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April 15, 2013

The Honorable Pat Tiberi, Chairman
Pensions/Retirement Tax Reform Working Group
Committee on Ways and Means
United States House of Representatives
106 Cannon House Office Building
Washington, DC 20515

The Honorable Adrian Smith, Chairman
Financial Services Tax Reform Working Group
Committee on Ways and Means
United States House of Representatives
2241 Rayburn House Office Building
Washington, DC 20515

The Honorable Ron Kind, Vice-Chairman
Pensions/Retirement Tax Reform Working Group
Committee on Ways and Means
United States House of Representatives
1502 Longworth House Office Building
Washington, DC 20515

The Honorable John Larson, Vice-Chairman
Financial Services Tax Reform Working Group
Committee on Ways and Means
United States House of Representatives
1501 Longworth House Office Building
Washington, DC 20515

Re: Taxation of Annuity Retirement Savings and Income Products

Dear Representatives Tiberi, Kind, Smith and Larson:

The Insured Retirement Institute (IRI)[1] appreciates the opportunity to provide information about the current tax-deferred treatment of annuity retirement savings and income products.

This letter will address: (1) the retirement income crisis facing consumers in America and the need for lifetime income; (2) the vital and unique role annuities play in helping consumers save for retirement and protect against the risk of outliving their assets through guaranteed lifetime income; (3) current

[1] *The Insured Retirement Institute has been called the "primary trade association for annuities" by U.S. News and World Report and is the only association that represents the entire supply chain of the insured retirement strategies industry. Our members include major insurers, broker dealers, banks, asset managers and financial advisors. We currently have over 500 member companies and provide member benefits to more than 150,000 financial advisors and 10,000 home office financial professionals. IRI is a not-for-profit organization that brings together the interests of industry, financial advisors and consumers. Our mission is to: (1) encourage industry adherence to highest ethical principles; (2) promote better understanding of the insured retirement value proposition; (3) develop and promote best practice standards to improve value delivery; and (4) advocate before public policy makers on critical issues affecting insured retirement strategies.*

Congressional and Administration initiatives focused on this crisis and steps Congress and the Administration are taking to encourage and facilitate the use of annuities for guaranteed lifetime income; (4) how the tax-deferred treatment of annuities encourages and spurs retirement savings; and (5) the fact that annuities are tax-deferred, not excluded, as well as the Congressional Budget Office study determining that tax-deferred savings increase federal revenue as a percentage of gross domestic product over the long term.

As more fully discussed in this letter, the current tax treatment of annuities is a very important part of advancing the strong public policy interest in encouraging all Americans to save for a financially secure retirement.

Retirement Income Crisis In America: Need for Lifetime Income

The current state of retirement savings readiness in America is at crisis levels and the need for consumers to insure against the risk of outliving their assets (longevity risk) has never been greater. Seventy-nine million Baby Boomers today face immediate and unprecedented retirement income challenges—challenges that simply did not exist in earlier generations. These challenges have been created by the shift from defined benefit plans to defined contribution plans, longer life spans, increased medical costs, and inadequate savings rates.

The shift from defined benefit plans to defined contributions plans has been extraordinary. Only 19 percent of workers had access to a defined benefit plan in 2012.[2] In 1985, 114,000 private-sector defined benefit plans were in place, but by 2011, only 27,000 defined-benefit plans remained.[3]

Nearly half of Boomers, over 30 million Americans, are "at risk" for inadequate retirement income, not having sufficient guaranteed lifetime income.[4] Just as concerning, nearly half (45%) of Generation Xers (ages 36-45) are "at risk" for inadequate retirement income.[5] Alarmingly, only 40 percent of Americans 30-49 years of age have tried to determine how much they need to save by the time they retire.[6] Meanwhile, nearly one-third of Baby Boomers cite having adequate retirement assets as a top concern, while over three-quarters said they will work for income in retirement, meaning they actually

[2] Pension Benefit Guaranty Corporation. *Trends in Defined Benefit Pension Plans.*
[3] Pension Benefit Guaranty Corporation. *Pension Benefit Guaranty Corporation Annual Report 2012.*
[4] Employee Benefit Research Institute. *EBRI Notes: Retirement Income Adequacy for Boomers and Gen-Xers: Evidence from the 2012 EBRI Retirement Security Projection Model.*
[5] *Ibid.*
[6] Insured Retirement Institute. *Baby Boomers and Generations Xers: Are They on Track to Reach Their Retirement Goals?*

will not be retired.[7] However, Boomers who own insured retirement products, including all types of annuities, have a higher confidence in their overall retirement expectations, with 9 out of 10 believing they are doing a good job preparing financially for retirement.[8]

Making the need for retirement savings even greater, individuals are living longer than those of earlier generations. For a married couple, where both spouses are now age 65, a 60 percent chance exists that one spouse will live to age 90, and a 30 percent chance exists that one will live to age 95.[9] Half of today's 65-year-old men are expected to live to age 85, and half of today's 65-year-old women are expected to live to age 88.[10]

Compounding the concern about retirement income security, in other words, having sufficient income for a lifetime, the cost of health care is expected to be staggering in the years ahead. For a married couple retiring in 2012 at age 65, the cost of health care and nursing home care over the remainder of their lives is expected to be $260,000.[11] Finally, nearly 50% of Baby Boomers believe they will not have enough money to pay for long-term care during retirement.[12]

The shift from defined benefit to defined contribution plans, longer life spans, and the rising costs of health care are among the challenges that will put a significant retirement savings and income burden on the shoulders of individual consumers, and in particular middle-income Americans. This reality underscores the critical importance of a tax system that encourages Americans to adequately save for their retirement income needs.

Annuities: Providing Lifetime Income and Retirement Security

Annuities help address numerous risks that retirees face, including longevity risk and inflation risk. As a result, financial advisors and Boomers are increasingly seeing the need for lifetime income provided by annuities, particularly middle-income families who make up the bulk of annuity owners. Eight in ten buyers of non-qualified annuity contracts had annual household incomes of less than $100,000, including 64% who earned less than $75,000.[13]

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[7] Insured Retirement Institute. *Boomer Expectations for Retirement 2013.*
[8] Insured Retirement Institute.
[9] *U.S. Annuity 2000 Mortality Table,* Society of Actuaries
[10] *Ibid.*
[11] 2010 Study conducted by the Center for Retirement Research at Boston College
[12] Insured Retirement Institute.
[13] Insured Retirement Institute. *Tax Policy and Middle-Income Boomers*

A number of IRI research reports show that Boomers who own annuities have more confidence in their financial security in retirement and are using more annuities to meet their retirement income needs.

- Nine out of ten Boomer annuity-owners believe they are doing a good job preparing financially for retirement.[14]
- 73 percent of annuity owners believe that annuities are a critical part of their retirement strategy.[15]
- Baby-Boomer annuity owners are more likely to engage in positive retirement planning behaviors than Baby-Boomer non-annuity owners, with 68 percent having calculated a retirement goal and 63 percent having consulted with a financial advisor.[16]
- Nine out of ten female Boomer annuity owners are confident they will have a comfortable retirement.[17]
- Half of female Boomer annuity owners believe their retirement will be somewhat to much more comfortable than their parents.[18]
- 84 percent of financial advisors say they are having more retirement-income discussions with clients.[19]
- 71 percent of advisors say they had a client request to purchase an annuity during the last year.[20]

Congressional and Administration Initiatives to Encourage and Facilitate the Use of Annuities

As a result of the imminent retirement income crisis in America, there has never been as much focus by the Congress and Administration on encouraging and facilitating the use of annuities to provide guaranteed lifetime income for retirees in America. The President's Middle Class Task Force has recommended "promoting the availability of annuities and other forms of guaranteed lifetime income, which transform savings into guaranteed future income, reducing the risks that retirees will outlive their savings or that their retirees' living standards will be eroded by investment losses or inflation."[21] The Departments of Treasury and Labor are currently considering ways to facilitate "access to, and use of, lifetime income or other arrangements designed to provide a stream of lifetime income after retirement,"[22] and in 2012, the Treasury Department issued its first rule proposal in this effort.

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[14] Insured Retirement Institute. *Boomer Expectations for Retirement 2013*
[15] Insured Retirement Institute and Cogent Research. *The Evolution of the Annuity Industry: 2012*
[16] Insured Retirement Institute. *Baby Boomers and Generations Xers: Are They on Track to Reach Their Retirement Goals?*
[17] Insured Retirement Institute.
[18] Insured Retirement Institute.
[19] Insured Retirement Institute and Cogent Research. *The Evolution of the Annuity Industry: 2012*
[20] Insured Retirement Institute and Cogent Research. *The Evolution of the Annuity Industry: 2012*
[21] See *White House Fact Sheet: Supporting Middle Class Families.* See also *Annual Report of the White House Task Force on the Middle Class, 27 (February 2010).*
[22] See *Request for Information on Lifetime Income Options for Participants and Beneficiaries in Retirement Plans, 75 Fed. Reg. 5253, 5255 (February 2, 2010).*

In the last Congress, the *Lifetime Income Disclosure Act* (S. 267 and H.R. 677) was introduced, and it is expected to be reintroduced in this Congress. This legislation would help workers understand their needs and plan for a secure retirement by providing them with an estimate of their potential guaranteed lifetime income monthly payments. The Senate Health, Education, Labor and Pensions Committee is also focused on the retirement savings challenges facing our country and has held seven hearings on this issue, including a hearing to consider the Report of the General Accountability Office titled, "Retirement Income: Challenges for Ensuring Income throughout Retirement," and a hearing earlier this year titled, "Pension Savings: Are Workers Saving Enough for Retirement?"

IRI commends the President's Administration and the Congress for their leadership on these issues.

Tax Deferral Spurs Retirement Savings

Annuity ownership provides an avenue for many to attain tax-deferred retirement savings growth, and consumers consider the tax deferral very important when selecting an annuity for retirement savings. More than four in ten workers do not have access to a tax-deferred defined contribution retirement plan through their employer,[23] so annuities provide an avenue for tax-deferred retirement savings.

Tax deferral is cited by consumers and financial advisors as a top reason for purchasing an annuity.[24] Three in four Boomers consider tax deferral an important feature when selecting a retirement investment, with 44 percent of Baby Boomers considering tax deferral a very important criterion.[25]

Tax-Deferred Not Excluded and Increase Revenue Because of Tax Treatment

It is important that the tax-deferred treatment of annuities helps consumers reach a higher level of savings, while interest and earnings credited to annuities are taxed when distributions are taken at retirement. Thus, while the removal of annuities' tax-deferred status would not necessarily generate additional tax revenue over the long term, it would have a negative effect on Americans' ability to save for retirement. In fact, a Congressional Budget Office study determined that tax-deferred retirement savings would moderately increase federal revenues as a percentage of gross domestic product over the long term.[26]

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[23] Bureau of Labor Statistics. *National Compensation Survey: Employee Benefits in the United States, March 2012.*
[24] Insured Retirement Institute and Cogent Research. *The Evolution of the Annuity Industry, 2012*
[25] Insured Retirement Institute. *Tax Policy and Middle-Income Boomers.*
[26] Congressional Budget Office. *Tax-Deferred Retirement Savings in Long-Term Revenue Projections. http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/54xx/doc5418/05-10-retirementsavings.pdf*

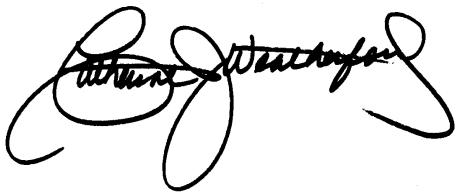
Conclusion

IRI appreciates the opportunity to provide this information about the current tax-deferred treatment of annuity retirement savings and income products.

Tens of millions of Americans face a retirement income crisis and therefore need lifetime income products. Annuities play a vital role in helping consumers save for retirement and protect against the risk of outliving their assets through guaranteed lifetime income. As a result, Congress and the Administration are taking steps to encourage and facilitate the use of annuities for guaranteed lifetime income. We know the tax-deferred treatment of annuities encourages and spurs retirement savings. Finally, annuities are tax-deferred, not excluded, and a Congressional Budget Office study has determined that tax-deferred savings increase federal revenue as a percentage of gross domestic product over the long term.

IRI therefore urges Congress to maintain the current tax-deferred treatment of annuity retirement savings and income products.

Best regards,



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