ACLI

Financial Security...for Life.

Retirement Savings and Tax Reform White Paper

The American Council of Life Insurers (ACLI) urges Congress, first and foremost, to do no harm to the existing retirement savings system in the context of tax reform. Policy-makers should avoid disrupting a system that helps millions of Americans save for retirement. Instead, Congress should focus on enhancing the system so that it reaches more Americans.

The American Council of Life Insurers

ACLI is a national trade organization with approximately 300 members that represent more than 90 percent of the assets and premiums of the U.S. life insurance and annuity industry. ACLI member companies offer insurance contracts and investment products and services to employment-based retirement plans, including: defined benefit pension; 401(k), SIMPLE, SEP, 403(b), 457(b) and nonqualified deferred compensation arrangements; and to individuals through individual retirement accounts (IRAs) and annuities. Life insurers actively market retirement plan products and services to small businesses (those with fewer than 100 employees). According to a 2012 survey of ACLI member companies, more than 25 percent of small employer defined contribution plan assets are held by life insurers, and one-third of small employer defined contribution plan participants are in plans sponsored by life insurers.

Our members also are employer sponsors of retirement plans for their employees. As service and product providers, as well as employer sponsors, life insurers believe that saving for retirement, managing assets throughout retirement, and utilizing financial protection products are critical to Americans' retirement income and financial security.

American families count on life insurers' products for protection, long-term savings, and a guarantee of lifetime income when it is time to retire. Given today's economic uncertainties, the financial and retirement income security these products provide has never been more important. To provide context on the extent to which the life insurance industry protects American families, America's life insurers pay out $1.5 billion a day.

Current Landscape

Our retirement system is based on three pillars: employment-based retirement plans; personal savings (including individual retirement accounts, individual annuities[1], and regular savings and investment accounts); and Social Security. All three of these pillars are important and play a vital role in retirement security.

Tax Treatment of Retirement Savings Arrangements Must Be Preserved

The U.S. Tax Code provides 401(k)s, 403(b)s, 457(b)s, and IRAs with valuable incentives to employers and employees to encourage long-term retirement savings. An employer's contribution to workplace retirement plans on behalf of its employees is tax deductible to the employer. Generally, contributions made by, or made on behalf of, a worker are excludable from income and there are no taxes due on earnings until money is withdrawn (although these plan types permit Roth[2] accounts as well). When withdrawals are taken, taxes are paid at ordinary income rates, not at the more favorable capital gains rates. Contributions to traditional IRAs are tax-deductible (for those who qualify for the deduction) and taxes on earnings are deferred. For lower income workers, an additional retirement savings tax credit (the Saver's Credit) can further reduce their tax bill.

There are limitations on the amounts that can be invested in these plans. Internal Revenue Code ("Code") section 402(g) limits the contributions that an individual can make annually to a 401(k) or 403(b) plan ($17,500 in 2014),[3] and individuals age 50 and older may make additional catch-up contributions (an additional $5,500 in 2014).[4] Code section 415(c) limits all contributions that can be made in a year to a 401(k) plan on behalf of an individual, including the employee's contribution and all employer contributions ($52,000 in 2014). Code section 401(a)(17) limits the amount of an individual's compensation that can be considered under the plan's benefit formula ($260,000 in 2014). There are nondiscrimination rules that ensure: plans benefit non-highly compensated employees; plan allocations do not disproportionately benefit higher income workers; and plan accumulations do not disproportionately benefit business owners and other key employees.

Restrictions and penalties apply for early withdrawal of retirement savings (i.e., before retirement or disability). These restrictions exist as a trade-off for the valuable tax incentives and are designed to help ensure savings remain and grow until workers reach retirement.

This tax treatment is essential for encouraging people to save. According to a 2013 survey, 84 percent of households said that the tax-deferred treatment of contributions was "a big incentive to contribute." More than half (51 percent) said they probably would not have saved for retirement without the plan.[5]

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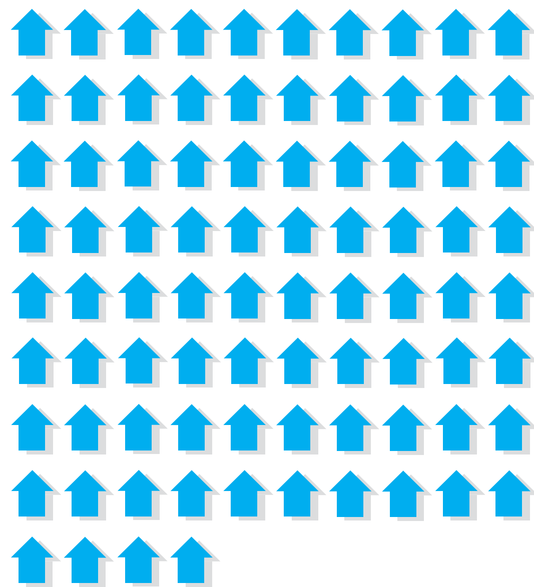


Source: Sarah Holden and Steven Bass, Investment Company Institute, America's Commitment to Retirement Security: Investor Attitudes and Actions, February 2013

No Revenue Lost from Retirement Savings Deferrals

It is often noted that retirement savings provisions are among the largest items in the ranking of federal tax expenditures. In considering the taxation of retirement plans, while employer contributions and employee deferrals are not taxed when made, it is important to recognize that taxes will be paid on the contributions and investment returns when funds are withdrawn by retirees. The same analysis applies to nonqualified annuities and nonqualified deferred compensation plans under which amounts are deferred, and distributions are taxed at ordinary tax rates. With Congressional or Administration budgets generally covering 5- or 10-year periods, the budget process does not acknowledge the revenue that is paid by retirees beyond the budget window.

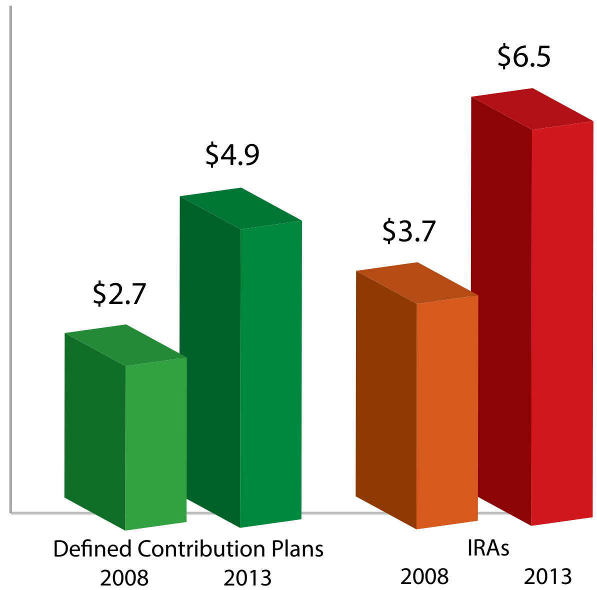
A recent study looks at the longer term—20 years—and calculates the cost of tax deferral of contributions to retirement accounts. In the case of a $1,000 contribution by someone in the 25 percent tax bracket, the government loses $250 of tax revenue in the year the contribution is made. If the investment has a 6 percent nominal rate of return, the government loses $353 on interest income over a 20-year deferral period. However, when the accumulated distribution of $3,207 is taken out, the government collects $802 of tax revenue (assuming that individual is still in the 25 percent tax bracket). Interestingly, the $802 collected in 20 years is equivalent to $250 today, using the same 6 percent discount rate. Thus, in this example the government foregoes no lost revenue when it defers taxes on contributions to retirement.[6]

Retirement Savings Leads to Capital Formation

Retirement savings arrangements play an important role in the capital markets. As of December 31, 2013, $4.9 trillion in assets were held in retirement plans such as 401(k)s and $6.5 trillion were held in savings in IRAs of all types, a pool of funds that includes rollovers from 401(k) and similar plans.[7] Additional amounts are invested through insurance companies in nonqualified annuities. This pool of capital helps to finance productivity-enhancing investments and business expansion.[8] Changes to the tax treatment of retirement savings arrangements that would reduce contributions, discourage the establishment and maintenance of plans, or make annuities more expensive to offer could lessen the impact of retirement savings in the capital markets.

TOTAL FINANCIAL ASSETS

Billions of dollars

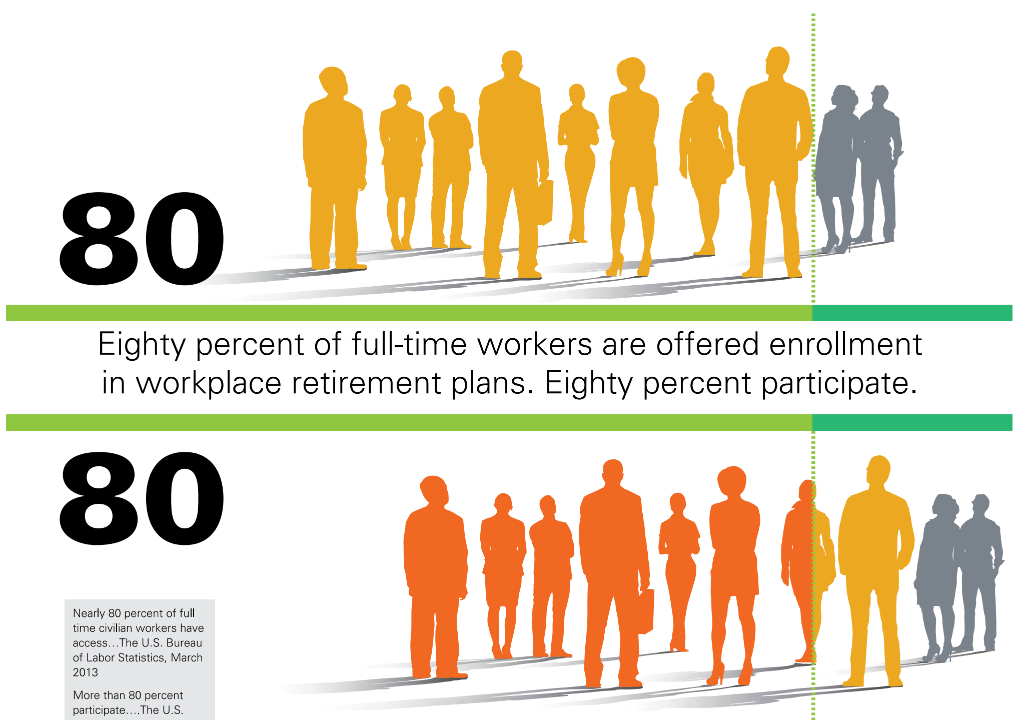


Source: Financial Accounts of the United States, Federal Reserve. June 5, 2014 Z.1 Release

Access, Participation, and Accumulated Savings Should Be Encouraged

Current tax incentives for retirement successfully help millions of American families accumulate savings and improve their retirement security. The Bureau of Labor Statistics has reported that nearly 80 percent of full-time civilian workers have access to a retirement plan, and more than 80 percent of full-time civilian workers participate in a plan.[9] All workers have access to individual annuities and IRAs.

As workers move from job to job, it is not uncommon for them to have more than one retirement account. A recent survey[10] of one million employees who have both a workplace savings plan, such as a 401(k) or 403(b), and an IRA, found that the average combined balance was $225,600 at the end of 2012 for all workers, of all ages, in the sample.[11] Combined balances rose by age group from $32,317 for those aged 25 to 29 and to $447,751 for those aged 70 to 75.

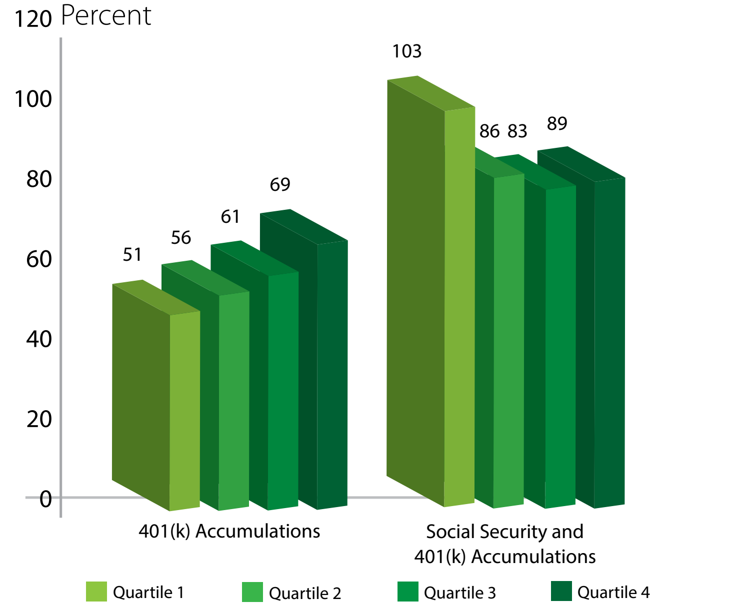


Nearly 80 percent of full time civilian workers have access…The U.S. Bureau of Labor Statistics, March 2013

More than 80 percent participate….The U.S. Bureau of Labor Statistics, March 2013

The 401(k) was introduced in the early 1980s, thus not enough time has elapsed for workers to retire after working a full 40- to 45-year career in the 401(k) system. However, a study found that accumulations through 401(k) plans, including rollover IRA balances, can generate significant income for retirees across all income groups over a full working life.[12] The model includes Social Security income in its calculations. Employees can build up significant accumulations when they have continuous 401(k) coverage, even when equity returns are assumed to be lower.[13] The model[14] found that those with continuous coverage would reach replacement rates (how much a retiree will earn in retirement compared to the income he earned at the end of his employment) at retirement between 51 percent for the lowest-earning one-fourth (or quartile) of the population,[15] and 69 percent for the highest income quartile.[16] When combined with estimated Social Security payments, these accumulations could provide a replacement of 103 percent for the lowest-earning quartile and between 83 and 86 percent for the other quartiles.[17]

Replacement Rates (how much a retiree will earn in retirement compared to the income he earned at the end of his employment)



Source: Sarah Holder and Jack VanDerhei, "Can 401(k) Accumulations Generate Significant Income for Future Retirees?" Investment Institute Perspective, Vol. 8, No. 8, November 2002

Proposals that Adversely Impact Retirement Savings Arrangements

Tax Reform – Guiding Principle "First, Do No Harm"

As Congress considers tax reform, we urge it—first and foremost—to do no harm. Policy-makers should avoid disrupting a retirement system that helps millions of Americans save for retirement. We need policies that will bolster retirement security for future generations—policies that build upon the existing successful structure to generate greater retirement savings.

As discussed in more detail above, current tax incentives are limited. Not only are there limits to the dollar amounts that can be contributed, but the many complex testing rules ensure that lower income workers participate in and receive benefits under the plan. Placing further limits on retirement savings would be detrimental to both employers, especially small businesses, and workers. The proposals described below, taken separately or cumulatively, would erode retirement security and should be rejected.

Proposals to Limit or "Cap" Amounts Held In Retirement Plans

The Administration's Fiscal Year 2014 and 2015 budgets included a proposal to limit an individual's total balance across tax-preferred accounts to an amount sufficient to finance an annuity of not more than $210,000 per year in retirement, or about $3.2 million in 2014, but possibly much lower when interest rates rise. ACLI is opposed to proposals that would further limit tax preferred retirement savings for the following reasons:

1. the cap sets a precedent that could be lowered if Congress seeks more revenue;
2. a cap would reduce the incentive for many small business owners to establish or maintain a plan since a business owner may reach this cap well before retirement,[18] and;
3. a cap has the unintended consequence of capturing individuals as they work over a 40-year career.

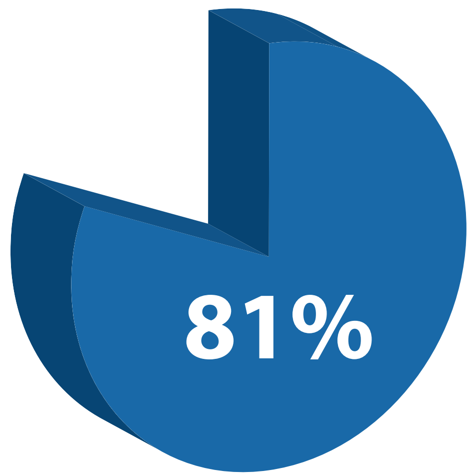
Simulation results show that more than 1 in 10 current 401(k) participants are likely to hit the proposed cap sometime prior to age 65, even at the current historically low discount rate.[19] This cap would fluctuate even more greatly with changes in interest rates, leaving workers who are diligent savers to face a confusing and unpredictable barrier on their savings. Bipartisan concern was expressed with regard to the negative impact the proposal would have on workers' ability to save by Representatives Pat Tiberi (R-OH) and Aaron Schock (R-IL) during the House Ways and Means Committee hearing on the Administration 2014 budget, as well as Senator Ben Cardin (D-MD) during a hearing on the same budget at the Senate Finance Committee.[20]

Proposals to Limit Value of Deductions/Exclusions to Percentage

Some proposals[21] have suggested limiting the availability of deductions and exclusions by either: (1) limiting the tax benefits attributable to certain tax expenditures to 28 percent for certain individuals; (2) imposing a 10 percent surtax on both employer and employee contributions for certain individuals, or; (3) capping the amount of deductions and exclusions from income that can be used at a specific dollar figure, such as $25,000. These proposals would be harmful to the current system, and would reduce the incentive for small businesses to sponsor a plan.[22]

Each proposal would cause some individuals to pay tax on a portion of their retirement contributions. Even if an adjustment is allowed for taxes paid upon contributions[23], since this limit applies at the individual taxpayer level, not to a specific plan or IRA, individuals will have to track their own basis, greatly increasing the complexity of the plans. This tax treatment may make retirement plans less advantageous to many individuals (including working families and small business owners) in comparison to other savings vehicles. Alone, or in conjunction with other proposals, this also reduces the incentive for many small business owners to sponsor a plan (small business owners are likely not to implement or maintain a plan without strong incentives to outweigh costs). In fact, the American Benefits Institute (ABI) commissioned a survey[24] recently which found that eight in ten employers said that exclusion of employee contributions (81 percent) and employer contributions (77 percent) from current taxation is important to their company's decision to sponsor a plan and provide a means of retirement saving to their workforce.

Eighty-one percent of employees said that exclusion of employee contributions from current taxation is important to their company's decision to sponsor a plan.



Source: Attitudes of Employee Benefits Decision Makers Toward Retirement Plan Tax Proposals (Survey prepared by Matthew Greenwald & Associates Inc. and designed in collaboration with the American Benefits Institute).

Proposals to Reduce the Limits on Deductible DC Plan/IRA Contributions

Tax reform proposals to lower limits on defined contribution plans and IRAs[25] would cause a drop in the number of employers sponsoring plans and would result in a reduction of participants' account balances. The draft submitted by Rep. Dave Camp (R-MI), chairman of the Ways and Means Committee, would freeze the inflation adjustments for the limits on annual contributions to retirement plans until 2024. It would have a significant and negative cumulative impact on individuals' ability to save for their retirement. If this change had been adopted 10 years ago, today's 401(k) limit would be worth $4,500 less.

The Bowles-Simpson proposal would cap total retirement plan contributions to the lesser of 20 percent of compensation or $20,000 (20/20). This approach also should be rejected. The serious harm to retirement security that would result from this tax increase greatly exceeds any benefits from short-term deficit reduction. The current structure of the tax incentives (the interaction of the contribution limits and the nondiscrimination testing rules) play a critical role in encouraging key decision-makers to sponsor and maintain plans. A reduction in the limits may cause current employers to reduce their matching contributions or stop offering their plans.

The ABI survey revealed that the Bowles-Simpson proposal would likely lead to one in three current large plan sponsors to drop or consider dropping their DC plan.[26] Additionally, it found that the proposal also would make three in ten non-sponsors less likely to start a plan in the next two years. We expect that small business owners would have a similar reaction.

An EBRI analysis of the 20/20 proposal projects reductions in 401(k) balances at retirement of between 4 and 15.1 percent across all income levels. Notably, among income quartiles, the second highest average reduction would be felt among the lowest income group. Moreover, younger savers with the lowest income would be hit particularly hard, with projected savings at retirement dropping by about 10 percent for individuals under age 45 in the bottom income quartile.[27]

A sweeping change like the 20/20 proposal would cause many small employers to eliminate their plans and would cause a reduction in balances across all income levels.

Proposals to Limit Tax Deferral

Chairman Camp's draft would also limit the amount of pre-tax deferrals to half the annual cap (or $8,750 in 2014), with any additional contributions made on a Roth/post-tax basis.[28] This proposal disregards the importance of up-front tax deferral in encouraging savings and small business plan sponsorship. The ability of small business owners to deduct plan contributions from taxable income often helps provide the cash flow necessary to fund employer contributions, an important consideration. Decision-makers, who are most likely to have high current tax rates, would be less incentivized to offer a plan.

Eliminating tax deferral incentives will likely have the greatest consequence for individual participants nearing retirement, who have less time to make up savings shortfalls. The proposal also would impact individual participants who have a number of competing after-tax expenses. They may save only to the pre-tax deferral limit, using the rest of their resources for other non-retirement purposes.

Chairman Camp's draft would also severely limit the use of nonqualified deferred compensation arrangements.[29] These are vital for employees to save for retirement and are already subject to strict rules and regulations governing their use. Nonqualified deferred compensation arrangements have become increasingly important for employers of all sizes to attract and retain quality employees.[30]

Proposals to Replace Retirement Savings Exclusions and Deductions with a Refundable Tax Credit

Other proposals suggest removing the current retirement savings deductions and exclusions and replacing them with a refundable tax credit. This likely would cause a drop in the number of small businesses sponsoring plans because it would substantially reduce the incentive for key business decision-makers to have a plan and would disproportionately impact low-income households. One such proposal by Brookings economist William Gale suggests replacing all exclusions and deductions for retirement savings with a flat 18 percent tax credit that would be deposited directly into the individual's retirement savings account (the "18 percent match proposal").[31]

A survey conducted on behalf of The Principal Financial Group (2011) determined that if workers' ability to deduct any amount of the 401(k) contribution from taxable income were eliminated, 65 percent of the plan sponsors responding to the survey would have less desire to continue offering their 401(k) plan An 18 percent tax credit provides so little benefit to a business owner (especially when compared to other available investment options) that there would not be sufficient incentive for a business owner to take on the many costs, responsibilities, and risks of maintaining a retirement plan.

A March 2012 study by EBRI confirms that the 18 percent match proposal will reduce retirement security for workers at all income levels, not just high-income workers. Specifically, the study revealed that some employers would no longer offer a plan to their workers and some participants would decrease their contributions. The combined effect of these changes would result in reduced savings balances at retirement between 6 and 22 percent for workers currently aged 26-35, with the greatest reductions for those in the lowest income quartile. Lowest-income participants in plans sponsored by small businesses would see final retirement savings reductions as much as 40 percent.[32]

For those employers who continue to maintain plans, the 18 percent match proposal would lead to the elimination of employer contributions to retirement plans. Under the proposal, employees would immediately owe income tax on the employer contributions when they are made to the plan (i.e., on compensation they have yet to receive).

Today, the majority of 401(k) plans with matching contributions provide for a match of at least 50 percent of the employee contributions.[33] This provides a powerful incentive for employees to save. It is not at all clear that the "government match" of 18 percent would be as sufficient an incentive to save. Younger employees, in particular—the very people who should be encouraged to save—will likely be reluctant to set aside money today in order to get a small government match.

Proposals for Retirement System Simplification

Proposals to replace the various retirement plan provisions (401(k), 403(b) and 457(b)) with one tax code section for the sake of "simplification" should be carefully measured against the impact and disruption such change would bring to the retirement plan system. Congress has worked over several decades to create retirement solutions that meet the needs of varied employers (e.g., for profit, non-profit, governmental) who want to offer their employees a plan and individuals who want to save on their own. In this way, Congress has already acknowledged that "one size does not fit all."

Other Proposed Changes

A number of other proposals have been suggested that would negatively impact a small employer's decision to make a savings plan available to their workers, and therefore should be rejected. Chairman Camp proposed repealing the credit for small employer pension plan startup costs, an important provision that encourages small employers to put in a plan. This proposal would only increase revenues by less than $50 million over ten years. He had also proposed that employers should not be permitted to establish new Simplified Employee Pension Plans (SEPs).

The Camp draft also included a number of proposals that would negatively impact the cost, benefit and availability of life insurance products, particularly individual annuities. A full discussion of these proposals can be found at www.acli.com/taxes.

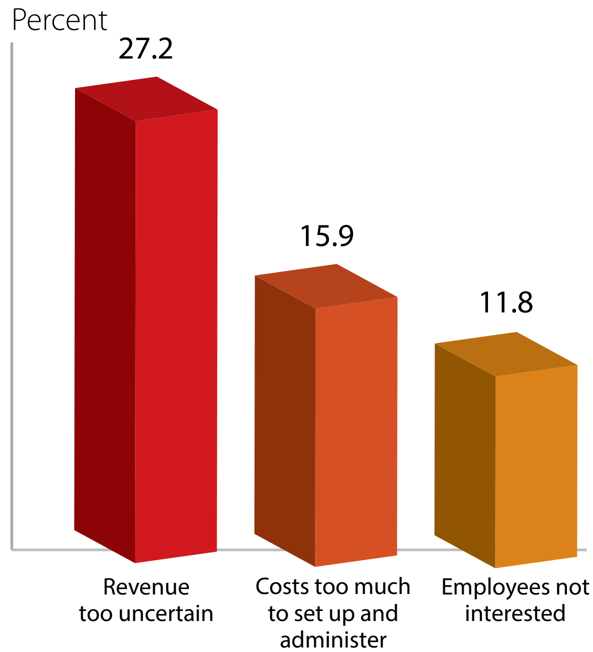
Improvements to the System

Although the current system is helping millions of Americans save for retirement, the system could be enhanced to reach more Americans. ACLI supports a number of improvements that build on the current system to increase coverage, increase participation, provide for greater retirement education, and help Americans manage those savings over their lifetimes. ACLI supports a uniform federal approach to reforms and urges Congress to consider proposals that would enhance retirement and financial security.[34]

Increase Coverage: Voluntary Auto-IRA, Starter 401(k) and MEPs

Although the majority of full-time workers are covered by workplace plans, more could be done to expand coverage. Many small businesses do not offer a retirement savings plan for a number of reasons, but not for a lack of product offerings. The uncertainty of revenues is the leading reason given by small businesses for not offering a plan, while cost, administrative challenges, and lack of employee demand are other impediments cited by small business.[35]

TOP REASONS CITED BY SMALL BUSINESSES FOR NOT OFFERING A RETIREMENT PLAN



Source: Small Employer Retirement Survey, EBRI Notes 24, no. 9, Sept. 2003

Legislation was introduced in the previous Congress that, among a number of provisions, would encourage employers without plans to enroll workers automatically in IRAs offered by the private sector.[36] The Administration, as part of its 2015 budget, also proposed the MyRA (My Retirement Account) – a Roth IRA invested in Treasury Bonds – aimed at individuals not covered by an employer sponsored retirement savings plan.

Another way to expand retirement plan coverage among small businesses is to allow them to offer wage deferral-only safe harbor plans. Legislation has been introduced to allow employers that do not already sponsor a 401(k) plan to adopt a "Starter" 401(k) plan.[37] Such a plan would be a new tax-preferred retirement savings plan that allows employees to save up to $8,000 per year, but does not involve the administrative burden or expense of a traditional 401(k) plan.

Congress can also reform and expand the private multiple employer plan or MEP system so that more small businesses can participate. MEPs can be an important tool in reducing the costs and administrative burdens of a stand-alone plan. Under a MEP, many small businesses can join together to achieve economies of scale and advantages with respect to plan administration and advisory services, making plans much more affordable and effectively managed. MEPs offer the same key protections and benefits of an employer-sponsored retirement plan, such as fiduciary protections, robust contributions levels, and employer contributions, without the cost and administrative burden that often deters an employer from offering a plan. An employer who participates in a MEP may be more willing to make a transition to a stand-alone employer-sponsored retirement plan. A number of legislative proposals have been introduced that would expand the private MEP system.[38]

These proposals would enhance workers' access to retirement plan savings opportunities and encourage small businesses to offer a workplace savings solution.

Increase Participation: Auto-enrollment/Auto-escalation

Innovation in plan design is a key reason 401(k) plans have been able to reach more and more workers and improve the level of retirement benefits over time. One such innovation is automatic enrollment to get more workers into plans. Another change, auto-escalation, gradually increases the share of pay contributed each pay period. A joint study quantifies just how helpful auto-enrollment and auto-escalation can be in improving overall participation and total retirement savings.[39] The study uses a projection model to show the increases in replacement rates that can result from these plan design innovations. Legislation has been introduced that would improve the current rules on auto-enrollment and auto-escalation.[40]

Guaranteed Lifetime Income

The need for lifetime income is well understood. Guaranteed lifetime income can help ensure that individuals have adequate income at advanced ages, even if they live to age 100 and beyond. These lifetime guarantees provide a source of income that cannot be outlived. By providing insurance against a drop in standard of living, guaranteed lifetime income is an important tool for retirement planning. Guaranteed lifetime income has the potential to provide a higher sustainable level of income than can be achieved with other financial assets. It is a unique and powerful tool that can help to protect retirees throughout their retirement.

Annuities are a key source of guaranteed lifetime income. Eighty-five percent of annuity owners think that annuities are an important source of retirement security and make them feel more comfortable in times of financial uncertainty.[41]

As the first wave of the baby boomer generation reaches retirement age, it is important to educate workers about the need to consider augmenting Social Security with additional amounts of guaranteed lifetime income. Annuities and other guaranteed lifetime income solutions provide insurance protection against longevity risk by pooling that risk and distributing it among the retiree population, shifting the risk of outliving one's savings to a life insurer. Only state regulated and licensed life insurance companies can provide guaranteed lifetime income.

Lifetime Income Illustration

Legislation has been introduced that would help individuals think of their retirement plan savings as not only a lump sum balance, but also as a source of guaranteed lifetime income.[42] With this additional income information on a benefit statement, coupled with the Social Security income statement, workers could see how much monthly income they could potentially receive in retirement. Workers could better decide whether to increase their savings, adjust their 401(k) investments, or reconsider their retirement date, if necessary, to assure the quality of life they expect in retirement.

Investment Education and Guidance

Employers and plan sponsors have concerns that providing participants with information outlining the advantages and disadvantages of annuities and other lifetime income options could be construed as "advice" and thus subject them to additional fiduciary liability. To encourage plan sponsors to provide retirement income education, the Department of Labor should offer guidance on when information provided to educate employees about distribution options such as guaranteed lifetime income is educational in nature and not advice. This could be done by revising and extending Interpretive Bulletin 96-1.

The need to improve Americans' financial literacy has been recognized both on Capitol Hill and in the Administration. Policy-makers should help Americans develop a basic understanding of financial risk, how to build savings, how to assess their retirement income needs, and where to find expert advice. ACLI supports efforts to increase Americans' level of financial literacy. As the Department of Labor continues to work on its proposed regulation on the definition of fiduciary, care must be taken that access to education and guidance to plan participants not be diminished.

Longevity Insurance

The required minimum distribution rules under Code Section 401(a)(9) should be modified to facilitate the use of longevity annuities in retirement plans and IRAs. "Longevity annuity" or "longevity insurance" is a payout annuity with payments commencing later in retirement, e.g. at age 75 or 85. The primary benefit of longevity insurance is the mitigation of "longevity risk." Individuals purchasing a longevity insurance contract at retirement age would know that guaranteed monthly payments would begin at age 85, for example, and that those monthly payments would be made for the rest of his or her life. These deferred payout annuities are available, but are generally not used in plans or IRAs because of the application of the minimum distribution rules which only apply to tax-qualified retirement vehicles. On July 2, 2014, Treasury issued final regulations that facilitate the use of "qualified longevity annuity contracts" (referred to as QLACs) in plans. ACLI supports this new rule as it can make it easier to provide guaranteed lifetime income. We also support legislation that would update the application of minimum distribution rules on longevity insurance by completely excluding the premium amount from the individual's minimum distribution calculation.[43] This would encourage plan participants and IRA owners to use a portion of their account balance to purchase longevity insurance.

Lifetime Income Portability

The portability rules should be expanded to maintain participants' access to lifetime income benefits. When the termination of a plan's annuity contract would lead to the loss of access on the part of plan participants to the contract's guaranteed lifetime benefits, participants need a means to maintain access to these benefits. Legislation has been introduced that would enhance the portability of guaranteed lifetime income products.[44] ACLI supports legislation and regulation that would permit the distribution of a participant's insured plan benefit when a guaranteed lifetime income product is no longer offered by the plan. The rules should permit the distribution to be made via a qualified plan distributed annuity contract or a direct rollover to an IRA or other eligible retirement plan.

Conclusion

Over the long run, the nation will benefit when individuals address their long-term financial and retirement security needs today, because they will be less likely to rely on public assistance tomorrow. Government policies that encourage prudent behavior, such as long-term savings for retirement, should not only be maintained, they should be enhanced. Therefore, ACLI continues to urge policy-makers to support and build on the current retirement savings system and reject any proposals that would limit Americans' opportunity to save and prepare for their future.

Endnotes

1 Chairman Camp's Tax Reform Discussion Draft included a number of proposals that would negatively impact the cost, benefit and availability of life insurance products, particularly individual annuities. A full discussion of these proposals can be found on www.acli.com/taxes.

2 In Roth accounts, contributions are made with after-tax dollars and, provided certain conditions are met, distributions are not taxed.

3 Code section 457(e)(15) limits contributions to 457(b) plans (also $17,500 for 2014).

4 Additional catch up contribution provisions apply to certain 403(b) and 457(b) plan participants.

5 Sarah Holden and Steven Bass, Investment Company Institute, America's Commitment to Retirement Security: Investor Attitudes and Actions, February 2013, p. 13.

6 Peter Brady, The Tax Benefits and Revenue Costs of Tax Deferral, 2012, Investment Company Institute, Washington, D.C., p. 9.

7 Financial Accounts of the United States, Federal Reserve. June 5, 2014 Z.1 Release.

8 "Another Penny Saved: The Economic Benefits of Higher U.S. Household Savings," Oxford Economics.

9 Bureau of Labor Statistics, Employee Benefits Survey: Retirement Benefits, March 2013: Retirement Benefits: access, participation, and take-up rates: National Compensation Survey, March 2013.

10 Fidelity® Retirement Savings Analysis Highlights Higher Balances and Contribution Rates of Investors Saving Beyond Workplace Savings Plans, Press Release, February 28, 2013. http://www.fidelity.com/inside-fidelity/employer-services/fidelity-analysis-highlights-balances-and-contribution-rates-of-combined-retirement-savings.

11 This analysis was based on the population of 999,000 individuals who had both IRA and 401(k) (or 403(b)) balances at Fidelity as of 12/31/2012. These individuals consist of those actively employed as well as those terminated from their 401(k)/403(b) plan sponsor. Only a subset of these individuals made contributions into their IRAs and/or 401(k)/403(b) plan in 2012. Excluded are individuals in Fidelity's own employee plans, as well as those in the advisor-sold channel. Additionally, many workplace plan participants presumably have IRAs that are not serviced by Fidelity, and these balances are not reflected in this analysis.

12 Sarah Holder and Jack VanDerhei, "Can 401(k) Accumulations Generate Significant Income for Future Retirees?" Investment Company Institute Perspective, Vo. 8, No. 8, November 2002.

13 Ibid, Figure 1, p. 3.

14 The model includes 401(k) balances at employers and rollover IRA balances. The EBRI/ICI study focused on participants who were in their late 20's in 2000 and who would reach age 65 sometime between 2035 and 2039.

15 Ibid.

16 Ibid.

17 Ibid.

18 Annual accumulations of $51,000 earning a 6 percent nominal return will reach a $3.4 million cap in 27 years.

19 "The Impact of a Retirement Savings Account Cap," Employee Benefit Research Institute, August 2013.

20 March 20, 2013, hearings on "President's Fiscal Year 2014 Budget Proposal," at House Ways and Means and Senate Finance Committees. Sen. Cardin reiterated this concern at the Senate Finance Committee hearing on the President's 2015 budget proposal on April 10, 2014.

21 Administration's Fiscal Year 2015 Budget of the U.S. Government, Office of Management and Budget; Chairman Dave Camp Tax Reform Discussion Draft unveiled February 26, 2014; Presidential Candidate Romney's Tax Plan

22 A 2011 study by Harris Interactive shows that nearly all plan sponsors (92 percent) said the ongoing tax deferral for employees is important in their decision to offer a defined contribution/401(k) plan. And nearly two-thirds (65 percent) said that if the ability for employees to deduct any amount of the 401(k) contribution from taxable income were eliminated, their desire to continue offering the plan would decrease.

23 Chairman Camp's Tax Reform Discussion Draft did not provide for an adjustment in basis, and so would impose a "double tax" on retirement contributions.

24 Attitudes of Employee Benefits Decision Makers Toward Retirement Plan Tax Proposals (Survey prepared by Matthew Greenwald & Associates Inc. and designed in collaboration with the American Benefits Institute).

25 Chairman Camp's Tax Reform Discussion Draft, National Commission on Fiscal Responsibility and Reform – The Moment of Truth (12/10); Bipartisan Policy Center Deficit Reduction Task Force – Restoring America's Future (11/10); Congressional Budget Office's Budget Options: Reducing the Deficit: Spending and Revenue Options (3/11); and President's Economic Recovery Advisory Board (Paul Volcker, Chair), The Report on Tax Reform Options (8/10)

26 "Attitudes of Employee Benefits Decision Makers Toward Retirement Plan Tax Proposals," sponsored by ABI, December 11, 2012.

27 VanDerhei, Jack. "Capping Tax-Preferred Retirement Contributions: Preliminary Evidence of the Impact of the National Commission on Fiscal Responsibility and Reform Recommendations," July 2011, EBRI Notes.

28 Chairman Camp's Tax Reform Discussion Draft.

29 The proposed changes to nonqualified deferred compensation plans in Chairman Camp's draft also could result in employees being taxed on compensation they never receive—such as when an employer goes bankrupt prior to making payment.

30 The prevalence and reach of these plans demonstrate their importance as proven business tools. According to a 2013 survey, 94.7 percent of large companies utilize nonqualified deferred compensation plans ("2013 Executive Benefits Survey Summary of Results", MullinTBG/PLANSPONSOR, December 2013; these plans are also used extensively by smaller companies. See "2012 Nonqualified Deferred Compensation Survey Results: Plan Sponsors & Plan Participants, Select Findings", conducted by Boston Research Group for Principal Financial Group, December 2012.

31 See, William G. Gale, Testimony to the United States Senate Committee on Finance Sept. 15, 2011.

32 VanDerhei, Jack. "Modifying the Federal Tax Treatment of 401(k) Plan Contributions: Projected Impact

on Participant Account Balances," March 2012, EBRI Notes.

33 See Plan Sponsor Council of America, 54th Annual Survey, Reflecting 2010 Experience, Table 45.

34 Efforts are underway in a number of states (e.g., California, Connecticut, Maryland, Oregon) to impose mandates on employers regarding employee benefit plan sponsorship and employee participation. Advocates seek to avoid the application of ERISA. ERISA was enacted to eliminate and avoid a patchwork of state rules on employers engaged in interstate commerce. More information is available at www.acli.com..

35 Jack VanDerhei, Findings from the 2003 Small Employer Retirement Survey, EBRI Notes 24, no. 9, Sept. 2003.

36 H.R. 1534, the "Small Businesses Add Value for Employees (SAVE) Act," sponsored by Reps. Kind (D-WI) and Reichert (R-WA) in the 112th Congress.

37 S. 1270, the "Secure Annuities for Employee (SAFE) Retirement Act," sponsored by Sen. Hatch (R-UT).

38 Ibid; H.R.2117, the "Retirement Plan Simplification and Enhancement Act," sponsored by Rep. Neal (D-MA) in the 113th Congress; S.1270, the "Secure Annuities for Employee Retirement Act," sponsored by Sen. Hatch in the 113th Congress; and S.1970, the "Retirement Security Act," sponsored by Sen. Collins (R-ME) in the 113th Congress.

39 Sarah Holden and Jack VanDerhei, The Influence of Automatic-Enrollment, Catch-Up, and IRA Contributions on 401(k) Accumulations at Retirement, Investment Company Institute Perspective, Vol. 11 No. 2, July 2005.

40 H.R. 2117, introduced by Rep. Neal in the 113th Congress, and S.1270, introduced by Sen. Hatch in the 113th Congress, would each modify the automatic enrollment safe harbor to remove the existing 10 percent cap on employee deferrals.

41 The Gallup Organization with Mathew Greenwald & Associates, 2013 Survey of Owners of Non-Qualified Annuity Contracts (survey of 1,008 owners of non-qualified annuity contracts, conducted on behalf of the Committee of Annuity Insurers).

42 S. 1145 and H.R. 2171, the "Lifetime Income Disclosure Act," sponsored by Sen. Isakson (R-GA), and Rep. Holt (D-NJ) in the 113th Congress; and S. 1979, the "Universal, Secure, Adaptable Retirement Funds Act", sponsored by Sen. Harkin (D-IA) in the 113th Congress.

43 S.1270, the "Secure Annuities for Employee Retirement Act," introduced by Sen. Hatch in the 113th Congress.

44 The Retirement Plan Simplification and Enhancement Act of 2013 (H.R. 2117), and S.1270, introduced by Sen. Hatch.

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