Insured Retirement Institute

2022 FEDERAL RETIREMENT SECURITY BLUEPRINT

PRESERVE FAVORABLE TAX TREATMENT OF RETIREMENT SAVINGS

MAINTAIN TAX-DEFERRED TREATMENT FOR RETIREMENT SAVINGS

Tax-deferral for retirement savings plays a vital role in spurring America's economic growth and serves as a strong incentive for workers to accumulate retirement savings during their working years. Research conducted by IRI shows workers will save less if tax deferral is reduced or eliminated. **Congress should continue to promote retirement savings by maintaining its tax- deferred treatment as a necessary tool that helps America's workers to plan for and achieve a secure and dignified retirement.**

PROTECT THE CURRENT STRUCTURE AND DIVERSITY OF WORKPLACE RETIREMENT PLANS

There are several types of employment-based defined contribution retirement plans designed to meet employers' and workers' needs in various employment sectors, including the private, governmental, church, educational, and nonprofit sectors. The most prominent types are 401(k), 403(b), and 457(b) plans. Proposals to consolidate these different structures into a single type of plan fail to recognize the essential distinctions between these different employment sectors. **Congress should maintain and protect the diverse array of retirement plan structures rather than attempting to devise a single framework that could meet a wide variety of needs.**

PROVIDE FAVORABLE TAX TREATMENT FOR GUARANTEED LIFETIME INCOME

Distributions and withdrawals from guaranteed lifetime income products – like annuities – are currently taxed as ordinary income. However, these products provide significant social and economic benefits. By helping older Americans avoid outliving their assets, lifetime income from annuities can reduce pressure on Social Security and other social safety nets. **Congress should create tax incentives – such as a lower tax rate, an exclusion of a portion of lifetime annuity income from taxation, or an increased catch-up contribution — to encourage greater use of guaranteed lifetime income products.**

ENHANCE THE START-UP TAX CREDIT TO ENCOURAGE SMALL BUSINESSES TO ESTABLISH WORKPLACE PLANS

Current law allows small employers to receive a tax credit equal to half of the cost associated with starting a workplace retirement plan. While the enactment of the "Setting Every Community Up for Retirement Enhancement Act" (Public Law 116–94) increased the annual cap allowed for this tax credit, the increased percentage has not encouraged more small employers to offer their employees the opportunity to save for their retirement at their workplace. According to the Bureau of Labor Statistics, more than 50 percent of private-sector workers employed by a small business with 50 or fewer employees do not have access to a defined contribution retirement savings plan. **Congress should enact legislation such as the "*Retirement Security and Savings Act"*** (S.1770-117th Congress) **or the "*Securing a Strong Retirement Act*"** (H.R.2954-117th Congress) **to increase the start-up tax credit percentage available to small businesses with 50 or fewer employees.**

ALLOW PENALTY-FREE WITHDRAWALS FROM RETIREMENT ACCOUNTS AS RELIEF FROM NATURAL DISASTERS

More individuals in communities all across America are being impacted by severe natural disasters – including hurricanes, floods, tornados, wildfires, or earthquakes. Often, many of those individuals have limited and insufficient savings to assist them in rebuilding and getting back on their feet in the immediate aftermath of disasters other than their retirement savings. Survivors who turn to their retirement savings and make early withdrawals to help them after a natural disaster become subject to taxes and penalties unless congressional action is taken after the occurrence of each disaster. To streamline and help alleviate the necessity of action by Congress after each natural disaster which often can be delayed, **Congress should explore expanding the definition of a hardship withdrawal to include federally declared disasters as a way to enable survivors of natural disasters to immediately access on a one- time basis a limited amount of their retirement savings to help cover emergency expenses caused by damages incurred after the occurrence of a federally declared disaster. Congress should also allow, subject to applicable plan rules and contracts, the amount withdrawn from the retirement account to be repaid within a time frame that reduces the chances of any long-term leakage from an individual's retirement savings account.**

CREATE OPPORTUNITIES FOR THE USE OF INNOVATIVE FINANCING MECHANISMS TO SUPPORT REBUILDING OUR NATION'S INFRASTRUCTURE

The life insurance industry is one of our nation's largest institutional investors, with $6.5 trillion invested in the United States today. The industry employs a unique investment strategy whereby it seeks to deploy capital to long-term, highly illiquid assets that can generate predictable revenue over their life, providing a better return, and reduce reinvestment risk. Infrastructure investments are ideal investments for the life insurance industry, as evidenced by its $60 billion of investments in "Build America Bonds," a program authorized in 2009 in the *American Recovery and Reinvestment Act* (Public Law 111-5). This program matched up perfectly with the long-term investment needs of life insurers. The funding provided by the industry's purchase of these bonds provided capital to finance projects in all 50 states, the District of Columbia, and two territories. While Congress has enacted the *Infrastructure Investment and Jobs Act* (Public Law 117–58), **Congress should consider enacting additional legislation to invest in our nation's infrastructure, which would either permanently reinstate the "Build America Bonds" or a similar financing vehicle, such as would be established by enacting the "*American Infrastructure Bonds Act*"** (S.1308-117th Congress)**, or the "*Local Infrastructure Financing Tools Act*"** (H.R.2634-117th Congress). The reauthorization of the Build American Bond program or the establishment of a similar infrastructure financing mechanism contemplated by the legislation introduced last year can serve as a way to attract and leverage the significant investment resources of the life insurance industry to serve as an additional private-sector source of financing infrastructure projects.

SIMPLIFY THE IRC §199A DEDUCTION APPLICATION TO FINANCIAL PROFESSIONALS

The Tax Cuts and Jobs Act (Public Law 115–97) created §199A, a 20 percent deduction on "qualified business income" for owners/shareholders of pass-through businesses, such as S corporations, partnerships, and sole proprietorships. However, owners and shareholders of certain types of businesses – the "specified service trades or businesses" – are limited in their ability to apply the 20 percent deduction if their overall taxable income exceeds certain thresholds. Unfortunately, financial advisors, financial planners, and investment advisers were excluded from taking full advantage of the deduction when the IRS promulgated regulations. As a result, they are unfairly and unintentionally disadvantaged, and their ability to invest in and build their businesses has been diminished. These financial service professionals employ thousands of individuals across the United States. They are community leaders, supporting millions of clients by aiding them on a wide range of issues and dealing with challenges such as creating a savings plan and planning for family transitions. To correct this unequal tax treatment that certain businesses including financial professionals, **Congress should enact legislation such as the "*Small Business Tax Fairness Act*"** (S.2387-117th Congress) **which would simplify the Internal Revenue Code (IRC) §199A to treat thousands of businesses across the country equally by allowing any business to take advantage of the pass-through deduction. Congress should also seek to further equalize §199A by applying the deduction for the first $400,000 of income, regardless of income level or at a minimum provide for a more gradual phase-out of the deduction.** This will allow for all small business owners, including financial professionals to better utilize and benefit from the deduction.

EXAMINE OPPORTUNITIES TO MAKE LONG-TERM CARE INSURANCE MORE TAX- ADVANTAGED, AFFORDABLE, AND ACCESSIBLE

The number of Americans who will require long-term care services is expected to increase significantly. Seventy percent of people are turning 65 expecting to need long-term care in their lifetime. However, the current public long-term care insurance financing system is already stretched thin, as millions of American retirees and their families are forced to tap into savings to pay for the increasing costs associated with their long-term care needs. Most Americans either do not understand the financial risks they may face because of a long-term care event or do not adequately prepare for long-term care costs as part of their retirement planning. As a result, demand is growing for innovative private-sector solutions. **Congress should conduct hearings to examine the threat posed by the potential cost of long-term care to our nation's retirement income security and explore solutions such as the "*Long-Term Care Affordability Act*"** (S.2415-117th Congress). Through those hearings, Congress should develop a comprehensive national long-term care financing proposal to address this challenge through legislative and regulatory changes promoting private-sector innovation and development of new products designed to increase tax-advantaged, accessible, and affordable private long-term care insurance options, including allowing the use of tax-exempt retirement plan distributions to pay for long-term health care insurance.