

In general I think the idea of "Lifetime Income Options," in retirement plans is a good idea, however I see several significant challenges with the concept.

To make clear my position (I believe that in many cases ... where you stand depends on where you sit) ... I am an Independent Retirement Plan Consultant, which means the more legislation and the more nebulous it becomes, the greater my job security. That being said, I also believe that any change for the betterment of the retirement plan beneficiaries is in the best interest of the overall industry.

Thoughts:

1) A Lifetime Income Option will add another fee component to most qualified DC Plans. Some smaller plans already have an annuity option to include M&E fees, which may or may not be necessary. I would hope and expect that these plans do not have additional fees involved in offering a Lifetime Income Option. In a world where fee disclosure is already under the microscope (as it should be), how will this impact fee disclosure requirements to Plan Sponsors and/or participants.

(As a side note, the fee issue could become clearer if there were best practice, standards and educational material for "revenue disclosure," and how it compares to "fee disclosure." The large majority of plan sponsors do not understand the differences between fees and revenue requirements, as well as disclosures for both.)

I think the easy and a potentially default answer will be "There will be no impact; vendors will have to fully disclose all fees." But the real answer lies in ... "What will it take for THE AVERAGE PARTICIPANT to understand the fees involved, the potential benefits, the potential drawbacks and the actual costs involved with a Lifetime Income Option. Specifically, questions that need to be addressed and understandable answers that need to be provided to DC Plan participants are:

- Will the fee be incurred during the contribution phase?
- How much will the fee be?
- How will this fee potentially impact my account balance?
- Or will I only pay additional fees once I start to withdraw my money?
- What will be the impact if my company (the plan sponsor) elects to change vendors 5 years from now? If I have paid money in for a Lifetime Income Option the current DC Plan vendor and my company changes vendors then what will happen to the additional fees I paid for a Lifetime Income Option?
- What will be the impact if I change jobs and want to do a rollover of my account balance to a rollover IRA or to my new employers qualified DC Plan? If I have paid money in for a Lifetime Income Option the current DC Plan vendor and I change jobs and roll my money out of the plan then what will happen to the additional fees I paid for a Lifetime Income Option?
- Will this involve "annuitizing," my DC Plan savings or is "Lifetime Income Option," different than an annuity? (I define "annuitizing," as losing control of and access to principal, and Life Time Income Option as an option that still gives them access to Principal. Will they truly understand the difference?)

- Additionally, what options will be mandatory for providers that provide Lifetime Income Options and what options will be discretionary for vendors? Will the same standards apply to a vendor that allows a participant to roll a DC Plan account balance into an Individual Annuity?

Point: All of these issues need to be addressed as part of any Lifetime Income Option legislation.

2) There are currently no requirements, no standards and no “best practice,” as it relates to retirement income projection for DC Plan participants. While some vendors make “gap analysis,” available to DC Plan participants, there is no standard, no requirement and no best practice to state that Mary Smith, age 32, who has saved a total of \$20,000 in her company \$401k plan and contributes \$300 per month with a \$150 company match, is on track to have \$1400 per month of retirement income at age 65. (These numbers are arbitrary and don’t represent any sort of real example.) This issue can be viewed separately or as an integral part of offering Lifetime Income Options. If Lifetime Income Options are offered in a DC Plan, doesn’t it make sense that if a participant is to understand cost, and is to understand benefit, and information is to be presented to the participant in a way that is understandable to the average participant, then the average participant should have a number that reflects projected lifetime income, along with an account balance. Likewise, shouldn’t this information be available to a participant whether or not he or she elects a Lifetime Income Option?

Point: if Lifetime Income Options are enacted, then what standards will be required to show participant what sort of Lifetime Income they are on track for. Additionally, if Lifetime Income Option legislation is not enacted, should similar standards be required regardless.