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Budget Proposals Bode Well for Annuities

by Thomas Streiff

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Each year I dedicate at least one of my annuity columns to an explanation of the legislative landscape.

Now that the impeachment trial is over, Washington will turn its attention to budget matters. Therefore, it is now time to turn our attention to what our friends in Washington will be doing for us this year.

The White House has sent forth its budget, and the Republicans of Congress have sent forth their proposals.

Good news. No direct attacks on people who are saving for retirement. It had been rumored from very reliable sources that the White House budget would, in fact, contain a provision that would tax annuity transfers (variable annuity to variable annuity, fixed to variable annuity, and sub-account to sub-account within a variable annuity). This provision would have been similar, if not identical to the proposal in last year's White House budget. Apparently it was dropped at the 11th hour, as the White House chose not to fight against last year's losing battle.

As a practical matter, what's happening is that the Clinton agenda calls for increased spending in various areas. In order to stay within mutually agreed upon increases in the net budget outlay, some tax increases are required to offset the spending increases. Since it is unpopular to talk about tax increases especially with budget surpluses, the White House has chosen to call these items "loophole closing."

The annuity tax provision that would have taxed any unrecognized gain at the time of aforementioned transfers was to have been one of these loophole closings.

To be sure, this provision would have been a serious setback for the insurance industry, but not nearly the setback it would have been for retirement savers who put $126 billion into annuities last year. In any event, that provision is not in anyone's proposal so we don't have to deal with it this year.

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There is, however, one indirect attack on annuities. The White House proposal contains a provision to modify rules for capitalizing policy acquisition costs of life insurance companies. Its meaning is to lengthen the write-off time of policy acquisition costs. This would mean that annuities (and numerous other types of policies) would become more expensive for a carrier to write. This will result in less competitive products to the public, or lower profits to insurers, or some combination. It is unclear at this time, what the prospects are for this provision.

Now for the good news. Numerous provisions in both the White House budget and Republican proposals would be great for retirement savers, and generally good for the annuity industry. The proposals would:

- Create a new simplified pension plan for small businesses called the Secure Money Annuity or Retirement Trust, or SMART-plan.
- Allow rollovers between employer qualified plans and tax sheltered annuities.
- Allow rollovers from IRA to employer qualified plans and TSAs.
- Allow rollovers from employer-qualified plans to IRAs after-tax contributions.
- Increase the annual contribution limit on IRAs to $5,000.
- Establish both 401(k) and 403(b) plans.
- Raise contribution limits for 401(k) and 403(b)s to $15,000.

Remember, these are only rough proposals for now. We don't know which, if any, will pass.

It is a good time to do two things. First, make your views on these issues know to your elected officials. And second, look forward to your annuity business getting better and better.

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