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Initial Questions from DOL:

- The advantages and disadvantages of distributing benefits as a lifetime stream of income both for workers and employers, and why lump-sum distributions are chosen more often than a lifetime income option.
- The type of information participants need to make informed decisions in selecting the form of retirement income.
- Disclosure of participants' retirement income in the form of account balances as well as in lifetime payment streams.
- Developments in the marketplace that relate to annuities and other lifetime income options.

Response:

Annuity products can provide employees a guaranteed defined income stream throughout retirement alleviating excessive spending of retirement savings.

These products have been unpopular in the past because of their complexity, higher fees, little disclosure and typical forfeiture should the annuitant experience an untimely death. For these reasons, more employees are driven to lump-sum distributions or installments, whether the retirement savings is their entire source or strictly supplemental. More often than not, participants have not saved enough for retirement and annuitizing a smaller balance is not beneficial. When annuity options are offered within a defined contribution plan, it is typically “all or nothing” and that is not necessarily ideal for everyone as employee circumstances (i.e. income needs and access to additional retirement income sources) may vary.

Annuitization of retirement savings should not be forced upon employees.

Efforts should instead be placed on enhanced communication to employees on the benefits of annuitizing all or at least a part of their retirement savings. This regular and informative communication should provide employees projected income streams throughout retirement based on various levels of savings, survivor options, and a thorough explanation of the fees associated with these products. Easier access to these figures can aid employees in making an informed decision about their ability to retire. In order to do a proper analysis, employees should also have access to user-friendly tools and calculators that can help them perform a retirement needs analysis (determine living expenses, healthcare costs, etc.), consider inflation, and incorporate all sources of retirement income (guaranteed income from social security and possibly a defined benefit plan in addition to defined contribution assets) to determine whether the employee falls short or is on target.

Finally, there have been number of new retirement income solutions introduced over the past couple years and these “hybrid” type products are finding their way into the defined contribution line-up. Options include some insurance company wrapped products offering a guaranteed minimum income benefit where the retiree receives a payment regardless of market conditions or a guaranteed minimum withdrawal benefit that offers downside protection and a guaranteed percent payout. The products also offer features like flexibility, liquidity and the opportunity to pass on any remaining account balance at the participant’s death.

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