembling and managing the necessary financial assets for a secure retirement. At the same time, we believe that changes in a number of public policies and insurer practices would be useful for improving the insurance marketplace and the products and services it provides. We commend you, Chairman Baker, for beginning this important discussion. We look forward to working with the subcommittee to further improve prospects for a secure retirement for all Americans.

I will be happy to answer any questions you may have.

[The prepared statement of Lavada DeSalles can be found on page 42 in the appendix.]

Chairman BAKER. Thank you very much.

Our next participants is Mrs. Cindy Hounsell, Executive Director, Women's Institute for a Secure Retirement. Did I get that close?

Ms. HOUNSELL. Yes.

Chairman BAKER. Thank you.

STATEMENT OF M. CINDY HOUNSELL, EXECUTIVE DIRECTOR, WOMEN'S INSTITUTE FOR A SECURE RETIREMENT

Ms. HOUNSELL. Good morning. We very much appreciate the opportunity to be here and to focus on women's issues.

I thought I would start by saying why we call ourselves WISER. I have been working on this issue for 15 years, and I realized that I had made every financial mistake that you could make throughout your working life. So I thought, well, we do not want to call ourselves STUPIDER, so we will have to find a better acronym and sort of work through the name WISER. People often say to me, well, why don't you include men? I say, well, then we would have to have been MISER, so that would not have worked well either.

But as mentioned, I have been working on this issue for 15 years, and I would just like to emphasize that one of the things that I think is so important for the committee to hear is that people just do not have the financial basics. One of the things I find is that if you throw out the word "annuity" at somebody, they are already knocked over on the table falling asleep, because they do not even understand why they need to understand what an annuity is. People just do not have the very basic foundation of financial planning. I find this to be true, and it does not matter what the education level is. I can talk to people that do not even have jobs and they could understand the need for it just as well as people who are professionals, or like people in this room. I probably did not know what an annuity was myself until about six or seven years ago, when I became very interested in insurance products. Of course, that was prompted by the fact that my house burned down. So all of a sudden, I was loving insurance, and I thought, boy, this is really key, and where are the other areas in my life, like long-term care insurance that will really help women when they get older.

As the statistics show, and I have all this in my statement, but I would like to just briefly breeze through some of it. Women live longer. They earn less. They have different needs because of those factors. The major point I would like to make is that women need information to make the best financial decisions because they can least afford to make mistakes with their money. They need this information early in their working lives.

Women face a host of obstacles that jeopardize their economic security. One of them is pay. Two-thirds of today's full-time working women earn less than $30,000. Care-giving responsibilities cause women to spend about nine years out of the job market or working part-time or making other accommodations for their families' lives. Fewer years at work mean they are less likely to be eligible for employer benefits, and combined with lower pay, smaller Social Security benefits and less money in savings. These factors are coupled with the general lack of knowledge about money management, as well as the financial products that could help them in the future.

Older women are much more likely to live alone than older men. Living alone means you are much more likely to be poor. As Mr. Scott mentioned in his statement, the poverty rate among older minority women is just astounding. For single black women over age 65, it is 43 percent; and for Hispanic women, it is 49 percent, which is nearly twice the rate of white women. We hear all the time from women who are convinced they will never be able to stop working and they will never be able to retire.

As women tend to outlive their husbands, they face a greater risk of requiring long-term care, either in their own homes or in

nursing homes. We know that there is a great need to educate younger and middle-aged people because we have found that the major fact is that people do not understand that age is the significant reason to buy long-term care insurance earlier; that it is more expensive as you age. People think that it is just something to do when you get older or as you reach retirement age. So we have got to change that, also because then it is more expensive, and they do not understand that. We happen to have access through one of the foundations that funds us to long-term care insurance. There is a women that works with me who is in her late 30s. She signed up for the long-term care insurance.

Another fact is that many employers offer adult children the opportunity to sign up their parents for long-term care insurance. If families were better educated about the availability of the provisions such as in-home care, services at assisted living facilities, they would be capable of taking the needed steps to talk about these issues, resulting in much better financial planning decisions for both the adult children and for their elderly parents.

And then there is the other consequence of living longer, which is that women have greater concerns about outliving their income. Many older people are living longer than ever, and yet most financial education focuses on getting people to save and invest, while there is very little information available on what to do when you reach retirement age to make sure the money lasts for as long as you need it. Few of those who are retiring realize that the money may have to last for perhaps 20 or 30 years after we stop working. We did a booklet which has become very popular with the Society of Actuaries. It is available on Web sites, and we would hope that people would look at the booklet, or maybe include it on your Web site. We have a couple of good stories in there. One of them I love to use, and I won't take time to do it here because my time is running out, but Ron Gebhardtsbauer, who is an actuary, actually we included in our prepared statement the story, talked his mother into buying an annuity because every year she was taking out little bits of money and knew she was going to run out of money by the time she probably reached 90. He convinced her to buy an annuity and now she will get the same amount of money whether she lives to be 90 or 100.

I will end here because I think my time is just about up. I thank the committee for what you are doing, and we would love to continue working with you.

[The prepared statement of M. Cindy Hounsell can be found on page 90 in the appendix.]

Chairman BAKER. Thank you very much.

For the introduction of our final participant, I would like to turn to Ms. Harris for her particular words. Ms. Harris?

Ms. HARRIS. Thank you, Mr. Chairman.

Our final panelist today has served the great State of Florida in an amazing variety of capacities. Today, as Florida's first Chief Financial Officer, Tom Gallagher continues to display the creative, skilled and determined leadership that has distinguished his three decades of public service. As Chief Financial Officer, Tom Gallagher leads the new Department of Financial Services, which was created in January of this year as the result of a 1998 constitu-

tional amendment that has merged the Office of the State Treasurer, Insurance Commissioner, Fire Marshal, and Office of the Controller.

Prior to his election to this post last November, Tom Gallagher had served as State Treasurer, Insurance Commissioner and Fire Marshal for a total of 12 years, beginning with his election to that position in 1988. He has also served two years as education commissioner, two years as secretary of the Department of Professional Regulation, and 13 years as a member of the Florida House of Representatives. Tom Gallagher established his reputation as tough, courageous and an effective leader following Hurricane Andrew, when as Insurance Commissioner, he guided Florida through the trauma of its most costly natural disaster.

Moreover, he has demonstrated his extraordinary talent for shaping innovative solutions to seemingly intractable problems on many occasions, such as when he spurred the creation of a program that offers health insurance to more than 300,000 uninsured children in Florida. Just last year, he played a vital role in the Florida legislature's passage of a windstorm bill that is saving Floridians nearly $100 million annually.

Tom Gallagher has dedicated his career to helping the people of Florida untangle the knots that often accompany their use of financial service products. I particularly look forward to hearing the comments of this fierce protector of consumer rights regarding the State of Florida's efforts to protect our seniors from fraud and abuse.

It is with great pleasure I introduce my friend and former colleague in Florida's executive cabinet, the Chief Financial Officer, Tom Gallagher.

Chairman BAKER. Thank you, Ms. Harris.

Welcome, Mr. Gallagher.

STATEMENT OF HON. TOM GALLAGHER, CFO, FLORIDA DEPARTMENT OF FINANCIAL SERVICES ON BEHALF OF THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Mr. GALLAGHER. Thank you very much, Mr. Chairman and members of the committee. I have also submitted written testimony.

I am very proud that Florida is considered the head of the curve in protecting consumers from fraud. We have actively been involved with the NAIC's Viatical Settlements Working Group. The viatical business emerged in 1989, and by 1992 the NAIC had determined that a model law was needed. It was basically set up to help people that had AIDS. The initial model required companies and brokers to obtain a license before entering into the viatical settlement agreements, giving regulators authority to refuse or revoke a license and approve provider contracts. The first model also required disclosure, payment of proceeds into an escrow account, and confidentiality of the medical information. The model was recently updated to broaden the definition of a viatical settlement and new protections against fraud have been added. The new model also enabled States to consider the security aspect of the viatical transaction, that is the sales to investors. We in Florida provided a substantial input. Florida, along with several other States, have adopt-

ed the new model and we are of course encouraging other States to follow suit.

In Florida, we have a tough law on the books and aggressively enforce the provisions of that law. Our Viatical Settlement Act of 1996 focused on protecting insured individuals or the viator. The Act has been amended to consider the investor and to curtail investor abuses. The enforcement results in Florida, 35 viatical providers have applied for licensure; 17 of them withdrew; 4 were denied. There are eight currently licensed; three have surrendered their license; and three licenses have been revoked. Since 1996, 14,017 life insurance policies have been purchased from viators, having a face value of $2.9 billion, for which viators were paid $953-plus million. The average amount an investor has made has been $43,744, and the average age of investors into these viatical settlements is about 70.5 years old.

The regulatory actions we have taken by the department since 1996 have been 21. We have done eight against providers; two against brokers; three against agents; five against officer-employees; and three against unlicensed entities. As far as viatical criminal cases affecting Florida, these cases have encompassed 38 indictments against individuals. The companies are Future First, who was a provider; Kelco was a provider; Justus Viatical, an unlicensed provider; Financial Federated Title and Trust, Asset Security Corporation, an unlicensed entity; Life Benefit Services, a broker; and a doctor providing fraudulent life expectations was also indicted; and 11 viators themselves for fraudulent acts.

The Department of Financial Services continues to work with the Federal Viatical Task Force, with the FBI, the U.S. Postal Service, the SEC and other law enforcement agencies. Our Fraud Division has executed nine search warrants on viatical-related companies and seized more than 1,000 files representing in excess of $76 million in fraudulent policies. Potential criminal violations commonly reviewed are theft, misrepresentation, investor fraud, and securities and investment issues. The estimated losses to investors in Florida, $2 million from Justus Viatical Group; criminal charges have been filed, American Benefit Services, Financial Federated Title and Trust, $117 million, principals of both companies are serving lengthy prison sentences; Future First Financial Corporation, $203 million, licenses revoked, criminal charges were filed, the companies placed into a court-appointed conservatorship, the former president was just arrested and now resides in a county jail with a $10 million bond; Accelerated Benefits Corporation, $114.5 million, license revoked; and William Page and Associates has paid fines and are on a two-year probation.

The anti-fraud network that was talked about on March 6, 2001 by Terri Vaughan, who testified in support of establishing a national anti-fraud network among the State and Federal regulatory agencies. We have the technical infrastructure at the NAIC to place and share information among State regulators that can easily be expanded to Federal agencies. We are capable of receiving and handling both public and confidential information. We believe that the anti-fraud network should have information-sharing agreements; standards should be in place for how information is shared; and the important link to current databases, not start new ones.

We believe that the participants should be given legal immunity for good-faith reporting.

We also believe that insurance regulators would benefit from access to the FBI's fingerprint database. State insurance regulators are the only functional regulators who do not have access. The best way to weed out wrongdoers is before they get a chance to commit fraud. State regulators would benefit from the access to the NASD's enforcement database. In return, the NAIC could share information on insurance agents and companies. Financial products are becoming intertwined. Sharing of information is more important than ever, and preserving regulatory confidence is also very important.

In conclusion, State regulators fully support congressional efforts to fight the viatical settlement fraud and to create a nationwide anti-fraud network on information-sharing among regulators. We at the NAIC and in the State of Florida stand ready to offer you our assistance and expertise and technical infrastructure to do this.

I thank you very much for the opportunity to be here, Mr. Chairman.

[The prepared statement of Hon. Tom Gallagher can be found on page 77 in the appendix.]

Chairman BAKER. Thank you, Mr. Gallagher.

Mr. Woods, my question needs to be set up appropriately. Education is obviously the first answer; making conscious, informed decisions is always an appropriate remedy almost for any problem. But secondly, even if someone engages in an activity, there is a likelihood as individuals become older and abilities become impaired in some cases, that there be a mechanism for appropriate oversight and enforcement. Listening to Mr. Gallagher's recitation of Florida's action, it would appear that adopting the NAIC viatical model law is not only appropriate, but necessary. Do you think we need to do something nationally, or are we in a position to rely on each State to take their own course of action?

Mr. WOODS. Well, it is always a challenge, the tension between State regulation and Federal regulation. It seems to me that Mr. Gallagher has appropriately pointed out the kind of oversight that States can provide in the viatical settlement area. Information, as you have indicated; understanding; education; full disclosure, all of those things are critically important. It is my belief that the States can do that appropriately and through the NAIC model, we believe they should.

Chairman BAKER. Governor Keating, do you feel that leaving this issue to state resolution is appropriate? Given the concern with the numbers of baby boomers about to retire, and the asset base which they represent, that seems to be an awfully ripe target for a lot of folks who do not have pure motives.

Mr. KEATING. Mr. Chairman, as you know, the argument rages in the State regulatory environment on the question of suitability for a number of these financial services products. I must confess, though, as a Federalist, to have 50 hot-houses of experimentation, some expressing more serious problems than others, sharing ideas, having ideas compete with each other, is always the best place to begin. It may well be the best place to end. But to have a very aggressive leader in a State as Mr. Gallagher is in Florida is a sym-

bol to States like mine and other States. Well, go in there and find out what the problem is with viaticals, and see if we need a regulatory or a statutory change to make our citizens, our seniors safe. I really think at this juncture it is far wiser, and perhaps the Congress can help by having public hearings on the subject, or even hearings in districts or States, but I think it is a lot better to let the States try to work through it together, sharing and competing with ideas, as opposed to having a Federal fix at this time.

Chairman BAKER. What about the concept of either act by a date certain or this becomes the rule. For example, States which are consumed by budgetary difficulties, other matters of importance, whether it be in Oklahoma or Texas. Simply holding out a standard, you can do whatever you like, but if absent any action on your part, this becomes the standard for those States who choose not to act. I am concerned about the inevitability of the numbers and the economic assets at risk if there is a State which simply chooses not to act, and the consequences of a large group of defrauded seniors coming to the Congress asking us then to respond to an identifiable crisis. This is just my perspective only, but generally the Congress' finest hours do not occur when we are pressed to act quickly.

Mr. KEATING. I think those of us who served at the State level would certainly agree that the commerce clause would cover the Congress' jurisdiction. The Congress could do that if it wished. Secondly, I think as it has been done in many instances in the past, for the Congress to set a bar and to say this is a serious interstate problem and here is the bar that we really want to be reached; we are going to attempt to reach it with you in a spirit of comity and brotherhood and sisterhood. It is probably better than a stick. I think it is better to have a carrot. But I agree with you, I think the purpose of this hearing is not only to anticipate running out of money; to anticipate the need for more financial security and more financial assets, but also to anticipate as a result of the longer-lived population those abuses, those criminal abuses that could and do occur within and to the senior population. So I think that bar-setting, consistent with the jurisdiction of the Congress, is not inappropriate.

Mr. WOODS. Mr. Chairman, could I add something to that?

Chairman BAKER. Sure.

Mr. WOODS. I think we certainly agree with the governor. This is a major problem, as you have pointed out. There are millions of people in this situation; millions more to come there. If the States do not act by some point, it seems to us that we would support a default position that they would naturally fall back to, because it is a critical issue. Mr. Gallagher has pointed out some of the issues that can occur if there isn't appropriate oversight and regulation. So I think we would support that.

Chairman BAKER. Well, it is good to hear a financial adviser telling us to plan ahead. I like that.

[Laughter.]

My time has expired. Mr. Kanjorski?

Mr. KANJORSKI. Thank you, Mr. Chairman.

I was struck by your testimony, Ms. Hounsell, in terms of the gap of income that women experience. I guess if we look out over the future, the next 40 years, that gap of income probably should

materially close, if not completely close. Wouldn't you agree? So we are just dealing there with a 40-year problem.

Ms. HOUNSELL. I think the issues that I talked about, the caregiving, all of those things, they have not changed and they will not change. I know Newsweek just did a big article saying that there are women that earn more than their spouses, but it is a very small percentage of the whole work force. So I do not think it will change. I think that is why it is really important for women to understand early on in their careers.

Mr. KANJORSKI. I tend to agree. That is what I was going to get to. Listening to testimony and everything, from Mr. Gallagher to Governor Keating, and Mr. Woods about the potential fraud. How much fraud is out there? Are we talking about 3 percent, 10 percent, 20 percent? Because it seems to me that it be sometimes more expensive, both at the State level and the Federal level, to try and prevent fraud, and maybe those assets could be utilized in financial education. I am one that is quite convinced that Americans across the board are financially illiterate to a large extent. I think that probably the best evidence of that is how they bought some of the stocks they did when they did and where they went to. Maybe I would even go beyond that and say, what I am worried about is we have substantial people that are engaged in financial planning, the sale of insurance products, these are very complicated. I know when I talk to people in the insurance business, sometimes I walk away spinning, not quite understanding what is the best proposition, and yet here I have the benefit of 70 of my colleagues who are the most educated on all these propositions in the world.

The reality is that we do not have an educated electorate. Should we just standardize situations, and then discourage or prevent someone who fails a financial literacy test from getting into those markets, the selling of those products that you talked about Mr. Gallagher, and take the money that we are spending to prevent fraud and spend it on education, or include a large segment of education and put it into our school systems, and literally encourage people to get smart.

I just want to add one caveat to that. When the market goes wrong or people lose money on investments, they always want to find fraud, misrepresentation and abuse, but I am struck with the fact that right now in Washington, those of us who are elected officials, and our two parties are in a tremendous struggle to determine what is the best tax policy for the United States, or recovery stimulation policy for the economy. I would venture to say probably some of us could be indicted for fraud because we cannot all be right, and we area almost diametrically opposed. I listen to my good friend Alan Greenspan and to Warren Buffett, and he tells us to do one thing and what the effect will be, or the Committee on Taxation that tells us what is going to happen if we pursue a certain policy. On the other hand, I listen to some of the highest officials in the nation who enjoy tremendous credibility with the American people, and they will recommend completely something diametrically opposite; and then I look at the electorate, and they are dead split probably on the issue, indicating that they are not making the best analysis of understanding either.

If we cannot do that in national economic policy, national financial policy, how can we expect the average constituent to have the literacy necessary in financial understanding to really protect themselves? And then the role is, how much should government get involved? Wouldn't it be better to say if you do not qualify in a certain way, you cannot get into that product, and it is on the basis of the seller to qualify the person and prove that they are literate enough to participate?

Mr. GALLAGHER. I will touch on that. That is one issue that you did hear Mr. Woods mention, that the NAIC is looking at ways to set up a qualification as to what product is right for the person that is buying it. It is not an easy thing to do, because certain products fit some people. I think the national argument is that some people see one way of stimulating the economy as totally different than the other sees it. Both will probably stimulate it; the question is, which one is going to do it in a way that the person sees it to benefit them better, I guess.

That happens in investments all the time. There are a myriad of investments because they fit different people's needs. Mr. Scott mentioned the problem of people in predatory lending. We have a major education going on in Florida on predatory lending. Certain lending processes that go on are fit for certain people. A person that has really excellent credit should not get mortgages that cost a lot of money and have a bunch of points. But yet, there are some people who because of their credit problems might have to get a mortgage like that, so it might be the only thing they can do and it might fit them.

So different things fit different people. I certainly do not think we ought to have a police force going out and saying, and government should be involved in making the decision on what is good for who. But I do believe that there are two sides. One, enforcement of people that do abuse the laws that we have to prevent fraud, that has to be a strong side. And the other side is education. You also have to have the ability to have people educated in what is right for them. I think you have to have both.

Mr. KANJORSKI. You know, I am struck, one of our fine senators, I cannot recall his name right now, but he talked about compound interest and what a small portion of the American population understands the ramification of compound interest. Maybe we ought to develop a Florida-type test that you have to take, and if you cannot pass the test of understanding compound interest, you are just disqualified from the field. Would you recommend that we take that up with your governor and include that as part of that final test down there?

Mr. GALLAGHER. I would recommend you take it up with somebody else other than me. I am not dealing with it.

[Laughter.]

Chairman BAKER. Especially as long as it does not apply to members of Congress.

Mr. KANJORSKI. Alright. Thank you very much.

Mr. WOODS. Mr. Chairman, could I add something to that statement? You cannot legislate morality. That is a truism. Education is the best defense against fraud and things like that. That is the reason why the life insurance industry about 10 years ago created

the Life and Health Insurance Foundation for Education to provide that kind of financial literacy, which is our word and your word. It is a good term. One of our major programs is a high school education program, so that as these consumers come into the marketplace, they have an understanding of financial issues and how to address them and how to think about them, and the kind of questions to answer. So I do not think it is an either-or issue. I think it really is a combination of both regulation and education.

Chairman BAKER. Thank you.

Ms. Kelly?

Mrs. KELLY. Thank you, Mr. Chairman.

Mr. Woods, as I mentioned in my opening, my Subcommittee on Oversight and Investigations held a hearing on viaticals last year. I was really troubled by the complete lack of adequate consumer protections for viaticals that there are in many States, something that I thought was very surprising because of the good work that has been done by the NAIC in developing a consensus model of viatical law. At that time, it became clear that Florida had an A-plus level of viatical protection. I understand now that 12 States have implemented the new NAIC model. Don't you think we need to make sure that more States update their law so that everybody can be an A-plus in terms of protecting the consumers? How would you recommend we try to push that?

Mr. WOODS. Well, the answer to the first question is easier than the answer to the second. We do agree with that. We do think that proper protection for consumers, disclosure, all of those issues, are tremendously important. As the chairman said earlier, they are at a vulnerable time in their lives. As far as how to do it is concerned, that is a bigger challenge. Perhaps a default mechanism that the chairman mentioned is one way to do that; education of the legislators themselves and of the commissioners themselves about the critical importance of this process. I would not call it a product, but this process, and how it can be abused and yet how it can also be very helpful to people at an important time in their lives. It is a challenge, but I think you are right to address it. The role of this committee, it seems to me, is to continue to raise the issue in the minds of the public and also regulators across the country. I cannot give you a better answer. I wish I could.

Mrs. KELLY. Mr. Gallagher, I want to switch gears a little and talk about your testimony, which I found very interesting. It notes that allowing States to run a national fingerprint background check on insurance producers and the company personnel is probably the best way to weed out what we know are wrongdoers before they get a chance to commit fraud. I was interested in the kind of coalitions you were talking about building here. Specifically, you talked about this fingerprinting. It seems to me that you talk about how critical it is if States expect us to establish a national agent's licensing system like we did in NARAB. I helped to write that NARAB legislation. I am interesting in how you perceive that as working in light of, if it is the same way that we built the NARAB legislation, or how you see that working.

Mr. GALLAGHER. I can tell you in a way how it does not work, but also tell how it does. Let me just mention that we do have in Florida fingerprinting for licenses. If you look at, when I talked

about viaticals, 35 basically applied; 17 withdrew. There is a reason they withdrew. They withdrew because we do fingerprint background checks and they realized they were not going to get a license in Florida because of who they were. So many other States are unable to do this. That is why I am pushing very hard for you all to allow us as State regulators, especially on the insurance side, to have access to the FBI database. Certain of us can because of our specific laws and the way we operate; most of the States cannot. So there are about four or five States, I think four that require fingerprints before they allow an agent to be licensed in that State; other States do not.

We believe that it is a very important consumer protection, and the ability to stop things before they start by having that fingerprint background check; and also share databases with Federal and other States to know who has done what before we give them a license, and wait until after they spend who knows how many years before they get caught abusing someone again with fraud, when they have already maybe been busted in another State.

Mrs. KELLY. So if I understanding your testimony clearly, what you are asking for is a Federal statute that would give all States some kind of a uniform access to compare notes with the FBI's fingerprint database. Is that correct?

Mr. GALLAGHER. That is correct. We believe that it would be worthy. Insurance regulators are the only ones that don't. Banking regulators and banks themselves have access to the database, whereas insurance regulators do not. We believe the fastest way for all insurance regulators to get that access and to be able to compare with each other the information from NASD as well as NAIC and other States would be to have the database work out as well as have the access to the FBI fingerprint files. It is a very simple access now. It used to take us six weeks to get returns. We now do it all electronic. There are electronically taken; they are sent in; we get 24-hour turnaround. So this is not a time-consuming thing. The FBI has updated their fingerprint process. We have done it in most of the States. So it is electronically done, so it really is a very smooth, easy thing to do, as opposed to what it used to be with the cards.

Mrs. KELLY. But you need a Federal statute to do it?

Mr. GALLAGHER. We believe that is the fastest and best way to get it done, and have us up and running. You in the Congress in 2001 did the bill that would allow that. The Senate has not quite gotten to it yet, but we encourage you to keep it moving, and maybe even let that go by itself. Sometimes it gets so many other things attached that it does not move. But just allowing that access we believe for insurance regulators would make a major difference.

Mrs. KELLY. Thank you, Mr. Chairman.

Chairman BAKER. Thank you very much.

Mr. Gallagher, just to clarify, I should not interpret your remarks representing NAIC today for a national standard to in any way be inferred or any implications with regard to national charter. Is that correct?

Mr. GALLAGHER. We have been pretty strong in our stand on the problems that could come by that, but we are willing to work with you on any ideas you may have.

Chairman BAKER. I am sorry. I just could not pass up the opportunity.

Mr. GALLAGHER. I understand.

[Laughter.]

Chairman BAKER. Mr. Scott?

Mr. SCOTT. Thank you, Mr. Chairman.

This has been a very invigorating discussion and such a distinguished panel. I would like to ask a series of questions, first to you, Governor Keating. It seems to me that as a former governor and now the head of the American Council of Life Insurers, you represent over 380 individual companies. You mentioned two areas that I would like to examine a little further and get your thoughts on, that I find challenging. One is the strains that we are faced with in our economic infrastructure, with the baby boomers. You mentioned that their average age is between 55 and 64, and their average savings is only $47,000. We have got the strains on Social Security and Medicaid.

My first question is, given this, what do you recommend that we in Congress do in reference to the stability of Medicaid and Social Security? That is the first part of my question, what we can do here, and what further impact is this going to have if we do not do something. And what do you recommend that we do in these two specific areas, given your position not only now as the head of the life insurers, but as a former governor?

Mr. KEATING. Congressman Scott, that requires a Solomaic answer, and I am not sure that I am in a position to provide it. Obviously, if I were able to tell you how to solve Social Security once and for all and Medicare once and for all, I would probably be on the talk show circuit and in every living room in America, because all of us are groping for that answer. The reality is, as you know, that the country made a commitment, our nation made a bipartisan commitment to have a Medicare system to care for the elderly, long-lived now, more than ever before, for their health care needs. The burden obviously on the States and on taxpayers is very large to do that.

The same is true of Social Security. My children, and I am a grandfather for the first time last July, on the fourth of July, by the way, and expect to have another grandchild by another daughter this July, though probably not the fourth, they do not think they are going to have Social Security. They just simply do not anticipate that they will. Well, that commitment that they will have Social Security and what is assured them will be paid I think is very important. How do you get there, with the lengthening life spans? Obviously, here in the Congress you debate older retirement ages, older ages for access to Medicare, as well as to Social Security, and that debate should continue.

I think at the same time, as Mr. Woods said and as I know the chairman mentioned in the discussion of education, people have to understand that that is not the only thing. Whatever robust Social Security or Medicare system there is out there, or whatever diminished Medicare or Social Security system is out there, people have to have personal responsibility; they have to have personal knowledge of their finances; they have to have a personal commitment to take care of themselves. That is very difficult. I cannot over-em-

phasize the significance of congressional investigative subcommittees or committees going into the States. They are covered by all the newspapers, all the television, all the radio. You can in one hearing sensitize the entire population of a State about an issue. To take these issues and go into the States and debate Social Security and Medicare at the same time, and get ideas from citizens and from elected officials to solve a problem that is a serious problem 20 years from now, if not perhaps even 10 years from now, I think is very, very meritorious.

To have joint discussions with State leaders and with State policymakers, especially those of us on the State level that are charged to pay out of State resources a large bit of the Medicaid bill, that is very important. And that is very bipartisan and very essential. But there is simply no way, as you know, to say in one sentence how to fix Social Security or Medicare. It is just that in one sentence, I think the average American would say to us, those of us who have been elected and those of you who are now elected, that we expect for that contract to be honored.

Mr. SCOTT. Let me just ask another question. That was one area. The other is, as I mentioned in my opening statement, we are working in this committee on financial literacy. I have introduced a bill, working with other members of this committee, to find a way to target information. One of the tools that we plan to use is the establishment of a nationwide toll-free number, because it is a two-way street. You can have it available, but if we can find some kind of way to have a lifeline out for these individuals to get information back and to target it.

Ms. Hounsell, I think you hit my point a little bit. There are targeted groups. I think there is probably no group, quite honestly, in more need of this than African American women. I would like to hear what you recommend, and if there are others here, I would like to know what specifically each of you all are doing in the areas of getting financial education, financial literacy to some of these most impacted communities. Again, Governor Keating, I think you hit it on the head when you said that financial literacy is more than just knowing the difference between stocks and bonds; it is more than knowing enough about saving money. It is the responsibility of managing those assets over a lifetime. I think if we do nothing else in this committee, to deal with financial literacy and arm our people with the information they need, if no more than just simply say before you sign on the bottom line, call this number.

That is the approach that we are hearing. I would like to hear from you what each of you are doing, if you would care to comment, and have anything that you are moving in the area of providing financial literacy, especially for the most impacted and vulnerable groups like African American women.

Ms. HOUNSELL. We have a grant from the administration on aging, and one of the things we have tried to do is really get into the communities, so we work with a lot of different groups. In fact, two weeks ago, I was at the National Conference of Black Mayors where we do a workshop every year with the women mayors. A number of them are taking our program and then doing it in their community, whether they do it in the churches or wherever they

can, a library. That is where people are willing to do. They need to hear it in their home base. One of the reasons I think we have had so much success is because we then have somebody in the community bring us in, and we train them. One woman that we trained about six years ago in Atlanta has done over 90 trainings, and she has hit more than 5,000 people. A lot of these people then take the information to other people. I think that you need more than just giving people a Web site. I am always saying that to people. You know, you go home, I mean to do a lot of things when I go home, and the last thing, you know, there are things I could learn on the Web site myself, but the last thing I am doing when I go home is turning on the computer and trying to do that. When you have working people with so many other demands on their time, they just do not get to doing it. But if there is a program at the library or at the church on a Tuesday night, and somebody says you have to come hear this, they will come.

Ms. DESALLES. And we at AARP have long been active in the area of providing financial education through sophisticated means such as research that we do and our very excellent Web site, all the way down to individual workshops out in the community and in the churches. One of our very successful local efforts was a financial education series called "Women, it is time." We concentrated on the fact that women typically, particularly lower-income women, do not bring with them the financial expertise that other groups do.

There is absolutely a need for as much financial education and increased financial literacy as we can provide, but we need a level playing field. People have to be responsible and make their own decisions, but they should do so in an area that protects them. That is why we are also pushing for changes in the regulatory environment so that when people get the wherewithal to make those decisions, then they are making the decisions in an area that is protected somewhat, if you want. It is necessary to have them both. I believe Mr. Woods talked about the needs for the equal thrust, and we agree with that.

Chairman BAKER. Mr. Scott, a couple of our witnesses have to leave in the next few minutes, and I would like to afford the opportunity.

Mr. SCOTT. Sure.

Chairman BAKER. Thank you, Mr. Scott.

Ms. Harris?

Ms. HARRIS. Thank you, Mr. Chairman.

This question is for Mr. Woods. In your testimony, you mentioned the role that the insurance agents are the first line of contact for many of our seniors, in terms of their adviser or their educator on various insurance products. Bearing in mind that the agents have to rely on their commissions, what other types of information does your organization provide in education to help protect the consumer?

Mr. WOODS. The Life and Health Insurance Foundation for Education provides, this really gets to Mr. Scott's question as well, several levels of education. We have a broad-based education program for high school students, primarily juniors and seniors. Last year in 2002, 25 percent of the high school juniors and seniors in the

country were exposed to this program. In the State of Utah, it is a mandated program. We have a very large Web site. We are adding a big section on long-term care, which will be up in July, as well as life insurance, disability insurance, health insurance, all of the other kinds of insurance coverages.

We also are part of a couple of coalitions, Jump Start coalition, which some of you may be familiar with, is a coalition of many organizations dedicated to providing financial literacy, particularly at the early stages of life. We are also a part of an effort on the part of the National Endowment for Financial Education to provide financial literacy across the country in various venues. It is a massive job. We have not done this very well or at all forever, I suspect, and really the effort has begun in the last five or ten years. We are very proud that the insurance industry has made this investment in this effort.

The other thing is, and Congressman Lucas can attest to this, he pointed out his credentials in the insurance industry, the best teacher of all, the best educator of all is a knowledgeable and qualified life insurance agent. Consumer study after consumer study indicates that that is where people get their information, and they want to get their information from them.

Ms. HARRIS. Certainly. And I think the programs for young people that you mentioned are laudable. We are just concerned about seniors as well. Again, it is just the perception that as these well-qualified planners are dependent on commissions, just that there are other opportunities for seniors to evaluate versus that specific information, that they are the only source.

Following up on that with regard to AARP, we have heard a lot of discussion about the need for a financially literate senior population. Based on your research, where do most seniors turn for that information?

Ms. DESALLES. I am sorry, the last part of the question?

Ms. HARRIS. Where do most of your seniors turn for financial information?

Ms. DESALLES. They turn to a variety of sources, newspapers, magazines, friends and families. Our research, and I do not have those percentages right in front of me; it is in the written statement, but they get that information from a variety of sources. The problem is, they do not get enough information at an age when they need to start planning. The information is out there if you are savvy enough to look for it and seek it out, whether on the Web or magazines and newspapers or financial planners, but people just are not getting it.

Ms. HARRIS. As the largest advocacy group, do you launch that type of information when they first join? Do you have other opportunities for them to educate themselves concerning fraud and abuse?

Ms. DESALLES. We take advantage of every opportunity we can. Primarily, our biggest method of communicating with our members, of course, is our AARP magazine, as well as the Bulletin, which goes to over 20 million households, reaching our 35 million members. But we use not only those articles, but we use an extensive volunteer network to provide in many cases one-on-one information to people. We have pamphlets, booklets that we make avail-

able not only to individuals, but to groups, to other people that want to avail themselves of our research. We are noted for the quality of the research that we provide, and we are very proud of it. We make it available to other researchers and institutions, private individuals. We cover the waterfront.

Ms. HARRIS. You certainly are one of the first lines of defense with regard to information to so many of our seniors.

Mr. Chairman, one final question to Mr. Gallagher. You testified that the average age for the viatical investor is over 70, and the majority of viatical provider applications in Florida have failed to gain approval. Notwithstanding the national charter that you mentioned earlier and discussed with the chairman, since viatical fraud is a growing problem, and you have discussed the fingerprinting, the use of FBI databases and also cross-checking with other States, what else can Congress do to make it easier to protect our seniors?

Mr. GALLAGHER. I think if we did that, we would go a long way. I don't like to repeat myself, but I think if you try to do too many things, nothing gets done.

Ms. HARRIS. This database information is the first line of defense, you say that is the single most important thing we could do?

Mr. GALLAGHER. The most important thing is having that database. The fraud database is certainly number one. And access by State insurance regulators to the FBI fingerprints can help the States do what Florida does, and we also can do it better when other States have the ability to get in there and do theirs.

Ms. HARRIS. So there is no wish list, that is the main thing?

Mr. GALLAGHER. I would like to just keep it in and keep it real simple, and we believe that that would have a lot of good things to help the elderly and protect them before the fraud happens, than go arrest somebody afterwards.

Ms. HARRIS. Thank you.

Thank you, Mr. Chairman.

Chairman BAKER. Thank you, Ms. Harris.

Mr. Lucas?

Mr. LUCAS OF KENTUCKY. Thank you, Mr. Chairman.

Mr. Woods, I want you to know that you are not alone being on Medicare. I probably preceded you there by a few years.

Mr. WOODS. I could not tell by looking at you.

[Laughter.]

Mr. LUCAS OF KENTUCKY. You ought to be in politics.

Mr. Kanjorski was talking about education against consumer fraud, but from my limited experience, I think we have got to protect the people. There are a lot of naive folks out there, and there are a lot of intelligent people in their certain fields, but I like the idea, Mr. Baker, that we have a Federal default position, give the States some time to do something about this, but if they do not, then I think we need to step in. I would like to hear from the panel about that, but I will make a couple of other comments, and then I would like for you to answer that.

I think unfortunately by the time people get to be members of the AARP, it is a little late for savings. You have got to protect what you have, because I think the key to saving is as we all know the magic of compounding. If we could get people to save a little bit earlier with the compounding and dollar-cost averaging, I think

that would be it. Also, I think the old adage of put all your eggs in one basket and watch that basket, is a very dangerous example to set, talking about the people of Enron and others who put all their eggs in one basket and where that basket went. I was a great believer in functional allocation and trying to get people to do something early.

I would commend Mr. Gallagher for what the State of Florida has done in this viatical transactions problem, and I would hope, Mr. Baker, that we might come up with some legislation that would protect people in those States where the States have failed to take action. I think that would be very meaningful and very helpful to our people. But I would be interested in any of you folks on the panel making your comments about that particular issue. Should we come up with a default position as the Federal government for States who fail to act?

Ms. DESALLES. I am not a technical expert on that, but certainly AARP would be willing to, our staff that are experts on this, work closely with the subcommittee in exploring that issue. That offer just stands for us.

Mr. LUCAS OF KENTUCKY. Anybody else? Does it make sense?

Mr. WOODS. Yes, certainly from the National Association of Insurance and Financial Advisors' standpoint, Congressman Lucas, we are already working actively with the States to get them to adopt the model, but we would support the default position for the very reasons the chairman and others have indicated. It is a critical issue for seniors at a very vulnerable time in their lives. I think they would be supportive of that.

Mr. LUCAS OF KENTUCKY. Thank you.

Chairman BAKER. Thank you, Mr. Lucas.

Mr. Tiberi?

Mr. TIBERI. Thank you, Mr. Chairman. I apologize for coming in late. I had another markup, and I apologize I missed the testimony from the panel.

Governor Keating, the issue of annuities has kind of bubbled up and made some news lately. Can you talk to us, and I apologize if it was in your testimony, about the differences between variable and fixed annuities, and how one is preferable to another for seniors to choose from?

Mr. KEATING. It is difficult for me to give any specific financial advice because you do not know, as David Woods said, the circumstances of each individual, their age, their financial knowledge, their dependents, their financial challenges, and obviously their assets. But a fixed annuity provides a set steady stream of income. A variable obviously varies with the market, and most particularly the stock market. I know recently, after seeing three years of calamity in the stock market, and living in public housing in a State residence for eight years, I bought from my brother, who is a financial planner, a variable annuity. To be honest with you, I feel pretty good about it. We bought my mother-in-law a long-term care policy, and she feels 20 years younger.

So as Congressman Lucas pointed out, to put many different eggs in many different baskets; to have something that is fixed; to have something that rides with the market tide; to have real estate and the like, whatever you can do to make yourself more diverse

and make yourself more knowledgeable about your assets and do not keep everything frozen forever, that is wise financial planning. But an annuity is a wing-man relationship to the Social Security system. I think you can get them for very little money or a lot of money, but to have a defined benefit check from Social Security and a defined benefit check from your annuity that you cannot outlive is very sound planning. Hopefully in my own case, I have done something wise for once.

Mr. TIBERI. Following up on that, Governor, is there something that we can do in Congress to help people purchase annuities, tax advantages? Is there something we can do to help seniors?

Mr. KEATING. Remember that the annuity has a tax-free buildup. The reason for that is you cannot get anything out until you're 59 1/2, and you have by law and by practice, a lot of serious penalties if you do so. It is the only product out there that encourages people to save long term to provide for their retirement, in effect, that wing-man or companion investment to Social Security. Obviously, we feel that whatever comes through the Congress to provide for the goose equally to the gander is very important. If I have 100 shares of General Electric, for example, in my annuity, if the Congress sees fit to provide that 100 shares outside of the annuity with tax-free treatment, it is only wise to provide the 100 shares within the annuity for tax-free treatment as well.

This is not just, Congressman, an issue of fairness, but of good social policy, because if all of us become consumers only; if all of us become spenders only, we do not think about 20 years from now. We don't care about it. If I have to pay taxes right now on whatever I invest in an annuity, for example, or a savings retirement vehicle, I will not do it. I will not do it. I will buy a boat or I will take a vacation. But to the extent that those products can continue to have fair, equal tax treatment and not tax the build-up, and when we take out, of course, we would love to see capital gains treatment, that is the way to have more people buy annuities. There are about 57 million annuity contracts out there in existence.

Mr. TIBERI. You mentioned long-term care insurance. One of the things, I was in the State legislature in Ohio, and one of the things that we tussled with was how to encourage particularly baby boomers at this point in time to purchase long-term care insurance. Is there something Congress can do to encourage more people to purchase long-term care insurance?

Mr. KEATING. There are a number of bipartisan measures to provide an above-the-line deduction for long-term care. Realize that for you writing the checks, from us and yourselves as taxpayers, to provide an opportunity for Medicare to be secure in the future should also include an opportunity for an alternative to Medicare if you wish, a supplement, a companion to Medicare, which is long-term care. So that an individual can stay in their home, something Medicare does not permit, and have an insurance policy help them be secure and be in a dignified environment in their home. To use tax policy to encourage that kind of very wise social policy is unfortunately the only way you are probably going to have a lot more people participate. For example, there are only eight million long-term care policies in existence today. With a population of 280 million people or whatever the figure is, it rises every month, that is

an insignificant number of people buying what is in my judgment an extraordinarily important product.

Mr. TIBERI. Thank you, Governor.

Mr. KEATING. Yes, sir.

Chairman BAKER. Thank you, Mr. Tiberi.

Ms. Brown-Waite?

Ms. GINNY BROWN-WAITE OF FLORIDA. Thank you, Mr. Chairman. I apologize, too. We had a markup in the Veterans Committee, or I would have been here sooner.

The question is for Mr. Gallagher. Mr. Gallagher, you testified that the current 2001 NAIC model law on viaticals should be adopted by all States, and that State laws must change to recognize the changing marketplace. I have been actually working with the chairman of the committee to draft legislation that will address this issue. Both Chairman Oxley and Chairman Baker, along with the staff, have helped us work on a bill that will very closely follow the NAIC model law, and will set that as a default for States with little or no regulation on viaticals. Obviously, under this plan States with little or no regulation of the viatical industry will have a certain amount of time to adopt the model law. However, if a State would like to strengthen the law on an ongoing basis, the legislation would also include a specific provision to allow just that. Certainly, in the State of Florida, we have had the viatical law since I was there in 1996 when we passed it, and we had several amendments to that law to actually strengthen it and improve it. I know the great job that you have done, and the recovery that the State has been able to obtain as a result of abuses of our viatical law have been very pro-consumer and certainly have set an example for many other States.

I just had a question, and that is, do you think that seniors and other consumers would be better protected if all States had used some updated version of a viatical law similar to what Florida has? I know that there are only about 11 now that actually have similar laws.

Mr. GALLAGHER. I can say partially yes. But I say "partially" because many States, even if they had the laws, do not have the ability to go into the FBI, get the fingerprints, and keep people from being able to get into the business and create the fraud. So you are much better off closing the door before they come in, as opposed to allowing them in to perpetrate a fraud, and then have the laws that allow you to go arrest them because they have carried out that fraud.

Ms. GINNY BROWN-WAITE OF FLORIDA. Mr. Chairman, a follow-up question? I know that in Florida, one of the things that we did was we, for example nursing home employees and directors have to be fingerprinted and subject their names to the FBI. Would that be a good, I mean, that is at the beginning of the process? Would that be a good addition to this bill?

Mr. GALLAGHER. Yes. I think any access that you can give to enable State regulators that have the responsibility to carry out viatical fraud regulation, because it is considered an insurance product. In my belief it is also a securities product because they are taking and making a security out of some of the products that they are selling, to see to it that there are the background checks of

those individuals that are involved in it, as you have in nursing homes, yes, that should be done. And any help that you in Congress would do to allow the access to those files of fingerprints would certainly help the States.

Ms. GINNY BROWN-WAITE OF FLORIDA. And you cannot do that on your own?

Mr. GALLAGHER. Florida can, so that is why we are probably on the forefront of what we have been able to do in regards to keeping people out of the business. We have a lot of elderly and a lot of people like to come to Florida and commit fraud. We are strong on those that do it, but we have kept a lot of people from doing it because we did not let them in.

Ms. GINNY BROWN-WAITE OF FLORIDA. Great.

Mr. GALLAGHER. I think other States having that ability would be a real plus.

Ms. GINNY BROWN-WAITE OF FLORIDA. Thank you, Mr. Chairman. Thank you very much, Mr. Gallagher.

Chairman BAKER. Thank you, Ms. Brown-Waite.

I want to express my appreciation to each of you, and make a request. To the extent not contained in your submitted official testimony, which of course is made part of our official record, any brochures, informational material, the examples that you gave us during your presentations here this morning, if you have information that is for retail distribution to folks that are of an educational nature, the committee would like to get that for purposes of incorporating it into our own informational base. The subcommittee has 47 members, each of whom represent in excess of 600,000 people. If just the members of this committee engage in some informational distribution, it would be extremely helpful, if it is nothing more than just a list of 1-800 numbers. So if nothing else were to come of the hearing this morning, that would be of significant help to the committee in understanding the scope of what is being done, and assimilating it into our own offices.

Secondly, I think the issues raised and the perspectives given are very helpful to us. This is a beginning step. It is certainly not a conclusion. To the extent any member wishes to add additional comments or questions for the record, it will remain open for a period of time. We certainly appreciate your willingness to participate, and we look forward to working with you in the future.

If there are no further comments, our meeting stands adjourned. Thank you.

[Whereupon, at 11:49 a.m., the subcommittee was adjourned.]

A P P E N D I X

May 15, 2003

Opening Statement

Chairman Michael G. Oxley

Committee on Financial Services

Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises

Retirement Security: What Seniors Need to Know About Protecting Their Futures
May 15, 2003

Congress has designated May Older Americans Month, and with 77 million baby-boomers facing retirement over the next decade, we need to focus on how to best protect the security and future of our country's seniors. Americans are living longer as medical science progresses – in fact, over the next 30 years the number of people over age 65 will more than double, and nearly half of those will reach age 90, meaning that baby boomers and younger workers need to plan for at least 20 to 30 years of retirement.

Retirement planning can be especially important for women, who live much longer then men on average while relying on a much smaller nest egg of assets. For example, in 2001, the average income for retired women was $11,000, compared to nearly $20,000 for retired men. Only 27 percent of retired women have pensions, and their Social Security benefits average only 75 percent of men's. Older women are much more likely to live alone than older men. Sixty percent of older women are unmarried, compared to only 25 percent of older men.

To avoid the impending retirement security crisis, our country needs to ensure that today's workers and seniors are properly preparing for their golden years. We have asked the ACLI represented by Governor Keating, the AARP, and NAIFA to join us today to prepare a checklist of retirement issues that all of us need to think about for our futures.

For ourselves, our parents, and our children, we need to assess our financial plans and consider necessary changes to anticipate future needs. We need to consider how life insurance, long-term care protection, annuities, savings and investments, pensions, and government programs such as Social Security, Medicare, and Medicaid will all fit together to provide a secure retirement. For example, few consumers know that private long-term care insurance has the potential to protect the policyholder and the policyholder's family from the high cost of home health care and nursing home care that is oftentimes not covered by existing government programs.

For men and women who have relied on their spouse's income, or who do not have significant pensions to draw on, financial literacy is particularly important to ensure their future solvency and protection in case their spouse is no longer with them. They need to know how to access information about available benefits and how to shop for sophisticated financial products such as annuities that are oftentimes necessary to provide an adequate living income as we age. Cindy Hounsell from WISER is helping us today discuss how to reach out to these vulnerable groups to help improve our financial education efforts.

We in Congress also need to step up our efforts to protect seniors where any regulatory gaps exist in financial regulation of retirement products, particularly in the regulation of hybrid financial products such as viaticals. While viaticals, life settlements, and other hybrid products can be very useful and appropriate investments, we need to make sure that our state consumer protection laws are comprehensive and effective.

We have asked Commissioner Gallagher here today to discuss Florida's success in fighting viatical fraud and how Florida has used the NAIC model law on viaticals to protect its seniors. I would note that only 12 States, including my home state of Ohio, have adopted the most recent version of this important consumer protection model law.

I would like to thank Subcommittee Chairman Baker for holding this hearing to help us protect the financial security of retirees. I would also like to thank our distinguished panel of witnesses for sharing their thoughts with us today.

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STATEMENT OF THE HONORABLE WM LACY CLAY
Before the
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE, AND GOVERNMENT SPONSORED ENTERPRISES

"Retirement Security: What Seniors Need to Know about Protecting Their Futures"

May 15, 2003

Good morning Mr. Chairman, Members of the Committee and witnesses. The issues of the hearing today are quite close to home. I am middle aged and will soon deal with the issues of older Americans personally. Everyone on the committee is either middle aged, will soon be, used to be or has parents that are middle aged or older.

This is not a time of life when everything will take care of itself just because we have lived a long time. This is a time of life when our earnings from employment are nearing their end or the end of the peak earnings period of our lives. For many of us, the financial responsibilities remain though our income level drops dramatically. It is this drop in income that is troubling and causes much of the economic difficulties faced by our older Americans.

This time of economic adjustments can be made much smoother and in most cases, a wonderful transition. Planning is the element that can make all the difference. Nothing about retirement is automatic. Social Security is threatened, many investment portfolios have been devastated by the market of recent years, pensions have been victimized by corporate raiders, and job losses in middle age have adversely affected all of the above.

Retirement security is a subject that is to be addressed to Americans of all ages. This hearing will address several financial options available especially some of those that will allow investors to guard against outliving their assets. Increased awareness of the benefits of annuities, long-term care insurance, and viatical settlements are a necessity in today's retirement marketplace.

The regulation of many of these financial products differs greatly among the States as to the degree of disclosure, consumer protection requirements and definitions of the products. We must find some way to bring uniformity to these areas without suppressing the rights of states to regulate.

Mr. Chairman, I ask unanimous consent to submit my statement to the record.

May 15, 2003

Honorable Rahm Emanuel
Committee on Financial Services
Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises

Re: Hearing on "Retirement Security: what seniors need to know about protecting their futures."

Mr. Chairman, I would like to thank you for holding this important hearing on retirement security for seniors. I also appreciate that our distinguished guests have taken the time to share their views with us on these topics.

Yesterday, the House of Representatives had the opportunity to vote on H.R. 1000, the Pension Security Act, as well as the Democratic substitute. I am disappointed that the House passed a bill that doesn't do enough to take care of the retirement security of American families. In particular, the bill does not address the proposed IRS regulations allowing companies to convert their defined benefit pension plans to cash balance plans, without giving more senior workers the choice to remain in their existing plan.

As we meet today, more than 500 U.S. companies have converted to cash balance plans. There have been more than 1,000 age discrimination claims filed with the EEOC over these plans. Approximately 350 companies are waiting on the sidelines for the go-ahead from the IRS to convert to cash balance plans. Don't get me wrong. I am in favor of cash balance pensions. They are a good thing for younger workers and companies should have the flexibility to introduce them into the marketplace. What I am suggesting is that there needs to be a balance. This can be done in a way that creates a win-win situation for both younger and longer-serving employees. Otherwise, without "grandfathering" protections for employees with ten years or more of service, the value of these individuals' pensions will be cut dramatically overnight.

In these difficult economic times, with retirement account losses, ongoing layoffs, wage cuts, longer work days and spiraling health care costs, pension reform needs to be thoughtful and measured, and the focus should be on protecting the retirement security of long-serving employees and working families.

Additionally, at a time when the average annual public company CEO's compensation has risen to $36 million, and the ratio of large company CEO pay to average worker pay has ballooned to 411-to-1, the greatest disparity ever measured, I fail to understand why workers' and executives' pension plans aren't treated the same. The Pension Security Act passed by the House yesterday failed to address the special treatment executives' pensions continue to receive, and that's wrong. The same goes for Members of Congress. In 1995, President Clinton signed into law the first piece of legislation enacted by the 104th Congress, the Congressional Accountability Act. This Act applied 11 existing employment, civil rights, health, and safety-related statutes and regulations to the legislative branch. Perhaps the Administration and some Members of Congress would have a different view if the proposed IRS regulations were added to the

Congressional Accountability Act and applied to them. If cash balance conversions are such great medicine for older workers, then let's convert Congressional pensions to cash balance plans.

I would like to briefly address a related and equally important issue. Each year, between 500,000 and 5 million older Americas are abused, neglected or exploited. Nearly 80% of elderly abuse goes unreported. Although the number of older Americans is rapidly increasing, the problem of elder abuse, neglect and exploitation has been ignored for too long and presents the gravest issues facing millions of American families.

That older Americans are subject to financial exploitation is one reason that I will introduce the bipartisan Elder Justice Act, legislation to strengthen criminal penalties against those who take advantage of seniors. My bill has 32 original cosponsors, including ten Republicans. It addresses an urgent problem in this country and responds to many of the complex issues that prevent many older Americans from living happily and independently in their twilight years.

Protecting elderly Americans from financial exploitation is a great step forward in meeting the needs of our "greatest generation" and the baby boomers who will soon follow in their footsteps.

There is no simple answer to providing retirement security for our seniors. Members of Congress and the Administration need to work together to protect Social Security, enact meaningful, fair pension reform, and address critical health care needs. I look forward to working with my colleagues on these issues in the 108th Congress.

Hearing Statement - Vito J. Fossella
Subcommittee on Capital Markets, Insurance, and GSEs.
Retirement Security: What Seniors Need to Know about Protecting Their Futures, May 15, 2003

I want to thank everyone for coming in today to address the issue of promoting and protecting retirement plans. As we watch the baby boomers enter their retirement years, many are finding their current plans insufficient and unstable due to a number of reasons. Whether it was due to the recent volatile marketplace, the loss of a spouse or an unexpected illness, people are finding themselves in need of a new plan to assure they are financially secure in their retirement years. .

Educating present and soon-to-be seniors on different retirement and insurance options available is critical in today's atmosphere. I happen to believe that educating at a young age is extremely important, and while I believe Social Security will be around for a very long time, there is a need to inform people to that S.S. benefits are intended as a retirement supplement and not a pension plan. We're here today to ensure Congress is doing its part to ensure that the laws are in place to protect senior's retirement plans and to ensure that individuals are confident enough to invest in retirement and insurance plans.

I'm sure we will hear some great things from the panel today on this issue and once again, I want to thank everyone for coming in today and I look forward to hearing your testimonies.

May 15, 2003

Opening Statement by Congressman Paul E. Gillmor
House Financial Services Committee
Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises
Hearing entitled, "Retirement Security: What Seniors Need to Know about Protecting Their Futures"

Thank you, Mr. Chairman, for holding this important hearing. In today's climate of economic uncertainty, adequate nationwide education on retirement planning options is essential.

As many of our nation's "baby boomers" rapidly approach retirement age, the extent to which they evaluated their future financial and other needs, and saved or invested accordingly, will have a large impact on the efficiency of our nation's social security system. Consumers need to realize that perhaps the most important component of retirement planning is individual savings as social security benefits and employer pensions become less reliable. To the extent that individuals choose to invest those savings, greater financial education is necessary to determine what investment vehicle is best suited to their needs.

Adequate levels of insurance are another important consideration that must be emphasized in preparing for retirement. Many new products are now available to better manage healthcare needs later in life, such as long-term care insurance. Greater consumer education is necessary to educate the public on these new options and the best way to incorporate them into an overall retirement portfolio.

Given this subcommittee's oversight responsibility over the insurance industry, it is also important that we ensure that financial regulators remain informed on these new products and address any regulatory issues that may arise.

Thank you again, Mr. Chairman, for taking the lead on this issue and calling our distinguished witnesses before us today. I look forward to a very informative discussion.

OPENING STATEMENT OF
RANKING DEMOCRATIC MEMBER PAUL E. KANJORSKI

SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE, AND GOVERNMENT SPONSORED ENTERPRISES

HEARING ON RETIREMENT SECURITY: WHAT SENIORS NEED TO KNOW ABOUT PROTECTING THEIR FUTURES

THURSDAY, MAY 15, 2003

Mr. Chairman, today we will explore the issues that individuals should consider as they plan for retirement. Because investor protection and financial literacy are top priorities for my work on this panel, I am therefore very pleased that we are meeting to examine matters like annuities, life insurance, and long-term care insurance, among others.

The aging of the American population has made retirement planning an issue of increasing concern for our nation's policymakers, and we should review a number of trends before hearing from our witnesses. Today, 12.4 percent of the population is 65 years old or older. By 2025, according to Census Bureau projections, this statistic will rise to 18.5 percent. Moreover, over the next thirty years as baby boomers reach retirement age, America's elderly population will likely double, rising from 35 million to nearly 75 million individuals.

Life expectancy rates also continue to increase. Someone who lives to age 65 can now expect to live an additional 18 years, up from an extra 13 years in 1940. Although Americans are living longer than ever before, many are retiring earlier. For many of these individuals, retirement will last 20 to 30 years or even longer.

In light of these trends, individuals must plan prudently and early in order to ensure a secure retirement with a steady stream of income to cover expenses. While retirement planning is important for everyone, it is especially important for women. Women, after all, generally live longer and with less income when compared to men.

For many years, we have described retirement planning as a three-legged stool based on Social Security, employer-provided pensions, and personal savings and investments. In reality, it consists of more than these three supports. Genuine retirement planning should also incorporate insurance products, including medical, long-term care, and annuities. Experts also advise that really effective retirement preparations should include either a will or, if appropriate, an estate plan to protect one's loved ones.

With more Americans living longer and retiring earlier, pensions and Social Security benefits will have to be paid over longer periods of time. Personal savings and investments must also be stretched out. The troubles of the stock market over the last three years, however, have resulted unfortunately in significant declines in pension plans and retirement investments. Today, the sagging economy has produced an underfunding of pension plans of more than $300 billion. It also disturbs me that retirement plan participation rates have recently dropped for full-time employees, standing at just 55.8 percent in 2001.

Saving for retirement is just one step toward achieving financial security. I am therefore pleased that we are examining the issue of annuities. Annuities can help seniors to manage their savings so that they will not outlive their assets. In today's complex financial marketplace, we

also need to ensure that individuals preparing for retirement understand the benefits of receiving a guaranteed stream of payouts via an annuity instead of taking a lump-sum payment.

As the American population continues to age, experts predict that the number of individuals requiring long-term care will greatly rise. At some point, one in five seniors will require nursing home care for at least a year. The costs of such care now average $55,000 annually, but by 2030, according to at least one estimate, these services could cost $200,000. To reduce the burden on Medicaid and Medicare, we have worked in recent years to adopt policies aimed at encouraging individuals to purchase long-term care insurance. Today's hearing will help us to understand what else we can do through the private sector to meet this need.

Finally, Mr. Chairman, because we are talking about retirement planning, I feel it important to raise the issue of Social Security, which presently covers about 160 million workers, providing them with a safe, secure and steady stream of income in retirement. As a result of Social Security, the poverty rate among America's elderly has dropped dramatically, and without this vital retirement program the poverty rate among older women would increase from 12 percent to more than 50 percent. Social Security is a success. We should not tinker with this program with proposals to privatize the system. I will be particularly interested to hear what our witnesses have to say about this issue.

In closing, Mr. Chairman, I want to commend you for bringing these matters to our attention. Retirement planning is an issue of the utmost importance. After we learn more about the views of the parties testifying before us today, we should, if necessary, work to further refine and improve the legal structures governing our public policies related to retirement planning. I look forward to working with you in these endeavors.

Statement Congresswoman Sue Kelly
Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises
Hearing: "Retirement Security: What Seniors Need to Know about Protecting Their Futures"
May 15, 2003

Good morning, and thank you, Chairman Baker, for holding this important hearing on retirement security – an issue that is of great concern to today's seniors and tomorrow's retirees.

With tens of millions of baby boomers approaching retirement, the need to focus on proper planning and financial literacy continues to grow. The cornerstone of retirement security is the consumer's ability to anticipate their future financial needs and adjust their assets using several diverse financial products – from investments and pension funds to life insurance policies and long term care insurance, annuities and social security.

As more sophisticated financial products are introduced to fulfill the evolving retirement needs of seniors, we need to ensure that consumers have clear and objective information. The arrival of new and improved products for seniors is welcomed, but it comes with an additional responsibility that financial regulators keep pace with changes in the marketplace to protect consumers.

Last year, my Subcommittee on Oversight and Investigations held a hearing on one product known as a viatical settlement – the practice of buying life insurance policies from the elderly or terminally ill at a discount and then marketing them as investments. A properly conducted viatical transaction can benefit all parties involved: sick individuals can access much needed cash to pay medical expenses; companies that sold the original policies receive premiums that are important to market stability; and investors and settlement companies who buy policies are able to make a return on their investment.

Unfortunately – as we learned in that hearing – bad actors have taken advantage of these arrangements to create or buy phony policies and fraudulently bilk unsuspecting investors. While it is extremely unacceptable, it is no surprise given the complex nature and inconsistent state regulation of viaticals. I strongly believe we must address the lack of uniformity and regulatory gaps among states in regulating life and viatical settlements that leave some citizens – particularly elderly Americans – at the risk of being defrauded.

I thank the witnesses for appearing before the subcommittee and look forward to hearing their testimony on these issues.

WRITTEN STATEMENT

OF

LAVADA E. DESALLES
MEMBER, AARP BOARD OF DIRECTORS

FOR THE HEARING ON:

"RETIREMENT SECURITY: WHAT SENIORS NEED TO KNOW ABOUT PROTECTING THEIR FUTURES"

BEFORE THE

SUBCOMMITTEE ON CAPTIAL MARKETS, INSURANCE, AND GOVERNMENT SPONSORED ENTERPRISES

OF THE
COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

MAY 15, 2003
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James G. Parkel, President | William D. Novelli, Executive Director and CEO | www.aarp.org

Good morning, Chairman Baker, Ranking Member Kanjorski, and other distinguished Members of the Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises. My name is Lavada DeSalles, and I am a Member of AARP's Board of Directors. I appreciate this opportunity to offer our views regarding what seniors need to know about protecting their economic security. Today, my testimony will focus primarily on the role that private insurance can play in retirement planning – and what should to done to increase its usefulness to older adults for meeting their financial needs.

With a membership of over 35 million midlife and older persons, AARP has a vested interest in and is actively involved with efforts to promote the economic security of our members – and for all Americans age 50 and over that we aspire to serve. Private insurance products can and frequently do play an important and valuable role in accumulating, managing and protecting the financial assets necessary for a secure retirement.[1] We believe that privately financed insurance products have the potential to play an important supplemental role to the foundation provided by Social Security. To fulfill that role, the marketplace for these products should include:

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[1] See our "Retirement Planning Guides: a Bibliography with Abstracts", from AgeLine in the Research Center of AARP's Webplace (http://research.aarp.org/econ/retplanprn.html). Attached to my written testimony are two consumer resources that have been compiled by AARP and are available to everyone, without charge, for downloading from our website:

- the first provides guidance on how to create a financial plan (www.aarp.org/financial-creatingplan/); and
- the second provides guidance on how to manage your insurance portfolio (www.aarp.org/tools/Articles/a2002-08-13-InsuranceOverview/).

- strengthened enforcement of consumer protection statutes and regulation,
- ready access by consumers to well-qualified, independent and affordable financial planning resources,
- reliable and accurate metrics for comparing insurance products as well as for comparing insurance products with equity market products, and
- substantial additional progress in the national standardization and licensing of insurers and their agents and product approval promised in the enactment of the Gramm-Leach-Bliley Act.

Ultimately, these products need to be integrated as supplementary options for what AARP has characterized as the four basic pillars of retirement income security for the 21st century:

- Social Security,
- Pensions and savings/investments,
- Healthcare insurance coverage, and
- Earnings from working during one's "retirement" years.[2]

Some insight into the characteristics of those nearing retirement age, and in need of health insurance, is provided by an AARP analysis based on the March

[2] "Beyond 50: An AARP Report to the Nation on Economic Security" (2001) concludes that traditionally, the structure of retirement security has been thought of as a "three-legged stool". Now, because one-fifth of the aggregate income of Social Security beneficiaries derives from wages, earnings from employment merit consideration as a pillar of retirement security.

2001 Current Population Survey conducted by the Bureau of the Census. It revealed that in the year 2000, more than 13 % of people ages 50-64 (5.2 million individuals) were uninsured (without any health insurance) throughout the year.

One common misconception is that the uninsured are unemployed. In 2000, fully 64 percent of 50-64 year-olds without health insurance were workers. The largest share of uninsured workers in this age group worked for small employers (43 % worked for employers with fewer than 10 employees). Among the uninsured 50-64 year-olds, only one in five did not file a federal income tax return in 2000. Women in this age group are at somewhat greater risk than their male peers (14 % compared to 12 %). However, minorities account for a disproportionate share of uninsured 50-64 year-olds (Blacks and Hispanics made up 33 % of the uninsured population, but only 18 % of all 50-64 year-olds).

Unsurprisingly, commercially offered personal insurance products pose the same cost, availability and sustainability challenges for individuals that are so familiar to policy makers in addressing national issues. However, the responsibility for the selection among a complex array of insurance companies, and policy options within insurance product lines, shifts to the individuals and their families while they are – at the same time - attempting to manage their daily financial affairs. We do not view this challenge as an unbreachable barrier, but rather one that

will require a concerted effort by policy makers, the insurance industry, consumer advocates and consumers to address. Chairman Baker, today's hearing represents an important first step in launching this effort.

The Challenge Ahead:

Interest in Financial Planning and Management by Near-Retirees

AARP has long been active in efforts to assist midlife and older Americans to improve their prospects for achieving personal financial security. In this regard, we have conducted research, and designed, tested and provided financial education and counseling services to our members, as well as to midlife and older adults generally.[3]

AARP has engaged in efforts to:

- Assess the magnitude of the problem of insufficient savings among adult Americans;

[3] For example, the AARP Andrus Foundation, in a joint venture with the National Center for Women and Aging at the Heller Graduate School at Brandeis University, has created a website (www.FAAR.org) that provides direct access for researchers, practitioners and journalists, to the latest research on economic security, retirement income and consumer expenditures issues. FAAR refers to "Financial Aspects of Aging Research". Also, AARP's own website (www.aarp.org) has a venue for "web financial resources" that offers assistance in finding financial information, financial planning, economic watchdog, work smart, wise saving, etc.

- Identify and review research on the status of mature adult financial planning and management as it relates to savings and financial security; and
- Analyze existing savings education programs, focusing on those that have been formally evaluated.[4]

In April 2001, AARP contracted with Ipsos-NPD to conduct a study of people age 50 through 59 to gain more information about their interests, preferences and behaviors.[5] Among the key findings of this survey:

- Interest in learning about financial topics:
  - Respondents were given a list of 22 financial topics and asked to select five that they consider most important to learn about. More than six in ten (62%) said that Social Security benefits are important to learn about. Roughly half as many considered knowing how much money they'll need in retirement (39%), sources of retirement income (39%),

[4] AARP has sponsored a number of studies dealing with different aspects of savings and investment behavior for those age 50 and over. Some of the most recent reports include:

- How Americans Save (July 1998)
- Do Baby Boomers Save and, If So, What For (June 1999);
- The Impact of Pay Inequality, Occupational Segregation, and Lifetime Work Experience of the Retirement Income of Women and Minorities (September 1999);
- Pension and IRA Coverage Among Boomer, Pre-Boomer, and Older Workers (February 2000); and
- Patterns of Dissaving in Retirement (August 2000).

[5] From a sample composed mostly of Baby Boomers nearing retirement age, response to the mailed questionnaire was 57 percent (N = 1,932 responses out of 3,400 surveyed).

saving for retirement (30%), or pension benefits and 401 (k)s (29%) as important topics to learn about.

- No more than one-in-four picked any of the other topics, listed here in descending order as being among the top five: investing (24%), savings (22%), tax strategies (21%), inheritance issues (20%), home-based business (14%), estate planning (14%), debt management (14%), financial planning (12%), IRAs (11%), home equity or reverse mortgages (9%), investment terms and concepts (8%), changing careers or career management (8%), and paying for education (7%).

- Levels of confidence in a financially secure retirement:
  - Roughly two in ten respondents said they are either extremely (5%) or very confident (14%) that they will have enough money to live comfortably throughout their retirement years. Roughly four in ten (42%) say they are somewhat confident in a financially secure retirement, while a similar percent (39%) said they are either not too confident (22%) or not at all confident (17%).

- Levels of involvement with various financial planning activities:
  - The largest percentage of respondents said they have read their Social Security statement in the past year (56%). One-third (33%) said that they have contributed to a 401 (k) or other similar employer

retirement plan while roughly two in ten said that they have determined their net worth (22%), or reviewed their pension information (20%).

- Media, individual or organizational sources of financial information:
  - When asked how they receive media information about financial issues, over half (54%) said they get information from newspapers, while slightly fewer (47%) said they get such information from television. Four in ten respondents noted that they receive financial information from print brochures (43%) and from magazines (42%), while roughly one-fifth said they get information from the Internet (21%), from books (20%), or from the radio (19%). Only four percent reported that they receive financial information through computer software or videos.
  - Respondents were also asked what individuals or organizations provide financial information to them. Four in ten cited banks or other financial institutions (44%) or government programs or agencies (41%). Roughly one-third of the respondents said that their financial planner (33%), family or friends (32%), and their employer (32%) provide financial information to them. Between one-fifth and one-quarter of the respondents said they receive information from financial services companies (21%) and insurance companies (25%). Less than

one in ten respondents said they receive information from national financial organizations (8%), religious organizations (5%), and community groups or clubs (3%).

Because of changing work patterns, the rapidly growing population of retirement-age Americans, increasingly complex financial and insurance products and services and greater personal responsibility for managing one's own retirement finances, the demand for high quality "non-conflicted" financial literacy programs will continue to grow.[6]

PUBLIC POLICY ISSUES AND MARKET PRACTICES

All insurance products represent protection against some type of risk – whether that risk is associated with a loss of property (e.g., home, automobile), financial solvency (e.g., mortgage or other credit default, loss of income, savings and/or investment) or health (medical, disability, long term care, life or burial). Virtually all these forms of risk and their management follow the individual and family into retirement.

[6] It is a cross-cutting policy goal of AARP in all manner of financial services that advice offered to the consumer be insulated from potential conflicts of interest. See, for example, the testimony by Joseph S. Perkins, Immediate Past President of AARP, on the "Retirement Security Advice Act" (H.R. 2269), before the House Subcommittee on Employer-Employee Relations, July 17, 2001, Washington, D.C.

As it stands today, consumers already spend a considerable portion of their income on insurance coverage, from health to life to burial policies. But before we address ways to enhance the role of private insurance in retirement planning, we should examine a number of issues present in today's market experience that warrant additional illumination and attention by the Subcommittee.

As we might expect, the cost and availability of insurance are important to individuals as well as to organizations and agencies that ultimately serve those in retirement. In recent years the cost of personal insurance has risen dramatically, particularly for automobile and other essential property and casualty coverage. Concern about the soundness of the insurance industry has been heightened in the wake of an increasing number of insurance company failures.

In today's market, regardless of their individual risk characteristics, midlife as well as older Americans are often denied insurance coverage because of age, or are charged unreasonably high premiums to retain coverage. Many types of individual or personal insurance -- including life, health, disability and auto insurance -- and annuities commonly use demographic factors to determine rates, conditions of coverage, benefit schedules and eligibility. The use of a demographic factor often reflects or reinforces past or present patterns of discrimination. The use of these characteristics has a pronounced effect on the availability and affordability of needed insurance.

Gender continues to be used by insurance companies in many places as a factor in determining rates and benefits. The use of gender-based actuarial tables to determine premiums and benefits for life insurance and annuity products causes women to either pay higher premiums or accept lower benefits than men for equivalent levels of economic protection. We favor gender-neutral actuarial tables and rating systems that exist and are effective.

The difficulty that persons with disabilities have in locating and affording needed insurance coverage is perhaps the most severe problem and the most difficult to solve. While certain disabilities clearly affect insurability, reports of insurer discrimination against persons with disabilities in areas unrelated to their disability raise a serious concern. For instance, blindness or deafness has little correlation to the life expectancy of an individual who seeks life insurance, and should not be included as a cost factor of insurance coverage.

In a few instances, however, group characteristics are used to assess insurance rates, such as with long-term care and for health insurance.[7] Even with long-term care insurance, age-based practices should be used only if there is a reasonable relationship between age and the extent of the risk.

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[7] With adjusted community ratings the standard community rate is adjusted within specific guidelines for each group on the basis of anticipated utilization by the group's members. This is in contrast to community rating by class, in which a separate rate is set for each of several defined risk classes, such as age and gender.

Increasingly, credit scores are being used to set premiums. On one hand, these scores enable fast and efficient premium rate quotes. On the other hand, their use raises issues of fairness for individual policy holders, particularly within specific groups, such as ethnic minorities and lower-income groups. Identifying good predictors of risk that do not rely on group or immutable individual characteristics is a risk-classification challenge.

In addition to measuring risk by criteria that are reliable and verifiable and that can be administered efficiently and effectively, alternative criteria specific to the insured individual must be as accurate as demographic factors in predicting losses, but with less prejudicial effect. For example, actual continued employment may be more significant as an indicator of health than crossing the traditional retirement age of 65.

Another set of concerns relates to unfair and deceptive practices in the insurance industry. For example, "churning" is the practice of urging existing customers to purchase additional or replacement life insurance policies to generate commissions for agents. Consumers often remain unaware of the costs of these policies until they receive large unexpected bills. In 1997, several of the nation's largest insurers agreed to pay the state of Florida millions of dollars and reimburse consumers pursuant to state investigations of churning.

WHAT CAN AND SHOULD BE DONE

Efforts should continue to be made to increase consumer awareness of insurance alternatives for assembling and managing the necessary financial assets for a secure retirement. At the same time, changes in a number of public policies and insurer market practices would be useful for improving the insurance industry and the products and services it provides.

For example, we believe that Congress and the states should prohibit insurance companies from denying access to coverage -- particularly to persons with disabilities, preexisting conditions or chronic illnesses.

We also believe that regulatory initiatives should prohibit companies from refusing to insure, failing to renew or canceling policies, raising premiums, reducing death benefits, or limiting coverage based on age alone. In the case of long-term care insurance and for health insurance plans, age-based practices are proper only if there is a reasonable relationship between age and the extent of risk.

Rating practices should not become barriers to access to affordable health care

coverage. At a minimum, incremental steps should be undertaken in the private health insurance market to assure access to care for those under age 65 without coverage and for those at risk of losing coverage or having their coverage significantly diminished.

In addition, clear, comprehensive disclosures are needed on the sale of insurance so that consumers understand the scope, nature and cost of what they are purchasing. These disclosures should be easy to understand and compare so that consumers can evaluate policy benefits and comparison shop. At the same time, these disclosures must be comprehensible enough for consumers to understand exactly what type of insurance they are buying, what will and will not be covered and what the policies cost.

In particular, long-term care insurers should be required to disclose whether a policy provides coverage for less-than-skilled nursing home care and the extent of home- and community-based care benefits. The state insurance commissioner should also require insurers to:

- include specific information on long-term care benefits under public and private insurance programs;
- issue objective, usable, and comparative consumer information on costs and coverage;
- provide post-sale disclosure of paid-up life insurance options; and

- require insurance companies to notify and explain cancellation decisions to subscribers before cancellation occurs.

The McCarran-Ferguson Act of 1945 exempts the insurance industry from federal antitrust laws. As a result, there is no recourse at the federal level if insurance companies engage in collusion, price-fixing, tying of insurance products (requiring consumers to buy other products in addition to the desired product) and other anticompetitive practices. Congress should amend the McCarran-Ferguson Act to repeal its broad antitrust exemptions for the insurance industry. And Congress should lift the restriction on the authority of the Federal Trade Commission (FTC) to investigate the insurance industry.[8] Once that restriction is removed, the FTC should investigate issues such as rate fluctuations in the property-casualty market and the availability of liability coverage.

Further, provision should be made to establish a comprehensive data-gathering body to compile and analyze insurance statistics, including statistics on payment of liability incurred by insurance companies.

[8] See the FTC Improvements Act of 1980.

CONCLUSION

We commend you, Chairman Baker, and the other members of the Subcommittee, for beginning the examination of this important question – what needs to be done to better integrate private insurance into financial planning for retirement. We look forward to working with this Subcommittee to further improve prospects for a secure retirement for all Americans.

AARP

THE AARP FOUNDATION

History and Role

The AARP Foundation was established in the District of Columbia in 1961 as a 501(c)(3) nonpartisan charitable corporation, contributions to which are tax deductible. As an affiliate of AARP, the corporation was originally named the Retirement Research and Welfare Association and was set up to engage in the study and discussion of issues affecting aging persons.

In 1983, the Retirement Research and Welfare Association changed its name to the AARP Foundation and shifted its emphasis to promoting projects and community service endeavors related to the social welfare, maintenance, and improvement of health and educational services for older persons. During the 1980s and early 1990s, the AARP Foundation received grants for various AARP projects and also awarded small grants to a variety of community service, educational, and social welfare groups.

On December 19, 1995, the President signed into law the Lobbying Disclosure Act of 1995 which prohibits 501(c)(4) organizations that lobby from receiving federal funds. Although the lobbying act only applies to new grants, AARP transferred all of its public and private grant programs (staff, funds, and administration) to the AARP Foundation. These transfers were approved by all of the federal funding agencies.

The AARP Foundation administers educational, employment and community service programs funded by both private and federal grants. Federal funding totaled an estimated $57 million in 2001. Major grant programs of the AARP Foundation include the AARP Senior Community Service Employment Program and the AARP Tax-Aide Program. The Foundation also provides administrative support to AARP Foundation Litigation. The AARP Foundation's five-member Board of Directors is appointed by the AARP Board of Directors and provides oversight and guidance to the AARP Foundation's management. The Co-Administrators of the AARP Foundation supervise the Foundation's administrative, financial, and professional activities. Under a service provider agreement, AARP provides the AARP Foundation with support services and specialized skills needed to carry out some of the grant-funded programs.

AARP Foundation Administrator's Office – May 31, 2002

AARP Statement of Federal Grants & Contracts Pursuant to Rule XI, Clause 2(g)

On December 19, 1995, the President signed into law the Lobbying Disclosure Act of 1995 which prohibited 501(c)(4) organizations that lobby from receiving federal funds. Although the lobbying act only applies to new grants, AARP transferred its current grant programs (staff, funds, and administration) to the AARP Foundation, a 501(c)(3) nonpartisan, charitable corporation established in the District of Columbia in 1961. These transfers, effective January 1, 1996, were approved by all of the federal funding agencies.

	2000 Audited	2001 Audited	2002 Projected
Revenues			
Department of Labor: AARP Senior Community Services Employment Program (SCSEP) (1)	$53,539,723	$52,147,002	$53,952,882
Internal Revenue Service: AARP Tax-Aide (2)	3,418,098	3,335,653	3,381,032
Housing and Urban Development: AARP Reverse Mortgage Project	181,356	612,307	432,591
Health & Human Services:			
AARP National Legal Trainnig Project (3)	138,898	212,758	262,554
AARP Technical Support for Legal Hotlines	118,465	52,446	100,674
AARP Mental Health Coalition Building Project	24,771	85,261	0
AARP Senior Medicare Patrol Project	162,895	205,051	185,118
Alaska Senior Medicare Patrol Project Subgrant	16,000	0	0
Department of Justice:			
AARP Telemarketing Fraud Prevention and Education	67,495	372	95,796
Total Federal Grants	**$57,667,701**	**$56,650,850**	**$58,410,647**

Three Largest Programs:

(1) The AARP SCSEP is a work-training program authorized under the Older Americans Act of 1965. Eligible program applicants must be at least 55 years of age, physically able to work, and have income at or below 125% of the federal poverty level. This program operates in approximately 94 sites in 31 states and Puerto Rico. For the grant-year ending June 30, 2001, the program served 14,400 individuals and had an unsubsidized placement rate of 54%.

2) The AARP Tax-Aide Program provides free tax counseling for low and middle-income individuals, with special attention to those 60 and over, through a network of approximately 8600 sites and more than 30,500 volunteers. In 2002, this program helped more than 1.75 million taxpayers.

(3) The AARP Reverse Mortgage Project improves the quality and availability of consumer counseling and information and increases consumer awareness of reverse mortgage options and their alternatives.

APPENDIX 1

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EMAIL NEWSLETTER

Featured Article: Creating a Financial Plan

You wouldn't venture off into an unknown country without a map at your side, would you? So why would you forge a path into your financial future without some idea of where you're going? Just like the international traveler, you need to carry a map with you at all times, and refer to it often. That map is called your Financial Plan. Learn the six steps to creating your own Financial Plan below. Full story

Previous Creating A Financial Plan Articles

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08/21/02 Creating a Financial Plan Overview
AARP introduces the six steps of financial planning.
08/19/02 Step 1: Get Organized for Your Financial Plan
AARP helps you get your financial plan organized by teaching you how to create a Financial Planning Notebook.
08/20/02 Step 2: Setting Financial Goals
AARP's guide to setting financial goals.
08/20/02 Step 3: Evaluating Your Cash Flow
AARP's guide to calculating your income and expenses as part of your financial planning process.
08/20/02 Step 4: Calculating Your Net Worth
AARP's guide to calculating your net worth, income, and expenses.
08/20/02 Step 5: Making Assumptions About the Future
AARP's guide to making assumptions about the future when developing a financial plan.
08/20/02 Step 6: Adopting a Financial Strategy
AARP's guide to adopting a financial strategy.

STEPS TO FO

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2 Set Goals
3 Evaluate Cash
4 Calculate Net
5 Make Assump
6 Adopt a Strate

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Bank Accounts
Credit Cards
Insurance Polici
Investments
Legal Documen
Savings Bonds
Tax Records
Personal Directo
Professional Di
Retirement Acc
Track Your Fin Goals
Inventory of As

AARP's Consumer E-Briefs offer everything for the savvy consumer: Get tips on fraud protection, breaking consumer news, and valuable leads on Web sites and free stuff.

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Monthly Incom

Annual Income

Monthly Expen

Annual Expense

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Featured Article: Understanding Financial Advisers

Choosing a financial adviser can be complicated, simply because advisers vary widely. Even though many advisers call themselves by the same name - like financial planner or stockbroker - they don't all provide the same services. And, they don't always get paid in the same way. The key to choosing the best adviser is knowing what services they provide, and what services you need. Full story

Previous Financial Advisers Articles

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08/13/02 Doing Business with a Financial Planner
AARP outlines what consumers should expect from a good financial planner, including some financial planner pitfalls.

08/13/02 Doing Business with a Stockbroker
AARP explains the new account agreement that brokerage firms ask their customers to sign.

08/13/02 Filing a Complaint Against a Financial Adviser
AARP outlines various actions consumers can take if they have a complaint about a financial adviser, including writing letters, contacting the adviser's accreditor, and going to arbitration.

08/12/02 How to Choose a Financial Planner
AARP presents the questions that a consumer should ask when interviewing a financial planner.

08/12/02 How to Choose a Stockbroker
AARP describes the difference between full-service and discount brokers and gives tips on selecting a broker.

08/13/02 Monitoring Your Financial Adviser
AARP explains how consumers can monitor their financial advisers.

08/13/02 Paying Your Financial Adviser
AARP explains the three main ways that financial planners get paid.

08/13/02 Understanding Broker Compensation
AARP explains how stockbrokers make their money.

08/13/02 Understanding Financial Adviser Credentials
Learn the ins-and-outs of financial adviser certification.

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This AARP Web feature on financial advisers explains the distinctions between financial planners and investment advisers.

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APPENDIX 2

CLICK TO PRINT

Managing Your Insurance

URL: http://www.aarp.org/financial-insurance/Articles/a2002-08-13-InsuranceOverview.html

Managing Your Insurance

We all face risks in our daily lives.

Sometimes, we can take positive action to reduce these risks. We can exercise and watch what we eat to avoid getting sick. We can lock our doors to keep thieves away. Or, we can take a defensive driving class to reduce our risk of having a car accident.

At other times, of course, we have little control over the bad things that happen to us. For these times, it's important to have adequate protection so our families don't suffer devastating financial losses. That protection may include an insurance policy.

Part of creating a financial plan is making sure that you have all the insurance coverage you need, and that you actually need all the coverage you have. Start this process by reading your insurance policies. If you don't understand them, call your insurance agent and ask for an explanation. As you review each policy, ask yourself these questions:

- Do I need this policy?
- Am I getting the best value for the premium I'm paying? It might be more economical to raise your deductible in order to reduce your premium. Or, you might decide to search for a lower premium with a different insurance company.
- Are there gaps in my coverage? Try and think of likely events - disability, burglary, and chronic illness - for which you would need insurance coverage.
- Does my current insurance agent understand my needs? Is he or she providing good service?

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Featured Article: Your Insurance Policy Guide

We all face risks in our daily lives. Sometimes, we can take positive action to reduce these risks. At other times, of course, we have little control over the bad things that happen to us. For these times, it's important to have adequate protection so our families don't suffer devastating financial losses. That protection may include an insurance policy. Full story

Previous Insurance Articles

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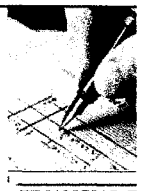
08/13/02-Choosing Your Long-Term Care Policy
AARP outlines the choices consumers must make when deciding whether to purchase long-term care insurance.
08/13/02-Insurance for Almost Every Eventuality
AARP outlines consumers' insurance choices.
08/13/02-Managing Your Insurance
AARP outlines consumers' insurance choices.
08/13/02-Understanding Long-term Health Care Insurance
AARP explains long-term care insurance.



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Insurance for Almost Every Eventuality

There are many insurance products on the market that can help you weather the rainy days in your future. Some products could come in handy if you become ill or have a car accident. Others can help you recover financially if your home is robbed, or if your spouse or partner dies. Of course, some insurance products may not fit your needs or your situation. Take some time, before bad things happen, to learn about the types of insurance available to you. Then, make decisions about what policies you should buy, and how much coverage you'll need.

What You Should Know

Automobile Insurance

Do you own a car or other vehicle? Then you must buy automobile insurance that will pay medical bills and repairs costs if you are in an accident. Most policies also cover the cost of replacing or repairing your own car if it is damaged or stolen. For more information, contact:

The Better Business Bureau (BBB)

Read "The Basics of Auto Insurance," the BBB's online guide to buying automobile insurance.

URL: http://www.bbb.org/library/autoins.asp

Homeowners or Renters Insurance

Do you own a home? Then, it's a good idea to buy insurance that will pay for repairing and replacing your home if it's damaged or destroyed. Renters should buy insurance to protect their furniture and other personal property. For more information contact:

National Association of Insurance Commissioners (NAIC)

NAIC has published "A Consumer's Guide to Home Insurance," which discusses homeowners and renters

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insurance. You can order the guide from NAIC. Or, you can view the guide online at the Indiana Department of Insurance Web site.

URL: http://www.in.gov/idoi/guideho.html

Disability Insurance

A disability insurance policy pays you a regular salary when illness or an accident prevents you from doing your job. You may already have disability insurance through your job. Check first to see how much coverage you have. Then, decide if you need more. For more information, contact:

Health Insurance Association of America (HIAA)

HIAA, a nonprofit association of insurance companies, has published "Guide To Disability Income Insurance." You can read it online.

URL:
http://www.hiaa.org/consumer/disability.cfm

Health Insurance

If you're still working, you probably get health insurance coverage through your job. When you turn 65, you will be eligible for Medicare if you or your spouse worked for at least 10 years in Medicare-covered employment and you are a citizen or permanent resident of the United States. Medicare won't cover all your health care expenses. It does not pay for prescription medicines or long-term care. You can buy Medicare Supplemental Insurance to cover additional healthcare costs. This "Medigap" insurance pays for some services that Medicare doesn't cover. You may also be able to get benefits from Medicaid if you have a limited income. Medicaid is the national health insurance program for low-income persons.

The Centers for Medicare and Medicaid Services (CMS)

CMS - formerly the Health Care Financing Administration (HCFA) - is the federal agency that administers the Medicare and Medicaid programs. Find information about both programs at the CMS Web site.

URL: http://cms.hhs.gov

Life Insurance

research, and po:
papers, visit the
Security Center.

If your spouse or partner died, would you be able to live comfortably on your own? If not, you may want to consider buying life insurance. For more information, contact:

Federal Consumer Information Center (CIC)

CIC has published a guide to buying life insurance, called "What You Should Know About Buying Life Insurance."

URL: http://www.pueblo.gsa.gov/acli/index.htm

Long-term Care Insurance

Long-term care refers to the many health-related services used by people who have disabilities or long-lasting illnesses. Long-term care services usually include meals and help with such daily activities as bathing and dressing. Employer health insurance doesn't pay for these services. Neither does Medicare. The Medicaid program will pay for nursing home expenses if you qualify for benefits. Long-term care insurance does help pay for most kinds of long-term care services, but it is very expensive. Before you purchase a policy, make sure you can afford the premiums now and in the future.

For More Information

AARP

The AARP Web site also features two articles on Long-Term Care Insurance.

- "Choosing Your Long-Term Care Policy"
- "Understanding Long-term Health Care Insurance"

AARP also offers many insurance choices for its members. View the Member Services and Discounts area for more information.

URL: http://www.aarp.org/benefits-insurance/

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Understanding Long-term Health Care Insurance

Long-term care refers to the many services used by people who have disabilities or chronic (long-lasting) illnesses. Long-term care insurance helps you pay for these services, which can be very expensive. A policy also ensures that you can make your own choices about what long-term care services you receive and where you receive them.

What You Should Know

Ordinary health insurance policies and Medicare usually do not pay for long-term care expenses. Medicaid, a federal/state health insurance program, will only pay for long-term care if you have already spent most of your savings or other assets. Long-term care insurance should cover the cost of:

- Help in your home with daily activities like bathing and dressing.
- Community programs, such as adult day care.
- Assisted living services that are provided in a special residential setting other than your own home. These services can include meals, health monitoring, and help with daily activities.
- Care in a nursing home.

Deciding Whether to Buy a Policy

Long-term care insurance is not for everyone. Learn as much as you can about the various policy options before you buy a policy. Call your state agency on aging to get free or very low-cost help in deciding whether to buy long-term care insurance. Keep the following in mind:

- Make sure you have a good reason to buy long-term care insurance. Your goals should be to protect your assets, minimize your dependence on other family members, and control where and how you receive long-term care services.
- Consider the cost. Long-term care insurance is expensive. An individual who is 65 years old and in good health can expect to pay between $2,000 and

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$3,000 a year for a policy that covers nursing home care and home care, and whose premiums are adjusted for inflation. Be wary of buying long-term care insurance if the cost of premiums will lower your standard of living or force you to give up other things you need. Make sure you'll be able to afford the premiums if your income declines.

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Deciding When to Buy a Policy

Middle age is the best time to consider whether to buy long-term care insurance. That's when you're most likely to be eligible for a policy, and when premiums costs will be at their lowest.

Many people don't think about long-term care until they get into their 70s and 80s and their health begins to fail. At this age, it may be too late to purchase insurance. Some long-term care insurance policies have restrictions on the age and health status of potential buyers. Even if you can obtain long-term care insurance in old age, it will be more expensive than if you bought a policy when you were younger.

For More Information

State Health Insurance Assistance Program (SHIP)

SHIP is a free program that counsels older adults about health insurance-related topics. SHIP counselors can help you decide if you need long-term care insurance. They can also help you read and understand the insurance policy you are thinking about buying. For the SHIP program nearest you, call the Eldercare Locator, 800-677-1116. In addition, the New York State Office on Aging Web site lists contact information for SHIP programs throughout the country.

URL: http://www.hiicap.state.ny.us/home/link08.htm#links

The National Center on Women and Aging

This center, located at Brandeis University, focuses attention on the special concerns of women as they age. The center recently published a guide to long-term care insurance in its "Women and Aging" newsletter. View the report on the Administration on Aging Web site.

URL: http://www.aoa.gov/elderpage/walltcupdate.html

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Choosing Your Long-Term Care Policy

Deciding that you need long-term care insurance is only the beginning. Next, you must sort through the wide variety of long-term care policies available to you. You'll have to make important choices about your policy's specific features. The options you choose will determine the cost of your premiums.

What You Should Know

Policy Choices

- **Coverage.** You can choose long-term care insurance policies that pay only for nursing home care, or only for home care. Or, you can opt to purchase coverage for a mixture of care options that includes nursing home, assisted living, and adult day care.
- **Daily or Monthly Benefit.** The daily or monthly benefit is the amount of money the insurance company will pay for each day or month you are covered by a long-term care policy. If the cost of care is more than your daily or monthly benefit, you will need to pay the balance out of your own pocket.
- **Benefit Period.** Your benefit period determines the length of time you will receive benefits from your policy. You can choose a benefit period that spans from two to six years, or the rest of your life.
- **Elimination or Waiting Period.** During this period, you must pay all of your long-term care expenses out of your own pocket. This period could last anywhere from 0 to 100 days. The longer the waiting period is, the lower your premiums will be.
- **Inflation Protection.** Most policies increase the value of your benefit over time to account for inflation.
- **Non-Forfeiture Benefit.** Policies with this benefit will continue to pay for your care even if you stop paying premiums. This policy feature can add 10 percent to 100 percent to your premium.

Policy Features

Make sure that your long-term care insurance policy:

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- Does not require that you spend time in a hospital before receiving benefits.
- Will be renewed as long as you pay the premiums.
- Lets you stop paying premiums once you begin receiving benefits.
- Has one deductible for the life of the policy.
- Automatically covers pre-existing conditions if you disclosed them when you applied.
- Offers five-percent compound inflation protection.
- Allows you to downgrade your coverage if you cannot afford the premiums.
- Includes coverage for dementia.
- Clearly explains when you will be eligible for coverage and how your eligibility will be determined.

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Being a Wise Consumer

If you are purchasing your policy from an insurance agent, talk to several agents who specialize in long-term care insurance. Compare prices and benefits. Never buy from a door-to-door salesperson and never pay in cash. In addition, don't buy more than one policy.

Check the financial stability of the insurance provider. A policy is only as good as the company behind it. Several independent companies rate insurance companies. See below for information about contacting these agencies.

Insist on reading the entire policy contract, not just an outline of coverage. Pay special attention to how you will become eligible for benefits. What levels of need must you exhibit? How will your need be judged?

Review your policy carefully during your 30-day "free look" period. If you are unsure or uneasy, return the policy for a full refund.

Check Out Your Insurance Provider

Call these rating agencies to check on the financial stability of your insurance provider. Some ratings companies charge a fee for this information. Be sure to ask the company for an explanation of what its ratings mean. Find out how many different rating categories a company has, and what is considered a good rating by the company.

Company Name	Telephone Number	On The Web
A. M. Best	908-439-	http://

	2200 x4742	www.ambest.com
Fitch, Inc.	212-908-0800	http://www.fitchibca.com
Moody's	212-553-0377	http://www.moodys.com
Standard & Poor's	212-208-1527	http://www.standardandpoors.com
Weiss Research	800-289-9222	http://www.weissratings.com

For More Information

United Seniors Health Council

United Seniors Health Council specializes in consumer health and health insurance issues. The council publishes a newsletter and sells books on long-term care and long-term care insurance.

URL: http://www.unitedseniorshealth.org/html/pubs_bookshelf.html

National Association of Insurance Commissioners (NAIC)

NAIC represents state insurance regulators and publishes consumer information about insurance. Order "A Shopper's Guide to Long-term Care Insurance" for 50 cents from the NAIC Web site.

URL: http://www.naic.org/1pubcat/consumer.htm

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Testimony of the
National Association of Insurance Commissioners

Before the
Subcommittee on Capital Markets, Insurance, and
Government Sponsored Enterprises

Committee on Financial Services
United States House of Representatives

Regarding:
Regulating Viatical Settlement Transactions and Promoting
Information Sharing Among State and Federal
Financial Regulators

May 15, 2003

Tom Gallagher
Chief Financial Officer
Department of Financial Services
Florida

Testimony of Tom Gallagher, Chief Financial Officer
Florida Department of Financial Services

Introduction

My name is Tom Gallagher. I am the Chief Financial Officer in charge of the Florida Department of Financial Services, which among other responsibilities oversees the regulation of the business of insurance. Florida has long been an active leader in protecting consumers from fraud, particularly the elderly who are targeted by unscrupulous peddlers of insurance products that have little or no use. Our experience and success in Florida can serve as a useful example to the Financial Services Committee of how states are actively working to guard against insurance fraud in the marketplace.

As Florida has been a primary participant on the Viatical Settlements Working Group of the National Association of Insurance Commissioners (NAIC), I am also pleased to be here on behalf of the NAIC to discuss its activities to improve state supervision of viatical settlement transactions and gain equal access to federal criminal history and regulatory information databases for state insurance regulators.

The Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises asked that my testimony today focus on two basic issues:

1. The importance to Florida of using its viatical settlement law, which is based in part upon the NAIC model act, to prevent and punish fraud; and

2. The need for establishing an anti-fraud information network that grants state insurance regulators equal access to criminal enforcement history databases maintained by the FBI and the National Association of Securities Dealers (NASD).

NAIC Efforts on Regulating Viatical Settlement Transactions

In 1989, the first viatical company was formed to buy insurance policies of terminally ill individuals for a percentage of the face value. By 1992, when it became clear that viatical companies would continue to flourish, the NAIC determined that a model law was needed to provide regulation of viatical companies in order to protect consumers who sold their policies at a time when they were not in a good bargaining position.

The NAIC began its review of regulating viatical transactions by asking two basic questions: (1) What protections should be afforded life insurance policyholders who sell their policy to a viatical company or broker that will pay the premiums and receive the proceeds? (2) What should state insurance regulators do to protect investors?

The initial model law developed by NAIC requires companies and brokers to obtain a license before entering into viatical settlement agreements. Under this model, an insurance commissioner has authority to refuse to grant or to revoke a license if the licensee is found guilty of fraud or makes unreasonable payments. The commissioner also has authority to examine viatical settlement providers and approve their contracts. The most important part of the model law is a set of protections for insurance consumers, including disclosure, payment of the proceeds into an escrow account, and confidentiality of medical information.

The current NAIC model, updated in March 2001, recognizes the viatical settlement marketplace is changing, which means state laws must also change. This version broadens the definition of viatical settlement to include any sale of a life insurance policy for less than its face value, whereas the earlier model limited the sales to policies where the insured was terminally or chronically ill. The current model includes valuable new protections against fraud and allows states the option of addressing the security side of

the transaction (sales to investors) in the insurance department if the state legislature deems it to be appropriate.

Twelve states that have already implemented the new version include Alaska, Florida, Iowa, Kansas, Nebraska, Nevada, North Carolina, North Dakota, Ohio, Pennsylvania, Utah, and Virginia. A number of other states have broadened their definition to provide protection to more consumers, and several have the newer model pending.

Florida's Experience with Fighting Viatical Fraud

The primary defense against viatical settlement fraud is to have a strong law that state regulators can use to identify fraud artists and prevent or punish their wrongful activities. Florida has such a tough law on the books, and we aggressively enforce its provisions. We believe the results demonstrate clearly that fighting viatical fraud is a worthwhile use of regulatory powers to protect consumers in our state and elsewhere.

Florida insurance regulators had substantial input in developing the NAIC model act. We believe it is a top-notch model for adoption by all states. As can be seen by the comparison chart attached as Appendix A to my testimony, the state of Florida has fashioned its own viatical settlements law to closely follow the NAIC model act.

The Florida Legislature passed The Florida Viatical Settlement Act in 1996. Its initial purpose was to protect an insured individual, defined in the Act as a "viator", diagnosed with a chronic or terminal illness who was willing to sell the death benefits of his or her life insurance policy for less than the face amount of the policy. This definition was later expanded by deleting the "diagnosed with a chronic or terminal illness" qualification which resulted in the Act covering anyone willing to sell the death benefits of his or her life insurance policy for less than the face amount of the policy. Since enactment, the Department of Financial Services, formerly known as the Department of Insurance, has received less than a dozen written complaints from viators.

Accordingly, the original intent of the Viatical Settlement Act in protecting the viator has been successful. The Act was not originally intended to protect investors investing in such policies. However, subsequent to enactment, the Department of Financial Services received hundreds of complaints from investors, mostly elderly, who had lost millions of dollars in viatical related scams. As a result, since 1996 we have enacted a number of amendments to the Florida Viatical Settlement Act to curtail investor abuses. Many of these amendments to the original act can also be found in the NAIC model act.

Viatical Enforcement Results in Florida as of May 5, 2003

In Florida, we believe the relevant statistics support our dedication to having a strong law that is matched by aggressive enforcement. Although strong legislation cannot in all cases defeat the fraudulent acts of someone bent on committing a crime, it can arm regulators with tools and sanctions needed to investigate and prosecute violators.

Looking first at the total number of 35 viatical provider applications in Florida since October 1996, it is easy to see that 21 of the 35 failed to gain approval. Without sound regulatory scrutiny as provided under our Florida law, many or all of these applicants could be operating in the state of Florida:

- Applications Withdrawn 17
- Applications Denied: 4
- Licenses Revoked: 3
- Licenses Surrendered: 3 (one filed for bankruptcy)
- Currently Licensed: 8

The importance of fighting fraud is shown by the following statistics which show that viatical settlements are big business for both the providers and the viators. Licensed viatical providers and their investors in Florida have reported the following for the period from 1996 through 2002:

- 14,017 life insurance policies purchased from viators, having a face value of $2,970,743,069, for which viators were paid $953,758,851.
- The average amount invested by each investor was $44,733.
- Average age of an investor was 70.5
- Department of Financial Services Regulatory Actions in Florida since October 1996 is 21.

  Broken down as follows:

  Providers = 8

  Brokers = 2

  Agents = 3

  Officers/employees = 5

  Unlicensed entities = 3

Viatical Criminal Cases Affecting Florida

These cases encompass indictments against 38 individuals:

- Provider (Sweeney/Future First)
- Provider (Stelk, Keaveney, Anderson, Sussman/Future First)
- Provider (Sutherland, Keller and Drach of Kelco)
- Unlicensed Provider (Justus Viatical)
- Unlicensed Provider (Financial Federated Title and Trust, Asset Security Corporation)
- Broker (Life Benefit Services)
- Medical doctor providing fraudulent life expectancies (Dr. Clark C. Mitchell)
- 11 viators for fraudulent acts

The Department of Financial Services is working closely with the Federal Viatical Task Force involving the FBI and U.S. Postal Inspection Service, as well as having ongoing

partnerships with the SEC and other state law enforcement agencies involved in viatical investigations.

Highlights of Enforcement Activities:

- The Division has executed 9 search warrants on viatical related companies.
- The Division has seized over 1000 files representing in excess of $76,000,000 of suspected fraudulently obtained "clean-sheeted" life insurance policies.

Potential criminal violations commonly reviewed are theft, misrepresentation, investor fraud, securities/investment issues.

Estimated Viatical Settlement Provider Losses to Investors

- Justus Viatical Group – Juno Beach, FL – $2,000,000
  Never licensed in Florida. Criminal charges were filed.

- American Benefit Services/Financial Federated Title & Trust – Lake Worth, FL – $117,000,000
  Never licensed in Florida. However, revoked the viatical broker license of American Benefits Services, as well as the life agent license of its principal Raphael Levy, who in association with Financial Federated Title & Trust, sold millions of dollars worth of interests in non-existent life insurance policies to citizens across the nation, (the principals of both companies, and the trustee of the affiliated trust, by the way, are serving lengthy prison sentences).

- Future First Financial Group, Inc. – Ponte Vedra Beach, FL – $203,000,000
  License was revoked and criminal charges filed. Revoked the viatical provider license of Future First Financial Group for knowingly selling interests in fraudulently procured policies to investors, and subsequently placed the entire company into a court-appointed conservatorship. Further, the Fraud Division, working in conjunction with the Florida Attorney General's Statewide Prosecutor

Office, has brought about the arrest and by both indictment and information and the formal bringing of criminal charges against the former vice president and president of Future First. The former president was just arrested and now resides in a county jail under $10 million dollar bond.

- Accelerated Benefits Corporation – Orlando, FL – $ 114,500,000
  Revoked the viatical settlement provider license of Accelerated Benefits Corporation for knowingly selling interests in fraudulently procured policies to investors.

- William Page & Associates
  Via consent order, administratively disciplined the viatical settlement provider license of William Page and Associates for charging investors post-sale monies not authorized by their viatical settlement purchase contracts. Page agreed, among other things, to refund all monies in question, pay a substantial administrative fine, and submit to a two-year probationary period during which it must make quarterly reports to the Department of Financial Services.

NAIC Supports Establishing a National Anti-fraud Network

On March 6, 2001, then NAIC Vice President Terri Vaughan testified before the Financial Services Committee in support of establishing a national anti-fraud network among federal and state financial regulatory agencies. The NAIC's support for creating an effective network that draws on current resources and opens doors for equal participation by state insurance regulators remains the same.

The NAIC presently has the technical infrastructure in place to share regulatory database information. Because NAIC is the central database manager and link to individual state insurance department computer systems, it has developed a modern online information exchange system that should have no difficulty in expanding to include federal agencies. Likewise, NAIC is fully capable of receiving and handling both public and confidential

regulatory information. In fact, the NAIC may be able to offer guidance in setting up a workable system to agencies having less experience in this area.

The NAIC believes a national multi-agency information exchange system should be structured as follows –

- Create an anti-fraud network based upon information sharing agreements among functional financial regulators and law enforcement agencies.

- Establish a central database authority to set technical standards for sharing regulatory and law enforcement information.

- A multi-agency information sharing system should link existing databases rather than create new ones. Each regulator has a large investment in its own systems and databases, including training and integration. Functional regulators need to work within their own unique system interface, but will require access to data stored on outside databases in order to be effective.

- Finally, all participants in a multi-agency system should be given legal immunity for good faith reporting of regulatory information and operation of the system.

State Insurance Regulators Need Immediate Access to FBI's Fingerprint Database

While NAIC supports Congressional efforts to create a broad anti-fraud information sharing network, we repeat our request that you fix one glaring weakness in the system immediately. Right now, state insurance regulators are the only functional regulators who do not have access to the Fingerprint Identification Record System (FIRS) operated by the FBI. Congress should close this gaping loophole before doing anything else.

Permitting states to run national fingerprint background checks on insurance producers and company personnel is the best way to weed out known wrongdoers before they get a chance to commit insurance fraud. It is also critical if Congress expects the states to establish a national agent licensing system, as mandated by the NARAB section of the Gramm-Leach-Bliley Act (GLBA). In addition, the federal law punishing insurance fraud (18 USC 1033) establishes an affirmative duty for state insurance regulators to check the criminal history of persons re-entering the insurance industry, yet there is presently no uniform access method for us to conduct such checks with the FBI's fingerprint database.

The General Accounting Office (GAO) specifically recommended that state insurance departments be granted access to Federal criminal history data as part of its report on Martin Frankel's activities (Insurance Regulation: Scandal Highlights Need for Strengthened Regulatory Oversight; GAO/GGD-00-198, September 2000, page 50). The GAO has also found that several viatical fraud artists had previous criminal convictions. Since viatical settlement transactions are a crossover insurance and securities product, the NAIC believes it is just plain common sense that insurance regulators should have access to the viatical agent's past disciplinary and criminal records in order to protect consumers.

The fastest way to grant state insurance departments access to the FBI's fingerprint database is by federal statute that simply gives insurance regulators the same access to FBI fingerprint files that banks, bank regulators, and the American Banking Association currently possess. We ask that you act quickly to put us on a level playing field with federal functional regulators.

State Insurance Regulators Need Access to NASD's Enforcement Database

State regulators also need Congress to help us gain access to the national securities enforcement database maintained by the National Association of Securities Dealers (NASD). In return, the NAIC is willing to share with NASD the extensive database information NAIC maintains on insurance agents and companies. The GAO specifically

recommended that securities and insurance regulators exchange regulatory information in its Martin Frankel report (pp. 49-50). We believe closer coordination between securities and insurance regulators is becoming even more important as the products and sales of these products become further intertwined.

Regulatory Confidentiality Must Be Preserved for Information Sharing to Work

Congress should act quickly to guarantee the confidentiality of regulatory information exchanges between state insurance departments and federal agencies, especially in fighting fraudulent activities that have not been fully proven. The system of functional regulation set forth in GLBA requires that regulators communicate freely on all matters of mutual interest. They cannot do so if they cannot maintain confidentiality for regulatory information.

During the NAIC's efforts to negotiate regulatory cooperation agreements with the Federal Reserve Board, OCC, OTS, and FDIC, one of the biggest concerns has been the protection of sensitive information when it passes from one functional regulator to another. Federal agencies are wary of state freedom of information laws, while states are equally concerned about the level of federal safeguards. In the end, because we could not resolve the confidentiality questions in a manner that could apply to all states, the NAIC's model agreement anticipates that some states will alter it to fit their particular laws. As a result, we are unlikely to achieve a uniform nationwide level of confidentiality on information exchanges without additional action by Congress.

NAIC recommends that Congress act quickly to enact a federal law that protects the confidentiality of regulatory information exchanges.

Conclusion

State insurance regulators and the NAIC fully support Congressional efforts to fight viatical settlement fraud and create a nationwide anti-fraud network of information

sharing among regulators. The NAIC has taken the lead in developing a viatical settlements model act for states to adopt, and many of them have already done so. Florida is a leader in using its viatical settlement law based upon the NAIC model to aggressively fight fraud in our state. We welcome efforts to extend the benefits of the NAIC model to other states.

With regard to information networking, the NAIC is ready to share the information in its own regulatory databases in exchange for receiving the information held by securities and banking regulators. The NAIC also possesses a high level of technical expertise and resources to implement a national database system quickly if it is built upon networking existing facilities instead of building new ones.

The most urgent need, in the opinion of NAIC, is for Congress to open the doors to the FBI fingerprint and NASD enforcement databases, as well as to protect the confidentiality of regulatory information. These critical tools should not be left waiting while Congress determines how other elements of a national anti-fraud information program should be implemented.

Thank you for providing me this opportunity to assist Congress on behalf of Florida insurance consumers and members of the NAIC.

APPENDIX A

Summary of Florida Statutes

- Defines terminology.
- Requires licensing of providers, brokers, and sales agents.
- Licensing requirements include:
  - Fingerprints
  - Background checks
  - Fee
  - Collateral deposit
- Required use of escrow & trust agents.
- Annual reporting requirements.
- Regulatory penalties:
  - Revocation
  - Suspension
  - Denial
  - Fines
  - Non-renewal
- Criminal penalties:
  - Felony charges based on face value of life insurance policy;
    - 3rd degree = <$20,000
    - 2nd degree = >$20,000 but < $100,000
    - 1st degree = >$100,000
- Forms and related documents must be filed with and approved by the Office of Insurance Regulation, within the Department of Financial Services, prior to their use.
- Record retention requirements for 3 years past the insureds death.
- Required disclosures to viators & purchasers.
- Unfair trade practice; Unlawful acts:
  - Transacting in fraudulently obtained policies.
  - Employing a scheme or artifice to defraud.
  - Untrue statements of a material fact.
  - Omission to state a material fact.
  - Advertising misrepresentations.
- Required anti-fraud plan.
- Consumer rights to civil action.

Summary of NAIC Model Act

- Defines terminology.
- Requires licensing of providers, brokers, and investment agents.
- Licensing requirements include:
  - Background checks
  - Fee
- Annual reporting requirements.
- Regulatory penalties:
  - Revocation
  - Suspension
  - Denial
  - Fines
  - Non-renewal
- Criminal penalties:
- If viatical settlement contract values are:
  - > $35,000 = imprisonment for up to 20 years or payment of fine up to $100,000 or both.
  - >$2,500 but < $35,000 = imprisonment up to 10 years or payment of fine up to $20,000 or both.
  - >$500 but < $2,500 = imprisonment up to 5 years or payment of fine up to $10,000 or both.
  - <$500 = imprisonment up to 1 one or payment of fine up to $3000 or both.
- Forms and related documents must be filed with and approved by the commissioner of each state prior to their use.
- Record retention required for 5 years pass the date of contract transaction.
- Required disclosures to viators & purchasers.
- Unfair trade practice; Unlawful acts:
  - Reference made to each state.
  - Fraud prevention & control:
  - Noninterference of investigation
  - Use of convicted felons prohibited.
  - Fraud warning requirement.
  - Required anti-fraud plan.
  - Mandatory reporting of fraudulent acts.
  - Consumer rights to civil action.

Prepared Statement
Women's Institute for a Secure Retirement

Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises
Committee on Financial Services

Hearing on
"Retirement Security: What Seniors Need to Know About Protecting Their Futures"
Thursday, May 15, 2003
2128 Rayburn House Office Building

Introduction

Good Morning, I am Cindy Hounsell, Executive Director of the Women's Institute for a Secure Retirement (WISER), a non-profit organization whose primary mission is financial education. As the only organization to focus exclusively on the unique financial challenges that women face, WISER supports women's opportunities to secure adequate retirement income through its research, training workshops, education materials and outreach.

We commend the Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises for examining the special challenges and difficulties faced by middle-aged and older Americans in preparing for and managing their retirement years. This testimony begins by focusing on why the retirement needs of women deserve special attention and outlines the systemic problems that prevent women from securing adequate income.

The second part of the testimony discusses long-term care insurance and annuities as two important insurance products that can help meet some of the needs of women who are living longer and more costly lives in retirement.

The last part of the testimony describes the lack of consumer understanding of investment products as well as the wide range of financial choices now available. We also provide an overview of how WISER's POWER*Center* clearinghouse and retirement education program works.

The POWER*Center*, Program on Women's Education for Retirement, is funded through a grant and cooperative partnership with the Administration on Aging. The program is focused on the urgent need for financial education to improve women's ability to receive the maximum amount from Social Security, 401(k) plans, savings accounts, investments and the various types of insurance that will make certain that their income will last over a lifetime. The program helps women develop retirement strategies to overcome the challenges to their economic security – financial decisions made over a lifetime have a big impact on how you will live during retirement. Women need information to make the best financial decisions because they can least afford to make mistakes with their money.

Background

WISER's report, ***Your Future Paycheck*** is the first report of its kind to address all the factors preventing women from a secure retirement. Findings from ***Your Future Paycheck*** include:

- The median salary for full time working women was $29,215, compared to $38,275 for men.
- In 2001, the median personal income for women age 65 years and older was $11,313. For men in the same age group, it was $19,688.
- Older women today are twice as likely as men to be poor.
- 63% of single (widowed, divorced, never married) older women have retirement incomes under $15,000.
- Only one in five older women receive income from private pensions.
- Women lose $659,139 in earnings as a result of caregiving during their lifetime.
- The population over age 85 is expected to double over the next 30 years, giving the nation as a whole the demographic profile of the state of Florida.

I. Systemic Problems that Increase Poverty among Older Women

Women face a host of obstacles that jeopardize their economic security. Occupational segregation concentrates women in service sector, part-time, non-union, and small firm jobs, where employment benefits are less common, less generous, and often non-existent. While working women have increased their participation in the workforce they are still struggling with the issue of pay – two-thirds of today's full-time working women earn less than $30,000.

Compounding these problems is the traditional employer retirement system that has undergone a dramatic transformation from employer paid pension plans to employee-paid and investment directed savings plans such as 401(k)s. For women, not only is there the difficulty of contributing to their 401(k) plans, there is also the problem of making their money last for a lifetime… a lifetime that is on average four years longer than for men.

But the problem is not just low pay and poor benefits. Those factors are coupled with marginal work, entering and exiting the workforce as they leave jobs to care for their families, and a

general lack of knowledge about money management that is also shared by much of the American public.

Caregiving
Poverty among older women is directly related to child-care and family responsibilities and to earning power and employee benefits. Women continue to serve as their families' primary care givers for both children and older parents, and as a result, are more likely to work part-time in jobs without benefits or take time out of the workforce. Caregiving responsibilities cause women to spend about 9 years out of the job market. Fewer years at work means that they are less likely to be eligible for employer pension benefits and, combined with lower pay, means smaller Social Security benefits and fewer savings. For women with income from private pensions or annuities, their median benefit is $4,164, compared to $7,768 for men. The current generation of elderly women has little in the way of savings and investments for their retirement. In fact, half of all unmarried older women have less than $1,278 a year in asset income, or about $106 a month.

Marital Status
Older women are much more likely to live alone than older men. In 2000, only 40 percent of older women were married, compared to 74 percent of older men. Older women living alone are much more likely to be poor and it is even worse for older minority women: the poverty rate for single black women over age 65 was 43 percent and for single Hispanic women 49 percent, nearly twice that of white women. The median income for elderly Hispanic women is below the poverty threshold – in 2001, the poverty threshold for an individual age 65 and older was $8,494.

Impact of Divorce
Women's economic security is also threatened by divorce, separation, or death of a spouse. Nearly 30 percent of all divorced older women and nearly 60 percent of all separated older women are minorities. Today, nearly half of all marriages end in divorce, which in turn leads to a significant decline in a women's standard of living, as well as missing out on the future retirement benefits that dissolve through divorce or the death of a spouse.

Earnings beyond age 65
We frequently hear from women who are convinced that they will never be able to stop working and truly be able to retire, despite a lifetime of hard work both in and out of the home. Their concerns are backed by a trend among experts who have stopped talking about the 3-legged stool to describe retirement income, recognizing that pensions, Social Security and individual savings and investments will not provide enough income for the average person entering retirement. Many experts now routinely refer to a four-or five-legged stool, that include earnings from employment, along with SSI a poverty program. However, it is important to remember that working beyond age 65 out of choice is different from desperately applying for jobs at age 75 or 80 in order to pay for medications and food.

II. Long-term Care Insurance and Immediate Annuities Can Help Meet Some of the Needs of Older Women

Women live longer than men and, if married, tend to outlive their husbands. As a result, women face a greater risk of requiring long-term care, either in their own homes or in nursing homes and other facilities. As caregivers to their families, many women know from first-hand experience that long-term care expenses can be catastrophic.

Private Long-Term Care Insurance

Long-term care becomes an issue of particular concern to women at or near retirement age. Older women realize that they are more likely than men to live alone, without a spouse or other family member to provide home care. As a result, women are more likely to need institutional care at some point in their lives. Also, women often end up providing care to family members and using their own assets to pay for this care. It is especially important for women to plan early so the high cost of long term-care services does not threaten their financial security.

Over the next thirty years, as baby boomers reach retirement, America's elderly population is expected to double. The number of Americans who need nursing home care or assistance with daily living will skyrocket and be accompanied by an equally forceful rise in the cost per resident. Since 1990, the cost per stay has risen at an annual rate of three percent above the overall rate of inflation. Estimates of this trend predict the cost of a nursing home stay will increase from $55,000 per year today to $190,000 per year (in today's dollars) by 2030. These costs are too high for most individuals and their families to bear.

We have found that there is a great deal of confusion and misunderstanding about Medicaid and Medicare and whether long-term care is paid for by either program. While Medicaid requires families to deplete assets in order to receive nursing home or home health care, Medicare provides only short-term, skilled nursing home care that follows a hospitalization and coverage of care at home is limited to those who need skilled nursing care and rehabilitative therapy.

Take the story of Alice Turner.

Alice was meticulous about her financial affairs, but she neglected to inform her daughters who lived at the other end of the country that she had actually purchased a Long-Term Care insurance policy.

When Alice became seriously ill, a long distance nightmare began–largely, because Alice's daughters were not aware that the insurance she had paid for would have covered a longer stay in the nursing home. Since Medicare would only pay for 20 days in a nursing home, Alice's care began to look more like medical roulette than a medical recovery plan.

First, there would be a medical crisis. Alice would go into the hospital's Intensive Care Unit, get discharged to a nursing home for 20 days and then sent home. The next medical crisis would be handled in the same way - based on what looked like her limited Medicare coverage, instead of what she needed.

Alice's daughters found her policy after she died but if they had known...they could have avoided this agony and Alice would have gotten the medical care she needed without interruption.

We know that there is a great need to educate younger and middle aged people about the issues surrounding long-term care insurance. Two major reasons for this are that many people think that it is too expensive and that the time to buy the insurance is at retirement age. We have found that many middle-aged people fail to insure because they do not realize that the cost of a long-term insurance policy is tied to the age of purchase. People who purchase policies at younger ages pose lower risks to insurance companies, and therefore pay lower premiums; premiums purchased before age 65 generally are much lower than those purchased after age 65.

As people approach retirement age, they begin to educate themselves about the value of long-term care insurance. Many of the stories that we hear about are from people who are looking to purchase *after* they retire when the cost is the highest, but by then they are fearful of the possibility of catastrophic costs.

Some employer plans offer adult children the opportunity to sign up their parents for long-term care insurance. If families were educated about the availability of various policy provisions such as in-home care as well as nursing home care; services for paid family caregivers; services at assisted living facilities; as well as medical equipment and even home modification, they would be capable of taking the needed steps to talk about these issues resulting in much better financial planning decisions for both the adult children and their parents.

Immediate Annuities

Another consequence of living longer is that women have greater concerns about outliving their income; even if they have saved a reasonable amount in personal assets, it can be difficult to stretch that income throughout their retirement years.

Many older people are living longer than ever, and that trend is expected to continue. As a result, retirees are spending more years living off of their retirement income. Yet, most financial education focuses on getting people to save and invest, while there is little information available on what to do when you reach retirement age to make sure the money lasts for as long as you need it.

WISER has written a booklet with the Actuarial Foundation, *Making Your Money Last For a Lifetime: Why You Need to Know About Annuities* because many people are unprepared to handle large sums of money whether from an inheritance or moving a large sum from a 401(k) when

leaving a job. The question is: after you have built up your assets how do you make sure that you don't outlive them?

In the old days, before the growth of 401(k) plans, many employers paid you a pension that lasted a lifetime. The employer paid your benefit no matter what happened to the stock market. Today, while some people are fortunate to still have those types of old-fashioned pensions, many people must make their own key decisions and decide how to manage their own funds and how to cope with the three big ***what ifs*** of retirement.

- What if I live too long?
- What if my investments lose money?
- What if inflation hurts my investments?

Obviously, there's no magic formula and no right answer. We all do the best we can do with the information we have and we don't know what the future will hold. But let's say you have built up a retirement fund of $250,000 by the time you are age 65. Few of those who are retiring realize that the money may have to last for perhaps 20 or 30 years after we stop working.

There are two ways to make your fund last for the rest of your life:

- Make withdrawals that you estimate will last for the rest of your life – and keep whatever money you haven't spent in an investment.

- Take some of your money and buy an immediate annuity – which will provide you with guaranteed income payments for the rest of your life.

The story below explains how Ron Gebhardtsbauer, an actuary, helped his parents plan for their retirement. He agreed to tell us how and why he convinced his mother to buy an annuity. After putting her money into an immediate annuity, she is now receiving a larger amount each year, and has the piece of mind of knowing it will continue for as long as she lives.

"Mom, take care of *yourself*, don't leave me any money."
-- by Ron Gebhardtsbauer, Senior Pension Fellow of the American Academy of Actuaries

My mom is 77 and she had all of her money in an Individual Retirement Account at the Savings & Loan. Once she turned 70½, she had to start taking a minimum monthly amount required by law. (Basically, she had to take out enough so that, she would empty the account over her lifetime. This amount changes each year as her life expectancy changes, and the amount of money is less.)

I told her she could get an annuity from an insurance company, which will always pay more.
She asked, "How can an insurance company beat the Savings & Loan? Insurers generally have high expenses." I agreed with her, but said that the insurance company can still win –

it focuses all of mom's money on her, not on me as her heir, because, fortunately, I don't need it. Under her current payment system, taking out the minimum required amount each year, she was taking out close to $3,000 a year, and this annual amount would soon begin to decrease. If she lived to 95, she would get only about $1,500 a year, and about $500 a year at 100.

However, if the insurance company had the money, about $33,000, they would pay her about $4,000 each year. They would pay her that amount each year, even if she lived to 100 or beyond. It took awhile, but my mom finally bought the annuity, and she's glad she did. Her income is higher now, and she doesn't have to worry about it running out, even if she lives a long time.

Immediate Annuities are the best way to be certain you will get payments for the rest of your life, no matter how long you live. There are options for people who are concerned that they will die early – they can choose to purchase an annuity that is guaranteed to pay benefits for at least five or ten years.

We sometimes hear from people who say that taking a lump-sum is the best way to have control over their money. Yet, too often, the first thing they do after taking the lump sum is to look for someone else to manage it for them, ultimately still losing control of their investments.

III. The Importance of Financial Education

All Americans are being asked to assume new responsibilities in making more complex retirement savings decisions. But retirement issues are difficult issues to understand and the conflicting financial advice, among the millions of pages available on the internet, seems to make it more confusing for both men and women. While there is a wide range of financial products, you cannot make good use of these products unless you know what they are and how they work. These financial decisions will affect what your life is like for the next twenty years.

People need better guidance about determining when to retire, how much spendable income will be needed, where the money will come from, and how to make it last. We have noticed that many people make the mistake of retiring early – reducing their pension and Social Security benefits without having considered the future costs of medical insurance and prescription drugs.

The importance of financial education has been hammered home for the past decade as the trend away from paid pensions shifted to employee contributed 401(k) plans alerted individuals and families to the need for increased savings for their later years. Several government agencies instituted financial campaigns in the 1990's. To show how serious this issue is for the Bush Administration, the President established an Office of Financial Education at the U.S. Department of the Treasury. Secretary Snow has made financial education a focus and will develop a long-term multi-faceted approach to expanding the nation's money management skills

WISER and its collaborative partners have established a clearinghouse on retirement education, the POWER*Center* (Program on Women's Education for Retirement) which provides average women with a place to turn to for basic financial education. The POWER*Center* began as a cooperative project funded by the U.S. Administration on Aging in 1998.

The program includes many partners: employers, women's organizations and community based groups. Government agencies have included the Department of Agriculture's Cooperative Extension Service, the Department of Labor's Pensions Welfare Benefits Administration and the Women's Bureau, and the Social Security Administration.

The POWER*Center* has six overarching program goals:

1. Ensuring that the educational material and program reaches women in their communities and places of worship as well as their jobs;
2. Encouraging women to take an active role in planning for their future;
3. Reaching the maximum number of average and lower income women with information;
4. Creating an awareness of retirement basics, pensions savings plans, and the Social Security program, to help motivate women to plan early for their economic security by stretching and managing their resources and increasing their retirement income;
5. Preserving retirement income: helping older women protect their income by educating them about the types of insurance and insurance related investment products such as immediate annuities and long-term care insurance that can help them to make their money last for a lifetime; as well as avoiding the multiple pitfalls of consumer fraud, financial scams, and predatory scams; and
6. Helping women in crisis situations such as caregiving for elderly parents and spouses and with the financial issues resulting from death and divorce.

Interactive workshops

WISER has developed and tested a program with training techniques that hit home to diverse audiences. *Your Future Paycheck* provides practical knowledge by interweaving substantive information with case histories of women who have worked and cared for their families their entire lives. The stories spark interest in the substantive issues from participants. Participants identify with the situational problems and remember the solutions.

WISER urges workshop participants to make sure they have a basic financial plan and teaches w them how to take manageable steps to retain more of their earnings. We also acknowledge the fact that many of the participants are behind the eight ball when it comes to saving for the future. We emphasize taking small steps to avoid being overwhelmed. We have found that addressing these everyday issues resonate with participants:

- Gaps in employment, lower wages, and fewer benefits: Practical suggestions for women with children who must prepare for gaps in employment, lower wages, and fewer benefits.

- Ways to maximize retirement benefits while working: access to employer savings plans and techniques for saving on one's own.
- Credit counseling and common money mistakes: Credit problems, credit repair, debt reduction.
- First Time Home Ownership programs and Individual Development Accounts.
- Types of insurance and immediate annuities – understanding the terms.
- Social Security as a retirement program and as a program that provides survivor benefits to children and disability benefits.
- Predatory lending scams.

The major challenge facing the Committee today is to make sure that working Americans realize what steps they will need to take to support themselves in their old age. We need to address these issues now and ensure that workers begin to accumulate assets early in their careers rather than debt and that they know how to make their income last throughout their retirement years.

Other initiatives should include:

- Increasing public education for average Americans about retirement planning and how much money is needed for 20 – 30 years in retirement. Much of the information in the media is aimed at higher income individuals.
- Providing information to help individuals understand the importance of decisions about taking jobs and leaving jobs. Women are more likely to spend their lump-sum retirement distributions because they have smaller amounts in their accounts.
- Considering the effect of various types of insurance on retirement planning -- such as long-term care policies and annuities.
- Providing better public education in financial planning for contingencies such as widowhood and divorce. Educating lawyers and judges about pension division at divorce.

Finally, many people are making retirement decisions based on the fact that they want to stop working so they can enjoy life before they die – the desire to retire before you expire. But a key factor to consider before retiring is that you are more likely to live longer and *not* die for twenty plus years – years that may find you losing purchasing power with inflation and needing more income for chronic medical needs. Older women too often quietly live out their retirement years in precarious financial straits, trying to stretch modest incomes to meet costly needs.

Again, we thank the Committee for your leadership in acknowledging the need for financial education and thank you for the opportunity to participate in this hearing.

Statement of
Frank Keating
President and CEO
American Council of Life Insurers
Before
The House Subcommittee on Capital Markets,
Insurance and Government-Sponsored
Enterprises
Hearing On
"Retirement Security: What Seniors Need to
Know About Protecting Their Futures"
Thursday, May 15, 2003

Thank you, Mr. Chairman, for giving me the opportunity to participate in this important hearing concerning what our country's older citizens need to know to protect their futures. As head of the American Council of Life Insurers, I represent 383 life insurance companies. The products provided by the life insurance industry help families and individuals accumulate and protect assets for retirement, as well as manage savings during retirement to provide a guaranteed income for life.

Life insurance products protect families from financial devastation caused by an untimely death, disability, or chronic long-term illness. The industry's $3.3 trillion in assets makes it the fourth largest institutional investor in the U.S., and the second largest among investors specifically geared toward long-term investment.

There is a tidal wave coming of 76 million soon-to-be retiring baby boomers and, quite frankly, most of them are just not well prepared. The average American between the ages of 55 and 64 has cash assets of only about $47,000. With the Social Security system under strain and employer sponsored pension plans offering fewer guarantees, the life insurance industry can help supplement retirement planning with savings and asset management options. An annuity can become a personal pension plan to provide a guaranteed lifetime income

Insurance products are about risk management, and today's retirees are facing one of the least understood risks of all -- longevity. Advances in medicine and technology are greatly extending the lives of Americans. In the next 30 years, the proportion of Americans aged 65 and over is expected to increase by half, to comprise 20% of the total population. This means many of us working today will spend 20 to 30 years or even more in retirement. For these Americans, these should be the golden years; living comfortably and aging well.

Especially for seniors, financial literacy is more than just knowing the difference between a stock and a bond. It's more than just saving enough money. It's the responsibility of managing those assets so they last a lifetime. And, for many Americans, retirement planning doesn't stop with just funding their own needs. Many of them hope to leave something for their loved ones. However, recent surveys indicate that less than 40% of Americans believe they will even have enough money to live comfortably themselves when they retire.

The life insurance industry is uniquely positioned to help Americans adapt to a retirement that will last longer and have fewer guarantees than previous generations enjoyed. Unlike other financial service providers, the life insurance industry helps people accumulate assets for retirement, manage those assets throughout their lives and protect against financial difficulties resulting from the death of a spouse, disability, long-term care needs or simply living longer than expected. But which of the wide array of products available are best to meet what need? Do older Americans need life insurance? Annuities? Long-term care insurance? Disability income coverage? When is the best time to purchase these products? How much coverage is appropriate?

Seniors need to create a checklist as they prepare to enter retirement. We think, at a minimum, they should ask the following questions of themselves, their family members and a trusted financial advisor:

- What are my/our basic living expenses now?
- Do I foresee any significant changes in those expenses?
- Do I have life insurance? Does my spouse? How much?
- Do we have long-term care insurance? How much?
- Will I receive pension benefits from my job? Will my spouse? How much?
- How much have I/we saved for retirement? How can we make those savings last my/our lifetime?

The life insurance industry and its products can help answer these questions. Life insurance can protect both a retiree's family and his or her estate. Long-term care insurance can protect retirement savings from depletion in the event of chronic illness. Annuities can make sure those retirement savings don't run out.

Life insurance, disability income insurance and annuities help people manage the financial risk of the unexpected. Life insurance protects a family in the event of either partner's premature death. Disability income insurance provides a continued income stream—and helps guard against premature depletion of retirement savings—if a family breadwinner is unable to work due to an accident or illness. Life insurance benefits can assure that the family will have cash available to help make the mortgage or tuition payments, run the household and pay bills. The amount of life insurance that an individual should maintain depends on his or her personal and financial situation, but the answers to two basic questions can give the necessary information to start with. The questions are (1) who do I love/who am I responsible for? and (2) who do I owe/what financial obligations do I have? Regardless of age, everyone should ask themselves those questions and use life insurance to make sure they are answered.

Annuities offer the opportunity to both accumulate retirement savings and to ensure that those savings can't be exhausted in retirement, no matter how long that may be. Earnings grow tax-deferred during the accumulation phase of an annuity and, if a lifetime payout plan is chosen, payments continue for life. An annuity is a personal pension plan that can be used by anyone to supplement other public and employer-paid retirement income. Longevity risk is the biggest and least recognized financial challenge facing our seniors today and using annuities, as part of any financial plan is an important part of assuring adequate assets in retirement.

A recent article in *Bloomberg Personal Finance* estimates there are about $890 billion worth of variable annuities in place. We don't want to create tax policy that drives older Americans away from annuities. During the current debate in Congress over taxes, it's vital that annuities are treated fairly when it comes to dividends taxation. Annuity owners and retirees should not be at a disadvantage. We understand that some members of Congress are considering reintroducing the Lifetime Annuity Payout proposal – LAP – which would encourage annuity policy owners to take the lifetime income option when

withdrawing money. LAP would encourage the lifetime income option by reducing to the capital gains rate the tax on earnings in an annuity if the owner did indeed select the lifetime income option.

Deferred annuities, which include both the accumulation and payout phases, can be purchased with a lump sum, perhaps from the sale of a home or the liquidation of a business, or by making multiple payments over a period of years. Deferred annuity purchasers can choose when their payout begins. Immediate annuities are purchased with a single payment and payout must begin within one year.

Annuities, whether deferred or immediate, are of two general types: fixed or variable. A fixed annuity offers a fixed rate of return during accumulation and guarantees a fixed payment at payout. Variable annuities allow the owner to choose from selected investment accounts and contract values generally reflect the performance of those accounts. The payout from a variable annuity could vary based on the performance of the underlying investments. Only an annuity can provide income you can't outlive.

The cost of long-term care could financially devastate even the best-planned retirement, which makes long-term care insurance a crucial component of retirement planning. Currently, it costs over $16,000 annually for daily visits by a home health care aide and over $55,000 per year for nursing home costs. Within the next 30 years, these expenses are projected to reach $68,000 per year for a home health care aide and $190,000 for a year of care in a nursing home. These costs can quickly erode a hard-earned retirement nest egg. Moreover, we know you are acutely aware that Medicaid will never be able to foot the bill for the millions of baby boomers who are going to need long-term care services in the not-so-distant future. Long-term care insurance can protect Americans from the potentially catastrophic costs of services that would otherwise wipe out their own retirement savings.

Today's long-term care insurance polices cover a wide range of services to help people live at home, participate in community life, as well as receive skilled care in a nursing home. Policies may also include respite care, medical equipment coverage, care coordination services, payment for family caregivers, or coverage for home modification. These options can enable people who are chronically ill to live in the community and to retain their independence.

ACLI believes that protection and coverage for long-term care is critical to the economic security and peace of mind of all American families and it is an important part of the solution for tomorrow's future. As Americans enter the 21st century, living longer than ever before, their lives can be made more secure knowing that long-term care insurance can provide choices, help assure quality care, and protect their hard-earned savings and assets when they need assistance in the future.

The financial decisions Americans must make as they approach retirement maybe even more crucial than those they make while still working. The variety of products offered

by life insurers are critical components of the financial planning which can assure that today's older Americans live comfortably during their retirement years.

I appreciate the opportunity to appear before you today and speak to the real needs of aging Americans as they prepare for retirement. I would be happy to answer any questions you may have.

TESTIMONY OF

DAVID F. WOODS, CLU, ChFC

Chief Executive Officer
National Association of Insurance and Financial Advisors

And

President
Life and Health Insurance Foundation For Education

Before the

Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises

of the

Committee on Financial Services

Thursday, May 15, 2003

Good morning. My name is David Woods. I am the Chief Executive Officer of the National Association of Insurance and Financial Advisors ("NAIFA"). NAIFA is a federation of approximately 800 state and local associations representing over 325,000 life and health insurance agents and advisors and their employees. Originally founded in 1890 as the National Association of Life Underwriters, NAIFA is the nation's oldest and largest trade association of life and health insurance agents and financial advisors. NAIFA's mission is to improve the business environment, enhance the professional skills and promote the ethical conduct of agents and others engaged in insurance and related financial services who assist the public in achieving financial security and independence.

I also currently serve as the President of the Life and Health Insurance Foundation for Education ("LIFE"), which I must hasten to add, is not a legislative advocacy organization. LIFE, a non-profit organization founded in 1994 by representatives of seven life and health insurance agent organizations in the United States and Canada, was formed to address the growing need to educate the public regarding the benefits of life and health insurance and the value-added role of the agent/advisor. Since its founding almost a decade ago, LIFE has developed a multifaceted public education program designed to communicate the advantages of

life and health insurance products and to illustrate those advantages through the sharing of some of the real life stories of the direct beneficiaries of those products.

In addition to these positions, I also have worked in the insurance industry for over forty years, and was a leading agent with Massachusetts Mutual Life Insurance Company in Springfield, Massachusetts for 30 years before I became President of LIFE. I have been a member of the Million Dollar Round Table since 1970. From 1986-1987, I served as NAIFA's volunteer President. I also served for a number of years on the Board of Directors of both the Association for Advanced Life Underwriting and The American College - the premier educational institution of the life insurance industry. I was privileged to be awarded the John Newton Russell Memorial Award in 1997 for outstanding service to the life insurance industry and my community.

Introduction

Mr. Chairman and Members of this esteemed Committee, thank you for inviting me to testify before you today. I apologize for giving you such an extensive overview of my background. It is my hope that this will be the beginning of more opportunities to collaborate with you and the Committee, and I wanted

you to have a better sense of who I am and what I bring to my new role as NAIFA's CEO. It also is my hope to build a stronger working relationship between you, Mr. Chairman, the other Members of this Committee, and NAIFA. As part of a recent reorganization, we will also be working more closely with the Association for Advanced Life Underwriting and the American Council of Life Insurers as an integral partner representing the life insurance industry. With that renewed focus and energy, I am hopeful that you will come to view NAIFA and LIFE as valuable resources in your efforts to address the many issues that face the life and health insurance and investment sectors of the industry.

With respect to my testimony today, I have been asked to provide an overview of the role life insurance products should play in addressing Seniors' needs and the needs of their heirs, as well as the role the agent/advisor plays in educating Seniors on these needs and in helping with their retirement and financial planning.

The Role of the Agent/Advisor

Historically, the agent system has been the principal method of distribution for private life and health insurance. Agents are the essential link between the

consumer and the insurance company, providing and servicing the products of the insurer while educating the consumer on how to manage their and their heirs' financial needs and how to make informed choices regarding their insurance purchases.

Insurance agent/advisors play a number of invaluable roles:

- They work with clients to evaluate their need for insurance protection. This may involve substantial research and fact finding about the client's needs.

- They educate by explaining the various products available and provide appropriate cost indexes.

- They make specific recommendations that meet the client's objectives and budget.

- They encourage the client to act in a timely fashion to assure that the proper coverages are in place when they are needed. They also see to it that accurate and complete information is provided to the

insurer to make sure that the client gets the very lowest premium available.

- They keep in touch with the client and review or update coverage on a periodic basis. They suggest changes when appropriate and counsel clients on ways to reduce cost. Often they must assist their client in reviewing the need for legal and tax compliance, recommending other professional assistance when necessary.

- They assist with claims, answer questions and serve as ombudsmen in helping their clients and their clients' beneficiaries deal with insurance companies. Agents often spend a great deal of time helping to assemble the proper documentation needed to file or follow up on a claim.

The role of the agent/advisor may be even more critical and certainly more sensitive with regard to servicing Seniors than it is for the general population. Seniors often face a terrifying prospect – the inability to generate any more income at a time when their life span is uncertain and their health needs are inevitably going to grow. Therefore, it is critical that every decision be based on as many

facts as can be amassed and analyzed. Every decision must be the right one for that particular client, or at least be flexible enough to address what could be a wide array of potential needs at minimum cost. The result of this critical need is that it is definitely not a do-it-yourself project, but something that requires the best professional advice and counsel a Senior can get. It is our role as insurance agents and financial advisors to provide that advice and counsel.

The Choices Facing Seniors

One of the reasons that advice and counsel is so essential for Seniors is that many of them feel that once they have made it to retirement age, their need for life insurance has passed. But just because the kids are through college and the mortgage is paid doesn't necessarily mean that Social Security and savings and investments will take care of whatever lies ahead. In fact, many people harbor common misconceptions which prevent them from purchasing or maintaining the life insurance coverage they need.

Myth No. 1: I don't need life insurance once my children are self-supporting and the mortgage is paid off. Perhaps, but if someone dies today, their spouse may still face daily living expenses. There are a number of questions

that must be answered. For instance, what if the spouse lives another 10, even 30 years, which is certainly possible today? What if the individual or spouse needs to be placed in a long-term care facility? Is the individual's retirement income sufficient to sustain them this year, next year, or in 10 or 20 years from now? Would the financial plan, without life insurance, long term care insurance, or perhaps a lifetime annuity, enable the spouse to maintain the lifestyle that the couple worked so hard to achieve? Life insurance and annuities, of course, help insure that individuals will not outlive their assets and have a guaranteed income for the rest of their lives, while long term care insurance takes care of paying for the crushing expenses of nursing home or home health care that is not met by Medicare. And would the individual be able to pass on something to his or her children or grandchildren or a charity if they wished?

Myth No. 2: I'll take the term insurance I bought when I was younger and convert it to permanent insurance when I'm older. While term insurance may have been quite affordable when someone was young, premiums increase as one ages, and it may not be affordable to renew or convert the coverage once the term expires. Permanent insurance, though more expensive than term when first purchased, allows someone to lock in the premium rate for the rest of his or her life, while term rates continue to rise. The same rule applies to long term care

insurance and annuities. The earlier one gets started, the better. This means that individuals must think ahead, and discuss with an insurance or financial advisor a strategy that they can afford and that protects them when they need it.

Myth No. 3: Life insurance costs too much to buy when I am older. Purchasing insurance when one is older can be costly, but it still may be worthwhile to consider coverage. Say, for example, that the annual premium for a $100,000 permanent policy is $3,000 a year for a 65-year-old. If the individual dies at 66, the spouse would receive $100,000 in death benefits, tax-free. Had life insurance not been purchased, the spouse would still have the $3,000 but would not have the additional $97,000 that could make a world of financial difference. In addition, perhaps purchasing an annuity with the life insurance death benefit can guarantee income for the rest of one's life.

Myth No. 4: The Government will pay for my long term care needs. Many people think that addressing how they will finance their potential long term care needs is unnecessary because government programs like Medicare and Medicaid will pick up the tab. Unfortunately, this is not the case. Although Medicare may cover the acute care portion of the costs of long term care, that is all Medicare covers -- usually a very small portion. And, to qualify for any Medicaid

coverage at all, an individual has to have vastly reduced assets that practically renders them indigent.

Myth No. 5: Long term care coverage only protects the policyholder. In evaluating their retirement financial needs, many Seniors ultimately decide that they do not need the protection that a long term care policy provides. However, the coverage protects both the policyholder and the policyholder's family. It protects the family financially because family members need not spend down the family assets, and provides for home care when that option is best for the policyholder.

As these myths make clear, in considering whether to purchase an insurance product, Seniors need to evaluate carefully the needs of their heirs as well as their own needs for income/financial protection and to ensure that they will be able to afford a long term care facility without jeopardizing their financial well-being if the time should ever come when such care is necessary. Life insurance agents and financial advisors work with their clients to insure that all of these considerations are carefully addressed and accounted for and that the right products to best address each individual Senior's needs are purchased.

LIFE has developed materials that are aimed at the Seniors market and I have attached to this testimony copies of two advertisements - one on estate planning, one on retirement planning - and our "realLIFEstories" brochure featuring one on long term care insurance.

What Congress Can Do To Help

It is my belief that Congress can play an invaluable role in educating Seniors and in ensuring a healthy environment for addressing Seniors' insurance and financial needs. This hearing is an excellent tool for helping to spread the word about the options available to Seniors and to whom Seniors should look to help them evaluate these options. I once again applaud you, Mr. Chairman, for scheduling this hearing and for affording me the opportunity to present my views.

In addition, however, I also believe that Congress could do even more to help build trust in the industry, and through such efforts, give Seniors and other insurance consumers confidence in the insurance products they are considering. For example, the House of Representatives passed a bill last term – H.R. 1408 – that would have created an anti-fraud network among all financial regulators to allow them to share information about potential rogue actors. The bill would have

enabled state insurance regulators to access the Federal Bureau of Investigation crimes database to conduct background checks on applicants for insurance licensure. NAIFA was fully supportive of H.R. 1408 for two primary reasons – it is essential to the well-being of all consumers, not just Seniors, that fraudsters and others intent on playing upon the ignorance or misfortune of potential insurance consumers be tracked down and barred from the financial services arena. And, it is equally essential that consumers have confidence that this is the case so that they can feel more comfortable in their choice to work with insurance agents and financial advisors who have so much to offer them. I urge you to re-pass H.R. 1408, and urge the Senate to do so as well, so that we all could get the benefit of this very wise piece of legislation.

Mr. Chairman, thank you once again for giving me this opportunity. I would be happy to answer any questions.

ADVERTISEMENT

Estate Planning:
Does Life Insurance Still Matter?

RECENT CHANGES IN THE TAX CODE APPEAR TO GIVE A HUGE break to the heirs of high net-worth individuals. But if you think this means you no longer need life insurance as part of your estate plan, think again. As it stands, the law is set to expire in 2011, returning the tax to its current levels — if Congress lets the current law last that long. So before making any decisions, it's important to separate fact from fiction regarding estate taxes and their impact on your need for life insurance.

An insurance advisor can help you adjust to the new tax law.

FICTION: The new tax law means I no longer need life insurance to help my heirs pay estate taxes.

FACT: Under the law, heirs of high net-worth individuals will still pay estate taxes until they are repealed for one year in 2010.

"Unless you are certain you are going to die in 2010, you have to continue to plan," says Steve Leimberg, CEO of Leimberg Information Services, which educates professionals about changes in the tax law.

Even if the federal estate tax is eliminated, your heirs still might need cash to cover costs such as state inheritance taxes, lawyer fees, probate costs or appraisals.

Leimberg suggests planning conservatively, based on today's rules. In most cases, when a life insurance policy is placed in an irrevocable trust, it is not counted as part of your estate, and its proceeds are immediately available to your heirs to pay any taxes or fees they might face.

FICTION: When I die, my heirs can liquidate my assets to cover any estate taxes or other expenses.

FACT: "Assets that pass according to your will are subject to supervision by the probate court," says LIFE president David F. Woods, CLU, ChFC, meaning it may not be possible for your heirs to liquidate them immediately.

Even if selling assets is an option, the family may be forced to dispose of them quickly, at only a fraction of their true value. Or, assets may be tied up in art or real estate, which heirs might be reluctant to liquidate.

"When properly planned, life insurance can provide cash that isn't subject to probate and allows heirs to make decisions about the estate that aren't influenced by an immediate need for cash," says Woods.

FICTION: I can give up my insurance now; if the estate tax is never fully repealed, I'll just buy more later.

FACT: If you give up your policy thinking you can always buy another later on, you may be in for a surprise. Factors such as higher premiums at a later age, the onset of health conditions or dangerous new hobbies may make such a purchase expensive or impossible. "You are better off having the insurance in force and changing your mind than not having it and having your health change," says David B. Malkin, CLU, ChFC, president of New Jersey Life and Casualty Associates, Inc.

FICTION: Estate tax laws are unpredictable, so I cannot plan properly.

FACT: Life insurance advisors, accountants and attorneys can help you adjust your estate and financial plans to take advantage of the opportunities in the new law. "Planning should continue," Leimberg says, "as long as there is somebody or something you love."

For more information, visit LIFE's Web site at www.life-line.org or call 888-LIFE-777 for a free Consumer's Guide to Insurance.

LIFE
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"Unless you are certain you are going to die in 2010, you have to continue to plan."

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SPECIAL ADVERTISING FEATURE

Retirement Planning

More Than Just Saving And Investing

Mention "retirement planning" and most people think about their 401(k)s, IRAs or mutual funds. Keep saving, invest those savings wisely, get to age 65 and voila! You're set for retirement.

Maybe. But what if things don't work out exactly the way you planned? "What if you die prematurely or become disabled? What will happen to those people in your life, especially your spouse, who may be depending on your retirement savings to help support them well into old age?" says Allan Hancock, CLU, ChFC, AEP, chief executive officer of the Hancock Group in Altoona, Pa. "A retirement plan without insurance is just a savings and investment program that dies or becomes disabled when you do."

Below are four ways insurance can help you meet important retirement planning objectives:

Prevent Your Retirement Plans From Dying When You Do

If you die before retirement, your survivors would miss out on both your salary for living expenses and the money you were setting aside for the future. "People who die prematurely haven't had as much time to put together an investment program that can really pay off," Hancock says. "If you have sufficient life insurance, it can help pay your family's expenses and may still be there for your spouse's retirement."

Protect Your Ability To Save For Retirement

If you become too sick or injured to work, disability income insurance can help you meet daily living expenses — and more. "In addition to helping you stay self-reliant, disability income insurance can allow you to keep making regular deposits into your retirement savings account," says Hancock.

Supplement Your Retirement Income

Suppose your circumstances change and you no longer have anyone who would need the proceeds of a death benefit. With a permanent life insurance contract, you have the flexibility to surrender the policy and supplement your retirement income with the funds that have accumulated in the policy's cash value account.

Preserve Your Estate Assets For Your Survivors

If you've accumulated a large estate, life insurance can help foot the estate tax bill from Uncle Sam, preserving assets for your heirs. Or, if your estate is more modest, life insurance can provide a legacy for your children and grandchildren even if you use up most of your assets during your retirement years.

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For more information, contact an insurance or financial advisor, visit LIFE's Web site at www.life-line.org, or call 888-LIFE-777 for a free Consumer's Guide to Insurance.

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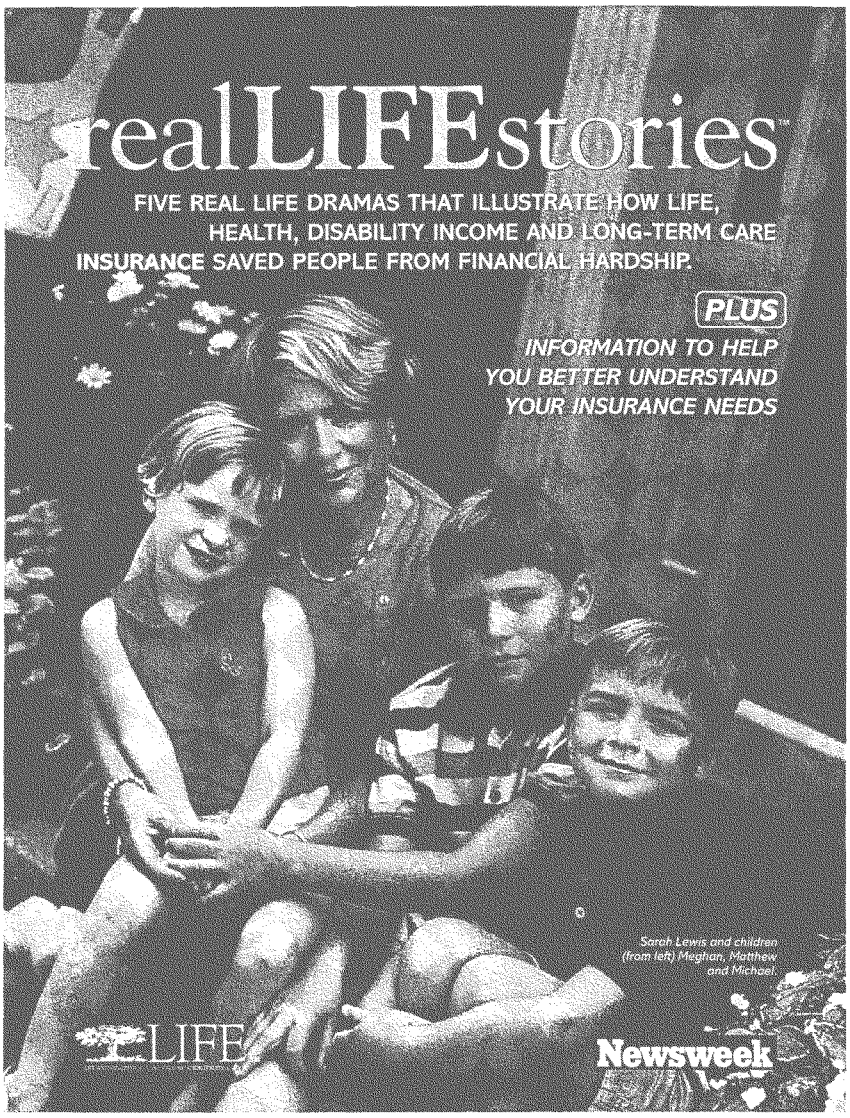
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FIVE REAL LIFE DRAMAS THAT ILLUSTRATE HOW LIFE, HEALTH, DISABILITY INCOME AND LONG-TERM CARE INSURANCE SAVED PEOPLE FROM FINANCIAL HARDSHIP.
PLUS
INFORMATION TO HELP YOU BETTER UNDERSTAND YOUR INSURANCE NEEDS
Sarah Lewis and children (from left) Meghan, Matthew and Michael.
LIFE
Newsweek

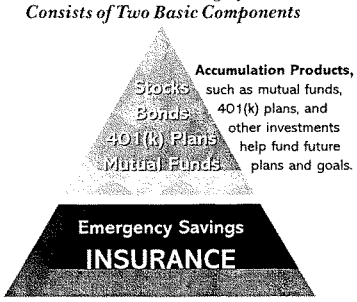
INSURANCE

>*The Foundation of a Sound Financial Plan*

TO HELP AMERICANS BETTER UNDERSTAND the essential role of insurance within a sound financial plan, the Life and Health Insurance Foundation for Education (LIFE) and Newsweek, Inc. have come together for the seventh consecutive year to sponsor this special section.

While we hope this section is informative and useful, we know insurance can be confusing. So if you'd like more information about life, health, disability income or long-term care insurance and how these products might fit into your financial plans, please contact an insurance professional in your area, visit LIFE's website at ***www.life-line.org****, or call* ***888-LIFE-777*** *for a free Consumer's Guide to insurance.*

The Financial Planning Pyramid Consists of Two Basic Components



Accumulation Products, such as mutual funds, 401(k) plans, and other investments help fund future plans and goals.

Protection & Security Products, such as insurance, serve as the foundation of a financial plan and help ensure that no matter what happens, immediate and future financial needs can still be met.

From left: Ebony Blanchard, Shanna Blanchard and Agent Virginia Acosta, FICF.

A MOTHER'S WISH

WHEN JACKIE BLANCHARD'S HUSBAND DIED at a young age, with only enough life insurance to pay for his funeral, Jackie vowed that her young daughters, Ebony and Shanna, would be financially secure if anything ever happened to her. To keep this promise, Jackie immediately scheduled an appointment with insurance agent Virginia Acosta, FICF. "She said she wanted the best insurance she could buy, and I made sure her family would be protected," says Virginia.

Two years after purchasing her policy, Jackie became ill with a lung infection and was later diagnosed with lung cancer. Because the illness prevented her from working, a provision in her policy covered the payment of her premiums while the policy's disability benefit helped cover mounting health care costs. Despite her illness, Jackie's zest for life was unstoppable. She took a cross-country road trip with her mom and daugh-

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Four Life Insurance Tips

Do I Need Insurance?

If someone would suffer financially at your death, you need life insurance. Whether you are the family's primary breadwinner or a stay-at-home parent, you provide valuable services that would be expensive to replace.

How Much Insurance Do I Need?

A general rule of thumb is to buy life insurance equal to five to ten times your annual income. An insurance professional can determine the precise amount and type of policy that's right for you.

Do I Need More Insurance?

Insurance needs change as events in your life change, so you should evaluate your coverage every few years, especially after major milestones, such as getting married, having a baby, or getting a new job or promotion.

Finding the Right Insurance Professional

- **Get referrals** from friends and relatives, or a trusted advisor, such as a lawyer or an accountant.
- **Interview** a couple of different professionals to establish a basis of comparison.
- **Ask about education and training.** Professional designations like Chartered Life Underwriter (CLU), Chartered Financial Consultant (ChFC), Certified Financial Planner (CFP™) and Registered Health Underwriter (RHU) mean that the individual has successfully completed of a series of advanced training courses.

ters and even continued to organize parties and dinners for family and friends.

When she found out that her condition was terminal, the accelerated death benefit provision allowed Jackie to access up to 75 percent of her benefits while still alive. She used those proceeds to finance a home and a car for her daughters and parents, and pre-pay her funeral. She even put some money away for college for her daughters.

Jackie died at age 38. But her dreams for the girls are very much alive. Ebony, who graduated with honors from college this year, and Shanna, a senior in high school, live with their grandparents in the home their mother purchased for them. "Jackie wanted the girls to have the best education and the same lifestyle after she was gone," Jackie's mom Veordia says. "That's why she chose insurance, to help them along the way. That was her greatest wish."

Accelerated Death Benefits

Q. ***What is an accelerated death benefit?***

A. A feature in a life insurance policy that allows a terminally ill person to collect a portion of his or her policy's death benefit, while that person is still living.

Q. ***Do all policies have this feature?***

A. No, but it is becoming increasingly common with hundreds of companies now offering some type of accelerated benefit.

Q. ***How much of the benefit can you accelerate?***

A. This varies from company to company, but typically 60% to 75% can be withdrawn while the policyholder is still living.

Q. ***How is the death benefit affected by accelerating part of the benefit?***

A. The amount that you take out while still living will be subtracted from the payments to your beneficiaries along with an interest charge to compensate for early payment of benefits.

Sarah Lewis and Agent David Giddings, CLU.

A MISSION OF LOVE

DAVID LEWIS always went the extra mile to help others. As a pediatric cardiologist, he was known for spending endless hours with his young patients, giving his home number to their families, and managing to make them laugh in difficult times.

David's commitment to children extended all the way to Ecuador where he made regular trips to provide free medical care. But David never allowed his dedication to his patients and the active role he played in his community to keep him from his top priority in life, his wife Sarah and their three young children.

"David wanted to make sure his family was taken care of no matter what happened, and life insurance was a key part of his plan," says David Giddings, CLU, Lewis's friend and agent. To make sure their coverage remained up-to-date, the Lewis's met with David twice a year to review their coverage.

During his sixth mission to Ecuador on September 12, 2001, David suffered a heart attack and died in his sleep at age 43. Because of the way David lived his life, the many people whose lives he touched have had a hard time dealing with his death. This is particularly true of his family. While the pain from their loss may never go away, life insurance allowed David to leave a valuable legacy. The benefits from his policy have enabled Sarah to pay off the mortgage, provide college funding for the children, and maintain their quality of life. "The greatest gift you can give your family is to think ahead and be prepared," says Sarah.

What Kind of Life Insurance Is Right for Me?

	Term	*Permanent*
DURATION	Specific period of time—typically one to thirty years.	Lifelong.
DEATH BENEFIT	Pays if the owner dies during the term of the policy.	Pays when the owner dies.
COST	Initially lower than permanent insurance premiums, but increases with age.	Premiums are typically higher than term insurance but generally do not increase over time.
CASH VALUE	None.	Accumulates cash value that builds on a tax-deferred basis.
KEY ADVANTAGE	Typically offers the greatest coverage for the lowest initial premium.	Offers the option of lifelong protection and tax-deferred savings.

SURVIVING 9/11

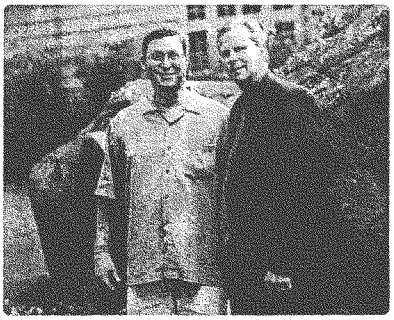
HARRY WAIZER'S life changed forever on September 11, 2001. He began his morning like any other, boarding a commuter train near his home outside of New York City to arrive at his office at One World Trade Center at 8:40 a.m. When the building was hit, Harry was in an elevator on his way to his office on the 104th floor. Despite third-degree burns over much of his body from blazing jet fuel, Harry walked down 78 floors to the lobby where he was rushed to a burn center.

For the next two months, Harry fought for his life. He staved off numerous infections and pneumonia, and even spent time in a coma. Then he spent three months in a burn center undergoing rehabilitative therapy. Finally, he returned home to his wife and three children, ages 11 to 14.

Though Harry faces months of rehabilitation, one thing he doesn't worry about is his financial situation. That's because he and his wife Karen had planned carefully with their longtime financial representative Michael Kipniss, CLU, ChFC.

When disaster struck, Harry was financially prepared. Within 30 days, he was collecting benefits from several long-term disability policies that helped, along with some money from his employer, to replace his entire working income.

Harry also owned several whole life insurance policies as well as a term life policy that was converted to a whole life policy once the disability occurred. Each of his policies carried a disability waiver of premium provision, which means that his insurance compny now pays all of Harry's premiums and will continue to do so until he's able to return to work. These premiums amount to more than $25,000 a year being contributed to his policies, which will help with future college costs for his children and supplement his retirement income. "Having this insurance gave me an ease and comfort I would not have otherwise had," Harry says.



Harry Waizer (left) and Financial Representative Michael Kipniss, CLU, ChFC.

Do the Calculations + % =

Three great calculators to help you gain important insights into your insurance needs.

Life Insurance Needs
For a general sense of the amount of life insurance you would need to provide financial security for your family, visit **www.life-line.org/life/ins_needs.html**

Disability Income Needs
To assess the income needed to sustain your current standard of living should you become unable to work due to accident or illness, visit **www.life-line.org/disability/calc.html**

Human Life Value
For a rough sense of your human life value, the financial loss your family would incur if you were to die today, visit **www.life-line.org/life/life_value.html**

Disability Income Insurance: The Basics

A disability income policy replaces income lost in the event that you become ill or injured and can't work. Keep these items in mind when considering a purchase.

Definition of Disability—some pay benefits if you are unable to perform the duties of your customary job, while others pay only if you are unable to engage in any gainful employment at all.

Elimination Period—the time you must wait for benefits to begin, typically 30–90 days.

Duration—short term policies typically provide coverage for 13 weeks to one year, while long-term policies may provide benefits up to age 65 or even for life.

Income Replacement—most policies will replace between 50 to 75 percent of a person's monthly gross income.

Financial Planner Mark J. Goldstein, CLU, ChFC (standing) and Stephen Burns.

PLANNING SAVES A BUSINESS

ANTHONY MATZCAK AND STEPHEN BURNS first met working summers in college at Anthony's father's refrigeration and air conditioning business in the mid-1970s. Their friendship grew along with the business and eventually, they took over the company when Anthony's father retired.

As new owners, their lawyer recommended that they buy life insurance that would allow each to buy out the other's share of the business if anything happened to either of them. After meeting with financial planner Mark J. Goldstein, CLU, ChFC, they wrote a check for the first year's premiums for policies that included a buy/sell provision.

Just 48 hours later, Anthony, 46, husband and father of three, died of a heart attack while at a job site in the early morning. In an instant, Stephen had lost his dear friend and now he feared he might lose the business too.

When Stephen broke the news to his 15 employees, they also learned that his ability to buy out Anthony's share of the business and keep it running hinged on the insurance money. Fortunately, Stephen's financial planner had submitted the paperwork to the insurance company as soon as the applications were signed. Sure enough, the company quickly informed Mark that his client's policy would be honored.

"Having that insurance took a huge debt off my shoulders," says Stephen. "Without the insurance, we would have closed our doors and Anthony's family would be struggling to make ends meet. Thanks to our timely planning, neither of those things came to pass."

Life Insurance for Your Business

Did you know that life insurance can protect your business, too?

Key Person Insurance can provide business owners with the financial flexibility to either hire a replacement or work out an alternative arrangement when a key employee dies.

Buy-Sell Agreements funded with life insurance allow remaining business owners to buy the company interests of a deceased owner at the previously agreed upon price.

Sole Proprietors may purchase a policy that covers them for the value of the company, whether or not the surviving family is able to sell it.

ASSURING FINANCIAL INDEPENDENCE

LESLIE WHEELER, deaf from birth, never let her hearing impairment hold her back. She graduated from Gallaudet College, taught for 28 years at a school for the deaf, married and raised two sons. A widow and retired at 73, she was healthy, active and owned her home. But Leslie was concerned that if she became ill in the future, she would be a burden to her children.

Agent Bea Nugent, PhD (standing) and Leslie Wheeler.

When she received a mailing about long-term care insurance, she immediately wrote back to request more information. Using a special telephone system for the hearing impaired, agent Beatrice Nugent contacted Leslie to set up an appointment. When they met, Bea and Leslie communicated by writing notes back and forth. After reviewing several plans, Leslie chose a policy that offered a variety of care options for a period of up to three years.

A day after the policy was approved, Leslie had a massive stroke. Her son, Steve, immediately arranged to have his mother move in with him, his wife Jan and their twin daughters, figuring that somehow they'd find a way to pay for her care. A great weight was lifted from his shoulders when he learned from Bea that his mother had just purchased the insurance. The policy paid for sitters, which she depended on while at her son's house, and around the clock care when she returned to her own home a year later. And when she moved into an assisted living facility seeking more social interaction, her policy continued to cover her care until she reached her benefit limit.

Leslie, 81, is in a nursing home now, but in good health and grateful that she planned ahead. "I do not know what I would have done without my long-term care insurance. It has kept me from losing my home or from going broke," she says. ■

What to Look for in a Long-Term Care Insurance Plan

Daily Benefit—the maximum daily amount the policy will pay for care.

Maximum Benefit—the total amount a policy will pay.

Elimination Period—the amount of time you must wait until benefits begin.

Inflation Protection—helps your benefit keep pace with rising costs of care.

Types of Facilities Covered—e.g., nursing homes, assisted living facilities, home, etc.

Long-Term Care Factoids

✔ A year in a nursing home now averages more than **$50,000.**

✔ There's a **greater than 50% chance** you'll need some type of long-term care after age 65.

Rene Silver/Art Director, Chris Hartlove/All Photography

06/09/03 15:24 FAX 202 434 5721 AARP 003

Pls see attached (next)
3 pp.

QUESTIONS OF THE HONORABLE RUBÉN HINOJOSA
FOR ALL WITNESSES

HOUSE FINANCIAL SERVICES COMMITTEE
CAPITAL MARKETS SUBCOMMITTEE
"RETIREMENT SECURITY: WHAT SENIORS NEED TO KNOW ABOUT PROTECTING THEIR FUTURES"
MAY 15, 2003

1) Fee disclosure and transparency about annuities--is it uniform? Is there a formula for disclosure? Will there be an expense ratio? How will retirees know how much this is going to cost them and their families?

2) How will annuity managers disclose their proxy votes in the interest of corporate governance?

3) Are insurance companies willing to offer this annuity product "in the interest of retirement security" at a flat rate?

4) Do insurance companies have independent directors overseeing the managers/advisors of this product?

5) Who will regulate them?

6) How will we measure "success"?

7) How can "performance" be measured uniformly in the annuities business?

Searching within the Research Center for *annuities* documents. The Search Help page can help you refine your search.

Found 8 documents that matched all criteria and 9 documents that matched *annuities*. Filtered 1 documents.

PPI In Brief: The Role of Annuities in a Reformed U.S. Social Security System
A short summary of the AARP Public Policy Institute Issue Paper in which the annuitization of individual Social Security account assets is analyzed by Jeffrey B. Liebman of Harvard's John F. Kennedy School of Government who provides a guide for policymakers to use in thinking about how withdrawals from a system of personal retirement accounts (PRAs) might be managed. (2 pages)
publication ID: INB61 *Dec 2002*

PPI The Role of Annuities in a Reformed U.S. Social Security System
The annuitization of individual Social Security account assets is analyzed in this AARP Public Policy Institute Issue Paper by Jeffrey B. Liebman of Harvard's John F. Kennedy School of Government who provides a guide for policymakers to use in thinking about how withdrawals from a system of personal retirement accounts (PRAs) might be managed. (67 pages)
publication ID: 2002-17 *Dec 2002*

PPI Inflation-Indexed Securities: Description and Market Experience -- Executive Summary
Despite the potential advantages of inflation-indexed securities, why haven't individuals been buying these instruments? An executive summary of an exploration by Alison Shelton of AARP's Public Policy Institute. (3

pages)
publication ID: 2000-12 *Aug 2000*

PPI Ten Points Concerning Carve-Out Social Security Individual Accounts
If some part of current payroll taxes were to be diverted from Social Security to finance carve-out accounts, the program's ability to provide social insurance to workers and their families would be reduced. In this AARP Public Policy Institute Data Digest, Alison Shelton and Laurel Beedon discuss carve-outs and their impact on beneficiaries and the Social Security program in general. (4 pages)
publication ID: DD80 *Oct 2002*

PPI In Brief: Pension Portability - Is this Europe's Future? An Analysis of the United States as a Test Case
A succinct summary of the similarly titled AARP Public Policy Institute Issue Paper in which John Turner describes how pension portability for job changers has been achieved in the United States, and compares its portability arrangements with those in Europe. (2 pages)
publication ID: INB66 *Mar 2003*

PPI A Profile of Older Taxpayers
Several tax proposals, introduced in 2002, have been targeted at midlife and older persons. In this AARP Public Policy Institute Data Digest, John Gist examines how many age 65+ persons file tax returns, why people with no tax liability file returns, what differences there are among filing units, and the distribution of filers by income. (4 pages)
publication ID: DD76 *Sep 2002*

PPI The Effect of Social Security Reform Proposals on Social Security Disability Insurance, Supplemental Security Income, and Private Disability Insurance – Executive Summary
Some Social Security reform proposals would result in reduction of the program's disability insurance benefits. In this AARP Public Policy Institute Issue Paper, Selin Opcin and David Stapleton of The Lewin Group suggest that it is important for policy makers to address both disability and retirement reform simultaneously. (7 pages)
publication ID: 2001-13 *Jul 2001*

PPI Social Security Reform: How Might Women Fare? – Highlights

Highlights from a 20-page issue brief written by Sara E. Rix of the Public Policy Institute and John B. Williamson of Boston College, which examines the importance of Social Security to women now and into the 21st century and addresses how some of the more prominent proposed changes to Social Security system might affect them.
publication ID: ib31 *Jan 1998*

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Submitted Testimony of Charles H. Roadman II, MD, CNA,
President and CEO
American Health Care Association (AHCA)
And National Center for Assisted Living (NCAL)
Before the House Financial Services Subcommittee on
Capital Markets, Insurance and Government Sponsored Enterprises

Thursday, May 15, 2002

Chairman Baker, Congressman Kanjorski and Members of the Committee; On behalf of the American Health Care Association (AHCA) and National Center for Assisted Living (NCAL), I submit the following written statement for insertion into the official record of today's hearing by the House Financial Services' Subcommittee on Capitol Markets, Insurance and Government Sponsored Enterprises.

The topic of today's hearing, "Retirement Security: What Seniors Need to Know About Protecting Their Future," is highly pertinent not just to those Americans who will soon join the growing ranks of retirees, but to taxpayers of all income levels who finance America's increasingly unreliable, under funded and under prepared system of long term care.

While I would like to share our Association's ideas regarding the development of a conceptual framework for progressively modifying and transforming the very nature of a retirement structure that can meet tomorrow's needs, we must first examine where we are today, right now, in the current debate on Medicaid financing.

As vocal proponents of a federal aid package for bolstering the nation's struggling Medicaid program, we are under no illusion that even the most generous federal initiative will be but a short term yet necessary fix. Medicaid is the law of the land, a lifeline for the nation's most vulnerable population of seniors – and it is also a program that is failing. It is notable that a recent analysis from the national accounting firm, BDO Seidman, finds Medicaid under funded by at least $3.5 billion annually, and growing worse by the year. Such a trend cannot continue. We believe this program must be stabilized in the short term – long enough for our nation to replace it with a comprehensive system that can ensure vulnerable seniors receive the care they both need and deserve.

The growing crisis in long term care financing is one that AHCA and NCAL have spent a great deal of time and resources examining, and the following are some of our basic observations:

- Because of demographic changes, Medicaid spending for long term care will continue to consume increasingly greater proportions of the gross domestic product and of state budgets while the revenue base shrinks during the first half of this century;

- The number of workers per retiree is declining; the tax base is simply not there to financially sustain programs for the elderly including long term care. The demographic information is unmistakably clear on this matter;

- The continuum of long term care services will need to be greatly expanded to meet the needs of aging baby boomers, and access to this continuum is essential;

- Reliance on family care giving will be strained simply because there are fewer family members available to provide this care.

As we debate how to reform Medicaid for the longer term in a manner capable of meeting the imminent crush of baby boom retirees, support for maintaining the status quo will find few takers and still fewer defenders across virtually the entire spectrum of political viewpoints. This has not always been the case – and new opportunities to fundamentally reform America's retirement system are presenting themselves due to this fortuitous development.

The number of Americans requiring long-term care will grow rapidly, and demographic trends are working against our foundering Medicaid financing structure. As the increasing number of baby boomers advance beyond retirement age, millions will be confronted by the need for long term care, yet unable to cope with what is without doubt America's greatest unfunded liability. Sadly, a majority of these individuals will face the cruel reality of poverty and dependence at a time in their lives when they should be in financial control of their golden years. The average cost for a year's stay in a nursing home is in excess of $50,000 – and still more in larger cities and metropolitan areas. Similarly disturbing is the fact the average cost for an assisted living facility is more than $26,000 annually and, again, higher in many urban areas of the nation. For far too many, these costs are far out of reach, and always will be.

While there are healthy differences of opinion regarding the precise parameters of comprehensive Medicaid reform, there is growing concurrence that individuals – not just government – should also be responsible for long term care planning. Change to our current financing system must be based upon this assumption. This is the only realistic evolutionary course for the program if long term care needs are to be met.

At a time when it seems liberals and conservatives can agree upon very little in the public policy arena, an approach that incorporates the efficiency of the marketplace with the safety net guarantees associated with government involvement has the potential to merit strong political and popular support.

Specifically, through tax deductions and targeted, refundable credits, the nation's health care system can become more efficient, more responsive to patient needs and individual choices, and sustainable for the long term. These tax incentives are tools that will help empower individuals to accept greater planning responsibility for their own long term care needs. With diligent development and implementation, a public-private approach could make it possible for a majority of future Medicaid-eligible retirees to pay privately for the care they receive. This can only be accomplished by fundamentally shifting the role of government – from government paying for services to government helping individuals save for their long term care needs.

One initiative now serving as a bipartisan legislative precursor to a broader effort is the "above-the-line" tax deduction championed by U.S. Reps. Nancy Johnson (R-CT) and Earl Pomeroy (D-ND). A deduction of this nature could help to dramatically increase the number of people who purchase long term care insurance by reducing its costs. To encourage broad based participation, there will also be a need for a refundable tax credit targeted toward low to moderate income Americans – who will have the greatest need for government-paid long term care services currently provided by Medicaid. For low to moderate income individuals, the refundable tax credit would fully or partially pay the premium cost of a long-term care insurance policy offered by the private sector, or by the federal government. Such a tax credit also makes insurance coverage more affordable to this segment of our population than simply providing a pure 'above-the-line' tax deduction.

Once tax incentives enable greater numbers of Americans to responsibly provide for their long term care insurance needs, there is a second logical step. With an established insurance market it becomes more feasible to shift the government's role in the coverage of long term care to the federal level – thereby relieving states of the increasingly onerous budgetary burden that is the focus of current debate in Washington and state capitols nationwide.

A fundamental consolidation of this nature would allow for the coordination of both acute and long-term care for the elderly and long-term care for the disabled. Most important, the coordination of care solely at the federal level will eliminate today's failed patchwork financing system, and create an efficient, seamless system of care that preserves and strengthens the "safety net" our needy citizens depend upon. Every long term care stakeholder – patients, residents, government, providers, consumer advocates and others – would be a beneficiary of this consolidation process.

The final element necessary to transform Medicaid focuses upon establishing the legitimacy and citizen awareness of a public-private program – and necessarily involves a national informational effort designed to help individuals understand their options. When individuals understand the risks they face, the costs of care, and the options before them, we as a nation should be confident the vast majority of our citizens will choose to act responsibly and plan for their future needs. This fundamental premise reflects American values: Americans want to control their destiny, and every individual must – and should – take some level of responsibility for their future, and that of their family. If armed with the facts and the means, people will do the right thing to protect their health and economic interests.

With the proper planning and level of commitment this matter deserves, this Congress and the Bush Administration can begin laying the groundwork for a long term care financing system that has the capacity to meet the retirement needs of millions of future retirees. Again, while we are indeed aggressively lobbying for a federal aid package to help states pay their Medicaid bills today, the essential debate and policy discussion must begin now about how we will support seniors' retirement and long term care needs tomorrow, and in the decades to come.

Thank you for the opportunity to submit this statement. It is our hope you will continue to examine the retirement security needs of all Americans and, in so doing, provide the foundation for national debate that leads to positive and comprehensive change. The retirement challenges before us today – those centered upon health, economic and long term care security – can only be met if Congress and the Administration provide systemic stability long enough for long term fixes to be developed, debated and enacted.

We look forward to working productively and cooperatively with this Committee, with this Congress and with this Administration to do what America has always done when presented with a challenge of this scope: establish a workable plan, earn the support and trust of our citizens, and achieve an objective that has the best interest of every American as its basis.

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