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Request for Information Regarding Lifetime Income Options for Participants and Beneficiaries in Retirement Plans

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General Comment

It's disappointing to see the DOL get involved in a vendor driven product. The last vendor driven initiative taken up by the DOL the Target date fund had disastrous results in rewarding millions in fees to very small group of mutual fund advisors. The annuity initiative seems to be a way for insurance companies to take their turn at the fee trough.
The DOL seems to be buying the spin fed to them by the insurance companies that participants are somehow not given the option to purchase an annuity. The data is clear people do not want annuities. People have 3 good reasons to avoid annuities. 1. 401k balances averaging $30,000 provide small annuities (around $2,000 yr) not worth the trouble 2. All annuities force single entity credit risk (think AIG) 3. Excessive Hidden fees
The big gorilla in the room is too small of balances. Let's say to provide a typical DB pension of $30,000 a year you need a 401k balance of nearly $400,000. With an average balance in the $30,000 range and the vast majority under $100,000 even the best constructed annuities would fall way short. With high unemployment causing leakage in loans and cashing out, 401k balances are growing very slowly.
Almost all current annuities force participants to take single entity credit risk. If DOL pushes this option does this imply a government guarantee making all annuity providers "Too Big to Fail"? Currently there is significant credit risk in all annuity providers as indicated by bond spreads. Annuities are currently regulated by State Insurance Commissioners and providers flock to states with the most lax regulation. DOL should think long and hard before pushing participants into risky products that the government may have to bail out later.
The annuity business has a long history of poor fee disclosure. Many estimates are of profits to insurance companies approaching 200bps or 2% in a high retail fee structure.

The DOL needs to push for and design incentives for participants and plans to increase contributions. DOL should encourage unbundled independent investment solutions to maximize performance and minimize fees. Instead with target date funds and this annuity incentive they are pushing the market toward more bundled products which create oligopolies with higher fees and lower transparency.