ACLI
Financial Security...for Life.

ACLI Submission Letter to Savings and Investment Working Group

In efforts to reform the tax Code, Congress should look to the life insurance industry as a partner that encourages families and businesses to plan for the long term and protect their financial and retirement security. The products that our policyholders use to build a personal safety net, including those provided through the workplace, are vital to a well-functioning society and, for millions of families, build on the floor of financial security that government programs provide. It also is important for businesses of all sizes, which often purchase life insurance to protect jobs after the death of an owner or key employee and to finance employee benefits. The protections and guarantees our products offer are not available from any other financial services companies.

When looking at savings and investment in the U.S., it is important to note that ACLI member companies offer insurance contracts, and investment products, and services to employment-based retirement plans (including defined benefit pension plans, 401(k), SIMPLE, SEP, 403(b), and 457(b) plans) and to individuals (through IRAs and annuities) in addition to life insurance and long-term care and disability income insurance. Our members are also sponsors of retirement plans for their employees. In both capacities, life insurers believe that saving for retirement, managing assets throughout retirement, and utilizing financial protection products are vital to Americans' retirement income and financial security.

The life insurance industry already bears a significant tax burden under current law and is impacted in a multi-dimensional way in tax reform.

- Life insurance and retirement savings products are taxed appropriately under current law. The savings that build up in life insurance, annuities and other retirement savings products do not escape taxation. They are taxed at ordinary income tax rates when people make withdrawals from their retirement savings or annuity, or cash in their life insurance policies if protection is no longer needed. Additionally, life insurance and annuity owners pay premiums with after-tax dollars.
- Life insurers account for 1.7 percent of corporate profits, but pay 2.5 percent of corporate sector tax revenue.
- Tax reform has a layered impact on life insurers because general corporate, insurance-specific, investment, and international tax provisions apply to our companies, and individual provisions relate to our products and retirement savings. These interrelationships and their cumulative effects must be acknowledged as tax reform is considered.

Life insurers make long-term promises that are a function of investment performance and underwriting success over time. Subchapter L provisions do a reasonably accurate job measuring life insurers' income. If changes are contemplated to insurance-specific provisions, the industry must be involved in these deliberations.

The nature of insurance company product design means that given the long-term contractual and pricing constraints of current contracts, the burden of changes to the tax Code falls disproportionately on future policyholders and customers, including business owners providing employee benefits and protections through products. Changes to the tax treatment of either products or life insurance companies would affect the availability and affordability of our products at the very point in time that private sector protections and guarantees are needed most to backstop strained public safety nets.

Attached are additional materials specific to the Working Group on Savings & Investment. We ask that you consider these overarching themes here as you address reforms related to our industry.

April 15, 2015

ACLI
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Federal Solutions for Retirement Security

LIFE INSURERS ARE COMMITTED TO HELPING AMERICAN FAMILIES ACHIEVE A SAFE AND SECURE RETIREMENT

The U.S. private retirement system is strong and provides savings options for millions of Americans. Through employer-based retirement plans of all sizes as well as IRAs and annuities, options are available to help working Americans save for a secure retirement. Today, nearly 80 percent of full-time workers have access to a workplace retirement plan and more than 80 percent of these workers participate. IRAs and individual annuities can help those without access to employer-sponsored plans as well as supplement workplace retirement savings.

Common-sense improvements can strengthen our private retirement system and can be accomplished without diminishing the critical worker protections provided by ERISA, our well-established national framework regulating private retirement plans.

Life insurers are leading providers of 401(k)s, 403(b)s, 457s, IRAs, and annuities. When it comes to retirement, life insurers are committed to seeking public policy that expands access to even more workers and families. This includes opportunities for all workers to choose to receive at least a part of their retirement income as a guaranteed "paycheck for life" through annuities. In addition, life insurers provide disability income and long-term care insurance, products that provide important financial security protections during working years and in retirement.

POLICY-MAKER CONSIDERATIONS

Expand access to workplace savings with:

- **Starter 401(k)s:** Small employers should be encouraged to offer workplace savings opportunities with simple administrative rules and no required employer contributions.
- **Multiple employer plans (MEPs):** Rules should further encourage and help employers not yet prepared to sponsor their own retirement plan to join together to achieve economies of scale and receive advantages with respect to plan administration, making plans more affordable and effectively managed.
- **Auto-IRA:** Employers without a retirement savings plan should be encouraged to automatically enroll employees into a payroll deduct IRA. "Auto-IRA" sponsors should receive the same level of protection and state wage law preemption offered to employers sponsoring "auto-401(k)s."
- **myRA plan:** Small businesses without retirement plans should be encouraged to offer employees an opportunity to participate in the new myRA, a Roth IRA backed by Treasury bonds. Offered by the U.S. Treasury starting in 2015, myRA provides the option to save for retirement with as little as $5 a month.
- **Start-up credit:** Small employers that provide payroll deduction IRAs should be eligible for a start-up cost credit to offset the employer's initial plan formation and administration expenses.
- **SIMPLE IRA and 401(k) plans:** SIMPLE plans should be made more appealing to small businesses. Permitting a higher level of employer contribution and improving rollover rules could make the plans more valuable to employees.

Increase participation and savings rates through:

- **Automatic enrollment and auto-escalation:** Employers should be encouraged to auto-enroll new employees with a default savings rate of 6 percent and remove the 10 percent cap on annually increasing employee contribution rates. Also, including periodic re-enrollment of non-contributing workers would likely boost participation and savings in retirement plans.

- **Savers' credit:** Improve tax incentives for lower and middle income workers to save for retirement.
- **Stretch match:** Employers should be permitted to encourage higher contribution levels through a "stretch match" safe harbor that incents workers to contribute more than 6 percent of compensation without increasing employer cost.

Facilitate access to and promote the use of guaranteed lifetime income with:

- **Lifetime income disclosures:** ERISA should be amended to include a lifetime income disclosure on participant benefit statements to make it easier for workers to understand how their savings can address their month-to-month living expenses.
- **Annuity selection safe harbor:** The safe harbor rule should be improved to provide greater certainty for plan sponsors and fiduciaries when selecting guaranteed lifetime income products. It should be clear that the rule applies to all guaranteed income products including payout annuities with a fixed term. When considering an insurer's financial capability, employers should be able to rely on specific representations from the insurer regarding its status in relation to state insurance regulation and enforcement.
- **Lifetime income portability:** To continue lifetime income protections in the event of a sponsor-initiated change, participants should be permitted to roll over lifetime income options to an IRA that provides the same or similar lifetime income protection.
- **Joint and survivor annuity options:** Employers should be permitted to shift responsibility of compliance with the joint and survivor annuity rules to annuity administrators.

Simplify and improve plans through:

- **E-delivery:** Rules should allow electronic delivery of plan materials to be the default option while allowing participants the option to receive paper copies.
- **Notice and disclosure rules:** Rules should promote the efficient distribution of notice and disclosure information, allowing consolidation of materials and eliminating costly duplication.

Legislative Activity: 113th Congress

ACLI supports bipartisan and bicameral efforts to expand access to workplace savings, increase participation, and facilitate the use of guaranteed lifetime income, including legislation to encourage:

Multiple employer plans (MEPs)

- S. 1270, Sen. Hatch (R-UT)
- S. 1979, Sen. Harkin (D-IA)
- S. 1970, Sens. Collins (R-ME)/Nelson(D-FL)
- H.R. 2117, Rep. Neal (D-MA)
- H.R. 5875, Reps. Kind (D-WI)/Reichert (R-WA)

Auto IRA

- H.R. 5875, Reps. Kind (D-WI)/Reichert (R-WA)

Start-up credit

- S. 1270, Sen. Hatch (R-UT)
- H.R. 2117, Rep. Neal (D-MA)
- H.R. 5875, Reps. Kind (D-WI)/Reichert (R-WA)

Automatic enrollment and auto-escalation

- S. 1270, Sen. Hatch (R-UT)
- H.R. 2117, Rep. Neal (D-MA)

Lifetime income disclosure

- H.R. 2171, Reps. Holt (D-NJ)/Petri (R-WI)
- S. 1145, Sens. Isakson (R-GA)/Murphy (D-CT)

Annuity selection safe harbor

- S. 1270, Sen. Hatch (R-UT)
- S. 1979, Sen. Harkin (D-IA)
- H.R. 5875, Reps. Kind (D-WI)/Reichert (R-WA)

Lifetime income portability

- S. 1270, Sen. Hatch (R-UT)
- H.R. 2117, Rep. Neal (D-MA)

Joint and survivor annuity options

- S. 1270, Sen. Hatch (R-UT)
- S. 1979, Sen. Harkin (D-IA)
- H.R. 2117, Rep. Neal (D-MA)

Annuities: Creating Guaranteed Income for Life

Retirement today requires more planning than in previous generations. Sources of steady retirement income have changed, as fewer and fewer workers are covered by traditional pensions that provide a lifetime benefit. In addition, advances in medicine have resulted in increased longevity and today's retirees may spend 20, 30 or more years in retirement.

Given this landscape, workers face two dilemmas: how to accumulate savings for retirement and how to generate a stream of income in retirement guaranteed to last a lifetime. A 2014 survey shows that only 18 percent of American workers are very confident that they will have enough money to live comfortably throughout their retirement years, down from 27 percent in 2007.[1]

With the increased popularity of defined contribution plans, such as 401(k)s, responsibility for making sure retirement savings last has shifted from the employer to the individual. Unlike traditional defined benefit plans that provide a stream of payments to retirees for life, defined contribution plans typically offer a lump sum that retirees must then manage on their own.

The only way to create a guaranteed lifetime income stream in retirement is through an annuity. An annuity is an insurance contract that offers an efficient solution to what otherwise could be an overwhelming asset management task: Creating a steady paycheck in retirement that cannot be outlived.

SUCCESS OF THE PRODUCT

Annuities are insurance contracts that offer solutions to both sides of the retirement equation: They provide ways to accumulate retirement savings and to turn those savings into a lifetime income stream.

The recent economic crisis has highlighted and enhanced the long-term value and guarantees that annuities provide. In fact, despite the market turmoil, 85 percent of current annuity owners say that annuities were a safe and secure way to save for retirement and that annuities make them feel secure in times of financial uncertainty.[2]

A deferred annuity can address both pre-retirement savings and post-retirement income needs. For example, for those who are years away from retirement—or are retired and don't need to produce income right away—a deferred annuity allows savings to accumulate, tax deferred, until you choose to receive income payments. Annuity owners decide how their money accumulates—at a fixed interest rate, an indexed interest rate, or a variable interest rate. They also choose how and when they receive income—in a lump sum, as payments over a specified number of years, or through a steady stream of income they can't outlive.

For those who need income right away, an immediate annuity converts a lump sum of money (such as money from the sale of a home or business, or a portion of accumulated savings in a workplace retirement plan) into a series of monthly, quarterly, or annual payments. The annuity owner chooses if those income payments last for a specified number of years or for life.

AALU Leadership for Advanced Life Underwriting

ACLI Financial Security...for Life. AMERICAN COUNCIL OF LIFE INSURERS

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NAFA® National Association for Fixed Annuities Securing the Future!

NAIFA® SECURING AMERICA'S FINANCIAL FUTURE

NAILBA The Voice of Independent Brokerage Distribution

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1 Employee Benefit Research Institute, *2014 Retirement Confidence Survey.*

2 Committee of Annuity Insurers, *2013 Survey of Owners of Indivdual Annuity Contracts.* (Conducted by The Gallup Organization and Mathew Greenwald & Associates.)

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The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with approximately 300 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers' products for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 90 percent of industry assets and premiums. ACLI's public website can be accessed at ***www.acli.com.***

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GAMA International

GAMA International is a worldwide professional association serving 5,500 field leaders in the insurance and financial services industry. Its members recognize their critical role in finding, building and inspiring the next generation of top performers who will, in their turn, lead the industry into the future. To help build these leaders, the association provides its members with professional development resources and opportunities, including educational, networking and leadership. GAMA International's website is located at ***www.gamaweb.com.***

IRI

The Insured Retirement Institute (IRI) is the leading association for the retirement income industry. IRI proudly leads a national consumer coalition of more than 20 organizations, and is the only association that represents the entire supply chain of insured retirement strategies. IRI members are the major insurers, asset managers, broker-dealers/distributors, and 150,000 financial professionals. As a not-for-profit organization, IRI provides an objective forum for communication and education, and advocates for the sustainable retirement solutions Americans need to help achieve a secure and dignified retirement. Learn more at ***www.irionline.org.***

NAFA

The National Association for Fixed Annuities (NAFA) is a trade association exclusively dedicated to educating regulators, legislators, journalists and industry personnel about the value of fixed annuities and their benefits to consumers. NAFA's membership represents every aspect of the fixed annuity marketplace, covering 85 percent of fixed annuities sold by independent agents, advisors and brokers. NAFA was founded in 1998 and recently celebrated its 15th year of serving the fixed annuity industry. To learn more, visit ***www.nafa.com.***

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Certain annuities offer the option of continuing income payments to a spouse (or other beneficiary) after the annuity owner dies. Some also provide death benefits if death occurs before income payments begin. Other options also may be available, such as guaranteed living benefits, which provide additional savings and income protection.

CURRENT TAX TREATMENT

By encouraging long-term savings during the working years and helping individuals manage assets during retirement, the current tax treatment of annuities promotes financial discipline.

For those who are years away from retirement, or are retired and have assets that don't need to produce income right away, a deferred annuity allows savings to build up, free of current federal income tax. When payments are received, the portion that comes from earnings is taxed as ordinary income.

To encourage long-term savings for retirement, there are tax penalties for withdrawals from deferred annuities before age 59½ in addition to the income tax due on earnings. The tax penalty is not applied to certain lifetime payouts, death benefits, or payments made if an annuitant becomes disabled. Other exceptions may apply.

The current tax treatment has served as an effective savings incentive: 73 percent of individual annuity owners report that they have set aside more for retirement than they would have if the tax-deferred growth of annuities was not available. A large majority (86%) cite the tax treatment of annuities as a "very" or "somewhat" important reason for their purchase.[3]

The current federal income tax treatment of annuities is reflective of sound public policy that recognizes the annuity's unique role in helping Americans accumulate savings for retirement and guarantee a steady stream of income for life.

CONCLUSION

An annuity can help American workers meet the challenges of the changing retirement landscape. In fact, 85 percent of individual annuity owners say they believe that annuities are an important source of retirement security and make them feel more comfortable in times of financial uncertainty.[4] With the shift from defined benefit to defined contribution plans and increased longevity, the role of the annuity in retirement has never been more important. Policy-makers should explore ways to encourage more Americans to turn to annuities for long-term savings and guaranteed lifetime income.

KEY FACTS

- More than three in four (84%) annuity owners say that they will use their annuities for retirement income.[5]
- Over seven in 10 (72%) annuity owners are 64 years old or older, including nearly half who are age 72 or older (46%).[6]
- Individual annuity owners received $51 billion in benefit payments in 2013.[7]

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3 Committee of Annuity Insurers. *2013 Survey of Owners of Individual Annuity Contracts.* (Conducted by The Gallup Organization and Mathew Greenwald & Associates.)
4 Ibid.
5 Ibid.
6 Ibid.
7 American Council of Life Insurers, *Life Insurers Fact Book 2014.*

Company Owned Life Insurance (COLI):

Businesses Use Life Insurance to Manage Risk, Protect Jobs, and Ensure Benefits

Overview

- 75 million American families rely on life insurers' products for their financial and retirement security.
- Our nation's public policies should continue to encourage families—and businesses—to plan for the future and protect against financial risks.
- Changing the tax treatment of COLI would make it harder for businesses to use life insurance to provide certainty for their employees.
- It is unwise and unwarranted to change long-established tax policy that allows insurers to provide long-term guarantees and financial security.

Business Use of Life Insurance

- Businesses of all sizes often purchase life insurance to keep businesses running and to protect jobs after the death of an owner or key employee. They also use life insurance to finance employee benefits, including important survivor and supplemental retirement benefits.
- In the current fiscal environment, protecting jobs and employee benefits has never been more important and COLI plays a key role in both of these functions.
- Congress has consistently reaffirmed the treatment of COLI, and did so again in 2006 on a broad, bi-partisan basis after three years of study.
- The 2006 legislation confirmed that COLI should not be taxed as long as best practices are followed: (1) policies can be taken out only on officers, directors and highly compensated employees; (2) prior approval must be obtained before a policy is issued; and (3) policies can be issued only on employees with whom the company has an insurable interest.
- No additional limitations are needed or appropriate and COLI should be seen for what it is: a way to manage risk, protect jobs, and ensure benefits.

In Summary

Life insurers offer the products and services that make families more financially secure and businesses more stable. Tax proposals that target life insurers—or the businesses and families that rely on their products—are exactly the wrong course for policy-makers to take. Policy-makers should not take actions that would make financial and retirement security products and services more expensive and less available.

Life Insurance: Providing Financial Protection

Life insurance is a key component of Americans' ability to take individual responsibility for the financial futures of their families and businesses. It is unique in guaranteeing the delivery of financial security at precisely the moment it is needed, while contributing significantly to the nation's storehouse of savings and investment capital.

A big fear for many American families is the death of a wage-earner or caregiver, leaving the surviving family members unable to cope financially. Life insurance offers peace of mind through immediate financial protection for dependents.

Life insurance enables individuals and families from all economic brackets to maintain independence in the face of financial catastrophe. In a recent study, more than three in four respondents strongly agree that life insurance is a critical part of a financial plan.[1]

By providing tools for protection and savings, life insurance is an efficient way to promote personal responsibility and thus relieve pressure on government programs. There continues to be strong public support for continuation of current tax policy for life insurance products.

SUCCESS OF THE PRODUCT

Life insurance protects families against financial loss from the death of a loved one. It provides a source of reliable liquid assets when the need arises to pay for death-related expenses, including medical bills and funeral costs. It also can help families cover daily living expenses, mortgage and tuition payments, and child care.

The amount of life insurance is determined by the financial needs of individuals and families. Some experts suggest coverage should equal at least seven to 10 times annual income. It is impossible for most families to save enough money to manage the financial consequences associated with the death of a wage-earner or caregiver. Life insurance makes managing these risks affordable through the pooling of risk. Industry data shows that in 2013 there were 144 million individual life insurance policies in force.[2]

Permanent life insurance has an additional advantage—it is guaranteed to remain in force for one's whole life, regardless of age. By design, the level premiums of permanent insurance are used to both pay for the term cost of a policy's face amount (death benefit) and to create a savings aspect (cash value), which helps cover the rising cost of insurance as one gets older. In addition, the policy's cash value can be borrowed to pay important family expenses, such as those for tuition or long-term care. If an insured's needs change and the death benefit protection becomes less acute, the cash value can be converted into a retirement income producing annuity that can guarantee regular payments for life or for a specified period of time, an option also available to beneficiaries of life insurance policies. Some policies allow an insured to collect all or part of the death benefit if he or she becomes terminally or chronically ill. An insured also can cancel (surrender) the policy and receive the cash value as a lump sum. Fifty-seven percent of respondents in a 2009 survey said that one of the most important benefits of life insurance is its cash value because it is a built-in reserve for emergencies.[3]

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[1] American Council of Life Insurers, *Monitoring Attitudes of the Public 2009.*
[2] American Council of Life Insurers, *Life Insurers Fact Book 2014.*
[3] American Council of Life Insurers, *Monitoring Attitudes of the Public 2009.*

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Businesses use permanent life insurance to protect against financial uncertainty and secure their employees' futures. By owning life insurance on key employees, businesses have a secure funding source to pay for important employee and retiree benefits and to protect jobs and families from financial loss and instability that can result from the death of an owner or key employee.

CURRENT TAX TREATMENT

Policy-makers have long-recognized the important social policy served by encouraging individuals and families to protect themselves against financial risks, rather than depend on government to do so. Since its inception in 1913, the tax code has provided that death benefits—and the cash value in permanent life insurance—are not subject to income tax.

Premiums are paid with after tax dollars—there is no deduction for premiums paid. Earnings on a permanent life insurance policy's cash value are not taxed as long as the policy remains in force. However, if a policyholder gives up his or her insurance protection, earnings in excess of the total premiums paid are subject to tax.

There are strict limits on the savings aspect of life insurance to ensure its tax treatment is not abused. Contracts that do not comply with these limits are denied the tax treatment entitled to life insurance.

The protection afforded by life insurance is an important societal benefit that public policy has consistently validated. This policy has been reviewed several times over the last century, and each time Congress has chosen to preserve the current tax treatment of permanent life insurance.

CONCLUSION

The current tax treatment of permanent life insurance encourages individuals, families, and businesses to efficiently manage risk and prepare for long-term financial needs, despite a general environment that focuses more on the short-term. Americans are facing greater hurdles than ever before when planning for financial security. Any changes to public policy must encourage Americans to plan for their financial futures.

KEY FACTS

- 75 million American families count on life insurers to protect their financial futures.[4]
- American families have more than $19.66 trillion worth of life insurance protection through individual policies and group certificates.[5]
- In 2013, life insurance beneficiaries received $64 billion in death benefits.[6]
- At the end of 2013, 144 million individual life insurance policies were in force.[7]
- Of new individual life policies issued in 2013, 64 percent were permanent life insurance policies.[8]
- 78 percent of respondents to a recent survey believe that it is important for the government to encourage people to protect their families with life insurance.[9]

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[4] ACLI calculations based on U.S. Census, *Current Population Survey 2013*, and Federal Reserve Board, *2013 Survey of Consumer Finances.*

[5] American Council of Life Insurers, *Life Insurers Fact Book 2014.*

[6] Ibid.

[7] Ibid.

[8] Ibid.

[9] American Council of Life Insurers, *Monitoring Attitudes of the Public 2009.*

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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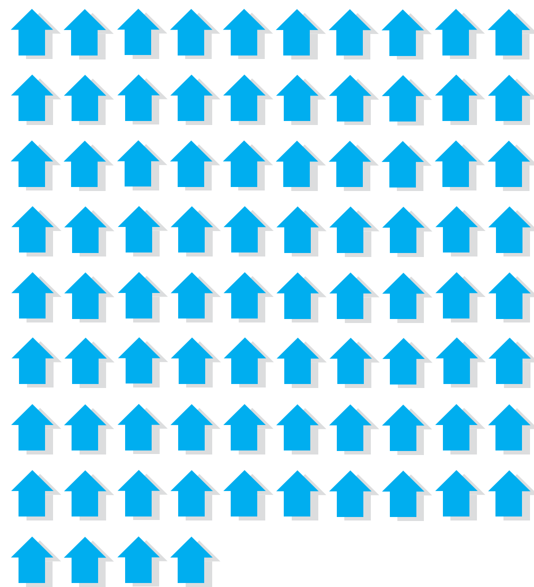


Source: Sarah Holden and Steven Bass, Investment Company Institute, America's Commitment to Retirement Security: Investor Attitudes and Actions, February 2013

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.

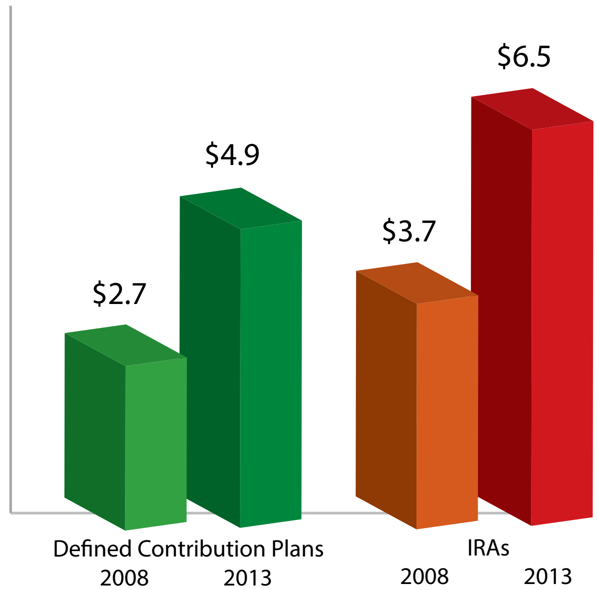
A recent study looks at the longer term—20 years—and calculates the cost of tax deferral of contributions to retirement accounts. In the case of a $1,000 contribution by someone in the 25 percent tax bracket, the government loses $250 of tax revenue in the year the contribution is made. If the investment 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

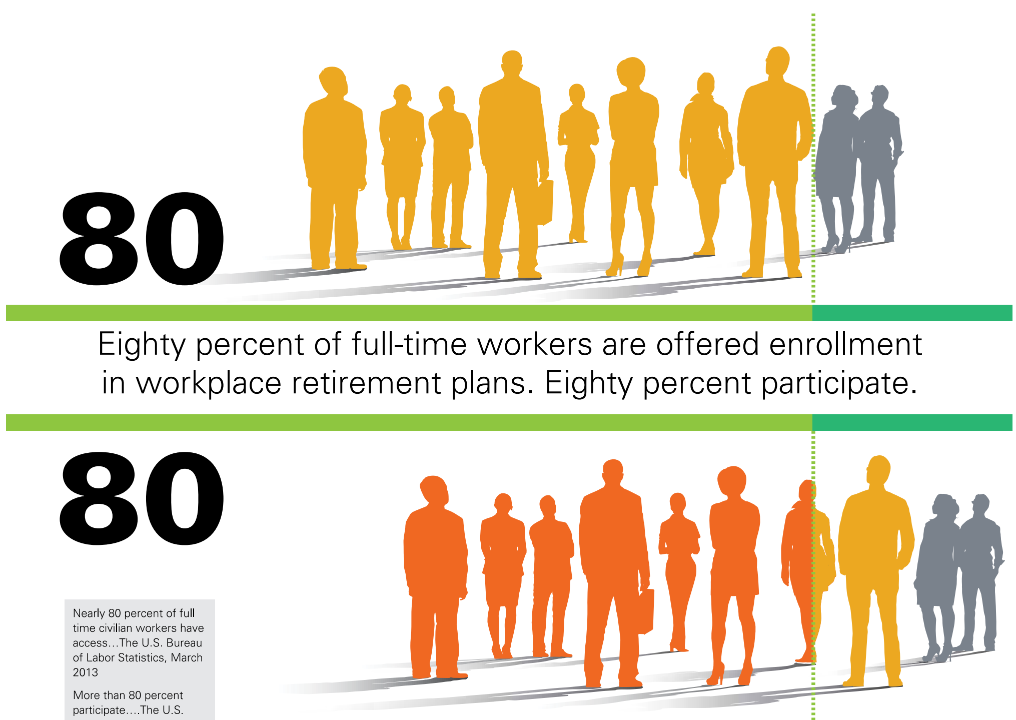


Source: Financial Accounts of the United States, Federal Reserve. June 5, 2014 Z.1 Release

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.

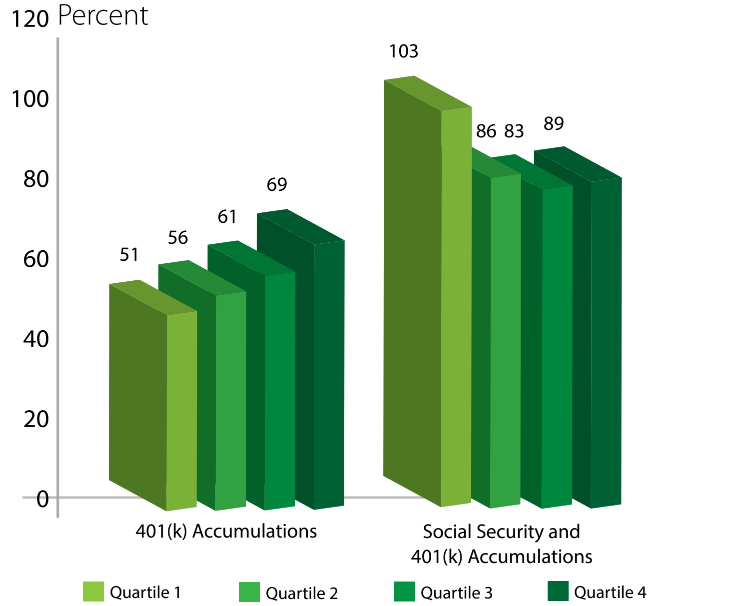


Nearly 80 percent of full time civilian workers have access…The U.S. Bureau of Labor Statistics, March 2013

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.

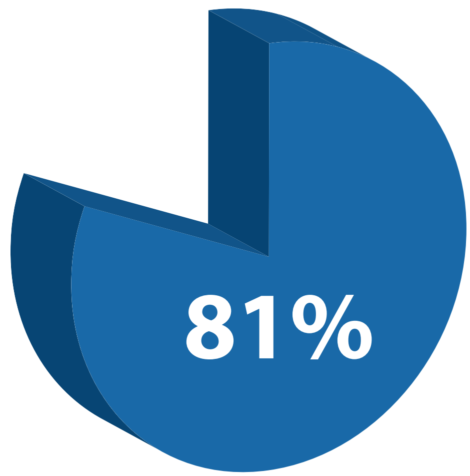
Simulation results show that more than 1 in 10 current 401(k) participants are likely to hit the proposed cap sometime prior to age 65, even at the current historically low discount rate.[19] This cap would fluctuate even more greatly with changes in interest rates, leaving workers who are diligent savers 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.

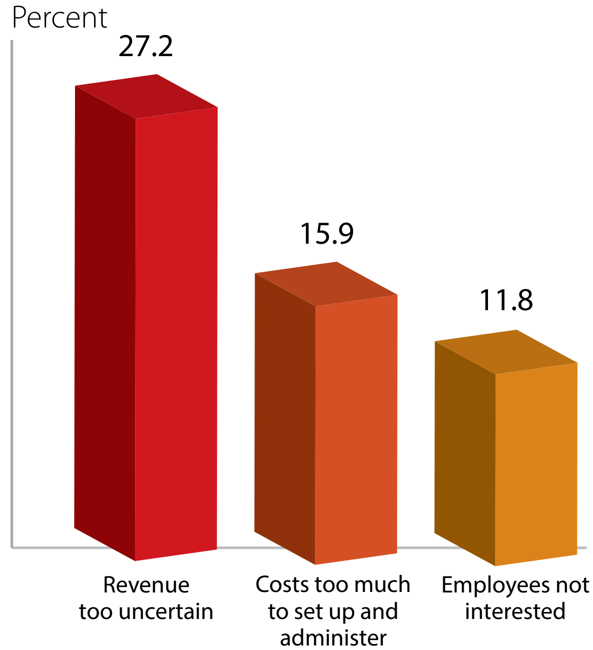
Improvements to the System

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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America's Life Insurance Industry: Security Families Count On

In the wake of the economic crisis, American families continue to face significant hurdles when planning for their financial and retirement security. However, life insurers make it affordable for families to manage financial risks—such as the death of a wage-earner or family caregiver, longer retirements, a disabling event, and long-term care—by transferring risk from an individual to an insurer.

Life insurers pay out $1.5 billion every day through payments from life insurance, annuities, long-term care insurance, disability income insurance, and other types of insurance products.

75 million American families count on the life insurance industry to protect their financial future. These families turn to life insurance, annuities, disability income and long-term care insurance for peace of mind, long-term savings, and guaranteed lifetime income in retirement.

Life Insurance

Life insurance is a key component of Americans' ability to take individual responsibility for the financial futures of their families. It protects families from financial hardships associated with the death of a loved one and provides a source of reliable liquid assets to pay for death-related expenses, including medical bills and funeral costs. It also can help families cover daily living expenses, mortgage and tuition payments, and child care.

Permanent life insurance has an additional advantage—it is guaranteed to remain in force for one's whole life, regardless of age. By design, the level premiums are used to both pay for the term cost of a policy's face amount (death benefit) and to create a savings aspect (cash value), which helps cover the rising cost of insurance as one gets older. In addition, the policy's cash value can be borrowed to pay important family expenses, such as tuition or long-term care. Some policies allow an insured to collect all or part of the death benefit if he or she becomes terminally or chronically ill.

Life insurers paid $64 billion to life insurance beneficiaries in 2013.

Annuities

Annuities are insurance contracts that can help American workers meet the challenges of a changing retirement landscape, offering solutions to both sides of the retirement equation: They can help you save and then turn savings into a steady paycheck in retirement that cannot be outlived.

A deferred annuity can address both pre-retirement savings and post-retirement income needs. For example, for those who are years away from retirement—or are retired and don't need to produce income right away—a deferred annuity allows savings to accumulate, tax deferred, until you choose to receive income payments.

For those who need income right away, an immediate annuity converts a lump sum of money (such as money from the sale of a home or business, or a portion of accumulated savings in a workplace plan) into a series of monthly, quarterly, or annual payments. Certain annuities offer the option of continuing income payments to a spouse (or other beneficiary) after the annuity owner dies. Some also provide death benefits if death occurs before income payments begin. Other options also may be available, such as guaranteed living benefits, which provide additional savings and income protection.

The recent economic crisis has highlighted and enhanced the long-term value and guarantees that annuities provide. In fact, despite the market turmoil, 87 percent of annuity owners say that annuities were a safe and secure way to save for retirement and that annuities make them feel secure in times of financial uncertainty. (Source: *2013 Survey of Owners of Non-Qualified Annuity Contracts*, The Gallup Organization and Mathew Greenwald & Associates).

Life insurers paid $79 billion in total annuity benefit payments in 2013.

Long-Term Care Insurance

Long-term care insurance protects savings from being depleted by the steadily growing costs of long-term care and covers a wide range of services in a variety of settings (both inside and outside the home). Because Medicare does not pay for long-term care expenses, private long-term care insurance has become a critical component of retirement planning.

The cost of long-term care services is expensive. The median cost of one year in a nursing home is $87,600 for a private room. (Source: *Genworth 2014 Cost of Care Survey*). Most Americans have not saved enough to cover these high costs on their own, and many people currently "spend-down" their assets to qualify for Medicaid long-term care, which has become a tremendous financial burden on states.

Long-term care can be combined with life insurance or an annuity—providing individuals with increased flexibility as their needs change as they age.

In 2013, life insurers paid $7.7 billion in long-term care insurance benefits.

Disability Income Insurance

A serious illness or injury can harm more than one's health—it can impact an individual's ability to work and pay living expenses. A disability can also jeopardize retirement savings. In the event of a serious illness or injury, the benefit from employer and government programs—such as sick leave, short-term disability, and Social Security—may not be enough to meet all of one's financial needs.

Disability income insurance provides critical income protection to working-age people who find themselves unable to work due to illness or injury for a prolonged period of time. It pays individuals a portion of earnings—typically 50 to 70 percent—until they are able to return to work. There are no restrictions how the money can be spent. Some policies also cover expenses related to rehabilitation, retraining, and workspace modifications to help individuals return to work.

Life insurers paid $17.8 billion in total disability income insurance benefits in 2013.

Retirement Savings

Life insurers are an important provider of 401(k) plans and other types of employer-based retirement savings plans as well as IRAs which are essential to the well-being of current and future retirees. These plans provide Americans with incentives to save for the long-term, minimizing the risk of inadequate savings at retirement. Life insurers also are working to incorporate annuity options in retirement savings products and plans so that workers can be assured of lifetime income when they retire.

MARCH 2015

Tax Policy Supports Risk Transfer

	Risk Transferred	Tax Treatment at Purchase	Tax Treatment at Accumulation Stage	Tax Treatment at Payout Stage
Individual Life Insurance	Mortality risk (Ensures dependents can be financially secure)	Premiums are paid with after-tax dollars; premiums are not deductible.	Earnings on build-up of savings (cash value) of permanent life insurance are not taxed as long as the policy remains in force.	Death benefits are not taxed. If a policy is surrendered or lapses before death, earnings in excess of the total premiums paid are taxed at ordinary income tax rates.
Annuities	Longevity risk (Ensures retirement income will last as long as annuitant—and spouse—live)	Non-qualified (individual) annuities are purchased with after-tax dollars. Qualified annuities, which are funded with money rolled over from a qualified defined contribution plan, are purchased with pre-tax dollars.	Any earnings grow free of current federal income tax.	When income is received from an individual annuity, the portion that comes from earnings is taxed as ordinary income (the principal is not because it has already been taxed). Tax penalties exist for withdrawals before age 59 ½. Payouts from qualified annuities are subject to ordinary income tax. Qualified annuities are also subject to "required minimum distribution" rules: withdrawals must begin by 70 ½ or tax penalties apply in addition to income tax due.
Long-Term Care Insurance	Financial risk (Ensures savings are not depleted to pay for long-term care services to assist with the activities of daily living)	Premiums are paid with after-tax dollars. A portion of long-term care insurance premiums may be deducted as part of medical expenses if amounts exceed 10% of adjusted gross income.	Not applicable	Benefits are not taxed except for per diem policies that pay amounts that exceed $330 as set by the IRS.
Disability Income Insurance	Loss of income (Ensures continued income in the event of disability)	Coverage purchased with after-tax dollars by individuals cannot be deducted; employers can deduct premiums if they pay for employees' coverage.	Not applicable	With an individual policy, benefits are not taxed if the policy holder pays the premium in full; benefits are taxed at ordinary income tax rates if an employer pays for coverage.