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Infrastructure Bond Bill Could Boost Life Insurers' Earnings.

What You Need to Know

- U.S. life insurers ended 2020 with $2.1 trillion in corporate bonds and just $208 billion in municipal bonds.
- Under S1308, the Treasury Dept. would help state and local governments pay higher rates on eligible taxable bonds.
- The ACLI, SIFMA and the Insured Retirement Institute all support the bill.

Republicans and Democrats are working together on a bill that could encourage life insurers to invest in efforts to build and maintain bridges, tunnels, subways and renewable energy programs.

Sen. Michael Bennet, D-Colo., talked about S1308, the "American Infrastructure Bonds Act of 2021″ bill, at a hearing on infrastructure financing Tuesday that was organized by the Senate Finance Committee.

The bill could help state and local governments issue taxable municipal bonds, to attract cash from life insurers, pension plans and IRA holders for infrastructure projects.

Senators and witnesses spent much of their time at the hearing discussing options for increasing and using federal revenue.

But Sen. Ron Wyden, D-Ore., the committee chairman, did talk about the Build America Bond program in his opening remarks. Congress created that taxable infrastructure bond program in 2009, in response to the 2007-2009 Great Recession. The goal was to rush money to "shovel ready" construction projects.

"It was completely bipartisan," Wyden said.

He recalled estimating that the program might succeed at issuing about $3 billion to $5 billion worth of bonds.

"In a year and a half, it sold $182 billion worth of bonds," Wyden said. "That's an example of a public-private partnership coming together."

Taxable Bonds vs. Tax-Exempt Bonds

Today, state and local governments borrow money mainly by issuing tax-exempt municipal bonds.

Investors who normally do have to pay income taxes on investment earnings buy the bonds to earn a steady income while holding down their tax bills.

Corporations and some other buyers issue taxable bonds. Those bonds typical pay higher interest rates than tax-exempt bonds, because investors subject to income taxes must pay taxes on their bond income. Life insurers, pension plans and IRA holders typically focus on investing in taxable bonds because they like getting higher yields, and they need not pay taxes on the earnings while they hold the bonds in their portfolios.

U.S. municipal bond issuers have about $3.9 trillion in municipal bond value outstanding, according to the Municipal Securities Rulemaking Board.

Figures from the Securities Industry and Financial Markets Association (SIFMA) show U.S. corporate bond issuers have about $46 trillion in corporate bond value outstanding.

U.S. life insurers ended 2021 with $2.1 trillion trillion in corporate bond holdings and just $208 billion in municipal bond holdings.

Life insurers are hungry for new investment ideas that regulators can live with, because typical yields on investment-grade corporate bonds are under 4%.

Higher yields on bonds could make it easier for offer richer life insurance, annuity, long-term disability insurance and long-term care insurance products at lower prices.

The American Infrastructure Bonds Act

Bennet has introduced S1308 together with Sen. Roger Wicker, R-Miss. The bill has a total of four Republican sponsors and cosponsors and five Democratic backers.

The bill would let state and local governments issue taxable bonds for any public purpose that the same governments could fund with traditional tax-exempt municipal bonds, according to an S1308 summary.

Because buyers of the taxable bonds would have to pay income taxes on the bond income, issuers would have to pay higher rates than issuers of comparable tax-exempt municipal bonds.

The bill would compensate the issuers for the extra interest payment costs by having the U.S. treasury secretary and the defense secretary send the issuers direct subsidy payments.

The bonds "have the potential to attract investment in local communities from a wider range of investors than are typically interested in tax-exempt municipal bonds," according to the bill summary.

The list of supporting organizations includes the American Council of Life Insurers, the Insured Retirement Institute and the SIFMA.

The Hearing

Bennet noted at the infrastructure hearing that S1308 is bipartisan.

"The bill would create a new class of direct-pay, taxable bonds, to help state and local governments finance critical public projects, " Bennet said. " These bonds would be similar to Build America Bonds."

Bennet asked a witness, Heather Buch, the transportation steering committee chair at the National Association of Counties, whether the bonds would be helpful.

"It will greatly improve our ability to invest in the critical infrastructure projects and improve the resiliency of our many county-owned infrastructure assets," Buch said. "We believe that the direct-pay bonds, like the Build America Bonds, are an excellent complement to municipal bonds."

ThinkAdvisor

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May 19, 2021

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