Vanguard suggests SWiP option for DoL income illustration

By Editor Test *Thu, Aug 29, 2013*

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Vanguard, one of the country's largest 401(k) providers, has taken a maverick position in its official comments to the Department of Labor about the DoL's proposal to require plan sponsors to present illustrations on participant account statements showing how their account balances might translate into lifetime income streams in retirement.

Signed by Steve Utkus, principal and head of Vanguard Center for Retirement Research, Vanguard's letter said that defined contribution (DC) plan participants are best served by allowing a choice of "income modeling tools and approaches that reflect each plan's specific population and provisions." Vanguard's choice would be to use the systematic withdrawal method as an illustration, rather than annuities.

Vanguard, whose philosophy has traditionally been that diversification is adequate protection against market risk for long-term investors, doesn't support the assumption that participants will annuitize their accounts at retirement, even for the purposes of illustration, because participants so rarely annuitize.

Vanguard, a specialist in the direct marketing of low-cost index funds, sells no-load deferred and variable annuities, but its contracts are manufactured for it by outside life insurance companies.

According to a Vanguard release, the company "notes concern about the proposed requirement to project retirement income based on an assumption that participants will annuitize their entire account balances at retirement." Its letter to the DoL said that this 'does not comport with plan provisions or participant behavior,' and cited the facts that relatively few DC plans offer annuities and most participants prefer lump-sum distributions even in plans that offer annuitized payments.

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