



Testimony of

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Joint Hearing on

Lifetime Income Options for Retirement Plans

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Good Morning. My name is Charles Nelson, and I'm President of Great-West Retirement Services[®], a division of Great-West Life & Annuity Insurance Company, and a part of the Great-West Lifeco group, one of North America's largest insurance complexes.

Great-West is the fourth-largest defined contribution (DC) provider and record keeper. We serve over 24,000 plans and 4.4 million participants. Our clients comprise a variety of DC plans, including 401(k), 403(b) and 457 as well as defined benefit plans.

In 2008, the rollover total from DC plans to IRAs was an estimated \$270 billion industrywide. That same year, total variable annuity sales were almost \$155 billion – of which 65 percent were IRA rollovers. Seventy-nine percent of participants purchasing an IRA in a variable annuity went into a guaranteed lifetime income product. Clearly, there's a demand.

We don't think participants should have to leave their DC plan to access these products. That's why we introduced an in-plan investment option often referred to as a Guaranteed Lifetime Withdrawal Benefit, or GLWB, for our DC clients this past April. Our goal was to create a guaranteed lifetime income product designed for the unique characteristics of a DC plan. Guaranteed lifetime income products inside DC plans need to take into consideration vesting, loans, hardship, multiple money types and many other plan rules. Our GLWB, called SecureFoundationSM, is designed both to accommodate these unique DC-plan characteristics and to provide the benefits of a GLWB product.

While you may hear differing opinions about participants' interest in these products, our research and experience indicate there's significant, growing demand. For example, in the short 100 business days since we introduced our guaranteed lifetime income product, almost three plans a day have added it, and we're seeing increasing demand and acceptance by additional plan sponsors. This is consistent with the popularity experienced in the individual variable annuity and IRA markets.

Our results have been encouraging; however, we believe that by addressing a few concerns, even more plan sponsors will make guaranteed lifetime income products available to participants. With that as background, there are four points I would like to make.

First, the Agencies can help resolve key fiduciary concerns that employers face when selecting these products.

Second, the Agencies can clarify application of the qualified joint and survivor annuity rules to guaranteed lifetime income investments.

Third, the Agencies can help change the mindset of plan participants by requiring participant statements to display benefits as monthly lifetime income payments.

Fourth, the Agencies can create default mechanisms that will increase the number of participants who retire with guaranteed lifetime income benefits while protecting participants who don't want or need this option.

Let's start with resolving fiduciary concerns

Thirty-nine percent of our new 401(k) plan sales have selected our guaranteed lifetime income product as their default investment option. The remaining 61 percent who don't select it mention unease about their responsibility to sort out portability and insurance company solvency – this, despite Great-West Life & Annuity's being one of the highest-rated insurance companies in North America.

You heard representatives from SPARK testify regarding the portability solution that Great-West and 34 other SPARK members are creating. We believe this industry-generated solution is a practical response, and it will go a long way in resolving portability concerns.

We believe fiduciary concerns with insurance company solvency can be addressed by amending the DOL’s safe harbor rule for selecting annuitiesⁱ or by creating a new safe harbor – specifically intended for in-plan guaranteed lifetime income products. We urge the Agencies to allow plan fiduciaries to rely on their traditional sources of help – DC plan advisors, consultants or third-party administrators – and not require them to seek the help of an “insurance company solvency expert” in applying the safe harbor.

My next point – clarify application of qualified joint and survivor annuity rules

The qualified joint and survivor annuity rulesⁱⁱ are designed to ensure that employees’ spouses have access to retirement plan benefits. While the goal is laudable, a review of our business showed 77 percent of plan sponsors in DC plans opt out of the QJSA requirement due to the cost and complexity of compliance.

For example, any time there’s a loan, hardship withdrawal, or other distribution from the plan, a special notice must be provided, the spouse’s consent to the transaction must be obtained, and the consent must be notarized or witnessed by a plan representative. The QPSA rules also require plan administrators to track when participants turn age 35 and obtain new beneficiary designations from those participants. All of this involves cost and time for a benefit that’s not appreciated or used by the majority of participants or their spouses. For instance, our records show that even in plans where the QJSA must be made available, only about one-half of one percent (.5 percent) – or only a few thousand participants out of our total 4.4 million – take advantage of this distribution election.

We’ve heard from plan sponsors and third-party administrators that the risk of triggering QJSA requirements is a deterrent to adoption of guaranteed lifetime income products by plans that have chosen not to support QJSA benefits in their plan. The purpose of the triggering rule is to provide protection to spouses where the 100 percent death benefit alternative has been rendered moot because a participant has converted their account balance into an annuity, so there’s no longer any death benefit available to a surviving spouse. This protection isn’t appropriate in guaranteed lifetime income products where the participant’s account balance remains available as a death benefit to the spouse until the account’s been depleted through withdrawals.

Therefore, we recommend the QJSA rules be amended to clarify that a QJSA isn’t triggered by virtue of a participant receiving lifetime payments as long as the participant’s account balance remains available as a death benefit to the surviving spouse until depleted through withdrawals.

Next, the Agencies should require participant statements to include account balances expressed as monthly lifetime income payments

We recommend the participant statement rulesⁱⁱⁱ be amended to require that, at least annually, participants’ account balances be displayed as a monthly, “lifetime income” benefit. We also encourage the Agencies to facilitate discussion between participants and advisors/consultants about the need for guaranteed lifetime income and the features of guaranteed lifetime income products that are available to them by clarifying that these discussions don’t constitute fiduciary advice.^{iv}

We also encourage the Agencies to promote effective participant communication by working with FINRA and the SEC to eliminate regulatory barriers, such as prohibitions against using certain phrases. We believe part of our success in getting plan sponsors and participants to choose a guaranteed lifetime income product comes from incorporating lessons taught by behavioral finance research.

For example, Professor Jeffrey Brown, Director of the Center for Business and Public Policy at the University of Illinois College of Business, did research on “Framing Annuities.” Notably, his research showed the importance of word selection when describing investment decisions. Keeping this in mind, we need the Agencies’ help in letting us “speak the language of participants” so they can make more informed decisions. Today, regulations limit how we can communicate these products – making them more complex and confusing than they are. For example, we wanted to use the term “retirement

paycheck” to describe lifetime income in a manner that participants could easily understand, but FINRA told us we couldn’t use “paycheck”^v and had to use retirement “income” instead. This nuance may seem minor, but presenting concepts in a language that speaks to participants is important if we’re to help them make informed decisions.

Last, default strategies should be encouraged to mitigate the risk that employees will outlive their retirement savings

Behavioral scientists have produced volumes of studies validating what we’ve seen and experienced in DC plans over the years.^{vi,vii,viii,ix} Congress and the Agencies have listened to the scientific evidence and addressed participant inertia by promoting automatic enrollment and automatic deferral increases, as well as by sanctioning qualified default investment alternatives. We encourage the Agencies to deploy these same default strategies to guaranteed lifetime income products.

As mentioned earlier, since we introduced our guaranteed lifetime income product, 39 percent of new plans have selected it as a default, but only 9 percent of plans have mapped their participants to guaranteed lifetime income products. We know we still must address a few issues when plan sponsors change providers if default strategies are to be more widely used to encourage the use of guaranteed lifetime income products as a default and mapping alternative. We also believe these strategies should allow participants to opt out. For example, we recommend the Agencies use the same “three-strike” concept that DC plans use for other auto-plan features. This initiative provides three notices to participants. If – after the third notice – a participant takes no action to opt out of the auto feature, then he or she automatically is enrolled in it.

That concludes my prepared remarks. Thank you again for the opportunity to testify on this important topic. We support the Agencies’ efforts to improve retirement income security and remain available to assist with information or other support at your request. I would be happy to address any questions you may have.

ⁱ ERISA §2550.404a-4

ⁱⁱ IRC § 417(b); Treas. Reg. § 1.401(a)(20)

ⁱⁱⁱ ERISA § 105(a)

^{iv} DOL Reg. § 2509.96-1

^v Rule 2210(d)(1)(B)

^{vi} Brown, Jeffrey, Ph.D, “Lifetime Income as Path to Retirement Income Security”, August, 2009

^{vii} Bernatzi, S. and Thaler, R., “Save More for Tomorrow: Using Behavioral Economics to Increase Employee Savings”, *Journal of Political Economy*, 2004

^{viii} Madrian, B. and Shea, D., “The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior”, *Quarterly Journal of Economics*, 2001

^{ix} Choi, J., Laibson, D., Madrian, B. and Metrick, A., “For Better or for Worse: Default Effects and 401(k) Savings Behavior”, *Perspectives in Economics of Aging*, University of Chicago Press (2004)