Savings and Investment Working Group
Savings@finance.senate.gov
April 15, 2015
Re: Bi-Partisan Tax Reform Submission

Members of the Working Group:

For more than 15 years, NAFA, the National Association for Fixed Annuities, has remained true to its mission of promoting the awareness and understanding of fixed annuities. To further our mission, we work to educate annuity professionals, regulators, legislators, and the media about the value of fixed annuities and their benefits to consumers. In accordance with this work, NAFA appreciates the opportunity to offer the following comments for the U.S. Senate Finance Committee's Savings and Investment Working Group to consider when determining how to reform the nation's tax code.

Annuities Are Essential for Consumer Savings and Retirement Planning

In today's unpredictable economic environment, consumers face a burgeoning responsibility for taking control of their financial future. Market volatility, the demise of traditional pensions, the uncertainty of government assistance programs like Social Security and rising life expectancies are all part of a growing challenge Americans face in successfully planning for retirement. Despite the need for thorough preparation, studies from the Employee Benefit Research Institute indicate that 52 percent of workers have less than $10,000 saved and only 18 percent of working Americans feel very confident about having enough money to live comfortably throughout their retirement years.[1]

To help address these issues, an increasing number of individuals and families are turning to insurance products and, specifically, fixed annuities. A fixed annuity is the only product that allows individuals to accumulate retirement savings, protect those savings from market losses and guarantee income for life. In fact, total U.S. annuity sales in 2014 rose three percent to $235.8 billion, thanks to record annual sales in fixed indexed and income annuities. Overall fixed annuity sales totaled $95.7 billion in 2014, improving 13 percent compared with 2013.[2]

Given the important role these products can play in helping Americans plan for and meet their retirement income goals, it is critical that any potential tax reform not limit consumer access to or choice in the fixed annuity marketplace. Furthermore, it is imperative that any potential changes to the tax code maintain the current code's tax deferral benefit for these products and protect the inside build-up within annuity contracts. Lastly, any proposals that would limit defined contribution plan

[1] Employee Benefit Research Institute *2014 Retirement Confidence Survey,* issued March 2014.
[2] LIMRA Secure Retirement Institute *Fourth Quarter 2014 U.S. Annuity Sales Survey,* news release issued February 23, 2015.

deductibility, contribution amounts or the types of retirement accounts available will only discourage prudent savings behavior and thus expand the retirement savings gap, not shrink it.

Support for Bipartisan Reforms to Bolster Retirement Savings

NAFA supports many bipartisan bills offered last Congress, including comprehensive legislation proposed by Chairman Hatch in the Secure Annuities for Employee (SAFE) Retirement Act. Below we highlight several key points we believe should be part of any tax reform effort:

1. ***Remove any obstacles to making annuity options, including fixed indexed annuity options, available in 401(k) and other defined contribution plans.***

Though 401(k) assets are one of the most common vehicles Americans use in saving for retirement, the inherent problem with these types of defined contribution plans is that they do not provide individuals with a pension that will pay them income until they die. Rather, savers are forced to try to determine how and when to take income from the asset and implicitly accept the risk that they're going to outlive their savings.

History reveals a significant increase in the life expectancy of 65-year-olds over the past quarter century. In 2010, the average life expectancy for a 65-year-old male was 82.7. This compares with 79.1 years in 1980. While three years may not seem significant, its impact on one's retirement security certainly is. To further the point, an Insured Retirement Institute report cites an example of an individual with annual expenses of $50,000 in retirement.[3] Expenses for a 65-year-old living 14 years in retirement would total $700,000. Assuming this person lives 17 years in retirement, the additional three years of expenses would bring the total to $850,000, a 21 percent rise. Without easy access to turning a portion of one's assets into guaranteed income for life through an annuity, Americans may not be able to manage such a significant difference on their own.

Accordingly, while we believe the newly implemented qualified longevity annuity contract (QLAC) rule issued by the U.S. Department of Treasury to allow the purchase of certain fixed annuities is a positive step, NAFA urges Congress to consider legislation that would (1) modify minimum distribution rules to encourage more annuity options to be offered in defined contribution plans and (2) remove fiduciary burdens from plan sponsors.

2. ***Provide lifetime income portability.***

Plan sponsors must be free to make changes to their plans. Accordingly, if a sponsor discontinues a lifetime income option, the participant should be able to preserve this income by rolling his or her investment into a comparable IRA.

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[3] The Insured Retirement Institute (IRI) *IRI Fact Book 2014,* released July 22, 2014.

3. ***Encourage more savings options for workers through the Starter 401(k) and Auto-IRA.***

NAFA recommends that any potential reform effort provide simple, cost-effective, easily accessible ways for a larger number of workers to build up their savings. By creating the Starter 401(k) or Auto-IRA, small- and mid-sized businesses would be able to offer critical retirement benefits to their employees — plans they might not otherwise have access to — while avoiding the administrative burden or expense of a traditional 401(k) plan. Furthermore, incentivizing businesses with tax credits to help cover plan start-up costs would encourage employers to offer defined contribution plans without fear that such action would negatively impact their bottom line. With Auto-IRAs, employers could provide their employees with the option to payroll deduct contributions into an IRA.

4. ***Enhance participation in defined contribution plans via auto-enrollment and auto-escalation.***

Any reforms that expand employee participation rates in employer plans and produce greater savings rates should be a top priority. Specifically, increasing the initial default enrollment participation rate and subsequent automatic escalation rate will facilitate greater future retirement security for workers.

As history has shown, fixed annuity contracts issued by insurance companies provide an inherent layer of protection that is not generally available with traditional pension systems. Therefore, Congress must ensure that tax code reform include provisions to help consumers increase their retirement savings with ease and have access to guaranteed income they cannot outlive.

NAFA would like to thank the Savings and Investment Working Group for its time and attention to these critical tax reform considerations. If you should have additional questions or need more information from us regarding the information included herein, please contact S. Christopher Johnson, Chairman of the NAFA Board of Directors.

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