Testimony of Ben Stein
Before the Senate Special Committee on Aging

Chairman, honorable Senators, thank you very much for allowing me to appear before you this morning. I am here as Honorary Spokesperson for The National Retirement Planning Coalition, a group of thirteen leading financial and healthcare industry organizations concerned about retirement readiness. The Coalition was formed by NAVA, a trade group for the annuity industry.

In the waning months of World War II, Franklin Delano Roosevelt was asked what we were looking for after victory He said we wanted for mankind to have Four Freedoms. One of them was "Freedom from Fear." There are many kinds of fear, and it's good to have freedom from all of them. One of the most gnawing kinds of fear we would like to be free of is fear of financial insecurity. Franklin D. Roosevelt also hoped for Freedom from Want, a glorious freedom which enriches the lives of all who enjoy it.

These are great goals, but unfortunately, for tens of millions of Americans, especially baby boomers, there is nothing but fear of financial insecurity, nothing like freedom from fear or freedom from want, where retirement is concerned. The facts are not in serious dispute. There are about 77 million baby boomers. Their average savings are far below what is needed for a comfortable or even decent retirement. While millions are adequately prepared, tens of millions are not. They lack sufficient savings to provide enough income to give them even close to what they had as a life style before they retired. Their employers' defined benefit plans are disappearing before our eyes, day by day. Many of them rely on growing house values to tide them over but real estate markets—as we are seeing right now—can shift dramatically and what had seemed like a castle suddenly becomes just an ordinary home again.

This problem hits women, minorities, and farmers particularly hard for a variety of reasons mostly having to do with various problems they have accumulating large savings. On a relative basis women, minorities, and farmers are worse prepared for retirement than other groups and the other groups are not doing terribly well either.

The basic nub of the problem is that we have a large chunk of the population who are likely to run out of money when they are old and unable to work any longer. That is, they will be broke, or in serious privation when they are at their most vulnerable and enfeebled.

To be sure, there is one form of old age insurance that is guaranteed and will probably not run out of money any time soon. That’s Social Security. But its payments are, for most people, fairly modest. All other forms of old age insurance can run out or are subject to market variations. It is great to have a lot of stocks, bonds, mutual funds, and exchange traded funds—and cash, and real estate. But most people don’t have those lucky charms in large quantities, and even if they do, they can run out or lose value in market fluctuations.

But the annuity, issued by large, reputable insurance companies, provides income until death, and often to the heirs for some time after that. The annuity, whether fixed or variable, provides income that by definition will last until the holder of the annuity has entered a place where money is (presumably) not needed. The variable annuity has the added benefit that because its benefits are based on the movement of stocks or bonds or both, its payments can and almost always do rise as inflation rises in retirement.

This is a major consideration because the recent retiree is by definition a long term investor. The man or women who retires at 65 can expect a good twenty more years of life, on average, and prices will almost certainly rise very considerably in that time. An annuity whose payments rise can be a godsend.

At present the tax treatment of annuities discourages holding them. While the investments in them compound tax free, the contingent gains from interest, dividends, and capital gains are taxed at ordinary income rates as withdrawn. This is in stark contrast to other investments in non tax favored investments, which actually can have lower tax rates than annuities which are supposedly tax favored.

This creates the unfortunate situation we have today, in which the best vehicle for retirement, the annuity with guaranteed payments until death, is discouraged by the tax code.

The Congress has before it a proposal to allow a modest amount of the contingent payments from annuity income escape taxation. This is the Retirement Security for Life Act. The Act would result in a tax savings of $5,000 per year for the typical American with a fixed annuity paying twenty thousand dollars a year who is in the 25 percent tax bracket. It does not mean a thing to millionaires, but to the ordinary citizen trying to cope with retirement, it could make a huge difference. Fairer tax treatment of annuities could encourage an extremely responsible form of retirement planning -- annuitization -- and the more people who take that path, the better off we will be as a society.

To be sure it is still better to have a lot of savings in many different forms—stocks, bonds, real estate, mutual funds, ETF's—but annuities with their unique guarantee of lifetime income are a vital part of any sensible portfolio for retirement, and it makes sense to encourage their use. Annuities can play a powerful role in achieving freedom from fear, and freedom from want, and this is not a trivial or insignificant achievement. I know you have a schedule that is busy on a scale most of us cannot even contemplate, and I know you are under tremendous pressures of time and work, so I greatly appreciate your taking the time for this session, and I thank you for your kind attention.