The View from the Income Summit

By Editor Test *Wed, May 26, 2010*

At the Lifetime Income Summit in Washington last week, federal officials and financial industry executives amiably swapped views. But competitive tensions lay not far beneath the surface. Rep. Earl Pomeroy, D-ND (at left), was a featured speaker.

Some managers like to tackle big, hairy problems by giving people colored pushpins, felt-tip markers, and big sheets of newsprint and then telling them to pin the paper to the walls and start scribbling their ideas.

The Departments of Labor and Treasury seem to have had a similar goal in mind this spring when they issued their Request for Information (RFI) about adding lifetime income options to 401(k) plans.

But instead of having people post their ideas on newsprint pinned to the wall, the DoL solicited the ideas via the Internet and posted all of them—unless obscenity-laced—on the website of the Employee Benefits Security Administration (EBSA).

Since that started, some interesting discussions have begun. Several of them unfolded last Thursday at the Lifetime Income Summit in Washington, D.C. Organized by AARP, ASPPA and WISER (Women's Institute for a Secure Retirement), the event was deemed a great success by the 250 or so people who attended—many of whose companies and organizations had submitted opinions to the RFI.

It's not that anything dramatic happened. The one-day conference ended without producing any major decisions or conclusions, and none are expected soon. "[Labor Secretary] Phyllis Borzi believes in very deliberative decisions," said Michael Davis, Deputy Assistant Secretary of Labor at EBSA.

But the meeting was attended by many of the most active players and thinkers in the institutional retirement space, and before the day was over, most of the major issues—like whether people are most likely to think about income before or after they leave their plans—had been aired.

Just to drop a few names at random: Bob Reynolds of Putnam Investments, Rep. Earl Pomeroy (D-ND) (pictured above), Mark Iwry of the Treasury Dept., Steve Utkus of the Vanguard Group, Sandy Mackenzie of AARP, Kelli Hueler of The Hueler Companies, Jody Strakosch of MetLife, Christine Marcks of Prudential, Dallas Salisbury of the Employee Benefit Research Institute and Francois Gadenne of the Retirement Income Industry Association.

There were a couple of clear "takeaways." First, there's no governmental plot to force participants to buy annuities, according to Jason Furman of the Treasury Department. But that doesn't preclude a partial "default" into an annuity for people leaving 401(k) plans. Bureaucrats and Congressional staffers also emphasized that the Obama administration has no plans to dictate the course of retirement income industry. They made it equally clear that the industry shouldn't expect any new tax breaks.

Fiduciary liability was the top issue for 401(k) plan providers. Their primary customers, the plan sponsors, fear participant lawsuits if they recommend an annuity and the issuer subsequently goes out of business.

Before they will offer in-plan annuities, plan sponsors the government to identify a safe harbor solution that they can offer and not get sued.

"You can't overestimate the potential for litigation," said Lynn Dudley, senior vice president, policy, of the American Benefits Council, a plan sponsor group.

There are other obstacles that need to be cleared away before annuities can be offered in 401(k) plans. One is the absence of a mechanism that allows participants of employer-sponsored plans generally to annuitize a portion of their savings or benefit and take the rest as a lump sum.

It wasn't clear why this is so, especially when, as Dallas Salisbury, president and CEO of EBRI, noted, "It only takes annuitization of 10 to 15 percent of assets to ensure that people won't run out of money."

Another problem involves the lack of resolution over joint and survivor annuities. Most retirees, including couples, opt for single life annuities when they can. But some policy makers don't want to see surviving spouses on welfare, so a joint-and-survivor contract is likely to be their choice for a default annuity.

The meeting was not a pure lovefest. There were hints of a deep disagreement within the retirement industry over whether rollover IRAs or 401(k) plans will be the arena where most Boomers will decide whether to buy an annuity or a payout mutual fund or not.

Steve Utkus of Vanguard's Center for Retirement Research and William Gale of the Brookings Institution both tossed polite grenades into the punchbowl by suggesting that the workplace either will not (Utkus) or should not (Gale) be the locus of individual decision-making about retirement income.

"There nothing that has to be done at the employer level," Gale said. "Years from now we'll look back and wonder why we even considered this. There's no reason why distribution from defined contribution plans should be firm-specific. It would be better if employers let it go. Employers pay salaries but don't worry about how employees spend them. They give people health benefits but don't tell them which doctors to go to. Firms can care about their employees' retirement security and not try to control how they spend their savings."

Of course, the retirement income opportunity is big enough to accommodate both scenarios. It may come to pass that millions of rank-and-file participants are auto-enrolled, auto-invested in target date funds, make auto-escalated contributions and are defaulted into some kind of joint-and-survivor annuity-all without leaving the plan. That will enable current plan providers to continue to manage the money.

But, even if that happens, it won't prevent millions of mass-affluent or high net worth participants from consolidating tax-deferred savings accounts from half a dozen jobs into one rollover IRA and collaborating with an advisor on a bespoke retirement income strategy. That will provide plenty of opportunity for financial advisors.

In other words, it's not necessarily a zero sum game. But the competition for assets is nonetheless serious. At the end of last year, a tipping point was reach. The amount of money in IRAs exceeded the amount of money in 401(k) plans for the first time, by $4.2 trillion to $4.1 trillion. (See cover story “Who’s Winning the Rollover War?” for more on that.)

Coincidentally or not, large plan sponsors recently reversed course and said they now prefer that former employees keep their assets in their plans. It could be a sign that the fight for Boomer assets is intensifying. As DoL and Treasury officials pore over the RFI submissions and try to develop helpful public policy in this area, they should take care not to get caught in the crossfire.