Docket: IRS-2010-0006
Request for Information Regarding Lifetime Income Options for Participants & Beneficiaries in Retirement Plans

Comment On: IRS-2010-0006-0001
Request for Information Regarding Lifetime income Options for Participants and Beneficiaries in Retirement Plans

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General Comment

Predictability of (or providing) an income stream to 401(k) participants is a major concern that is not currently adequately addressed by mutual fund providers. Defaulting participants into, or even offering, annuities is not the answer for several reasons including annuity expenses, the need to understand options (joint/survivor, period certain, inflation protection, etc.), communicating irrevocability, and understanding individual mortality risks.

Improving the structure of life-cycle funds by including mutual funds with a "managed distribution program" as the core of the fixed income portion not only in the draw-down period but also during the 10 or so transition years lead to the retirement date would greatly enhance their effectiveness. It would largely eliminate the timing risk associated with a one-time purchase of an annuity. It would be more indicative of the expected income flow during retirement while the participant still had approximately 10 years during which he could change his contribution pattern. It would avoid the risk of irrevocably dedication money to an income product thereby making it unavailable for late in life expenses. It avoids issues that annuity providers must price into their contracts such as changes in mortality, adverse selection, and risks in investment returns.
Additionally, "through retirement" life-cycle fund providers should provide the option to regularly liquidate a % of holdings versus a fixed $ figure. Liquidating a fixed percent would result in some variability in the periodic amount received by the retiree, but would have the benefit of harvesting more dollars when prices are high and fewer dollars when prices are low. It would also eliminate the risk of outliving retirement assets.

In my experience as a plan sponsor, changes like these would make the life-cycle product superior to an annuity, and more attractive to both active and retired plan participants.