
Milliman Proposes "Simple, Obvious" In-Plan Annuity Fix

By Editor Test *Wed, May 12, 2010*

"The life insurance companies have a big opportunity here," said Ken Mungan of Milliman. "They should jump on it."

In its response to the Department of Labor's Request for Information about adding guaranteed lifetime income options to 401(k) plans, Milliman, the global consulting firm, has offered a solution that it calls "simple, obvious and easily implemented."

For the insurance component, Milliman recommends offering participants stand-alone guaranteed lifetime withdrawal benefits similar to those used by Prudential Retirement in its IncomeFlex in-plan product and recently introduced by Great West Life as part of its SecureFoundation institutional GLWB.

But a significant portion of the plan sponsor community will embrace such a distribution option, says Ken Mungan, leader of Milliman's financial risk management practice, only if several highly-rated insurance companies create a trust that pools the hedging assets that back up their guarantees, collateralized on a monthly basis. If any one of the insurers in the pool defaults, he said, the trust will support the guarantees.

Plan sponsors have already told Milliman that they will not accept a lifetime guarantee from a single provider. "We've gone to many plan sponsors with that proposal and they've rejected it," Mungan told RIJ. "If you're a plan sponsor, this is an absolute requirement. They want a system that is going to withstand the failure of specific insurance companies, and where their obligation is collateralized and hedged."

"We feel that those hedge assets should be dedicated to back those guarantees, in a separate account," he added. "If there is a credit event associated with a life insurance company, there won't be a panic because they know there's a specific security held for the plans' benefit. The system is so large that it far exceeds the risk bearing capacity of any single company, and spreading risk across insurance companies is also a good idea."

This solution "will originate from the large 401(k) platforms. Each major platform will want a pool for their customers, and will want a group of insurance companies" to support the guarantees. Both the plan sponsors and insurance companies need guidance from DoL on an acceptable way to do this. There has to be clear standards. The life insurance companies have a big opportunity here. They should jump on it, because they need a source of growth, and this could be a big win," Mungan said.

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