Insured Retirement Institute

Longevity Risk and the Lifetime Income Crisis:

Legislative and Regulatory Challenges and Opportunities

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Legislative and Regulatory Risks and Opportunities

- Federal Tax Reform
- DOL and SEC Fiduciary Initiatives
- Lifetime Income Initiative at DOL and Treasury
- Annuity Suitability and Disclosure Regulation
- Contingent Deferred Annuities (CDAs)

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The Retirement Income Crisis

- The American population is aging and living longer
- 79 Million Baby Boomers
- Americans between 60 and 64 – up 56% in ten years
- Chances of 65 year olds living to age 90 – 30% for men, 42% for women, 60% for couples

Source: IRI. "Retirement Income Planning and the Elder Market" (October 2011); U.S. Census Bureau. "Age and Sex Composition: 2010" (May 2011); Financial Research Corp. (November 2007)

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Numerous Other Challenges and Risks

- Rising Health Care Costs
- Uncertainty about Social Security
- Shift Away from Traditional Pensions
- Market risk
- Inflation risk
- Excess withdrawal risk
- Sequence of returns risk
- Asset allocation risk
- Tax uncertainty risk

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Retirement Confidence is Declining

- Decreasing percentage of Baby Boomers are confident in their financial preparations for retirement:
  44% in 2011 … 37% in 2013

- 61% of Baby Boomers believe their personal financial situation will be the same or worse five years from now

Source: IRI. "Boomer Expectations for Retirement 2013: Third Annual Report on Retirement Preparedness of the Boomer Generation" (April 2013)

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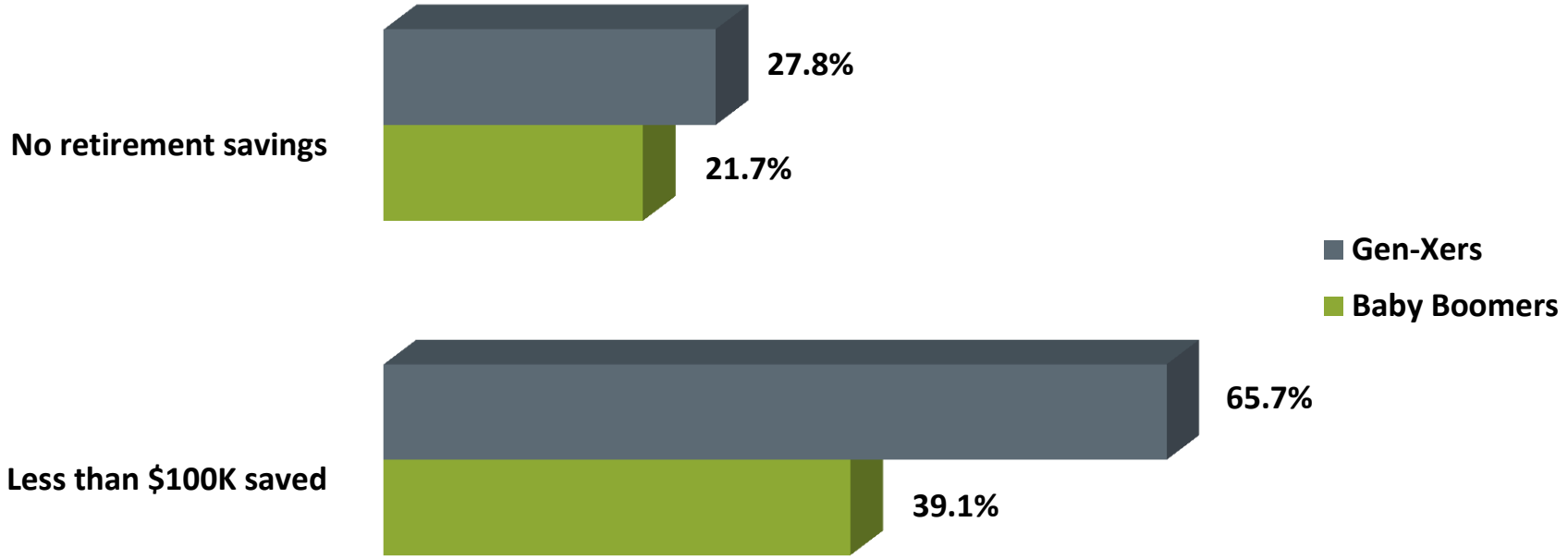
Risk for Inadequate Retirement Savings is Rising



Source: IRI Baby Boomers and Generation Xers (August 2012)

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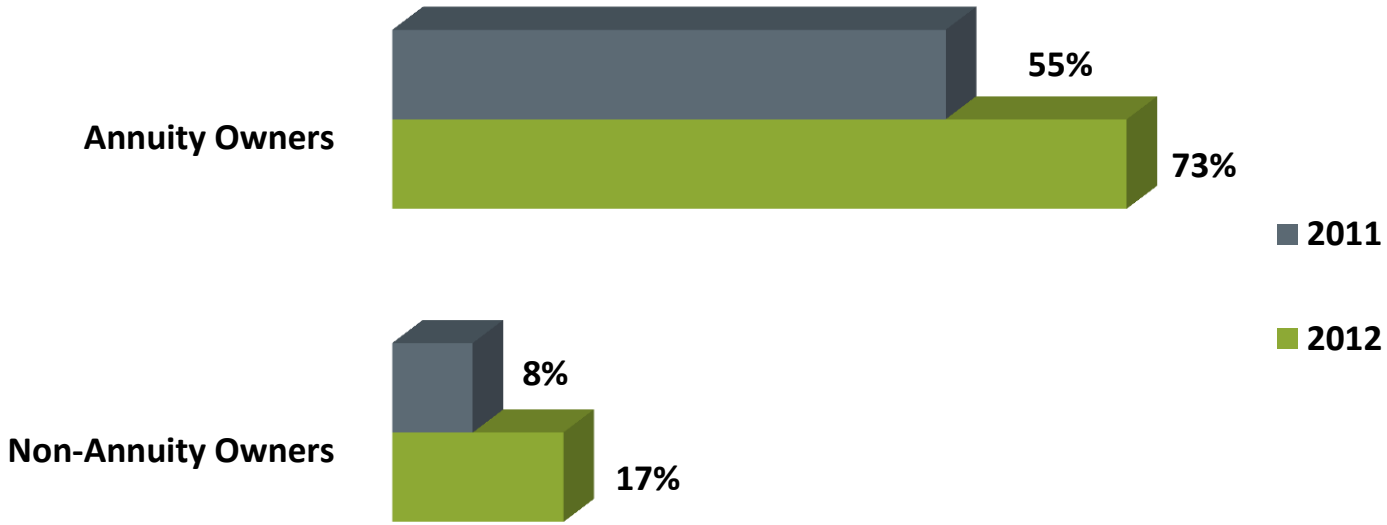
Annuities – A Critical Part of Retirement Strategy



Source: IRI & Cogent Research. "Evolution of the Annuity Industry" (September 2012)

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Annuities Increase Confidence and Improve Retirement Readiness

- Nine out of ten Boomers who own annuities believe they are doing a good job preparing for retirement
- 71 percent of Boomers who own annuities have calculated a retirement goal.
- 90 percent of annuity owners are somewhat or very satisfied with their annuity-based investments

Sources: "Boomer Expectations for Retirement 2013: Third Annual Report on Retirement Preparedness of the Boomer Generation" (April 2013); IRI & Cogent Research. "Evolution of the Annuity Industry" (September 2012)

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Advisors More Focused on Retirement Income and Annuities

- 84% of financial advisors say they are having more retirement-income discussions with clients
- 71% say they had a client request to purchase an annuity during the last year

Source: IRI & Cogent Research. “Evolution of the Annuity Industry” (September 2012)

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Tax Reform and Tax Deferred Treatment of Annuities

- Protecting current tax treatment of annuities and other retirement savings is a top priority for IRI
- "Fiscal cliff" is in the past, deficit and debt remain
- Fiscal battles in Washington will continue
- Always a potential threat to tax-deferred status of annuities and other retirement savings

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IRI Research on Tax Deferral

- 77% of middle-income Baby Boomers consider tax deferral an important feature of a retirement investment product
- 24% would be less likely to save for retirement if those incentives were reduced or eliminated
- IRI will continue to stress the importance of tax deferral while maintaining an aggressive advocacy campaign

Source: IRI. "Tax Policy and Boomer Retirement Saving Behaviors" (March 2013)

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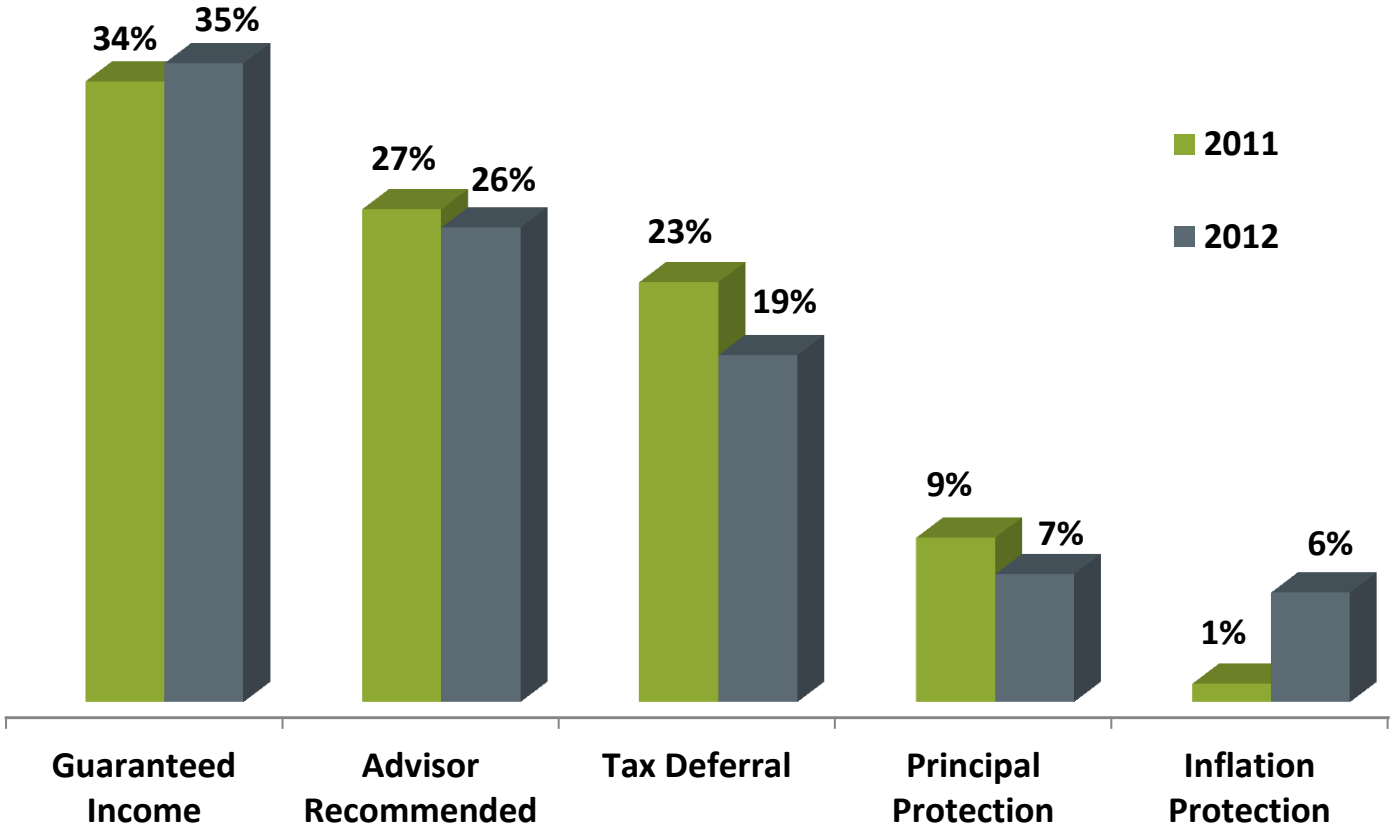
Top Five Reasons to Purchase an Annuity



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DOL Fiduciary Definition Rule

- DOL proposed new definition of investment advice fiduciary under ERISA in October 2010
- Would have increased costs and complexity, decreased choice for retirement plans and IRAs, and increased confusion for service providers
- Could cause one million fewer IRAs to be established each year
- DOL withdrew proposed rule in September 2011

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DOL Fiduciary Definition Rule

(cont'd)

- 98 percent of retirement savers with less than $25,000 in IRAs rely on broker-dealers
- IRI proposed guiding question: *How does this help address the retirement security challenges that we face as a nation?*
- Modified proposal expected in next few months

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SEC Standard of Care

- Dodd-Frank directed SEC staff study found need for new standard of care for financial professionals providing financial advice
- IRI 2010 Comment Letter
  - Importance of a proposed standard that will appropriately apply given the nature of rendered services
  - Not a “one-size fits all” approach
  - Limited product offerings or proprietary products
  - Disclosure based regulation versus fiduciary nomenclature

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SEC Standard of Care (cont'd)

- SEC 2013 Request for Information
  - Detailed cost-benefit questions
  - Fiduciary standard—acting in "best interests"
  - Duty of loyalty (disclosure) and duty of care (suitability)
  - Other alternatives

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SEC Standard of Care (cont'd)

- IRI 2013 Comment Letter
  - Investors should have some general protections when receiving comparable investment services
  - SEC must recognize and account for significant and valuable differences between IAs and B-Ds
  - Proposal should be rules-based and carefully formulated to prevent undue litigation risks
  - SEC and DOL must coordinate with each other

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Increasing Access to In-Plan Annuity Options

- President's Middle Class Task Force:

  Promoting the availability of annuities and other forms of guaranteed lifetime income, which transform savings into guaranteed future income, reducing the risks that retirees will outlive their savings or that their retirees' living standards will be eroded by investment losses or inflation.

- Treasury/DOL initiative to make lifetime income options more broadly available in retirement plans

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Increasing Access to In-Plan Annuity Options (cont'd)

- DOL Advance Notice of Proposed Rulemaking
- Would require of lifetime income illustrations based on accrued and projected account balances
- Illustrations would be in the form of annuities
- IRI supports proposal and offered comments to help refine and implement rule

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Increasing Access to In-Plan Annuity Options (cont'd)

- IRI Comment Letter:
  - DOL should carefully consider benefit of requiring illustrations based on projected account balances
  - Rule should be flexible –require illustrations based on generally accepted investment theories and actuarial principles
  - Illustrations should not create fiduciary liability
- Lifetime Income Disclosure Act of 2013 (H.R. 2171)

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Increasing Access to In-Plan Annuity Options (cont'd)

- DOL Safe Harbor for Selection and Monitoring of Annuity Providers
  - Fiduciary concerns are the most significant obstacle to more widespread inclusion
  - IRI working with DOL and NAIC to provide clarity to plan sponsors

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Increasing Access to In-Plan Annuity Options (cont'd)

- Treasury Rule Proposal (2012)
  - Qualifying Longevity Annuity Contract (QLAC) Proposal – Would remove longevity annuities from Required Minimum Distribution (RMD) rules
  - Partial Annuitization Proposal – Would eliminate all-or-nothing choice

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NAIC Annuity Suitability Regulation

- Current version of model adopted by NAIC in 2010
  - Adds producer training requirements – general and product-specific
  - IRI partnered with RegEd to create Annuities Training Platform (ATP)
- To date, adopted in 30 jurisdictions, with pending proposals in 2 additional states; Prior versions still in effect in 20 states

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NAIC Annuity Disclosure Regulation

- Current version of model adopted by NAIC in 2011
  - Adds new annuity illustration requirements and extends disclosure requirements to variable annuities
  - Illustrations not mandatory
  - VA illustrations not covered – subject to SEC and FINRA rules
- To date, current version adopted in one state (IA); Prior versions still in effect in 27 jurisdictions
- Revised Buyer's Guide adopted in 2013

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Contingent Deferred Annuities

- IRI believes current regulatory oversight at federal and state levels—including existing solvency and consumer protection rules—have proven to be robust and effective, and are appropriate for CDAs
- Consumers should have access to a wide array of sound retirement income solutions
- NAIC Life Insurance Committee determined CDAs should be classified as annuities (March 2012)

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Retirement Resources

- National Retirement Planning Coalition
  - www.retireonyourterms.com
  - National Retirement Planning Week (April 2014)
- IRI Consumer Retirement Education Initiative
- IRI Public Policy Resource Center
- IRI SmartBrief Newsletters

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QUESTIONS?

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