

MEMO# 16941

January 9, 2004

DRAFT COMMENT LETTER URGING TREASURY AND IRS TO ALLOW VARIABLE ANNUITIES TO INVEST EXCLUSIVELY IN TREASURY SECURITIES

[16941] January 9, 2004 TO: TAX COMMITTEE No. 2-04 VARIABLE INSURANCE PRODUCTS ADVISORY COMMITTEE No. 1-04 RE: DRAFT COMMENT LETTER URGING TREASURY AND IRS TO ALLOW VARIABLE ANNUITIES TO INVEST EXCLUSIVELY IN TREASURY SECURITIES

Attached is a draft comment letter urging Treasury and the IRS to amend Treas. Reg. 1.817-5 to allow variable annuity contract assets to be invested exclusively in Treasury securities, including Treasury inflation-protected securities (TIPS). The comment letter notes that, under Treas. Reg. 1.817-5(b)(3), variable life insurance contract assets are currently allowed to be invested exclusively in Treasury securities, and that there is no policy or statutory reason why variable annuities must – or should – be treated differently. The draft further suggests that the decision to issue TIPS is a significant development that warrants expanding the special diversification rule to include variable annuities as well as variable life insurance contracts. The letter points out that TIPS offer individuals the opportunity to purchase economic protection against inflation risk, and this goal is consistent with Congressional intent of Section 817(h). The draft concludes that individuals should be allowed to purchase protection against inflation risk through variable annuities, and such a change should also benefit the government through an increased market for TIPS. If you have any comments on the draft, please contact the undersigned by Tuesday, January 20, 2004 at dorlin@ici.org or 202/371-5436. David Orlin Assistant Counsel

Attachment (in .pdf format)