Retirement Income
JOURNAL

The Bucket

By Editorial Staff *Thu, Jun 27, 2013*

Brief or late-breaking items from Genworth, Dimensional Fund Advisors, American General, and Northern Trust. Plus, a letter dated today from Sen. Max Baucus (D-MT) and Sen. Orrin Hatch (R-UT) soliciting input from colleagues on tax reform, with a focus on the impact of eliminating tax expenditures.

Genworth launches online training for producers on indexed products

Genworth has launched The Index Institute, a virtual community for producers. The Index Institute contains index life insurance and index annuity training, market insights, presentations, product information and sales ideas.

According to a Genworth release:

- Index Universal Life (Index UL) insurance has grown to a $1.5 billion market in 2012 from $330 million in 2006. Sales rose 42% in Q4 and improved 36% for the year, representing 30% of total UL premiums and 12% of all individual life insurance premia.
- Fixed index annuities (FIAs) have turned in five consecutive record-breaking years of growth, finishing 2012 with $33.9 billion in sales.

The Asset Builder Index UL, a flexible life insurance solution that offers a death benefit, cash accumulation and an optional accelerated benefit rider for long term care services (ABR), is Genworth's latest index UL product. The ABR, which is available at an additional cost, allows the policy owner to access the death benefit to pay for covered long term care services.

Among Genworth's FIAs are the SecureLiving® Index 5, Index 7 and Index 10 Plus products.

Retirement needs vary more widely than thought: DFA

Conventional thinking on retirement savings is overly simplistic and is limited in its usefulness for most investors. Many standard savings plans fail to take into account personal circumstances, changing income levels and assets accumulated over time, according to new research from Dimensional Fund Advisors. The study modeled realistic income patterns based on data from thousands of households.

For example, a single saving rate recommendation fails to recognize that it may be easier for households with income of $50,000 per year to maintain their current lifestyles in retirement than households making over $100,000 per year. The reason lies with a variety of factors, including the amount of income that needs to be replaced during retirement, the increased revenue contributed by social security in lower income groups and the larger impact of employee 401(k) matches on savings.

The new study, “How Much Should I Save for Retirement?,” is a companion to 2012 research by Dimensional, “How Much Retirement Income Is Enough?” which examined the level of income that people need in retirement. That study challenged the conventional wisdom that investors need to replace 75% to 85% of their income to live comfortably in retirement. Dimensional found that the range was broader, varied greatly based on individual circumstances and using one common number was an overly simplistic approach.

American General launches Lifestyle Income Solution for GUL policies

American General Life Companies has announced the Lifestyle Income Rider, which can be teamed with AG Secure Lifetime GUL (Guaranteed Universal Life Insurance) policies to create the Lifestyle Income Solution.

“This new rider can effectively turn an American General life insurance product into a guaranteed stream of retirement income,” said James A. Mallon, president and CEO, Life Insurance, AIG Life and Retirement, in a release.

“It is… for those who need the option to purchasing life insurance to help meet their family’s financial needs if the worst should happen, while guaranteeing another source of retirement income if the best should happen,” he said.

Tim Heslin, vice president, product strategy and implementation for American General, said, “Our Lifestyle Income Solution features guaranteed monthly withdrawal benefits after as few as 15 years, regardless of the cash surrender value within the policy.

“Further, clients have the flexibility to transform a portion of their life insurance benefit while they are still living to help supplement their retirement income. Customers can choose this living benefit and then stop it during payout if they decide they no longer need it and want to maintain a life insurance benefit. If they stop the living benefit, they can restart it at a later date.”

The Lifestyle Income Solution on AG Secure Lifetime GUL is available for issue ages 18-70 in specified amounts of $100,000 to $10,000,000 (conditions and limitations apply; see your agent for details). The Lifestyle Income Solution, which has its own premium, must be issued in conjunction with the Terminal Illness Rider on AG Secure Lifetime GUL.

Northern Trust report offers details on DC plan asset

flows

Participants in employer-sponsored defined contribution retirement plans reduced their U.S. equity holdings and increased their fixed income holdings in 2012, thus missing out on at least part of last year's equity market gains, according to a report by the Defined Contribution Solutions group at Northern Trust.

On the other hand, plan participant diversified overall into international equities and increased their allocations to target date funds, two trends that Northern Trust found healthy. Northern Trust is a DC plan service provider.

Northern Trust's Defined Contribution Tracker analyzes data on 1.5 participants in 85 U.S. retirement plans with $190 billion in market value. The tracker confirmed the contradictory state of affairs in 2012—equity values were rising even as many investors seemed to be the equity markets—that some explained by pointing to substantial corporate buyback programs during the year.

In 2012, the tracker showed, participants shed domestic equities even as the Russell 3000 Index of U.S. stocks gained 16.4% for the year. U.S. equities remained the largest asset class at 31.1% of holdings but fixed income saw net positive inflows of 9.2% for the year, despite low yields.

Assets held by target retirement date funds in DC plans tracked by Northern Trust grew to 14.6% from 11.9% of participant allocations during 2012. International equity, meanwhile, grew from to 7.6% from 5.9% of allocations in the tracker universe.

"Target retirement date funds have benefited from the increased adoption of auto-enrollment and other automated features," said Susan Czochara, senior product manager in Defined Contribution Solutions at Northern Trust.

The Defined Contributions Tracker will be published annually using year-end data aggregated from DC retirement plans with daily valued assets under custody at Northern Trust.

Northern Trust has approximately $214 billion in DC assets under custody. Its global custody unit works closely with the asset management team to provide comprehensive integrated solutions for DC plans, including daily valuation, multi-manager unitization, Defined Benefit-DC integration, performance measurement and cross-border pooling.

Baucus/Hatch letter to Congressional colleagues

Next Steps on Tax Reform
Chairman Max Baucus and Ranking Member Orrin Hatch, U.S. Senate Committee on Finance
June 27, 2013

Dear Colleague,

We write today to ask you for your input as the Finance Committee moves forward with comprehensive tax reform. America's tax code is broken.

The last major reform of the tax code was the Tax Reform Act of 1986, which is considered by many as the gold standard for tax reform. However, since then, the economy has changed dramatically and Congress has made more than 15,000 changes to the tax code. The result is a tax base riddled with exclusions, deductions and credits. In addition, each year, it costs individuals and businesses more than $160 billion to comply with the tax code. The complexity, inefficiency and unfairness of the tax code are acting as a brake on our economy. We cannot afford to be complacent.

Over the past three years, the Finance Committee has been working on tax reform on a bipartisan basis. We have held more than 30 hearings and have heard from hundreds of experts on reforming the code—how to make it simpler for families and businesses and spark a more prosperous and competitive economy. In addition, over the past three months, we have issued ten bipartisan options papers totaling more than 160 pages that detail reform proposals we are considering in every area of the tax code. The full Committee has met on a weekly basis to discuss these options papers and how to put plans into action. We are now entering the home stretch.

Colleagues, now it is your turn. We need your ideas and partnership to get tax reform over the finish line. In order to make sure that we end up with a simpler, more efficient and fairer tax code, we believe it is important to start with a "blank slate"—that is, a tax code without all of the special provisions in the form of exclusions, deductions and credits and other preferences that some refer to as "tax expenditures."

This blank slate is not, of course, the end product, nor the end of the discussion. Some of the special provisions serve important objectives. Indeed, we both believe that some existing tax expenditures should be preserved in some form. A complete list of these special tax provisions as defined by the non-partisan Joint Committee on Taxation can be found at https://www.jct.gov/publications.html?func=select&id=5.

But the tax code is also littered with preferences for special interests. To make sure that we clear out all the unproductive provisions and simplify in tax reform, we plan to operate from an assumption that all special provisions are out unless there is clear evidence that they: (1) help grow the economy, (2) make the tax code fairer, or (3) effectively promote other important policy objectives.

Today, we write to ask you to formally submit legislative language or detailed proposals for what tax expenditures meet these tests and should be included in a reformed tax code, as well as other provisions that should be added, repealed or reformed as part of tax reform. In order to give your proposals full consideration as we work to craft a bill, we request these submissions by July 26, 2013. We will give special attention to proposals that are bipartisan.

To help inform your submissions, we asked the nonpartisan Joint Committee on Taxation and Finance Committee tax staff to estimate the relationship between tax expenditures and the current tax rates if the current level of progressivity is maintained. While Members of the Senate have different views on whether the revenue raised from eliminating tax expenditure or other reforms should be used to lower tax rates, reduce the deficit, or some combination of the two, we believe that everyone should understand the trade-offs involved when adding tax expenditures back to the tax code.

The blank slate approach would allow significant deficit reduction or rate reduction, while maintaining the current level of progressivity. The amount of rate reduction would of course depend on how much revenue was reserved for deficit reduction, if any, and from which income groups. However, as shown in the chart below, every $2 trillion of individual tax expenditures that are added back to the blank slate would, on average, raise each of the seven individual income tax brackets by between 1.3 and 2.2 percentage points from what they would be under the blank slate.

Likewise, every $200 billion of corporate tax expenditures that are added back to the blank slate would, on average, raise the top corporate income tax rate by 1.5 percentage points from what they would be under the blank slate. These estimates demonstrate that the more tax expenditures we allow in the tax code, the less we will be able to reduce tax rates or reduce the deficit. As we work to craft a tax reform bill, we will bear these trade-offs in mind.

While we believe that taking a hard look at every income tax expenditure is an essential part of tax reform, we also encourage you to examine other aspects of the tax code. For example, many provisions of the income tax that are not considered tax expenditures could be greatly simplified. In addition, almost half of federal tax revenues come from sources other than
income taxes. The tax reform process will therefore involve much more than just income tax expenditures.

Our tax code is bloated and outdated. The income tax was established a century ago, in 1913. And it has been a generation since our last tax reform in 1986. As Chairman and Ranking Member of the Finance Committee, we are determined to complete tax reform this Congress. We look forward to your ideas and to working together to accomplish this historic goal.
Average Effect on Tax Brackets of Adding Back Tax Expenditures, Maintaining the Current Level of Progressivity.

These estimates represent an average effect because the effect on tax rates of adding back, for example, $1 trillion in individual tax expenditures is not as large as the effect of adding back a second $1 trillion in tax expenditures. Put differently, it becomes increasingly costly to lower the tax rates as the tax rates go down through base broadening. The current level of progressivity means the level of progressivity in 2017. Certain tax expenditures are excluded from the analysis where doing so is necessary to maintain the current level of progressivity. The income ranges for the current tax brackets are for married taxpayers filing jointly.