MetLife®

Testimony of

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Chairman of the Board of Directors, President and Chief Executive Officer

MetLife, Inc.

on

"Managing Retirement Assets: Ensuring Seniors Don't Outlive Their Savings"

before the

United States Senate
Special Committee on Aging

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Dirksen Senate Office Building, Room 106

Good morning Mr. Chairman and members of the Senate Special Committee on Aging. I am Rob Henrikson, chairman, president and CEO of MetLife, Inc., a global insurance and financial services company. MetLife has a heritage, expertise and commitment around helping millions of Americans manage assets and risks throughout all phases of a lifetime.

We find ourselves at a pivotal crossroads in retirement policy. In this new age of uncertainty and shift to individual responsibility, retirees can't "invest away" their financial risks, they must insure for them. Let me explain.

Americans are feeling a bigger financial burden today than ever before – and the need for personal risk management has never been greater. Most consumers know that they can no longer "count on" the government, their employer or the stock market for their financial security. The bursting stock market bubble in the early part of the decade was a wake up call that taught investors that no matter how sophisticated they are, market returns are not guaranteed.

The seismic shifts that have occurred in our society in the last few decades with regard to pensions, Social Security and health care are now requiring individuals – for the first time since the Great Depression – to fund and finance the risks that had previously been managed, in large part, by the government or their employer. Today, individuals are feeling a tremendous burden and a high level of anxiety at having to provide financial protection for their loved ones. And, with employers and the government less able to fund and protect individuals from the risks they face, individuals have been left largely on their own to deal with them.

We are moving quickly toward an “era of personal responsibility,” and individuals are aware of the challenges that lie ahead. However, many are not ready to act. It may seem an insurmountable challenge to dedicate the time and energy to figure out – on their own – how to manage the risks they face. Yet, without insurance protection, the average consumer cannot adequately and efficiently self-insure the risks they will face throughout their lifetime such as becoming disabled, needing long-term care, or living beyond average life expectancy. Individuals are just not equipped to manage these risks on their own. They will either save too little or they will save too much. The latter, by the way, in a society that has over 50% of its citizens living paycheck-to-paycheck is highly unlikely. If they transfer these risks to a broader pool of insureds by paying a premium, they can then live their lives without worrying about that exposure. Individuals understand this risk transfer with tangible belongings such as their cars and homes, but the concept is less well understood when talking about retirement security. Unfortunately, the reality is that today a significant number of Americans have no personal insurance or they are grossly underinsured.

So how did we get here? By and large, our parents and grandparents didn't need to worry about these issues. Take, for example, saving for retirement. Many in the WWII Generation and the Silent Generation sought out jobs with large corporations or the government that offered defined benefit pension plans. When workers retired, their "paycheck" continued for as long as they lived. It made them feel secure knowing that they worked hard throughout their life and, when they retired, they knew that they and their families didn't run the risk of running out of money.

Over the last two decades, the number of defined benefit pension plans has declined precipitously. In the mid-80s, the number of pension plans reached a peak of 112,000, with about one-third of American workers covered. According to the Pension Benefit Guaranty Corporation, today only 30,000 defined benefit pension plans remain. In recent years, many employers have chosen not to adopt defined benefit pension plans and others, including a number of Fortune 100 companies, have chosen to terminate or freeze their existing defined benefit pension plans in "exchange" for a larger 401(k) company match. According to Watson Wyatt Worldwide, the number of Fortune 1,000 companies that have frozen or terminated their defined-benefit pension plans jumped sharply from 34 in 2001 (5% of Fortune 1,000 companies) to 71 (11%) in 2004.

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Prevalence of DB Sponsorship and Plan Freezing or Termination among FORTUNE 1000 Firms

	Total Pension Plan Sponsors	Frozen or Terminated Plans	Percentage of Pension Plan Sponsors with a Frozen or Terminated Plan	Total Active Pension Plan Sponsors
2004	627	71	11%	556
2003	633	45	7%	588
2002	624	39	6%	585
2001	638	34	5%	604

Source: Watson Wyatt Worldwide Analysis, June, 2005

For those of our parents or grandparents who weren’t fortunate enough to have a defined benefit pension plan, they at least knew they could always rely on the promise of Social Security.

According to the Social Security Administration’s Web site, one of the first American books on social insurance on which the concept of Social Security was designed, was written by a Columbia University economics professor named Henry Seager.

Seager explained the principle of old-age security based on social insurance in his 1910 book, "Social Insurance, A Program of Social Reform":

> *". . . The proper method of safeguarding old age is clearly through some plan of insurance. . . for every wage earner to attempt to save enough by himself to provide for his old age is needlessly costly. The intelligent course is for him to combine with other wage earners to accumulate a common fund out of which old-age annuities may be paid to those who live long enough to need it."*

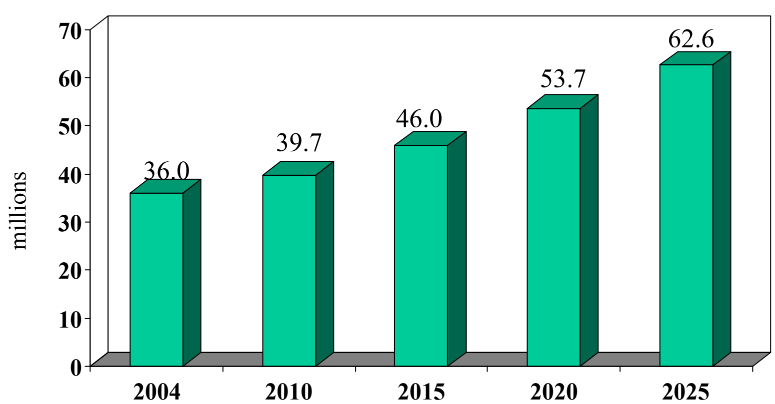
Of course, Social Security works as long as there is always a larger pool of workers paying into the system compared to beneficiaries receiving payments from the system. However, exactly the opposite is happening today – life expectancy is increasing, while birth rates are declining.

By 2012, according to the U.S. Government Accountability Office, Social Security's annual tax revenues are expected to be insufficient to cover its benefits payments. According to President Bush, "In 1950, there were 16 workers paying into the system for every beneficiary. In other words, the load was pretty light. Today, there are 3.3 workers per beneficiary. Soon there's going to be two workers per beneficiary."

Consumer Preparedness

With continued increases in life expectancy, the continuing shift from employer managed and funded traditional pension plans to individually controlled defined contribution plans, and the financial challenges faced by government supported programs, we are entering a period of great risk with regard to retirement security. This triple threat is magnified exponentially when you factor in that the 36 million Americans over the age of 65 will grow to 62 million 20 years from now. With its projected growth, the 65+ segment of our society will represent 20% of the population (compared to 12% today). Furthermore, Cerulli Associates estimates that 25% of current 401(k) participants will retire by 2015. If that sounds far off, consider that the first baby boomers will reach the traditional retirement age of 65 in 2011.

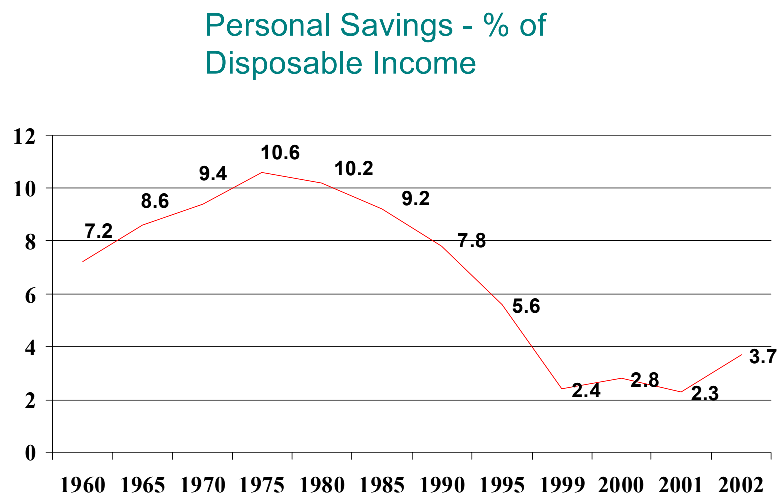
The 65+ Population is Growing Rapidly



Source: U.S. Census Bureau

So how prepared for retirement are these millions of people? Americans' personal savings rate dipped into negative territory at minus 0.5% in 2005, something that hasn't happened since the Great Depression. This means that

Americans not only spent all of their after-tax income last year but had to dip into previous savings or increase borrowing.



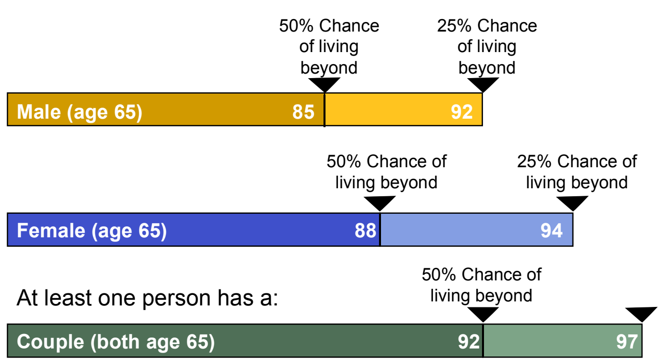
Source: Dept. of Commerce, Bureau of Economic Analysis, June 2003

In April 2006, the Employee Benefits Research Institute (EBRI) released its 16th Retirement Confidence Survey, a survey 1,252 individuals in the U.S. age 25 and older, that gauges the views and attitudes of working-age and retired Americans regarding retirement, their preparations for retirement, their confidence with regard to various aspects of retirement, and related issues. The RCS found that:

- More than half of workers saving for retirement report total savings and investments (not including the value of their primary residence or any defined benefit plans) of less than $50,000 (52%).
- The large majority of workers who have not put money aside for retirement have little in savings at all: Three-quarters of these workers say their assets total less than $10,000 (75%).

In 2003, MetLife created the Retirement Income IQ, which the company will be updating later this year. The 1,200 men and women between 56 and 65 years of age and within five years of retiring were asked 15 questions to assess their level of retirement preparedness. The findings revealed 95% of the respondents scored 60% or less; the average score was 33 on a grading scale of 100 points. Perhaps most disturbing was the misunderstanding surrounding how long people will live. A 65-year-old man has a 50% chance of living beyond his average life expectancy. That's what average life expectancy means – about half the population will live past that point and the other half won't. Yet when MetLife posed that question to 1,200 individuals, the majority of them thought there was only a 25% or less likelihood of living beyond average life expectancy. Only 16% of respondents replied correctly that a couple consisting of a 65 year-old man and woman have a 25% chance that one of them will live beyond age 97.

People Underestimate the Time Spent in Retirement



Source: Society of Actuaries 2000 Annuity Male and Female Tables

When you combine underestimating longevity with other findings, the picture gets even more unsettling. Respondents also *underestimated* how much money experts recommend they need for retirement and they *overestimated* the rate at which experts recommend they can safely withdraw from savings to help make their money last throughout their retirement. Over one-third believe they can safely withdraw 7% from their savings annually, even though planning professionals suggest limiting annual withdrawals to no more than 4%.

Our findings from the Retirement Income IQ are corroborated by many other industry studies. EBRI's 2006 Retirement Confidence Survey asserts that only four in 10 workers (42%) have attempted to calculate their savings needs for retirement. Additionally, many workers are counting on employer-provided benefits in retirement that are increasingly unavailable. Only 40% of workers indicate they or their spouse currently have a defined benefit plan, yet 61% say they are expecting to receive income from such a plan in retirement.

MetLife's 2005 Employee Benefits Trend Study found that approximately one-quarter (26%) of all baby boomers – the oldest members of whom will reach traditional retirement age in just five years – do not allocate any of their monthly household income to retirement savings vehicles such as 401(k)s, IRAs or annuities. As a result, 38% expect to remain behind in their retirement savings five years from now. Equally as concerning is the fact that employees age 51-60, who only have a few years left to accumulate a nest egg, are allocating, on average, only 10% of their monthly household income to retirement savings products.

<u>Risks in Retirement</u>

Once they reach retirement, there are certain risks people face that they did not have to confront during their working years.

In its 2002 Retirement Risk Survey, the Society of Actuaries, together with EBRI and Mathew Greenwald, reports that the biggest financial concern for retirees and pre-retirees alike is **inflation**.

Income Required to Keep Pace With Inflation
Based on 3.5% rate

Over half of retirees and nearly two-thirds of pre-retirees are *very* or *somewhat* concerned that they will not be able to maintain the value of their savings and investments relative to inflation. In addition, pre-retirees expressed a greater concern than retirees over the possibility of not having enough money to pay for good health care (58% of pre-retirees are *very* or *somewhat* concerned as opposed to 43% of retirees). Pre-retirees are also more concerned with their ability to pay for quality nursing care.

Market volatility is another risk that can have a unique impact on retirees. Recent stock market experience has taught us all how quickly and how adversely our savings can be affected when exposed to a bear market. For people who are still saving, they have the benefit of time on their side and have a reasonable expectation of seeing their assets return to or even surpass pre-downturn levels. For retirees, however, market downturns, especially early on in their retirement years, can have a devastating impact.

Too often people rely on averages and base their planning (if any) on the assumption that their account will return the average. They research the historical market returns, plan to withdraw an amount less than the historical average return and then feel confident their money will last them well into their retirement years. However, a market downturn in retirement can have a much greater impact on a retiree's nest egg if they are taking withdrawals than if they are simply saving and still have time to recover from any stock market losses.

Using average returns while planning is dangerous because the market does not earn averages in any given year and once you withdraw in a down market, you realize losses never to be recovered.

While inflation and market risk can have a tremendous impact, **longevity risk** is, in my opinion, the biggest risk facing retirees. An earlier graph illustrated the average life expectancies for males, females and couples. When we have shared these statistics with consumers most expressed shock and some even disbelief. But the numbers are accurate and as we continue to make advances in medicine and adopt healthier, more active lifestyles the chances are the life expectancy tables will stretch out longer.

The reason longevity is the greatest retirement risk we face is because it is the only risk an individual cannot manage on his or her own. Market risk can be alleviated somewhat through asset allocation, and inflation risk can be addressed by investing in growth equities. But longevity risk only serves to exacerbate these other two risks by increasing the length of time an individual is exposed to them.

Managing Longevity Risk

With Social Security and pensions becoming a smaller piece of the overall retirement equation, individuals will need to turn to mortality pooling to convert their retirement savings into guaranteed income that they cannot outlive.

The reality is, unless you are extremely wealthy like Bill Gates or Warren Buffett, these risks cannot be reasonably solved through investments alone. The use of pooled risk is still an individual's best and most cost effective defense, because when a group is assembled and mortality experience is pooled, monumental efficiencies take place. An average retiree, for example, would need to have saved about one-third more to attempt to replicate the power of a mortality pool and, even then, could still risk running out of money.

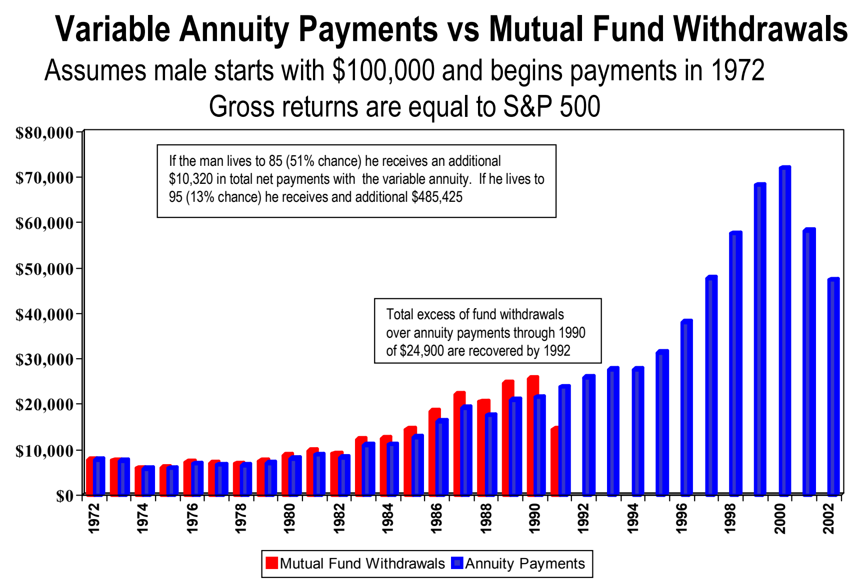
The pooling concept is a powerful one that's at the heart of all insurance products (as well as the mortality element within defined benefit plans). Individuals cannot self-insure the risk of outliving their money because they cannot accurately predict how long they will live. Longevity creates a much smaller risk for large defined benefit pension plan sponsors since the “law of large numbers” permits them to fund for the average life expectancy of the entire group of retirees. When a large group of retirees are pooled together, the retiree who lives a long time is offset by the retiree who dies early.

The longevity risk faced by an individual retiree is comparable in magnitude, but not in nature, to the investment risk that he or she faces at retirement. Whereas an individual can decrease his investment risk by changing his investment strategy, there is no way that an individual can, on his own, reduce his longevity risk.

The only way that an individual can manage this risk is by converting his savings to an annuity. Annuities, like a large plan sponsor, use the averaging effect created by pooling together the mortality experience of a large number of annuitants. Through annuities, a retiree can manage longevity risk and may choose to keep some portion of investment risk (along with its potential return) through a variable income annuity. Or a retiree can manage both longevity and investment risk with a fixed income annuity. An income annuity, also known as an immediate or payout annuity, is an insurance product that converts a sum of money into a stream of income that is guaranteed to last throughout the lifetime of the policyholder. It is, in effect, a personal pension plan and it works because the insurance company pools the lives of many individuals.

The Value of Annuities

The core value of an annuity is its guarantee of lifelong income. To demonstrate this benefit, we compared it to another popular method of generating income in retirement -- systematic withdrawals from an investment portfolio.



Annual fund withdrawals are equal to annuity payments made before the reduction of a 95 basis point separate account fee. Other charges and expenses apply to a continued investment in mutual funds and annuities. If these charges and expenses and applicable taxes had been factored into the above example, the value of the payments would be reduced. Opening balance of the IRA mutual fund account is $100,000 with returns equal to those of the S&P 500. Annuity payments are based on an initial purchase amount of $100,000 for a single life male age 65 and assume a 100% variable option using an AIR of 4% and investment returns equal to those of the S&P500. Should the annuitant die before age 84 in this hypothetical example, annuity payments would cease whereas the balance in the mutual fund would pass to the accountholder's beneficiary or estate. Certain income or lump sum options are available for designated beneficiaries of annuity contracts. Costs for these options will reduce income payments to the annuity holder. The above example is hypothetical and does not represent the income stream of any MetLife product. Actual income will fluctuate and there is no guarantee they will increase in value. Past performance is not a guarantee of future results.

The graph compares the results of systematic withdrawals from a fund with an opening balance of $100,000 versus a variable immediate annuity purchased with this same amount. The fund withdrawal is equal to the payments generated from the annuity before the reduction of the fees associated with the annuity. We assume the return on both the fund and the annuity is equal to the S&P 500 and the payments and withdrawals started in 1972. The fund would have been depleted by 1991 (age 84 in this example), whereas the annuity will continue income payments for as long as the annuity owner lives. Considering that a 65-year-old man has more than a 50% chance of living beyond this age, there is a very good chance that he will run out of money without an annuity.

The Outlook

What can we do to help consumers who are beginning to understand the new realities of the shift of these risks to their shoulders, and how can we make sure that they are adequately protected from these risks?

We believe annuities can be an important part of the solution to helping people secure guaranteed lifetime income in retirement. Market research indicates that there is greater receptivity to annuities once their benefits are explained. Furthermore, we are beginning to see more in the way of innovative product design that is intended to meet the needs of today's retirees. For example, we are seeing more products offer liquidity options that allow purchasers to access money in an emergency. In addition, products are offering features (such as, more investment choices, transfers and rebalancing) that provide individuals with the flexibility and control that they are used to seeing within their 401(k) plans. In this world of uncertainty, consumers, as you know, are becoming increasingly risk averse. Consumers "get" that the core of a smart financial plan isn't about returns or yields; it's about ensuring that their families are protected from the unexpected. They want help identifying and addressing the risks within their control to protect their financial future.

They also understand that the core of insurance is a guarantee from their insurer that they can't get from other financial products. It's about removing the "un" from uncertainty. They want guarantees to protect their wealth and income against risks; guarantees that they can count on that will protect them and their families throughout their lives. For now (and we think the foreseeable future), consumers clamor for guarantees; they respond more and more strongly to anything with the word “guarantee” in it.

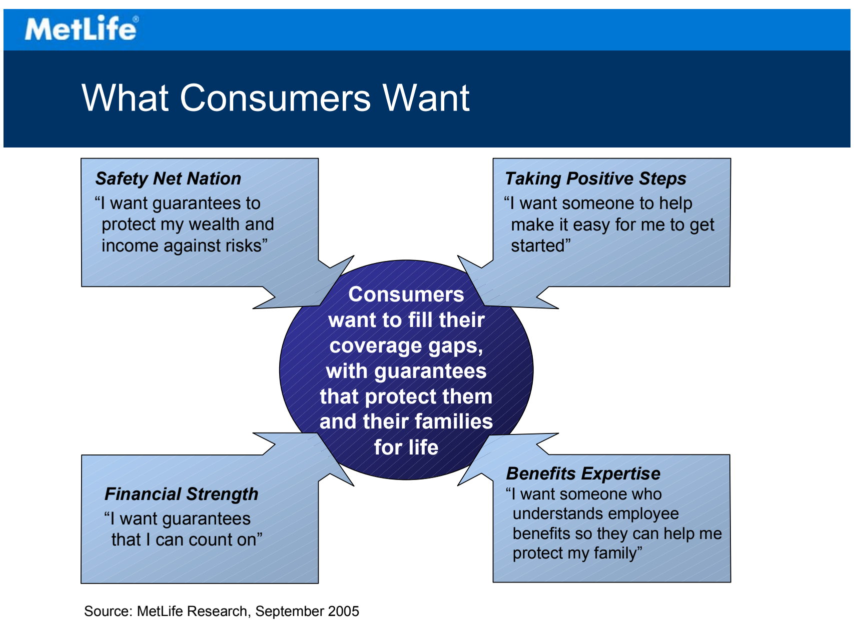
One of the most important components of the decision to purchase insurance, particularly insurance benefits that will be paid at some future date or for as long as the policyholder lives, is the selection of a company that has the financial strength to keep its promises 20, 30 or even 50 years in the future. When described in more robust and descriptive terms, “guarantees” and “financial strength” are extremely motivating decision drivers for the consumer.

However, we must evolve the traditional paradigm in which there is an inherent conflict between “insurance” and “investments.” According to Daniel Kahneman, the Nobel prize-winning economist, “If clients' risk tolerance differs when viewing investments versus insurance, perhaps it is because investment implies optimism and insurance implies pessimism. Investment involves the expectation of an improvement in one's wealth, whereas insurance represents an expense - a decrease in wealth." We don't look at it that way. Insurance is the foundation for any sound financial plan or investment portfolio and, according to MetLife's research, 70% of consumers expect insurance to help improve their quality of life.

Another trend is emerging. The insurance industry is seeing that many people nearing retirement are more conservative about investing in equity markets because they are concerned about potential loss of value, but realize equity and bond markets have the potential to generate returns greater than inflation. That's why annuity products that provide some upside opportunity, but also a minimum guaranteed value such as income for life, are becoming very popular. In fact, of the roughly $33 billion of third quarter 2005 variable annuity sales, 70% of individuals have elected some type of guaranteed income feature (JP Morgan North America Equity Research, January 5, 2006). This clearly indicates that individuals realize they need to save more and they need equity exposure to fight inflation over the long term. But, they also understand this comes with risk given stock market downturns. However, many individuals still don't completely understand that they have both stock market risk and longevity risk. That is why the insurance protection of the living benefits on variable annuities is of significant value to ensuring the success of income for life.

Consumers want a financial plan – and they need one built on a solid foundation of insurance – but few know how to create one.

Consumers want to fill their coverage gaps with guarantees that protect them and their families for life. Consumers are craving advice.



Until now, the information and advice consumers have been getting is not making them feel comfortable or smart. People want and need simple, straightforward, jargon-free, trustworthy information no matter their level of experience. There is a strong need for an advisor who can give consumers the guidance they desire.

They want to work with an advisor who can help them identify the risks to be protected against, as well as help them grow their wealth. It's not an either/or.

We need to shift the discussion from <u>assets</u> to <u>income</u> and we need to educate employees and retirees – working to redefine the priority and language of retirement. We no longer think that individuals should focus on a bag of cash as the end game. Rather, they should focus on how to create a "paycheck for life" and protection for their future. After all, most people have been making all of their financial decisions for themselves and their families around their income their entire lives.

One of the biggest challenges faced by the boomers is the ability to calculate – and generate – the income they will need to comfortably live 20, 30 or more years in retirement. A “new generation” of income annuities, which are supported by a range of educational programs and tools, provides lifetime guarantees with a range of options designed to provide flexibility and help to overcome the common objections people have to annuitization. As the boomers retire, we expect many of them to convert their 401(k) nest egg into guaranteed income that they can’t outlive.

We also must work to encourage younger Americans to think in terms of buying future pieces of income to create their own “personal pension” rather than only accumulating retirement assets.

Important Steps

If benefit trends, demographics, and human nature are working against us, what’s the answer? What steps can individuals take to address this perfect storm? There are two steps that can be taken that will encourage individuals to take action to secure their financial future, no matter how short or long that future may be.

The first is to encourage individuals to take action and join a risk pool. This is one solution for retirees who have diligently saved during their working years and want their savings to last throughout their lifetime. Individuals who are not part of a group cannot self-insure the risk of outliving their money because they cannot predict how long they will live.

The second step is related to the first; policymakers need to provide education and incentives. Tax incentives really are a form of education. People are quite simply more likely to consider an action if it has a positive tax consequence. The core proof of this is the employer-based retirement system. But education is more than just tax incentives. Individuals need better retirement education and investment advice. A logical place for education to be provided is at the workplace because the employment-based system is the source of most of the existing retirement savings. We must educate employees, who have the accumulated retirement assets, at the point of retirement to make sure they consider taking a portion of their assets and guaranteeing income they cannot outlive. An income annuity is the best way to accomplish that; a personal pension plan of sorts.

For the more than half of Americans whose only source of savings is outside the employer-based system, the same opportunity exists to join a risk pool to transfer longevity risk off of their shoulders. Their need for this assistance is perhaps much greater; as they must individually shoulder the dual challenge of accumulating sufficient savings and making it last through retirement. The role of tax incentives, education, and advice can especially help Americans who only have personal savings meet this challenge.

So we find ourselves at a pivotal crossroads.

In this new age of uncertainty, consumers can't invest away their financial risks; they must insure for them.

Millions of people are on the cusp of having to worry about funding and financing the rest of their lives, and the life insurance industry is ready to offer the solutions they will need. The burden has shifted from the government and the corporation to the individual, and they are now responsible, in large part, for their own personal protection plan. At the same time, we know that they cannot self insure their morbidity, mortality and longevity risks. Investments, while a powerful tool for helping consumers grow their wealth, cannot by themselves adequately fund and finance the cost of caring for their own or a loved one's long-term illness. Nor can it adequately ensure that an individual will not run out of money if they live a long and healthy life.

Recent legislation Chairman Smith has introduced is heading exactly in the right direction. The Retirement Security for Life Act (S. 381) provides a good starting point to help individuals manage the risks of retirement by encouraging an income stream that cannot be outlived. I am pleased to point out that Senators Collins and Clinton on the Committee are co-sponsors. I applaud these efforts and look forward to working toward enactment if not in this Congress then in the 110th. I would go one step further and suggest that the retirement income crisis justifies its own package of reform proposals that address the array of risks associated with the new set of challenges facing the next generation of retirees.

I want to thank the Committee again for holding this hearing today, and for inviting me to testify. The goal of helping Americans achieve personal retirement income security is, without question, MetLife's number one public policy priority.