



Insured Retirement Institute

Retirement Savings and the Lifetime Income Crisis

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NAIC / Industry Liaison Committee

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Overview

- Background – Demographic Trends and the Need for Annuities
- Federal Tax Reform
- Fiduciary Rulemaking Efforts at DOL and SEC
- Lifetime Income Initiative at DOL and Treasury



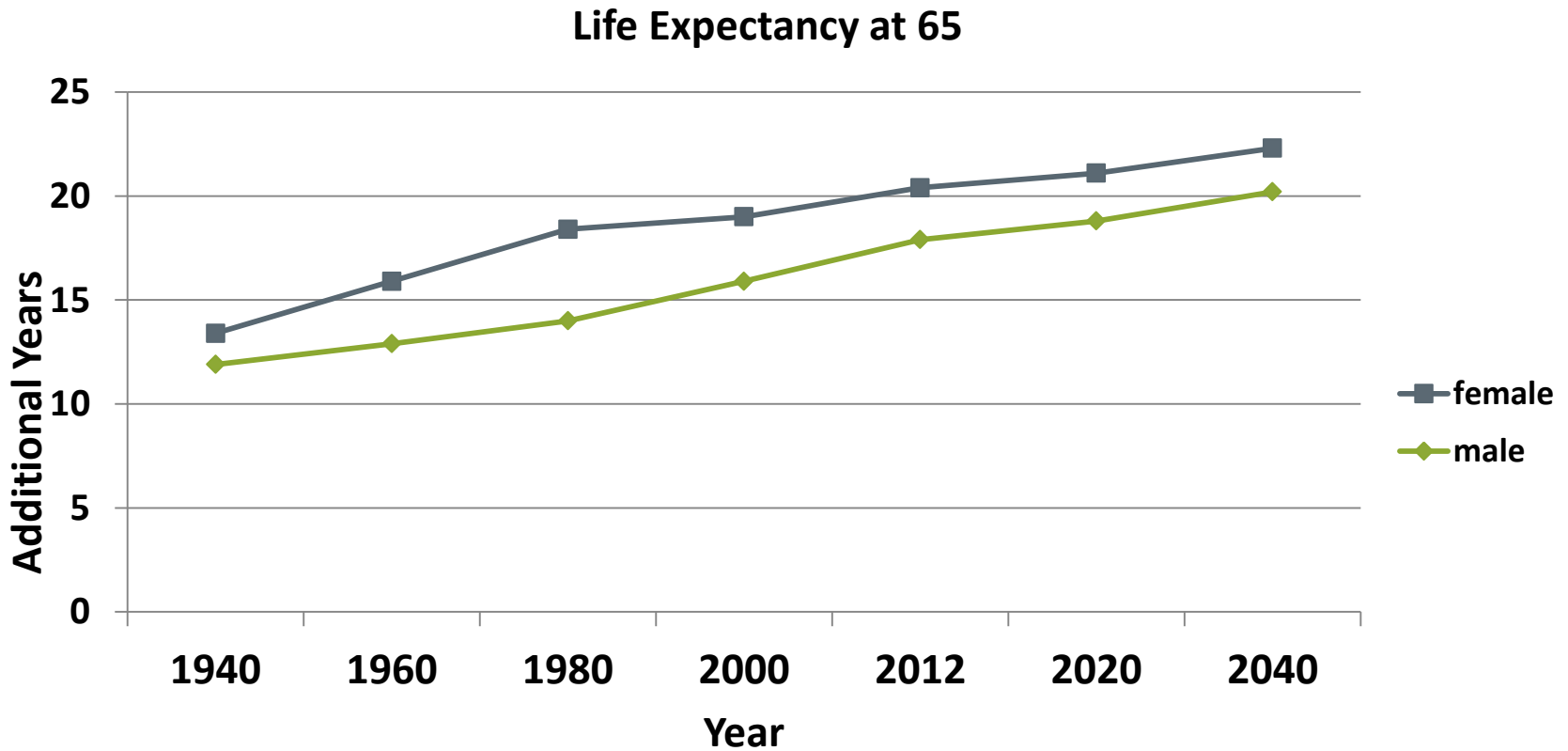
An Aging Population...

- 79 million Baby Boomers
- 2000: 10.5 million Americans between 60 and 64
- 2010: 16.2 million Americans between 60 and 64
- 56% increase over 10 years

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)



...That Is Living Longer...



Source: Social Security Administration. 2013 Social Security Trustees Report. (April 2013)



...Facing Rising Health Care Costs...

- Total health care costs as percentage of GDP:
16% in 2006 ... 18% in 2012 ... 20% by 2021
- Average cumulative health costs and premiums for healthy 65 year olds throughout retirement:
\$369,000 for men ... \$417,000 for women

Sources: Centers for Medicare & Medicaid Services, Office of the Actuary. “National Health Expenditure Projections 2011-2021” (June 2012); IRI. “Healthcare Expenses and Retirement Income” (January 2012)



...Uncertainty about Social Security...

- Long-term financial challenges facing Social Security
- Combined Social Security/Disability Insurance trust fund project to be exhausted in 2033
- Program changes needed to remain financially viable
- Changes may reduce cumulative benefits retirees receive

Sources: Social Security Administration. “2013 Social Security Trustees Report” (May 2013); CMS. “2013 Medicare Trustees Report” (May 2013)



...Shift Away from Traditional Pensions...

- 1985: 114,000 private-sector DB plans
- 2012: Less than 26,000 private-sector DB plans remaining
- Only 19% of private-sector workers have access to a DB plan; 59% have access to a DC plan

Source: Pension Benefit Guaranty Corp.; Bureau of Labor Statistics. "National Compensation Survey: Employee Benefits in the United States, March 2012"



...and Other Risks...

- Market risk
- Inflation risk
- Excess withdrawal risk
- Sequence of returns risk
- Asset allocation risk
- Tax uncertainty risk



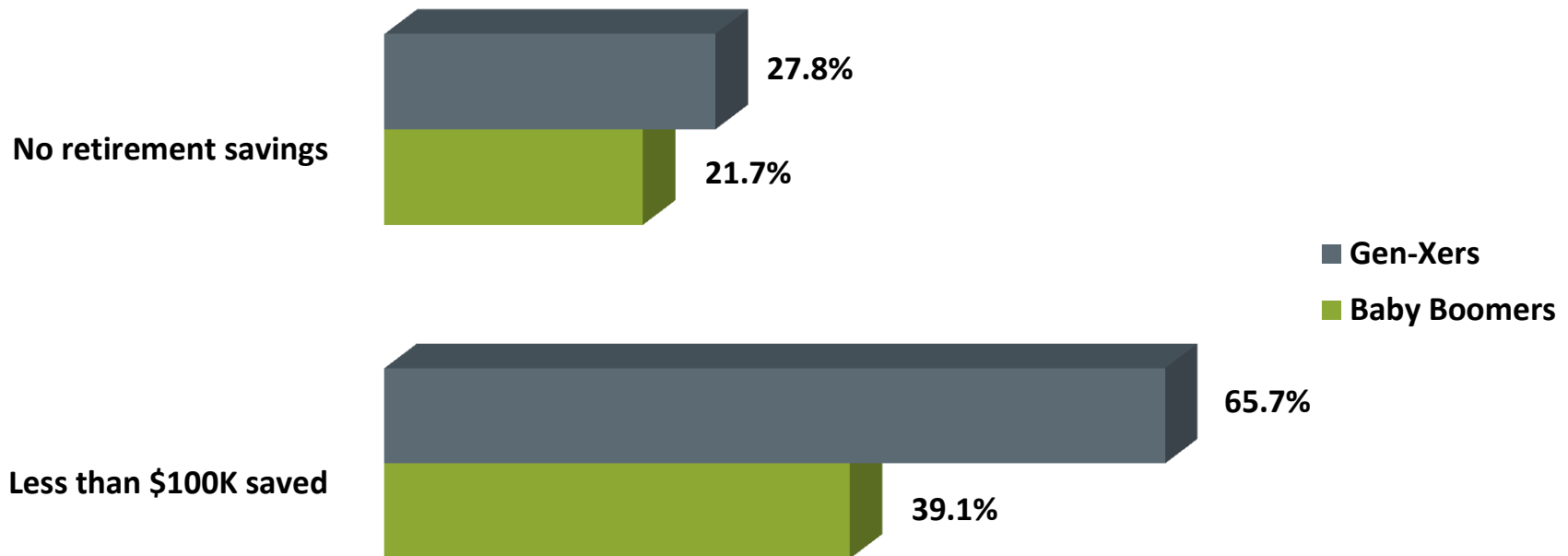
...Leading to Decline in Retirement Confidence...

- 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)



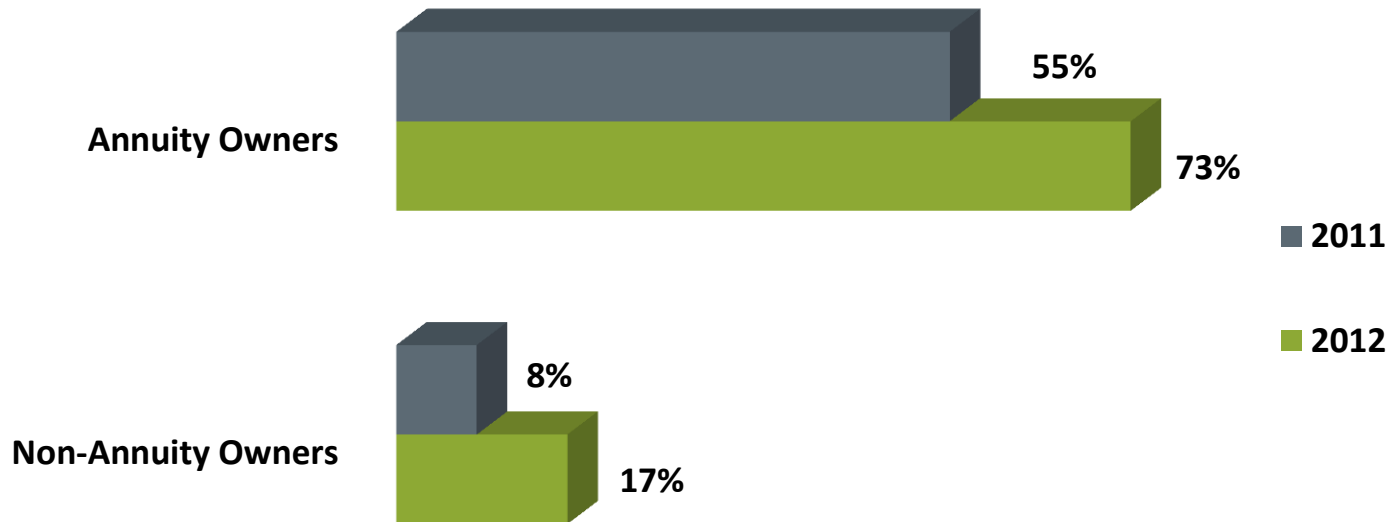
...And Growing Risk for Inadequate Retirement Savings



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



Annuities – A Critical Part of Retirement Strategy



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



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)



Advisors More Focused on Retirement Income and Annuities

- 84 percent of financial advisors say they are having more retirement-income discussions with clients
- 71 percent 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)



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



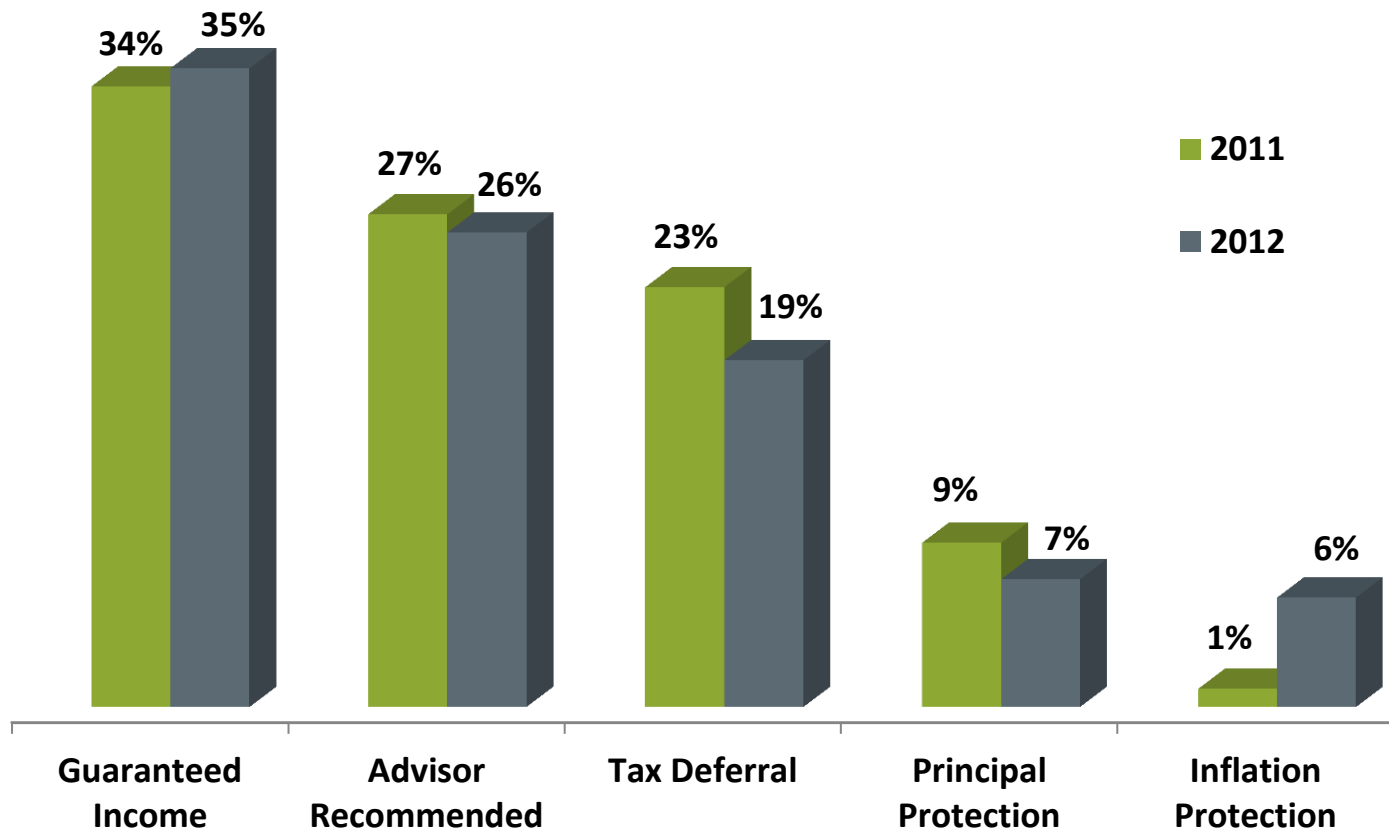
IRI Research on Tax Deferral

- 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)



Top Five Reasons to Purchase an Annuity



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



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



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



SEC Standard of Care

- Dodd-Frank Act required SEC study of standards for Investment Advisers and Broker-Dealers
- Request for Information described possible uniform fiduciary standard (Duty of Loyalty plus Duty of Care) and alternative formulations
- IRI: Revised standard should enhance investor protection, preserve consumer choice, and promote consumer access



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



Increasing Access to In-Plan Annuity Options

(cont'd)

- DOL Advance Notice of Proposed Rulemaking / Lifetime Income Disclosure Act of 2013 (H.R. 2171)
- IRI strongly supports requirement to provide lifetime income illustrations in the form of annuities
- DOL should be flexible – should require illustrations based on generally accepted investment theories and actuarial principles.



Increasing Access to In-Plan Annuity Options

(cont'd)

- Treasury Rule Proposal (2012)
 - Permits Partial Annuitization
 - Addresses RMD for Longevity Annuities
- 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



Retirement Resources for Regulators

- National Retirement Planning Coalition
 - www.retireonyourterms.com
 - National Retirement Planning Week (April 2014)
- Americans to Protect Family Security
 - www.securefamily.org
- IRI Consumer Retirement Education Initiative
- IRI Public Policy Resource Center



QUESTIONS?