
Cerulli Calls DB(k) a “Diamond in the Rough”

By Editor Test *Wed, Dec 23, 2009*

But the consulting firm says that neither advisors, asset managers or investors are enthusiastic about the one-year opportunity for Roth IRA conversions.

On January 1, 2010, employers will be able to install “DB(k)” benefits. These new retirement savings vehicles blend the guarantee of a pension with the growth potential and ease of use of a 401(k), according to the fourth quarter issue of The Cerulli Edge–Retirement Division.

“The major advantages of these plans relate to compliance concerns,” the report said. “These plans are exempt from typical top-heavy or non-discrimination 401(k) testing rules so they can be skewed toward highly paid workers. They also have simplified filing requirements when run in tandem with a 401(k) plan. Cerulli views the DB(k) plan as a buried gem in 2010.

“DB plans in general are receiving short-term funding relief from stricter rules imposed by the PPA, but funding pain is quite acute with experiences from the current recession likely hastening the private pension’s decline. But, Cerulli believes a diamond in the rough exists in the PPA that seeks to revive pension benefits in combination with 401(k) plans—the DB(k) plan for 2010.”

In other findings, Cerulli reported:

Disappointment. The timing of poor economic conditions and a change in executive leadership has derailed the great intentions of PPA for enhancing growth in DC plans.

Damp reception. A one-time Roth IRA conversion opportunity in 2010 is being met with skepticism by providers fearing movement of sticky IRA assets, anxiety by advisors confounded by predicting tax changes, and confusion by investors about the true benefits of a Roth IRA.

Hybrid vigor. The PPA’s 2010 clarification of the tax treatment of long-term care payments from annuity products effectively enables the development of so-called annuity/long-term care insurance combination products, requiring insurance companies to examine how they might construct and distribute these hybrids.

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