

While people worry more about retirement, Americans are turning to life insurance products to help fund their retirement. There's more to do.

By

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Consumers are increasingly aware of and anxious about their retirement says a 2009 study by McKinsey and Company. The study's analysis of consumers' balance sheets in 2009 indicates that the average American family faces a 37% shortfall in the income they will need in retirement. The average household will face a retirement savings shortfall of nearly \$250,000 by the time of retirement.

There is little dispute that Americans need tax incentives to take personal responsibility for their financial futures, but with the sharp decline in qualified benefit programs more and more employees are forced to manage increased risk with their retirement plans, thus we need to encourage participation in defined contribution as well as nonqualified deferred compensation arrangements to supplement government benefit programs.

The McKinsey study illustrates that U.S. household savings rate has slowly declined from a peak of 10% of disposable income in the 1980s to less than 1% in 2007. And as savings declined, debt skyrocketed from 70% of disposable income in the 1980s to 134% in 2008.

Access to workplace retirement plans is an important driver of retirement preparedness. Life insurance producers are one of the leading providers of retirement products, through workplace benefits and annuities. Life insurance protects nearly 80% of Americans, and annuities will support many of the 77 million baby boomers in their retirement. That being said, 48 million U.S. households believe they do not have enough life insurance.

A common way to supplement the limits imposed by qualified plans (such as IRAs and 401(k)s) is for an employee to participate in a nonqualified deferred compensation (NQDC) plan. A typical NQDC plan is an arrangement where part of an employee's salary is deferred until a future date, and that deferred amount is at-risk, meaning if the company were to go bankrupt, the employee would be a general unsecured creditor, losing most, if not all the deferrals. This directly aligns the long-term interests of the business, employees, and shareholders, by encouraging employees to invest in the future financial stability of the company.

NQDC is not just for the top executives; hundreds of thousands of upper and mid-level managers participate. According to a recent survey, of the 91% of Fortune 1000 respondent companies offering deferred compensation plans, 63% allow employees with compensation below \$150,000 to participate, yet Congress has significantly limited the amount of NQDC an American may defer with 409A.

A supplemental executive retirement plan (SERP) can also serve as an extension of a company's qualified defined benefit pension plan. With a SERP, the employer chooses who participates, the level of benefits, the types of benefits, and the plan provisions, but the trade-off for flexibility is that the participants' benefits are subject to the employer's creditors. SERP benefits are taxed as ordinary income to the employee in the year it is received and is deductible to the employer in the year it is paid. If the employee dies before retirement, the employer pays the spouse or other surviving beneficiaries. The payout is similarly taxed as ordinary income to the employee's heirs in the year it is received and remains deductible to the employer in the year or years in which it is paid.

Now more than ever, Congress needs to bolster the American retirement system with visionary, constructive and broad-reaching policy solutions to solve the long-term retirement preparedness gap. The statistics illustrated above prove just how vital these retirement security tools are to America's workforce, and we need to encourage participation in supplemental and nonqualified deferred compensation plans to bolster retirement preparedness with key products such as life insurance and annuities.

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