Part III: Industry Answers

By Editor Test *Wed, May 12, 2010*

In the final week or two of its RFI on in-plan annuities, the Labor Department began receiving comments from the industry that has a big stake in the way 401(k) assets are distributed.

Not everyone was swept away by the paranoia about confiscation. On February 24, the following e-mail posts appeared on Morningstar's Boglehead Forum, where fans of Vanguard founder Jack Bogle's low-cost investing philosophy gather to chat and deconstruct the economic news:

Paula H.: *I keep hearing on the radio that the Government is considering a mandatory conversion of 401K funds to Government annuities for the protection of retirees. Searching, I have not been able to confirm that this is being discussed by government policymakers. Do any of you know about this and its likelihood? Thanks!*

Bobcat2: *I believe what's being discussed at least among academics is that most DC plans include an option at retirement for the employee to annuitize some portion of the DC portfolio. Currently most DC plans don't have such an option. (Small firms might be exempted from offering this option.) I believe what's also being discussed is that such an option could be made reversible, say after a period two years, with only a small penalty for dropping the annuity.*

In the last few days of the 90-day window for public comments on 39 questions about annuity options for defined contribution plans, the DoL was deluged with lengthy papers from dozens of companies, groups and individuals. Almost every player in the retirement income industry, representing millions of people and trillions of dollars in savings and investments, filed pdfs ranging in length from three to 90 pages.

They included financial services companies (insurers, plan providers, banks and fund companies) like TIAA-CREF, Prudential Financial, Allianz Life, MetLife, Lincoln Financial, Putnam Investments, American Equity Life, Great-West Retirement Services, AEGON USA, ING, Alliance-Bernstein, Genworth Financial, Vanguard, Fidelity, T. Rowe Price, John Hancock, Wells Fargo, J.P. Morgan Asset Management, New York Life, BlackRock, Nationwide, The Hartford, Raymond James, Charles Schwab and Mutual of Omaha.

Also submitting comments were trade groups like the Insured Retirement Institute, the Profit Sharing Council of America, the Retirement Income Industry Association, the American Council of Life Insurers, the American Society of Pension Professionals and Actuaries, the Investment Company Institute, the Women's Institute for a Secure Retirement, the SPARK Institute, LIMRA, the AFL-CIO, SIFMA, the Pension Rights Center, the Defined Contribution Institutional Investors Association, the National Association of Fixed Annuities and many others.

Then there were consulting firms and academic groups like Financial Engines, Morningstar Inc., the Pension Research Council at the Wharton School, Milliman, Hewitt Associates, the law firm of Morgan Lewis, Pension Consultants Inc., Dietrich & Associates, the Individual Finance and Insurance Decisions

Centre at the Fields Institute in Toronto, and many others.

At press time, there were submissions too many to read, let alone analyze or assess.

Regarding the provocative Question 13, most seemed to agree that annuities should not be a mandatory offering in 401(k) plans.

The suggestions were nothing if not diverse, however. Some advocated stand-alone living benefits. Others promoted institutionally priced income annuities. Others advocated longevity insurance. In one submission, Scott Stolz, president of the Raymond James Insurance Group, suggested three ways to make “a simple lifetime income option work within existing defined contribution plans”:

1. *Provide a projected income quote on retirement plan statements, based on current annuity rates, along with the account balance.*
2. *Allow retirement plan participants to purchase future income with existing assets, in chunks, systematically and irrevocably.*
3. *Only the biggest and strongest insurance companies should be allowed to offer income plans, and the federal government must guarantee the income payments.*

And some said that, except for promoting financial education, government should leave the defined contribution plan alone. Here’s a submission in that vein from Ryan Boutwell, a retirement plan advisor in suburban Minneapolis:

“I would like to offer my opinion regarding the discussion of Lifetime Annuities being offered within company qualified plans. I am a consultant in the qualified plan industry and have worked with hundreds of business retirement plans over the last 10 years. I do not believe requiring plans to have an annuity feature is a good idea.

“The retirement plan industry is already grappling with the fee disclosure issue and I tend to find small plans are already burdened with onerous compliance rules. Adding a requirement of an annuity feature is going to add more cost inside these plans that are already expensive to administer and invest in.

“It might benefit some of the insurance/annuity providers of retirement plans, but it will definitely be a burden to the pure mutual fund/open architecture recordkeeping programs. These programs are often the most cost competitive for small business plans.

“In an industry that is already under a lot of fee scrutiny adding in another possibly expensive layer of requirements to have a mandatory annuity feature is not a constructive move in my opinion. Especially considering that annuity products are already available to former plan participants on the open market away from their employer.

“If you ask me, the retirement plan industry does not need more requirements to meet, it needs less and from a participant standpoint, participants need more education. I have met with thousands of business retirement plan participants over the last 10 years, most of them are looking for simplification and good

solid financial advice. An annuity can be an appropriate investment vehicle for some employees, but it is not a one-size-fits-all solution and at the end of the day it comes back to education to the participant.

"A better-educated participant will make better choices and this will benefit everyone from the Small Business that offers a plan to the participant, to the Vendors that work in this industry. If you are looking to make changes to retirement plans don't do it by mandating new features that may be right for some, but not others, do it by promoting education within the workforce."

Now the Department of Labor will try to sift through hundreds of thousands of words to see what patterns or conflicts or insights emerge. The executive branch is also getting into the act. On June 16, the Senate Special Committee on Aging, chaired by Sen. Herb Kohl (D-WI), will hold hearings on the matter. Presumably the committee will want to hear all sides of the story. *;RIJ* will attend and report on the proceedings.