



Insured Retirement Institute

# TAX TREATMENT OF ANNUITIES: HOW FEDERAL TAX REFORM COULD HARM CONSUMERS

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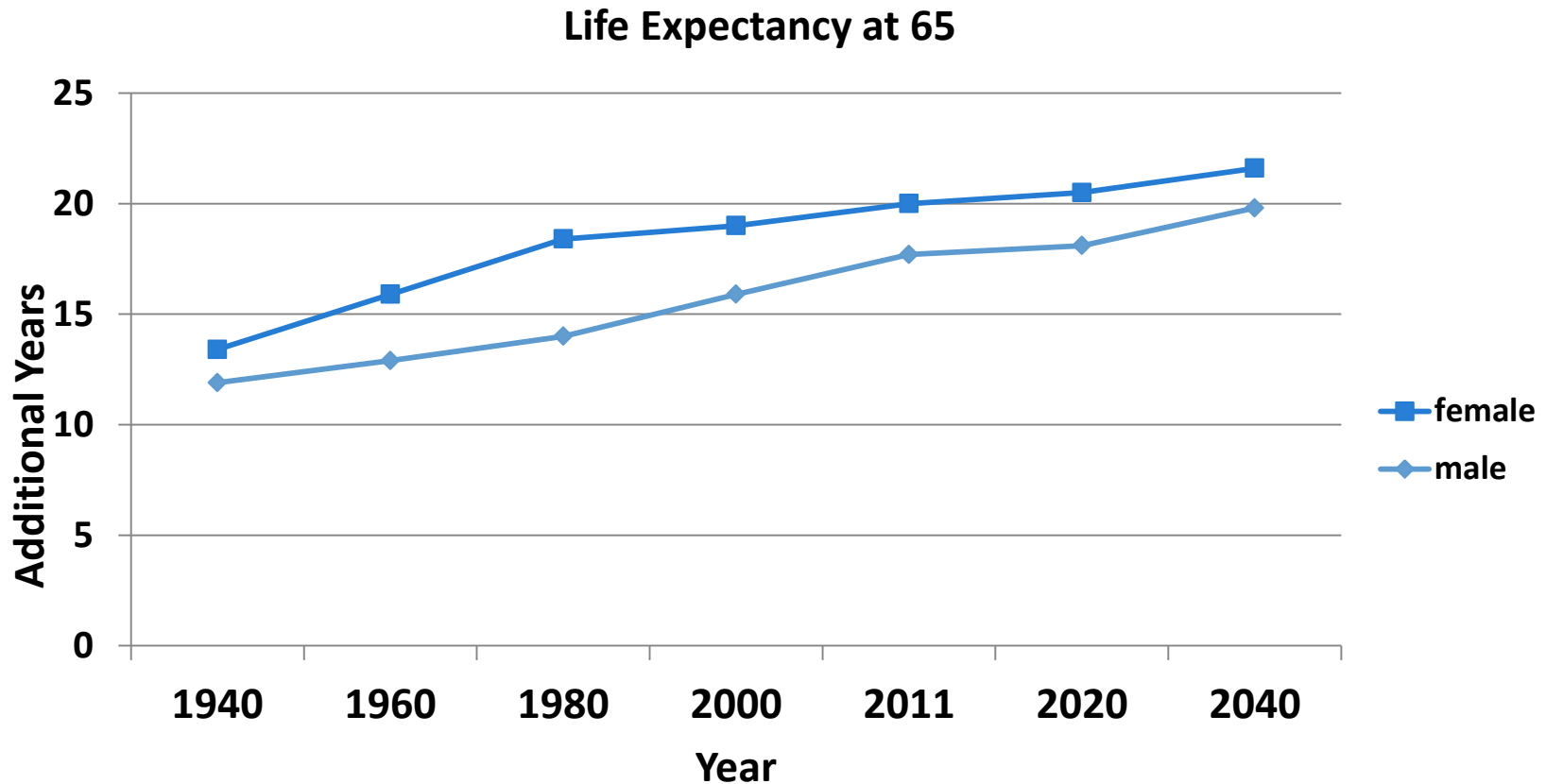
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# An Aging Population...

- 79 million Baby Boomers
- Americans between the ages of 60-64 grew 56% from 2000-2010 from about 10.5 million to more than 16.2 million
- Baby Boomers control more than \$13 trillion in investable assets

Source: Report by the Insured Retirement Institute and Cogent Research titled “Baby Boomers and Generation Xers: Are They on Track to Reach Their Retirement Goals?” (August 2012)

# ... That Is Living Longer



Source: 2012 Social Security Trustees Report; Period Life Expectancy Historical and Projected

# Longer Lifespans

- 65-year-old male: 30% chance of living to 90
- 65-year-old female: 42% chance of living to 90
- A couple, both aged 65, has a 60% of at least one living to 90; 30% chance of at least one living to 95

Source: UP-94 Mortality Table, Society of Actuaries; Ron Gebhardtshauer, Smeal College of Business, Penn State University

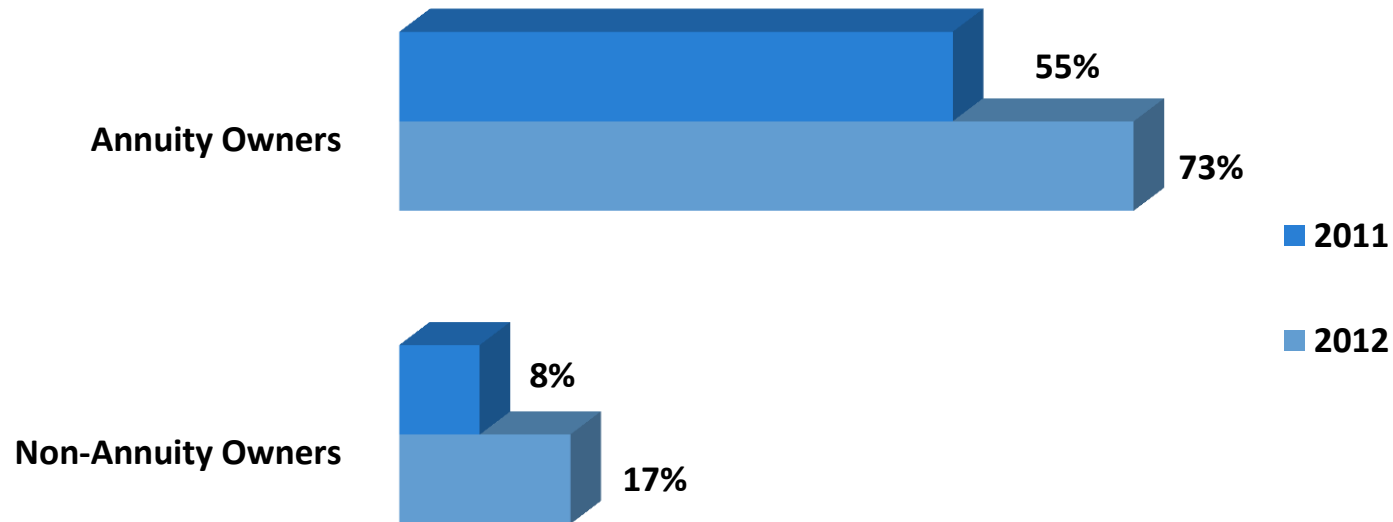
# Increased Focus on Retirement Income Planning and Annuities

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

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

# Importance of Annuities as Part of Retirement Strategy

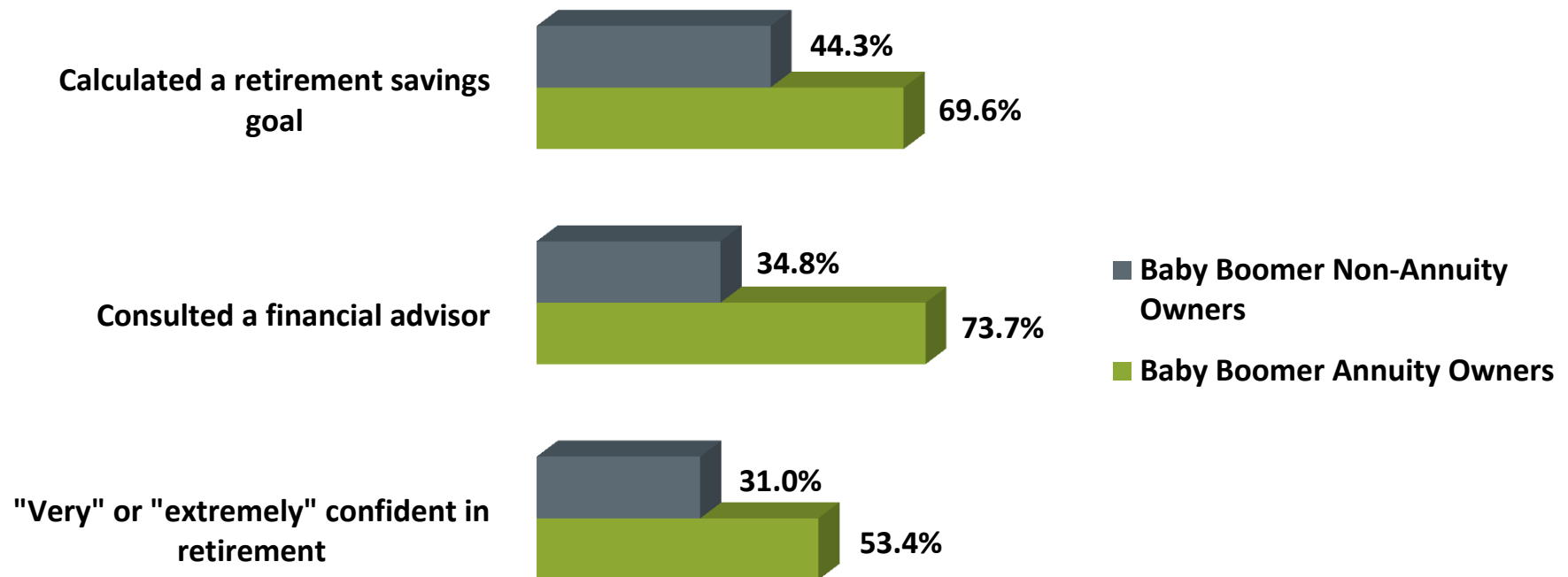
Investors agree that annuities are a critical part of a retirement strategy



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

# Annuities = Good Retirement Plan

Baby Boomer annuity owners are more confident and more likely to engage in positive retirement planning behaviors than Baby Boomer non-annuity owners



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

# Recommendation of the 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.”



# Potential Threat - Fiscal Fights

- “Fiscal cliff” 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

# Importance of Tax Deferral to Investors

- 74% of Boomers place some level of importance on tax deferral when selecting a retirement investment; 40% consider tax deferral a very important criterion.
- Nearly three-quarters (76%) of Boomers between ages 50-55 consider tax deferral an important feature of a retirement investment product.
- Nearly one-fifth of investors (19%) cited tax-deferred growth as the primary reason for purchasing annuities.

Source: Report by the Insured Retirement Institute titled “Tax Policy and Boomer Retirement Saving Behaviors” (March 2013)

# Importance of Tax Deferral to Investors

(cont'd)

- 61% of low-income Boomers consider tax deferral an important criterion when selecting a retirement income product.
- 77% of middle-income Boomers consider tax deferral an important criterion when selecting a retirement income product.
- Approximately half (56%) of advisors consider tax-deferred growth an important factor when evaluating and selecting annuities.

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

# Possible Impact of Tax Reform

- Changes in tax laws to eliminate or reduce tax incentives would have a negative impact on middle-income Boomers' ability to save for retirement.
- 58% of middle-income Boomers would curtail their level of retirement savings should income taxes increase, and 40% would be less likely to save should Social Security payroll taxes increase.
- 24% of middle-income Boomers would be less likely to save for retirement if tax deferral is reduced or eliminated.

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

# Tax Deferred $\neq$ Exempt

- Taxes on retirement savings and annuities are deferred, not exempt.
- As individuals begin to retire, distributions from annuities are taxed and revenue will flow to the U.S. Treasury.
- Annuity distributions are taxed at the higher income rate rather than the lower capital gains rate.

# Last Thought

- Boomers who own insured retirement products have a higher confidence in their overall retirement expectations, with nine out of 10 believing they are doing a good job preparing financially for retirement