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Lifetime Income

Groups Give Early Praise to DOL ANPRM On Lifetime Income as a ‘Good First Step’

The Department of Labor’s recently issued advance notice of proposed rulemaking that would require lifetime income illustrations to be included on pension benefit statements is a “good first step” toward furthering retirement income education, retirement industry groups told BNA in a series of interviews.

“We highly support the idea of people being able to translate their [tax code Section] 401(k) balances into some sort of lifetime stream of payments,” said Karen Friedman, executive vice president and policy director at the Pension Rights Center in Washington.

On May 7, DOL debuted its long-awaited contribution to a broader project on retirement plan benefit statements with an advance notice of proposed rulemaking on lifetime income illustrations (89 PBD, 5/8/13; 40 BPR 1150, 5/14/13). Under DOL’s contemplated proposal, a pension benefit statement for defined contribution retirement plans would show the current balance of a participant’s retirement account, as well as a projected account balance at retirement. The statements also would include two lifetime income illustrations that would be based on the current balance of a participant’s retirement account and the participant’s projected account balance “at normal retirement age,” the notice said.

Friedman said her group supports the inclusion of an illustration on a plan participant’s pension benefit statement that would show the participant’s current balance and what it would pay as monthly income, but her group is more reticent about the projection aspect of the notice.

“We basically think it should not be projections forward, it should be what people actually have, so they have a real idea of what their money will buy. Projections—we’re still in discussion about what we feel about projections on the statement, but what we feel very strongly about is that there’s no question that the real amount has to be translated into a lifetime payment before you get into the issue of projection. We’re more cautious on the projections because we don’t think they’re necessarily realistic,” she said.

“Projections . . . might have some resonance with people, but I think those projections are still somewhat mythical. So, we think it’s most important that the real balance be shown and translated,” Friedman said.

No Mandate. Edward Ferrigno, vice president of Washington affairs at the Plan Sponsor Council of America in Washington, said that he is supportive of

DOL’s lifetime income initiative, but he does not think it should be required.

“We’ve consistently opposed any kind of mandate in this area. I think that they clearly don’t close the door on that. We’ve also felt very strongly . . . that anything that comes out should absolutely include projecting future earnings. So we’re very pleased to see that the Department of Labor recognizes the importance of projections,” Ferrigno said.

“Basically, unless you’re projecting things, taking a 25-year-old or 30-year-old’s current balance and pretending they’re 65, really in my mind provides absolutely no kind of information about whether or not they are on track,” he said.

James Szostek, vice president of taxes and retirement security at the American Council of Life Insurers in Washington, said his group also supports DOL’s efforts regarding lifetime income illustrations and that “it’s a helpful step in the right direction. We’ve been supportive of this idea, of this concept of reframing 401(k) savings as monthly income to help people understand the potential of their savings, to help them put it in context.”

“We clearly have been very supportive of a requirement that the plans disclose this information to participants. . . . As far as projections go, we’ll explore how the department is doing that,” Szostek said.

Educational Tools. Lee Covington, senior vice president and general counsel at the Insured Retirement Institute in Washington, said that IRI generally supports the ideas floated in the notice but that his group is still in the process of digesting its nuances.

“We strongly support educational initiatives like this one that would enhance worker’s understanding of their retirement savings income potential. We’re still in the process of assessing some of the details, but we think this is a very positive step in the right direction. . . . I certainly think the intent of the regulation is in the direction that we have supported for a long time,” he said.

Friedman said DOL’s lifetime income project, which is part of a larger initiative with the Department of Treasury, could have a positive impact on workers’ retirement savings but that there is still more work to be done.

“It’s educational. If people can save, it might be a spur to save more and it enables people to see either how little or how much they’ve been able to save for retirement and to realize that wow, this is not going to cut it. But in some situations, just education is not going to

be enough. People get hit with other expenses. . . . This at least is a good first step," Friedman said.

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