



Insured Retirement Institute

1101 New York Avenue, NW | Suite 825
Washington, DC 20005

t | 202.469.3000

f | 202.469.3030

www.IRionline.org
www.myIRionline.org

July 14, 2014

Mr. Kevin O’Neill
Deputy Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

**Re: Enhanced Disclosure for Variable Annuities, Semiannual Regulatory Agenda,
RIN 3235-AK60, File No. S7-04-14**

Dear Mr. O’Neill:

On behalf of the members of the Insured Retirement Institute (“IRI”),¹ IRI is submitting this letter in response to the Securities and Exchange Commission’s (the “Commission”) recently published Semiannual Regulatory Agenda (the “Agenda”).² For the reasons set forth in this letter, IRI is requesting that the Commission accelerate the new timeline of March 2015 set forth in the Agenda for a rulemaking titled “Enhanced Disclosure for Separate Accounts Registered as Unit Investments Trusts and Offering Variable Annuities” and listed as RIN 3235-AK60 (“Variable Annuity Summary

¹The Insured Retirement Institute (IRI) is the leading association for the retirement income industry. IRI proudly leads a national consumer coalition of more than 30 organizations, and is the only association that represents the entire supply chain of insured retirement strategies. IRI members are major life insurers, asset managers, broker-dealers/distributors, and 150,000 financial professionals. As a not-for-profit organization, IRI provides an objective forum for communication and education, and advocates for the sustainable retirement solutions Americans need to help achieve a secure and dignified retirement.

² Regulatory Flexibility Agenda, Release Nos. 33-9563, 34-71771, IA-3803, IC-30989, File No. S7-04-14 (79 Fed. Reg. 34208, June 13, 2014).

Prospectus Rule"). We are requesting that a proposed rule be issued for comment and finalized during 2014, to enable investors and financial advisors to obtain the benefits of short, plain-English disclosures for variable annuities during 2015, the same benefits that have been available to mutual fund investors since 2009.

If a Variable Annuity Summary Prospectus Rule is not finalized during 2014, as a practical matter, variable annuity summary prospectuses will not be available to investors and financial advisors until at least early to mid-2016, more than seven years after IRI submitted its variable annuity summary prospectus proposal to the SEC and more than six years after Chairman Mary Schapiro voiced support for the development of the rule.³ We are appreciative of the public support for the development of the Variable Annuity Summary Prospectus Rule by a number of Commissioners, including Chairman Schapiro in December 2009, and every Director of the Division of Investment Management since IRI submitted its proposal in December 2008. In particular, we appreciate the announcement by SEC Investment Management Division Director Norm Champ in June 2013, that the rule is one of the Division's top four priorities among over 70 ongoing projects.⁴

This widespread support is warranted given the overwhelming preference by investors for a variable annuity summary prospectus. According to a study conducted by IRI, ninety-five percent of investors agreed, "I would prefer to receive a shorter paper summary prospectus instead of a 150 – 300 page full prospectus containing the full details, if details are available online or upon request." Six in ten individuals stated a short summary prospectus would have a positive impact on their decision to consider a variable annuity as part of their investment portfolio or to discuss it with their financial advisor.

Given the need for a Variable Annuity Summary Prospectus Rule, investors' overwhelming preference for a variable annuity summary prospectus, the Commission staff's commendable work to develop the rule, and the widespread support for the rule, we urge the Commission to propose and finalize a Variable Annuity Summary Prospectus Rule during 2014 for the benefit of millions of American investors who are making important investment decisions to plan for a secure retirement.

Retirement Security Challenges in America and the Need for Insured Retirement Products

Seventy-nine million Baby Boomers today face immediate and unprecedented retirement income challenges—challenges that simply did not exist in earlier generations. Nearly half of these Boomers,

³ Speech by SEC Chairman Mary Schapiro, "The Consumer in the Financial Services Revolution", Consumer Federation of America 21st Annual Financial Services Conference, Washington, D.C. (December 3, 2009).

⁴ Remarks to the 2013 Insured Retirement Institute Government, Legal & Regulatory Conference, by Norm Champ, Director, Division of Investment Management, U.S. Securities and Exchange Commission (June 18, 2013).

over 35 million Americans, are "at risk" for inadequate retirement income, in other words, not having sufficient guaranteed lifetime income.⁵ Just as concerning, nearly half (45%) of Generation X (ages 36-45) are "at risk" for inadequate retirement income.⁶ Alarming, only 35% of Americans 33-52 years of age have tried to determine how much they need to save by the time they retire.⁷ Meanwhile, only one-third of Baby Boomers are confident that they will have adequate retirement savings, while more than half anticipate needing to work to supplement their income during retirement.⁸

However, Boomers who own insured retirement products, which include variable annuities, have higher confidence regarding their retirement security, with 94% having confidence that their assets will last throughout all their retirement years.⁹ Seven out of every 10 annuity owners state that annuities are an important part of their retirement strategy.¹⁰ According to the same study, nearly three quarters of financial advisors stated they had received client requests about annuities in the past 12 months.¹¹

Making the need for retirement savings even greater, individuals today are living longer than earlier generations. A married couple, both age 65, faces a 60% chance that at least one spouse will live to age 90, and a 35% chance that at least one spouse will live to age 95.¹² Compounding this concern, the cost of health care is expected to continue to increase in the years ahead. For a married couple now age 65, the cost of health care and nursing home care over the remainder of their lives is expected to be approximately \$260,000.¹³ Unfortunately, only 24% of Baby Boomers believe they will have enough savings to pay for long-term care during retirement.¹⁴

⁵ Employee Benefits Research Institute (EBRI) Retirement Confidence Survey (2011).

⁶ Id.

⁷ Insured Retirement Institute, "The Retirement Readiness of Generation X" (2014).

⁸ Insured Retirement Institute, "Boomer Expectations for Retirement 2014" (2014).

⁹ Insured Retirement Institute, "Baby Boomers and Generation Xers: Are They on Track to Reach Their Retirement Goals?" (2012).

¹⁰ Insured Retirement Institute and Cogent Research, "The Evolution of the Annuity Industry" (2012).

¹¹ Id.

¹² Society of Actuaries. "U.S. Annuity 2000 Mortality Table."

¹³ Center for Retirement Research at Boston College, "What Is the Distribution of Lifetime Health Care Costs from Age 65?" (2010).

¹⁴ Insured Retirement Institute, "The Long-Term Care Challenge" (2012).

Variable Annuity Summary Prospectus Rule Would Further President’s Middle Class Task Force Recommendations and Other Federal Policy Actions to Facilitate Use of Annuities

As a result of these imminent retirement income challenges facing Americans (consumers’ lack of sufficient guaranteed lifetime income), there is an unprecedented level of public policy focus by the federal government on encouraging and facilitating the use of guaranteed lifetime income products like variable annuities. In 2010, the President’s Middle Class Task Force recommended “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.”¹⁵

Following this recommendation, the Departments of Treasury and Labor have issued draft and final rules to facilitate “access to, and use of, lifetime income or other arrangements designed to provide a stream of lifetime income after retirement,”¹⁶ and the Administration continues to explore other ways to achieve this important goal. The Congress is also considering a number of pieces of legislation that would increase Americans’ knowledge about, and facilitate access to, lifetime income products like variable annuities, including: (1) the Secure Annuities for Employee (SAFE) Retirement Act,¹⁷ sponsored by Senate Finance Ranking Member Orrin Hatch’s (R-Utah), (2) the Universal, Secure, and Adaptable (USA) Retirement Funds Act,¹⁸ and (3) the Lifetime Income Disclosure Act introduced in both the House and Senate,¹⁹ as well as other bills that are in development but have not been introduced yet.

IRI commends the President’s Administration and the Congress for their leadership on these issues. The retirement savings challenges facing Americans should be a high priority for all public officials. Commission action on a Variable Annuity Summary Prospectus Rule would be consistent with and support these other federal policy initiatives that are aimed at addressing the need for adequate retirement savings and guaranteed lifetime income. SEC action would also be consistent with the

¹⁵ See White House Fact Sheet: Supporting Middle Class Families. See also Annual Report of the White House Task Force on the Middle Class, 27 (February 2010).

¹⁶ See Request for Information on Lifetime Income Options for Participants and Beneficiaries in Retirement Plans, 75 Fed. Reg. 5253, 5255 (February 2, 2010); Advance Notice of Proposed Rulemaking on Pension Benefit Statements, 78 Fed. Reg. 26727 (May 8, 2013); Longevity Annuity Contracts, 79 Fed. Reg. 37633 (July 2, 2014) (to be codified at 26 C.F.R. pts. 1 and 602).

¹⁷ S. 1270, 113th Cong. (2013) (referred to the Committee on Finance on July 9, 2013)

¹⁸ S. 1979, 113th Cong. (2014) (referred to Committee on Health, Education, Labor, and Pensions on Jan. 30, 2013);

¹⁹ H.R. 2171, 113th Cong. (2013) (referred to the House Committee on Education and the Workforce on May 23, 2013); S. 1145, 113th Cong. (2013) (referred to Committee on Health, Education, Labor, and Pensions on June 12, 2013) .

Commission's own mutual fund summary prospectus rule,²⁰ which has been very successful by all accounts, and the Commission's recent efforts to address disclosure overload.²¹

Need for Summary Information and Layered Disclosure for Consumers and Financial Advisors

As emphasized previously, ninety-five percent of investors would prefer to receive a shorter paper summary prospectus if full prospectuses with all the details are available online or upon request.²² Again, it is very significant that six in ten individuals stated having a short summary prospectus would have a positive impact on their decision to consider a variable annuity as part of their investment portfolio or to discuss it with their financial advisor.²³

High investor demand for a variable annuity summary prospectus is understandable given full variable annuity prospectuses can range from 150 to 300 pages, and contain voluminous legal, actuarial, and regulatory language that is difficult for investors to comprehend. As a result, full prospectuses are not used by most investors, with less than 3% of investors saying they always read some part of the prospectus and questions by most consumer experts as to whether these investors may be confusing other product informational materials with the prospectus.²⁴

The Variable Annuity Summary Prospectus Rule would address these issues by providing a layered approach to disclosure starting with a concise, plain-English summary prospectus document that provides investors with key information about a products' benefits, costs, and risks in an easy-to-read format that enhances the investors' decision-making process. An investor who wants more details at any point can either ask his or her financial advisor for additional information, the approach most investors will take, or access the full prospectus online or in hard copy upon request.

Conclusions

Considering the need for a Variable Annuity Summary Prospectus Rule, investors' overwhelming preference for variable annuity summary prospectuses, the Commission staff's commendable work to develop the rule, the amount of time since the rule was first proposed, and the widespread support

²⁰ See Enhanced Disclosure and New Prospectus Delivery Options for Registered Open-End Management Investment Companies, Rel. Nos. 33-8861 and IC-28064 (Nov.23, 2007) (Proposing Release) and 33-8998 and IC-28584 (Jan. 13, 2009) (Adopting Release).

²¹ SEC Study Regarding Financial Literacy Among Investors (August 2012); SEC Chair Mary Jo White Speech at the National Association of Corporate Directors - Leadership Conference (Oct. 15, 2013).

²² Variable Annuity Summary Prospectus--High in Demand by Consumers: Examination of Consumer Preferences, Industry Perspectives (IRI, June 2011).

²³ Id.

²⁴ Id.

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for the rule, we urge the Commission to finalize a Variable Annuity Summary Prospectus Rule during 2014 for the benefit of millions of American investors who are making important investment decisions to plan for a secure retirement.

Again, IRI appreciates the good work of the Commission staff, and we are available to provide any additional assistance or information that the Commission or its staff may find helpful in moving forward with the Variable Annuity Summary Prospectus Rule.

Respectfully submitted,

A handwritten signature in black ink, reading "J. Lee Covington II". The signature is written in a cursive, flowing style with a large initial "J" and "C".

J. Lee Covington II
Senior Vice President and General Counsel

cc: SEC Chair Mary Jo White
Commissioner Luis A. Aguilar
Commissioner Daniel M. Gallagher
Commissioner Kara M. Stein
Commissioner Michael S. Piwowar
Director Norm Champ, SEC Division of Investment Management
Associate Director Susan Nash, SEC Division of Investment Management