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March 17, 2005

VIA FIRST CLASS MAIL

The President's Advisory Panel on Federal Tax Reform
1440 New York Avenue, NW
Suite 2100
Washington, DC 20220

Re: Committee of Annuity Insurers Response to February 16, 2005, Request for Comments by the President's Advisory Panel on Federal Tax Reform

Dear Sir or Madam:

I am writing on behalf of the Committee of Annuity Insurers (the "Committee") in response to the February 16, 2005, request for public comment by the President's Advisory Panel on Federal Tax Reform (the "Panel"). The Committee is a coalition of 30 of the nation's largest and most prominent issuers of annuity contracts, representing more than half of the annuity business in the United States.[1] As discussed in more detail below, the Committee urges that the Panel's recommendations reflect the critical need to promote long-term savings and retirement security through the federal tax code and the unique role that annuities serve in advancing those goals.

[1] The Committee was formed in 1982 to address federal legislative and regulatory issues relevant to the annuity industry and to participate in the development of federal policy regarding annuity taxation. A list of the member companies is attached.

The Panel's request for public comment included a request relating to the goals that the Panel should try to achieve as it evaluates the existing tax system and recommends options for reform. In this regard, the Committee notes that the current tax code includes a number of incentives that promote long-term savings and retirement security.[2] The Committee also notes that President Bush's executive order establishing the Panel stated that the options for federal tax reform should, *inter alia*, "promote long-run economic growth and job creation, and better encourage work effort, saving, and investment...."

In this respect, long-run economic growth and job creation are fostered when Americans are encouraged to save, and in fact do save, for their retirement years.[3] Today, those retirement years can span a substantial period of time, as Americans are living longer than ever before. In the early 1900's, life expectancies at birth were 58.3 years for females and 51.5 years for males. A century later, those figures are 84 years for females and 80 years for males, and most demographers predict continued increases in life expectancy going forward.[4] As a result of these increases in life expectancy and other factors, Americans are spending a greater proportion of their lifetimes in retirement than previous generations. Today, more than half of all workers retire before their 62nd birthday, and the average retiree can expect to spend approximately one-

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[2] For example, contributions to employer-sponsored retirement plans typically are made with pre-tax dollars and accumulate earnings on a tax-deferred basis, contributions to annuities and life insurance contracts (made with after-tax dollars) accumulate earnings on a tax-deferred basis, and death benefits under life insurance contracts are tax-free.

[3] Numerous studies make this point, but of particular interest here is M. BOSKIN, B. BERNHEIM, AND P. BAYER, THE ECONOMIC ROLE OF ANNUITIES (Catalyst Institute, March 1998) (available at www.annuity-insurers.org).

[4] Jeffrey R. Brown, *The New Retirement Challenge* (September 2004).

fourth of his or her life in retirement.[5] In addition, the 70-million-strong baby boom generation is approaching retirement, which means that many more Americans will soon need retirement income to support their basic needs and maintain a comfortable standard of living.

Since the second half of the twentieth century, the three key components of the American retirement matrix have been Social Security, employer-sponsored retirement plans, and private retirement savings. Private retirement savings will need to remain a key component of the retirement security of millions of Americans in the coming years – Social Security benefits and employer-sponsored plans alone cannot supply the income needs of the millions of Americans who will be retiring in the coming years. Hence, tax incentives that have a proven track record of encouraging Americans to accumulate sufficient nest eggs for retirement are critical to our nation's future. An example of such an incentive is the Federal income tax treatment of "non-qualified" annuities, *i.e.,* annuities that are purchased with after-tax income.[6]

Over a period of years, Congress has structured the income tax treatment of non-qualified annuities so that they have evolved into an ideal retirement savings product for middle class Americans.[7] Deferred annuities allow Americans to save for their retirement on a schedule

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[5] *Id.*

[6] BOSKIN ET AL., *supra* note 3, at 88 (noting that "[t]ax deferral within annuity contracts encourages saving by increasing the real economic rewards associated with this activity" and that "[p]rovisions for tax-deferred annuities also create incentives for the development of pro-saving institutions.").

[7] *See, generally,* The Gallup Organization, Committee of Annuity Insurers 2001 Survey of Owners of Non-Qualified Annuity Contracts (available at www.annuity-insurers.org) (finding that 62 percent of owners of non-qualified annuities have a total household income of less than $75,000).

they choose and in a product that offers a number of insurance and investment guarantees. But *accumulating* sufficient savings is not enough. Americans also need the ability to make their accumulated savings *last throughout their retirement*. And with Americans spending more of their years in retirement than ever before, their retirement savings need to last longer than those of prior generations. In short, they need choices that help them assure that they will not outlive their nest eggs.

Annuities, again, offer the ideal solution. Other than Social Security and employer-sponsored defined benefit plans, annuities are the only means that Americans have to *guarantee* they will not outlive their retirement income.[8] This type of guarantee is becoming increasingly important in light of factors such as reduced coverage by employer-sponsored defined benefit plans. Absent such guaranteed retirement income, many Americans may run out of savings or face very difficult circumstances. On the other hand, retirees who receive guaranteed lifetime income from products like annuities are more likely to have an adequate standard of living, even if they live into their 90s or beyond; live more independently (and avoid becoming a burden on others); and have the peace of mind that guaranteed lifetime income can bring. To promote these and other societal benefits of guaranteed retirement income streams, the tax code should include incentives that encourage Americans to choose life contingent annuity payments.

In addition to protecting against the risk of outliving one's nest egg, annuities can protect Americans against the risks of inflation and stock market volatility. They also can

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[8] *See, generally,* J. BROWN, O. MITCHELL, J. POTERBA, AND M. WARSHAWSKY, THE ROLE OF ANNUITY MARKETS IN FINANCING RETIREMENT (MIT Press, 2001).

provide needed liquidity in times of financial emergency, such as the onset of chronic illness or other medical needs. Further, they can provide Americans a means to provide for their heirs in the event of an earlier-than-expected death. In short, the annuities available in the marketplace today are flexible products that empower Americans to successfully address a number of risks that they face in preparing for and living in retirement. It should not be surprising, then, that 91% of non-qualified annuity owners agree that "annuities are an effective way to save for retirement" and that 90% agree that "keeping the tax advantage of annuities is a good way of encouraging long-term savings."[9]

The Committee believes that the tax code should continue to include incentives that encourage Americans to make choices that will help them assure their retirement security, and we encourage the Panel to include such incentives in the options it develops for tax reform. We also offer the Committee's expertise on annuities and retirement security as a resource to the Panel and would look forward to providing any assistance that the Panel believes would help in meeting its important objectives.

Sincerely,

Joseph F. McKeever, III

Attachment

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[9] The Gallup Organization, *supra* note 7, at 26.

My Handyman Company, LLC
3604 Picnic Grove Road
Millers, Maryland 21102

February 17, 2005

Connie Mack
2000 Main Street – Suite 303
Fort Meyers, FL 33901-3050

Dear Sir or Madam:

I recently heard you will be involved in some kind of tax reform and are to draft changes to our U.S. income tax laws including the elimination and modification of some deductions. Our tax system is complicated, outdated, inefficient, and unfair. How does anyone fix something (our tax laws) that I dare to say no one fully understands especially me, not you, not even President Bush? My stomach gets tied up in knots when I hear things like this that do nothing but make things more complicated and cost taxpayers money. I am a small businessperson. I have to collect taxes from employees, keep records, and pay double social security and then pay a tax professional to make sense of it all and file reports and tax returns to various government agencies. What I get out of that are fines and interest charges if my tax payments are late. Trying to make the current tax fairer or more efficient is like trying to tinker with a Model "T" Ford and expect it to keep up with traffic on I-95. Believe me I love this country and will gladly pay my fair share of taxes. All I would like to see is a simpler way for me, my children and my grandchildren to pay that tax. I have supported the organization "Americans For Fair Taxation" with monetary contributions (not tax deductible) because of the simplicity of their plan. I am not sure theirs is the solution but I think our system needs to be replaced not repaired. Most items break and wear out and the decision has to be made weather to fix or replace. The decision to replace usually is made because the item would cost more to fix. I think our tax laws would cost more to modify and fix than to replace. Thank you for your time and I hope you do what is really right for <u>all</u> the people you represent.

Sincerely,

Anthony Mancuso

Anthony Mancuso

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