



Principal Life  
Insurance Company

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Submitted electronically at [e-ORI@dol.gov](mailto:e-ORI@dol.gov)

Employee Benefits Security Administration  
U.S. Department of Labor and  
Internal Revenue Service, Department of The Treasury  
200 Constitution Avenue NW  
Washington, DC 20210

Subject: RE: Follow up to the Hearing on Certain Issues Relating to Lifetime Income Options for Participants and Beneficiaries in Retirement Plans

Dear Sir or Madam:

Thank you for the opportunity to testify before the Employee Benefits Security Administration, U.S. Department of Labor and the Internal Revenue Service, Department of the Treasury last month during the "Hearing on Certain Issues Relating to Lifetime Income Options for Participants and Beneficiaries in Retirement Plans."

As a follow up to my testimony, I'd like speak on behalf of the Principal Financial Group® about the challenges of placing a deferred annuity, as an investment option, inside a defined contribution retirement plan. Sometimes referred to as "in-plan guarantees", the product I want to address uses living benefit riders attached to variable annuities, which charge fees during accumulation to cover the guaranteed minimum withdrawal benefit (GMWB) feature that may or may not be used in retirement.

At the Principal Financial Group, we believe participants are most prepared to make decisions around retirement income as they approach retirement. Rather than paying additional fees for a guarantee they may not use, a more beneficial approach is to offer guaranteed lifetime income options to participants at retirement as a distribution option. This strategy allows assets to grow without additional fee burden during accumulation while maintaining flexibility to customize a retirement income plan when actual needs are better understood.

The Principal® has offered a variable annuity product with a living benefit rider for five years through our *retail* distribution channel. When sold on a retail basis, investors have the benefit of working with a financial professional who is able to identify the specific goals and needs of each client to ensure this type of product is an appropriate solution and to make sure the client fully understands how it works. Due to the complexity of this product, investors need the one-on-one guidance of a financial professional in order to fully understand what they are purchasing and to ensure it is the right solution for their situation.

When positioned as a one-size-fits-all solution within a defined contribution retirement plan, participants rarely have the benefit of much needed one-on-one guidance to make sure they know what they are getting.

In addition to the educational and suitability challenges, portability remains of significant concern. This issue impacts all parties involved, including the participant, plan sponsor, record keeper, and insurer.

- Participant: If an employee leaves an employer for any reason, there is currently no viable solution that allows the employee to continue making contributions, even if they become eligible to contribute to another defined contribution retirement plan because the new plan may not offer this kind of option or it may be with a different company. This can result in small balances that are insufficient in providing lifetime retirement income. Alternatively, the employee may cash out the account. That means the employee will have paid fees, potentially for many years, for an income guarantee that will not be used.
- Record Keeper: A plan sponsor may lose flexibility when changing record keepers once living benefits are allowed in the plan. Unlike mutual funds that can transfer data on a common platform, such as the National Securities Clearing Corporation (NSCC), existing living benefit products vary in design making data transmission a challenge and expensive to implement. Recordkeeping these investments can be very expensive, and not all recordkeepers are willing to do so.
- Insurer: The plan sponsor is also restricted to the chosen insurer because there is currently no way to transfer the income guarantee to a new insurer. Or the plan sponsor/fiduciary may want to change investment options because of underperformance or lower fees, but is restricted from doing so.

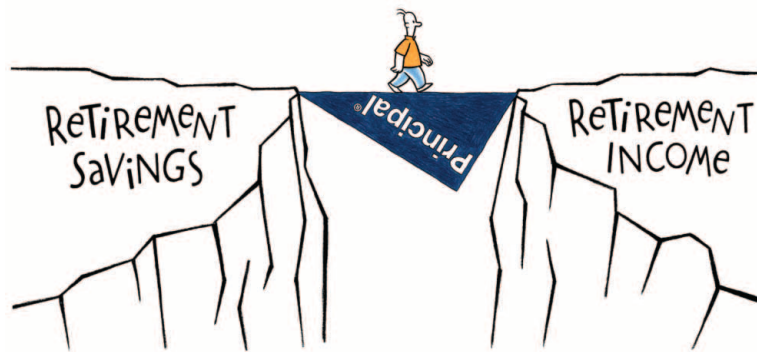
To inform plan advisors about the concerns of using variable annuities as an investment option within a defined contribution retirement plan, The Principal offers the attached educational piece. I believe you will find this very informative as it contains key findings from trusted industry leaders.

Your consideration of these concerns is greatly appreciated.



Greg Burrows  
Senior Vice President  
Principal Financial Group

Enclosure



## Comparing Guaranteed Income Options

### Why does the traditional and tested approach win?

For the past several years, there have been various new approaches within the industry to include a deferred annuity as an investment option within the accumulation phase of 401(k) plans. These newer “one-size-fits-all” approaches have received considerable attention and have been described by the industry in several ways, but are typically referred to as “in-plan guarantees.”

Unfortunately, there is considerable misunderstanding about this untested approach to offering participants of 401(k) plans a form of guaranteed income as an investment option. As one of the 401(k) retirement plan leaders,\* the Principal Financial Group® continues to stand by the traditional and proven approach of providing a guaranteed income solution as a distribution option at the time of retirement, when an individual has the most understanding of his or her financial needs and resources.

#### MYTH

*“Everybody is adopting the in-plan-guarantee approach that offers a deferred annuity as an investment option.”*

#### FACT

*“Despite years of ongoing media and industry coverage ... Only 4% of employers have an annuity or insurance product as an investment option within their plans.”*

Source: Hewitt Associates, “2009 Hot Topics in Retirement.”

# Understanding the Impact on Retirement Savings and Income

## Quantifying the difference

To better understand the differences between the two approaches, the illustration below shows the impact on a participant having \$100,000 in a 401(k) plan who is either 5 or 10 years from retirement. The best, average, and worst returns from 1927 to 2008 are considered to validate these results are not unique to just one type of market environment. The impact on savings is noted in the orange section, and the income that can be guaranteed at retirement is in the blue area. The final section in gray considers how much of the traditional account value would be left over if the retiree wanted to secure the same amount of income as provided by the in-plan guaranteed minimum withdrawal benefit (GMWB).

**Illustration based on a participant having \$100,000 in a 401(k) plan with either 5 or 10 years to retirement**

Market Performance			Impact on Retirement Savings		
Type of Return	Years to Retirement	Annual Return Average <sup>1</sup>	Traditional 60% Stocks 40% Bonds <sup>2</sup>	In-Plan Guarantees GMWB <sup>3</sup>	Reduction in Account Value Due to Fees <sup>4</sup>
Best	5	20.08%	\$249,663	\$240,446	4%
	10	16.50%	\$460,531	\$426,166	7%
Average	5	9.32%	\$156,134	\$149,812	4%
	10	9.71%	\$252,617	\$232,642	8%
Worst	5	-4.20%	\$80,691	\$76,972	5%
	10	1.68%	\$118,129	\$108,080	9%

<sup>1</sup> The annual returns (1927–2008) of a portfolio containing 60% S&P 500 and 40% Barclay Aggregate Bond Index were used to find the best, worst, and average 5 and 10 year holding period returns during this time period. These holding period returns were then converted into a compound annual return for use in this analysis.

<sup>2</sup> Assuming an investor has \$100,000, this column shows the result of applying the compound annual return listed for the applicable holding period (5 or 10 years). In other words, the \$100,000 is put into a mutual fund with 60% stocks and 40% bonds for either 5 or 10 years, and analyzed under various market conditions.

<sup>3</sup> In this column the \$100,000 is invested in an in-plan GMWB solution. According to the article “Guaranteed Income for Life Solutions in 401(k) Plans: The Next Big Thing?” by Callan Associates, in-plan solutions often charge an extra fee of 85–95 bps. For this analysis, an additional 90 bps of fees annually reduces the account value within the in-plan solution.

### 3 Key Outcomes

1	Extra fees for in-plan guarantees (using 90 bps) can reduce account values by 7–9% over 10 years and 4–5% over 5 years.
2	A traditional income annuity typically provides a higher payout rate than the 5% guaranteed withdrawal rate of a GMWB. Even when an installment refund is included.
3	Typically 65–69% of the account value needs to be annuitized to equal the GMWB withdrawal amount, leaving the remaining amount to invest in stocks and bonds for liquidity or long-term growth potential.

Income Guaranteed Annually		Remaining Account Value when Annuitizing Just Enough to Equal the GMWB Guarantee	
Traditional Income Annuity <sup>5</sup>	In-Plan Guarantees (GMWB) <sup>6</sup>	Traditional Account Value Remaining <sup>7</sup>	Percent of Account Value Remaining <sup>7</sup>
\$17,476	\$12,022	\$77,917	31%
\$32,237	\$21,308	\$156,129	34%
\$10,929	\$7,491	\$49,126	31%
\$17,683	\$11,632	\$86,444	34%
\$5,648	\$5,000	\$9,263	11%
\$8,269	\$5,404	\$40,929	35%

<sup>4</sup> The 90 bps of extra fees will reduce the growth potential of the account balance in the in-plan solution under all market conditions. This column shows the percent impact these fees have on the account balance of the in-plan guarantee versus the 60/40 mutual fund.

<sup>5</sup> At retirement, the investor using the 60/40 mutual fund invests the entire account balance in an institutional income annuity. The annuity rate is based on an institutional, unisex rate for an age 65 retiree as of 10/1/2009. An installment refund is included. The income listed in this column is guaranteed for life.

<sup>6</sup> After investing in the in-plan GMWB solution, an investor is guaranteed the higher of either: 1) 5% of their account value or 2) 5% of their original investment (\$100,000). The guarantee that was purchased for the annual fee of 90 bps is only used if the account value actually drops below the original investment of \$100,000.

<sup>7</sup> If someone who invested in the 60/40 mutual fund during the accumulation phase wanted to secure the same amount of guaranteed income provided by the in-plan GMWB solution, they could easily use an income annuity to do so. The annuity pays an annual amount of approximately 6.99% of the original premium. This column assumes the retiree uses some money to guarantee the same income as the in-plan solution, and the leftover account balance displayed can be used for liquidity and growth potential.

## Plan sponsor challenges

What happens to an employer's fiduciary risk when they want to move their plan in the future? That's a good question that raises concern over plan portability and increased fiduciary risk. But there are other challenges facing plan sponsors as highlighted in a recent LIMRA study that identifies the following:

**Challenges with In-Plan Guarantees**

### 5 Plan Sponsor Challenges Identified by LIMRA

Source: LIMRA, 2009 Retirement Research on Guaranteeing Lifetime Income in Defined Contribution Plans

1. Increased fiduciary risk
2. Communication challenges
3. Portability
4. Complexity
5. Product justification

## Participant considerations

In addition to the above challenges for plan sponsors as identified by LIMRA, the below factors can be considered on behalf of plan participants when comparing the options.

Key Factors	In-Plan Guarantees (as an investment option)	Traditional Approach (as a distribution option)
Timing	Decision is required when future needs and circumstances are unknown.	The purchase decision is made when participant is at retirement and is most informed.
Control	At retirement, retiree is locked into product structure provided through the plan.	At retirement, retiree has no limits and can "shop" the available income options.
Portability	Portability may be an issue if employer moves plan to another provider.	Portability of account value is not an issue during the accumulation phase.
Fees	Additional fees are applied during the accumulation phase to cover guarantees.	No additional fees are required on investment options that don't provide withdrawal guarantees.
Understanding	Complex and difficult to understand the investment option and eventual payout.	The income annuity is an easier way to guarantee lifetime income with a portion of a retiree's account value.

## The Principal® is here to help!

If you have additional questions about The Principal approach of offering guaranteed income as a better solution to in-plan guarantees or need other tools and resources available to you through the Principal Retirement Income Edge<sup>SM</sup> program, call your representative of The Principal.



WE'LL GIVE YOU AN EDGE®

Principal Life Insurance Company, Des Moines, Iowa 50392-0002, principal.com

Insurance products and plan administrative services are provided by Principal Life Insurance Company, a member of the Principal Financial Group® (The Principal®), Des Moines, IA 50392.

Guarantees provided are backed by the claims paying ability of the insurance company providing the option.

\* The Principal ranks No.1 in total plans for all asset sizes among fully bundled 401(k) providers, 2008 Spectrem Group analysis of fully-bundled 401(k) providers (companies that provide both administrative and investment services).