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American Council of Life Insurers Testimony in Support of LD 1720, An Act to Phase out the Insurance Premium Tax on Annuities

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Senator Grohoski, Representative Perry, and members of the Taxation Committee, my name is Michelle Carroll Foster. I am Regional Vice President of State Relations at the American Council for Life Insurers (ACLI), based in Washington, D.C. I am before you today in support of LD 1720, An Act to Phase out the Insurance Premium Tax on Annuities.

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 94 percent of industry assets in the United States. There are 210 ACLI member companies licensed to do business in Maine, accounting for 97 percent of all life and annuity payments.

Annuities Are an Important Product for Retirement Security

Annuities are a secure investment. They are an increasingly popular way to supplement a pension plan or to create retirement income for those without a pension plan- and as we know, fewer and fewer employees have pension plans these days.

Recognizing the need to encourage private retirement savings, the federal government defers taxing the income earned on an annuity until it is paid out. Under current Maine law, a premium tax of 2% is applied to the purchase of annuities considerations. This premium tax ultimately increases the cost to the purchaser, making it more difficult for Mainers to provide for and fund their own secure retirements.

Maine's annuity tax takes \$20 from every \$1000 of Mainers retirement savings with the greatest burden of this tax falling on workers without employer-sponsored retirement plans, small business owners and the self-employed. These annuities are funded with after-tax dollars, unlike retirement plan contributions; an annuity tax subjects them to a second tax that is not imposed on employer-sponsored plans funded with pre-tax dollars.¹

Life insurers doing business in Maine are in a very competitive market and are at a disadvantage with respect to the sale of annuity products when those products are competing with other retirement products offered by other financial institutions.

Maine is in the Minority of States that Tax Annuities

All but seven states fully exempt annuities from premium taxes in order to encourage their citizens to purchase annuities to save for retirement. Maine's 2.0% tax rate is exceeded only by California (2.35% on non-qualified annuities) and Nevada (3.5%). The other states that tax annuity considerations are Colorado (2.0% - non-qualified only), Florida (1.0%), South Dakota (1.25%) and Wyoming (1.0%).

Additionally, unlike Maine, Florida, Nevada, South Dakota, and Wyoming have no income tax, and necessarily rely more on other types of revenue like a tax on annuity considerations. Maine has an income tax, so the same logic does not apply. Maine is also the only state in New England to impose a tax on annuity considerations, making it an outlier.

Other States Have Repealed Taxes on Annuities

Over the last thirty or so years, the trend has been for states to repeal their taxes on annuity consideration. Those states include Alabama, the District of Columbia, Kansas, Kentucky, Mississippi, North Carolina and Pennsylvania. West Virginia is the most recent state to successfully pass a repeal bill.

Maine is now the only state other than California with a tax on annuity considerations that also has an income tax. In California, the tax on annuity considerations is embedded in the constitution, and it would take a 2/3 vote to repeal, which is largely why California has not been able to repeal its tax.

Conclusion

Maine can align itself with the tax policy of the other New England states, provide a significant boost to Mainers who are trying to provide for their own retirement security, and level the playing field for the annuities investment market in Maine by supporting the passage of LD 1720. We appreciate the opportunity to provide comments in support of this legislation, and we urge the Committee to report out the bill as Ought to Pass.

Thank you for your consideration.

Michelle Carroll Foster