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The Honorable Mike Crapo, Co-Chairman
Savings & Investment Working Group
Senate Committee on Finance
United States Senate
239 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Sherrod Brown, Co-Chairman
Savings & Investment Working Group
Senate Committee on Finance
United States Senate
713 Hart Senate Office Building
Washington, DC 20510

Dear Senators Crapo and Brown:

Thank you for inviting public comment on comprehensive tax reform and tax incentives related to retirement savings. I serve as President and CEO of the Insured Retirement Institute. The Insured Retirement Institute (IRI)[1] appreciates the opportunity to offer our perspective about the current state of retirement planning.

This letter will call your attention to an issue of critical importance – the looming retirement savings and income crisis facing your constituents and all Americans. Long-term economic growth, revenue neutrality, a simple and transparent code, international competitiveness, and fairness are just a few of the core principles of tax reform often mentioned as important to tax reform. One sometimes missing is preservation of the current incentives for retirement savings. This core principle is just as important and deserves to be included in that list. It is the principle required to lead Americans to better retirement outcomes. The tax code should encourage Americans to save and invest for their future.

As you may know, most employers have transitioned from defined benefit plans to defined contribution plans, people are living longer, and health care costs during retirement continue to rise. Together, these factors have created a situation in which individuals – especially middle-income Americans – will bear significant retirement savings and income burdens.

[1] IRI is a not-for-profit organization that brings together the interests of the insured retirement income industry, financial advisors and consumers under one umbrella. IRI works to promote consumer confidence in the value and viability of insured retirement strategies. Its mission is to: encourage industry adherence to highest ethical principles; promote better understanding of the insured retirement value proposition; develop and promote best practice standards to improve value delivery; and to advocate before public policy makers on critical issues affecting insured retirement strategies. It proudly leads a national consumer coalition of more than 30 organizations, and is the only association that represents the entire supply chain of insured retirement strategies. Our members are the major insurers, asset managers, broker-dealers/distributors, and 150,000 financial professionals.

America's Retirement Income Challenge and the Need for Retirement Income Products

Americans today are at risk of outliving their assets. This longevity risk has never been greater. 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 financial pressure on the shoulders of individual consumers, in particular middle-income Americans. These challenges simply did not exist in earlier generations.

At the peak in 1985, over 114,000 private-sector defined benefit plans were in place[2], but by 2012, less than 26,000 of these defined benefit plans remained.[3] Only 19 percent of private-sector workers had access to a defined benefit plan in 2014.[4]

Individuals are living longer than those of earlier generations. The population of older Americans continues to increase at a faster rate than the overall population. For example, between 2000 and 2010, the number of Americans aged 85 to 94 grew by 29.9 percent; by comparison the entire U.S. population increased by 9.7 percent during that timeframe.[5] Moreover, according the Society of Actuaries, a married couple age 65 has more than a 65 percent chance of one or both living to age 90 and a 35 percent chance of one spouse living to be age 95.[6]

As a result of these trends, today more than 30 million Baby Boomers are "at risk" of having inadequate retirement income, that is not having sufficient guaranteed lifetime income.[7] Just as concerning, nearly half (45 percent) of Generation Xers (ages 36-45) are "at risk" of having inadequate retirement income.[8] Alarmingly, only 40 percent of Americans 30 to 49 years of age have tried to determine how much they need to save by the time they retire.[9] 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 will not be retired, a goal that might not be feasible.[10] This reality underscores the critical importance of a regulatory environment that provides consumers access to products that meet their need to protect against longevity risk.

Annuities are the only financial instruments available today, other than Social Security and pensions, that can guarantee a lifetime stream of income during retirement, and only insurance companies and their distribution partners can provide these products. With the proper use of annuities and other guaranteed lifetime income products, retirees can be assured they will not outlive their assets. Boomers who own insured retirement products, including all types of annuities, have a higher confidence in their overall retirement expectations, with nine out of 10 believing they are doing a good job preparing financially for retirement.[11] Compared to non-owners, Baby Boomers who own annuities – by more than a two-to-one ratio – are likely to be among those who are most confident in living comfortably

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[2] Pension Benefit Guaranty Corporation. *Trends in Defined Benefit Pension Plans.*

[3] Pension Benefit Guaranty Corporation. *Pension Benefit Guaranty Corporation Annual Report 2012.*

[4] Bureau of Labor Statistics. *National Compensation Survey: Employee Benefits in the United States, March 2014*

[5] United State Census Bureau. *The Older Population 2010*.

[6] Society of Actuaries. *SOA 2012 Individual Annuitant Mortality tables.*

[7] Employee Benefit Research Institute. *EBRI Notes: Retirement Income Adequacy for Boomers and Gen-Xers: Evidence from the 2012 EBRI Retirement Security Projection Model.*

[8] *Ibid.*

[9] Insured Retirement Institute*. Baby Boomers and Generations Xers: Are They on Track to Reach Their Retirement Goals?*

[10] Insured Retirement Institute. Boomer Expectations for Retirement 2013.

[11] Insured Retirement Institute. *Boomer Expectations for Retirement 2011*.

throughout all their retirement years.[12] Baby Boomer annuity owners also 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.[13]

Guaranteeing Lifetime Income with Insured Retirement Products

Annuities are the only financial instruments available today, other than Social Security and pensions, that guarantee a lifetime stream of income during retirement. With the proper use of annuity products and other retirement savings vehicles, retirees can be assured they will not outlive their assets and benefit significantly by having the ability to increase their current income.

Annuities appeal to Americans of all income levels and consumers who do not have access to other retirement savings vehicle. In fact, annuity owners are overwhelmingly middle-income. Seven in 10 annuity owners have annual household incomes of less than $100,000.[14]

Tax Deferral Spurs Retirement Savings

The deferral of taxes on the investment growth within a retirement savings product is one of the cornerstones of retirement planning. The deferral of this growth leads to a larger retirement nest egg for the investor. For example, a 45-year old investor at the 15 percent tax bracket who makes a one-time $1,000 contribution before taxes into a tax-deferred retirement account, earning a 6 percent interest rate, will at age 60, have accumulated $2,397 but must pay a 15 percent tax—or $359—upon withdrawing the savings from the account. After taxes, there will be $2,037. If the same investor used after-tax dollars contributed to a taxable account the value of the account at age 60 would be $1,793, or $245 less than the tax deferred savings.[15]

Annuity ownership provides an avenue for many to attain tax-deferred retirement savings growth. Four in 10 American private-sector workers do not have access to a tax-deferred defined contribution retirement plan through their employer[16], so annuities provide a vehicle for these workers to access tax-deferred retirement savings.

American consumers place a high-level of importance on tax deferral. Tax deferral is cited by consumers and financial advisors as a top reason for purchasing an annuity[17]. Among middle-income Boomers, 77 percent said that tax deferral is an important consideration when selecting a retirement product.[18]

Tax-Deferred, Not Excluded

Taxes on retirement savings and annuities are deferred, not exempt or excluded. Deferral treatment is not equivalent to the exemption associated with other tax expenditures. As individuals begin to retire, distributions from annuities are taxed and revenue will flow to the U.S. Treasury.

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[12] Insured Retirement Institute. Survey of Americans Aged 51 to 67.
[13] Insured Retirement Institute: *Tax Policy and Boomer Retirement Saving Behaviors*
[14] Insured Retirement Institute: *Tax Policy and Boomer Retirement Saving Behaviors*
[15] Insured Retirement Institute: *Tax Policy and Boomer Retirement Saving Behaviors*
[16] Bureau of Labor Statistics. *National Compensation Survey: Employee Benefits in the United States, March 2014*
[17] Insured Retirement Institute and Cogent Research. *The Evolution of the Annuity Industry, 2012*
[18] Insured Retirement Institute. *Tax Policy and Middle-Income Boomers.*

It is important to note that while the tax-deferred treatment of annuities helps consumers reach a higher level of savings, interest and earnings credited to annuities are taxed when distributions are taken at retirement. Thus, the removal of annuities' tax-deferred status would not necessarily generate additional tax revenue over the long term. However, 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.[19]

Other Proposals Related to Retirement Savings and Lifetime Income

In addition to preserving the current tax incentives for annuities and retirement savings, Congress should take action to expand and improve opportunities for Americans to save for a secure retirement. For example, auto-enrollment and auto-escalation for retirement contributions will result in increased savings. Reducing barriers for small employers to join multiple employer plans, or MEPs, will result in more workers having access to retirement plans. Moreover, Congress should pass the Lifetime Income Disclosure Act (S. 1145 in the 113th Congress) to help motivate Americans to improve their savings habits by showing them how their accumulated savings could translate into a stream of income for life.

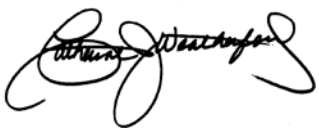
Conclusion

As a result of several trends, including longer lifespans, tens of millions of Americans face a retirement income challenge and need access to lifetime income strategies. Annuities have an important role in helping consumers save for retirement and protect against the risk of outliving their assets through guaranteed lifetime income. In particular, annuities are attractive to middle-income Americans, who overwhelmingly make up the majority of annuity owners. Research shows that the tax-deferred treatment of annuities encourages and spurs retirement savings, helping Americans reach a higher level of savings. Moreover, tax deferral is not the same as tax excluded, as interest and earnings credited to annuities are taxed when distributions are taken at retirement.

Given these finding, IRI urges Congress to maintain the current tax-deferred treatment of annuity retirement savings and income products. Furthermore, we encourage Members of Congress to explore new avenues to enhance retirement savings, facilitate access to lifetime income, and provide meaningful consumer-friendly information to Americans regarding their retirement outlook.

Thank you for the opportunity to share IRI's perspective on this issue. We welcome the opportunity to work with Congress and the Administration in the future as you consider additional legislative and regulatory changes to help all Americans attain financial security in retirement.

Sincerely,



Catherine J. Weatherford
President & CEO
Insured Retirement Institute

[19] Congressional Budget Office. *Tax-Deferred Retirement Savings in Long-Term Revenue Projections.*