



Tips to help your clients make the most of Social Security

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# Insight

## A Reliable, Redefined Personal Pension

by Chris Blunt

There has recently been increased attention around annuities, prompted by discussion at the federal level about the benefits of adding an annuity to individual retirement portfolios. At the heart of the discussion is the fact that consumers need to protect themselves from outliving their savings by adding a reliable, guaranteed retirement income source to their retirement funds—retirement funds which have diminished because of the decline of pension plans and have been further depleted by the recent financial crisis. This broad recognition of a need to establish a “personal pension” brings to light the value of immediate annuities as part of the solution to the retirement savings risk that millions of families are facing.

Prior to 2008, the addition of an income annuity to a retirement plan had started to become a part of planning decisions

because the guaranteed paycheck for life provided consumers with a necessary guaranteed income source. As a result of this awareness, sales of income annuities industry-wide grew significantly: up more than 50% between 2005 and 2008.



**“Consumers need to protect themselves from outliving their savings by adding a reliable, guaranteed retirement income source to their retirement funds.”**

Chris Blunt, New York Life Insurance Company

### Replacing Market Losses

Then the Great Recession took hold—the stock market declined, losing more than half its value. The average 401(k)

and IRA values plummeted, negatively impacting retirement plans, and for many retirement-aged people, who have less time to recoup their losses, it hinted at disaster. In fact, the market meltdown caused the reduction of retirement nest eggs by 25%

to 40% in many cases, meaning a \$500,000 retirement nest egg was worth as little as \$300,000, generating significantly less income in retirement. While markets have recovered somewhat, many portfolios are still down 25% or more.

Retirees need to find a way to replace the loss, maximize the rest of their nest egg and, this time, ensure that retirement savings last a lifetime. The immediate annuity offers a time-tested solution. By using income annuities as part of their retirement income

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## Clarifying the VA Summary Prospectus

The latest word on progress toward a Summary Prospectus for variable annuities came from the SEC's Chairman Mary Shapiro in her December speech on the role of the consumer in the financial services revolution. She said, “I realize this is a difficult task, but we will not be deterred by the complexity of the product. Our staff has already announced that it is developing a simplified ‘Summary Prospectus’ for variable annuities, which are widely regarded as one of the most difficult-to-understand products on the

market. It is precisely in this type of product where simplicity of disclosure is essential.”

The pending change is long overdue and much needed. VAs, as Shapiro noted, are among the most complex financial products. Consumers and advisors have to grapple with hundreds of pages in a prospectus, not all of it immediately useful for the decision at hand. A shorter prospectus could convey the most important facts for informed decision-making that could easily be overlooked in a longer document. “Clear,

concise disclosure [is] so important,” stated SEC Director Andrew J. Donohue in a November 2009 speech before the American Law Institute/American Bar Association. But, as Donohue added, the complexity of VAs “also makes the goal that much more difficult to accomplish.”

During his speech, Donohue publicly recognized the key driver of this progress toward concision and simplicity: a rule-making petition from the Insured Retirement Institute (IRI). The IRI petitioned

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# Financial Planning In the “New Normal”

by Tony Ferreira

As most advisors will admit, today’s investor mind-set has radically changed due to recent market events. Indeed, our most recent Investor Brandscope™ report reveals that investors are currently stuck in neutral (or worse), both in terms of their life’s savings and their ambivalence toward the companies and advisors they hire to grow them. Three-quarters of affluent and high-net-worth investors feel the recession won’t even be over until sometime this year or later. Not surprising then, their risk tolerance remains extremely low, even among the youngest investors—many of whom have chosen to forgo 401(k) contributions. Restored confidence, evidenced by investors moving closely guarded assets off the sidelines will certainly come, but at a pace that will likely frustrate both advisors and asset management firms.

In October 2009, when we fielded our survey, the market may have rebounded to 10,000 off scary March lows that threatened 6,000, but nobody was dancing in the streets. Instead, consumers were busy rolling clunkers into auto dealerships and rolling their eyes at news reports that the recession might be over. Shell shocked, cynical and sick of eating at home, Americans were in no mood for levity. Was there another shoe to drop? Was it going to be a “V” or “W” shaped recovery? And when would the jobless rate stop climbing? Welcome to the new normal.

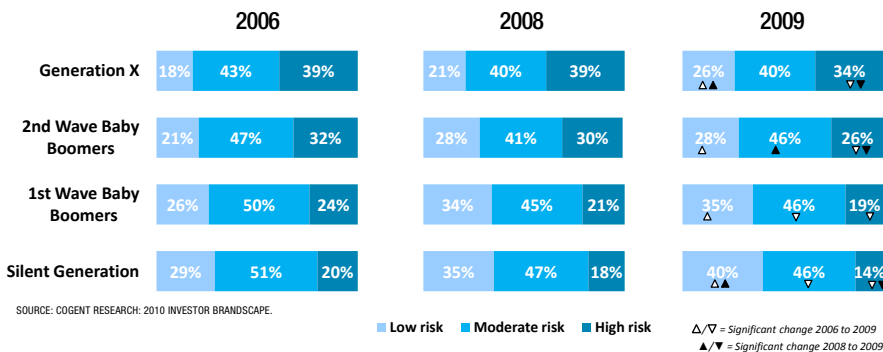


This renewed sense of conservative investing has also impacted the products investors are using in their portfolios today. Like the transition into risk-averse asset categories, investors have been slowly migrating into “safer” products, including annuities over the past three years. Indeed, we find that close to 10% of investable assets are now invested in annuities, a significant increase from 6% in 2006. What’s more, investors have also been pouring more money into cash or cash-equivalent products. Collectively, these cash-equivalent products now make up 20% of investor portfolios! We are still experiencing movement from equities into fixed income, even though the market has made up many of the losses of 2008 and 2009.

Given this desire for income generation and principal protection, it’s no surprise that less than half of today’s pre-retirees are confident in their existing retirement income plan. More important for advisors, eight in 10 pre-retirees are interested in buying retirement income products either to fill gaps or to reestablish a more viable stream of income in today’s ultra-low interest rate environment. In fact, it’s quite likely that today’s investor is more open to revisiting their projected retirement income needs than in any time in recent memory.

This shift in risk tolerance and product utilization is a result of changing investor perceptions and attitudes about investing. Thus, advisors must emphasize product traits or retirement portfolio solutions that are most likely to resonate with today’s investors when discussing retirement income needs. For example, our In-Retirement Income™ study reveals that advisors should create income solutions or partner with investment providers that support the following retirement income messaging or traits that recent and pre-retirees say are most appealing:

## INVESTOR RISK TOLERANCE BY GENERATION (% OF ASSETS)



If there’s a silver lining to be found in this year’s Investor Brandscope™ report and our most recent study, In-Retirement Income™, it is a renewed opportunity for advisors to finally close the retirement income gap of both recent and pre-retirees who now—more than ever—are looking for solutions to generate income while protecting or limiting principal losses.

As noted earlier, our recent research reveals that investors have become increasingly risk averse. In fact, we have seen a remarkable decrease in allocations to high-risk products in investor portfolios over the past four years. This trend exists across all generations, even with younger Generation X investors who technically have a couple more decades to make up for recent investment losses.

- Provides a solution with a “regular paycheck” during retirement
- Allows you to live off income from your investments while preserving your principal

- Guarantees you regular income that you can’t outlive, like having a personal pension plan
- Provides growth with a guarantee
- Is designed to generate income payments that keep up with inflation

While no one can accurately predict what will happen in tomorrow’s stock market, investors are looking to their trusted advisors to protect their income streams in retirement. From what investors are saying, the stage is set for a renewed era of retirement income planning. ●

Tony Ferreira is a Managing Director for Cogent Research, a wealth management market research and consulting firm based in Cambridge, Mass.

# Getting the Most out of Social Security

**W**ith all the gloomy headlines about Social Security, many clients are understandably nervous when it comes to this federal retirement benefit. This year marks the first in over three decades that recipients of the benefit did not get a cost of living increase. More worrying, the latest projections have the Social Security trust fund being exhausted in 2037, four years earlier than previously thought. Despite the pessimism, Social Security remains a critical piece of the retirement puzzle, providing a majority of income for more than half of people age 65 and up. Declining home values and 401(k) balances make it even more important.

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RETIREMENT  
RESEARCH  
AT BOSTON COLLEGE

Financial advisors should be sure to take time to strategize with clients about making the most of this important benefit.

The first thing to keep in mind is that despite its financial woes, the program is not going away. Clients may need some reassurance about this. For clients age 55 and older, it should not even be a concern. All others should be made to understand



**“If you are married and both age 62, the chance that one spouse will survive to age 90 is 40%.”**

Andrew Eschtruth, Center for Retirement Research

clearly that even if the government makes no changes to the program, and the trust fund that funds the benefit does run out, that does not mean the Social Security program itself would become completely insolvent. “There is a scheduled payroll tax that would be able to pay out benefits

at about 75% or 80% of current levels,” points out Alicia Munnell, Director of the Center for Retirement Research at Boston College. “Social Security would continue to be a very important part of anyone’s retirement income, so individuals should make sure they make the best use of it that they can.”

## Claiming Benefits

The next step is to consider with your clients the fundamental question of what age they will begin claiming benefits. Often the answer is: the later, the better. Currently about half of retirees start claiming Social Security benefits as soon



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Alicia Munnell, Center for Retirement Research

as they become eligible at age 62. Perhaps this is partly because of the fear that the program may not always be there. Clients may not realize the financial advantages most people gain by waiting a few years to begin. “They are grabbing [benefits] as soon as they become available, but in point of fact, if you can wait until age 70 before you start claiming, you’ll get a

those born in 1960 or later, the full retirement age will be 67.) If you start claiming earlier, you will get a smaller check, and vice versa. The reason is that the amount of your benefit is designed to be actuarially fair to someone with average life expectancy. The Social Security Administration assumes that for someone who is 65 today, a man can expect to live an average of 17 more years, and a woman 19 more years. But by definition, half of people will outlive that average age and profit by collecting greater benefits over their lifetime. Conversely, if a client is in poor health, collecting benefits starting at age 62 makes sense.

If an individual is earning at his or her highest level in the years just before retirement, that will bump up the amount of the check even more, by substituting a year of higher income for a previous year of lower income. It is also important to work a few more years if an individual has contributed to Social Security for fewer than 35 years, for example due to years spent out of the workforce while raising children.

## Benefits for Spouses

Married clients must also take into account the expected life span of each spouse, since the surviving spouse will continue to collect the benefit. In a typical baby boomer couple, if the husband is the higher earner and the wife is younger, the couple should plan for the scenario that the wife is likely to live six or seven years longer on her own while collecting her husband’s benefits. “If you’re healthy and married, there is an enormous incentive for you to retire later,

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## ...Social Security *continued from A3*

since the longer you postpone, the higher the benefit your widow would receive,” says Munnell. “It is like inflation-adjusted extra insurance for your widow,” continues Andrew Eschtruth, Communications Director for the Center. Many people tend to underestimate how many years of retirement the

couple as a unit may need to fund. “If you are married and both age 62, the chance that one spouse will survive to age 90 is 40%,” he adds.

Once you have helped your clients understand their Social Security benefits, you will be able to help frame discus-

sions about other ways to plan for guaranteed income for life. As fewer and fewer employers are offering traditional pensions, many clients will be interested in a discussion about purchasing annuities to supplement their Social Security benefits in retirement. ●

For more strategies to help clients decide when to claim their Social Security benefits, visit the website of the Center for Retirement Research at <http://crr.bc.edu>. Download a free copy of *The Social Security Claiming Guide* at [http://crr.bc.edu/social\\_security\\_guide](http://crr.bc.edu/social_security_guide). There is also a useful quick benefits calculator on the Social Security Administration website at [www.socialsecurity.gov/OACT/quickcalc/](http://www.socialsecurity.gov/OACT/quickcalc/).

# Themes of National Retirement Planning Week

**A**s economic challenges continue, keeping a strong hand on retirement savings—and staying focused on financial goals for the long term—remains key for advisors and their clients. That is the message of this year’s **National Retirement Planning Week**, sponsored by the Insured Retirement Institute (IRI), and set for the second week in April.

As most financial advisors have witnessed firsthand, nearly all Americans have been affected by the recession, and advisors have seen at least some effect on their clients’ retirement assets. Reminding investors to get back on track by nailing down good financial habits is the best way for them to see accounts start to grow again. Luckily, some strong trends from both consumers and business owners indicate that investors are getting a little smarter, and advisors are getting a little more assistance with helping their clients grow their savings.

To start, investors have been tightening their belts, causing the savings rate to slightly increase from about 6% of disposable personal income for 2010, from just shy of 5% in 2009, according to a recent study from the International Monetary Fund.

That is great news, believe retirement savings experts, who know that the more money financial advisors can encourage their clients to save today means a more secure financial state for those clients later. Taking more of a personal hand in what they save can ease anxieties for clients, help them feel more in control and dramatically reduce the possibility of financial uncertainty as they approach their golden years.

One uncertainty that advisors should specifically watch is Social Security. While support for the benefit currently remains in Washington D.C., Capitol Hill is turning a critical eye toward

Social Security, voicing concerns that some cuts to the fund may become necessary. Although President Obama has declared that he will fully support the program this year, Social Security’s longevity is not guaranteed. Fortunately many advisors have long been building plans that do not lean too heavily on this benefit,

especially for their clients who have 10 to 20 years before retirement. Advisors should continue along this path, now more than ever, as decreases to Social Security benefits could quickly derail a financial plan.

On a positive note, clients’ employers may be providing another benefit that can somewhat offset potential Social Security drops. The 401(k) matches they had cancelled over the past two years are on the rebound.

While these matches were one of the first employee perks to be dropped as the recession expanded—with about 18% of firms reducing or ending these valuable incentives for employees—these are slowly returning for 2010, according to a new study from the Profit Sharing/401k Council of America. In fact, 80% of firms that permanently or temporarily stopped these matches plan to start them again

this year, according to the Hewitt Associates’ Hot Topic in Retirement survey released in early February.

While not a quick fix to accounts that have been fairly decimated by the recession, these matches can still help accounts grow more quickly than consumer deposits alone. In addition, the “free money” aspect can encourage clients to save more as well.

And that is the best result, having clients feel engaged as they work with their advisors to build back their retirement savings, a partnership that then can ensure a strong and secure financial future. ●

**Taking more of a personal hand in what they save can ease anxieties for clients, help them feel more in control and dramatically reduce the possibility of financial uncertainty as they approach their golden years.**

# Financial Fitness Using the Retirement Pyramid

**W**hen presented with the food pyramid, developed by the U.S. Department of Agriculture, most people understand immediately which choices can ensure their bodies remain healthy. Drawing on that same recognition, the Insured Retirement Institute (IRI) recently developed its Retirement Pyramid—a visually simple, but powerful tool that financial advisors can use to help explain investment decisions to their clients as they work together to produce a healthy and vital financial future.

While no advisor builds the same retirement plan for every client, a weighted mix of long-term assets, guaranteed income, insurance and investments can help ensure that retirement funds are well positioned.

**A healthy financial diet will include all of the four basic groups—guaranteed income, long-term assets, insurance and investments.**

IRI believes the next level, insurance, is critical too, especially for those advisors with clients who are getting closer to retirement. While the bulk of a client’s asset base generally should not be overly invested in this group, advisors should not ignore the importance of a good mixture of life insurance with long-term care, medical coverage and Medicare for these clients.

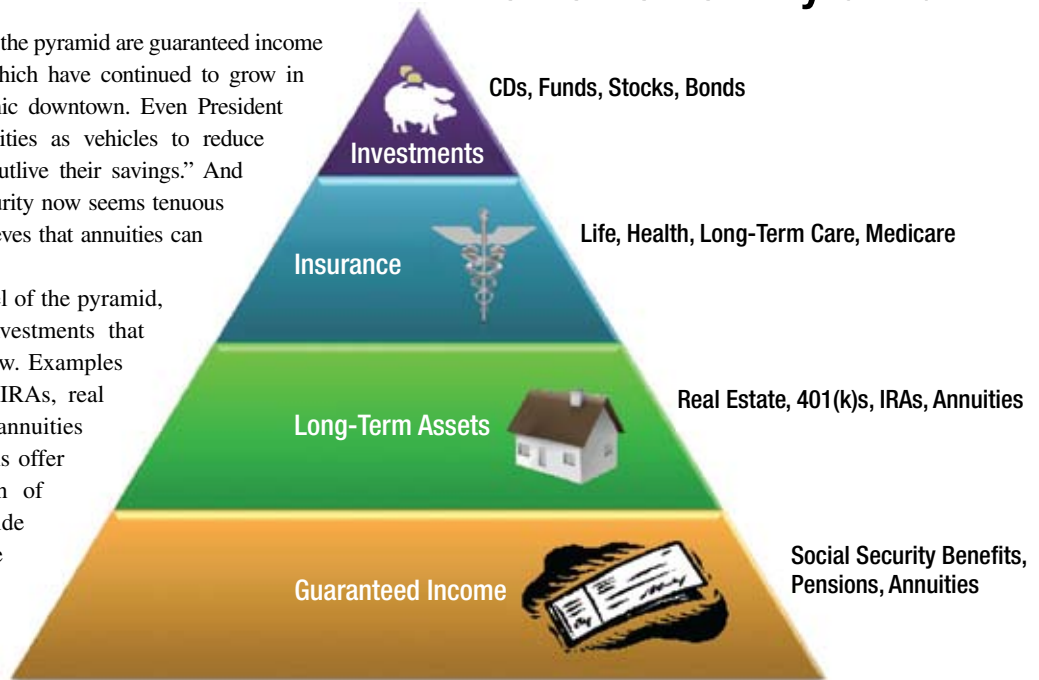
Finally, at the top of the Retirement Pyramid, are CDs, mutual funds, stocks and bonds. With the wild swing of the stock market over the past two years, it’s understandable that as clients approach retirement, their advisors will likely want to dilute some of these more volatile investments (stocks) with guaranteed income streams like annuities. Still, a smattering of these in a carefully crafted retirement plan is a wise choice.

A healthy financial diet will include all of the four basic groups—guaranteed income, long-term assets, insurance and investments. By incorporating this full spectrum of solutions, and by using the Retirement Pyramid as a visual map, advisors have a new tool to help guide them as they build a financial roadmap for their clients’ later years. ●

## The Retirement Pyramid

Making up the large base of the pyramid are guaranteed income streams, such as annuities, which have continued to grow in popularity during the economic downturn. Even President Obama recently touted annuities as vehicles to reduce concerns that “retirees will outlive their savings.” And as the certainty of Social Security now seems tenuous to younger investors, IRI believes that annuities can prove valuable alternatives.

Moving up to the next level of the pyramid, IRI turns to longer-term investments that need time to mature and grow. Examples include traditional 401(k)s, IRAs, real estate holdings and some annuities as well. As 401(k)s and IRAs offer consumers a wide selection of investments, they also provide some stability against the frequent fluctuations that can affect a company’s single stock.



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# Getting Clients Back on Track

**M**any advisors found the months following the crash of September 2008 stressful and disconcerting. Keeping clients steady while watching the near free-fall of the market was difficult, leaving many wondering how to help refocus clients on their road back to financial security.

The Insured Retirement Institute's (IRI's) CEO and President, Cathy Weatherford, believes she can help, offering steps advisors can use with clients as they concentrate on building a secure retirement.

First Step: save money. Urging clients to delineate between needs and wants is critical. Yes, that might include reminding them to curtail splurges, which can make a big difference in how fast savings grow. One tip: Help clients find an interest-bearing savings account to keep cash reserves away from their checking account, creating less temptation to spend.

Another good starting point is an old-fashioned monthly budget. While many financial advisors already have clients keeping track of necessary expenses, it might be a good time to review these budgets. Just going over the numbers can be a gentle reminder to clients of what their end game is.

Next, look for hidden money. No that does not mean having clients shake out the couch cushions. But what about entertainment expenses or cell phone services, cable packages, satellite radio, etc? Many clients sign up for these services when deals are offered and never revisit the charges, even though they may have increased. And companies are now offering more grocery coupons as well.

Now is also a good time to have clients rebuild cash reserves, believes Weatherford. By having something liquid set aside for emergencies, there is less need to turn to credit cards with onerous interest

rates. As for credit cards, clients need to pay these off as quickly as possible. More than 60% of Americans now carry credit card debt, with the average interest rate at 14%, according to the IRI.

For clients who have recently married—maybe a second or third marriage in their later years—it is time to check in with Social Security. Name changes, in particular, can impact tax refunds, as well as wages that are posted to these records. While there are concerns about how long this benefit will be available for future generations, it is available now and well worth the time to ensure that taxes and payments are credited correctly.

You'll also want clients to check if their employers have restarted 401(k) plan contribution matches, as many employers are beginning to offer these again in 2010. Matches are free, pretax and can speed up accumulation in a retirement savings account.

You may want to have clients write down what their golden years look like in terms of an imagined lifestyle, and then do a reality check to see if their dreams meet their savings plan. If future goals are not in line with savings, focusing on these projections may help to redirect clients' energy toward saving more, to ensure the stress-free retirement they seek.

Finally, advisors should ensure that their clients have an up-to-date will in place. A proper will can protect wishes on how loved ones inherit assets.

Wanting to spend their later years content, secure and financially sound is the goal of any investor—and of any advisor who has spent decades helping their client get there. With some simple steps and strategies, that financial freedom can be achieved. ●



Cathy Weatherford,  
IRI

## ...Personal Pension *continued from cover*

portfolio, people found a way to recoup the lifetime retirement income stream they would have had with a \$500,000 nest egg.

How is that possible? A 2007 academic study, "Rational Decumulation," conducted by a Wharton School professor and a Brigham Young University professor demonstrated that by using income annuities, consumers can generate a stream of secure lifetime retirement income for 25% to 40% less money than it would cost to create an equally secure lifetime income stream using a traditional portfolio of stocks, bonds and cash. With the benefits of risk pooling available only from life insurers, income annuities help replace the retirement income stream lost when funding income needs with only stocks, bonds and cash. In other words, that \$300,000 portfolio can still provide lifetime income equal to

the income that the \$500,000 portfolio of stocks, bonds and cash used to generate.

Additionally, by covering at least basic living expenses with income annuities, there is much greater flexibility in other areas of a retirement plan. This includes the ability to take more investment risk, according to one's risk tolerance, with the remaining portfolio—an added benefit that also helps retirees who need to recoup ground that was lost during 2009.

### The Value of Security

The heightened dialogue around annuities recognizes that against the backdrop of economic weakness and the volatility in the financial markets, Americans are increasingly valuing safety, security and stability, and making retirement decisions with these qualities top-of-mind—

retirement decisions that include choosing products as well as financial institutions to entrust their nest egg. Choosing a company with a track record of safety and security is critical to fulfilling a 20-, 30-, possibly 40-year commitment to guaranteed income.

While sales of immediate annuities were increasing significantly prior to the crash of 2008, a high-quality, no-risk investment that guarantees a paycheck for life, no matter what is happening in the markets, has become a lifeline to many pre-retirees and retirees in 2009 and 2010. Now that the academic community has studied and validated the high value and low cost of income annuities for generating guaranteed income in retirement, growth in this part of the annuity universe is expected to continue at strong rates in the future. ●

*Chris Blunt is Executive Vice President of New York Life Insurance Company, in charge of its Retirement Income Security business.*

**...VA Summary Prospectus** *continued from cover*

the SEC on this issue in December 2008 and met additional times with SEC staff. The rationale, as IRI President and CEO Cathy Weatherford stated in her letter to the SEC following Shapiro’s speech, is simple: “We believe that a variable annuity Summary Prospectus would significantly enhance the information available to the millions of Americans who rely on variable annuities as an important part of their retirement program. In addition, we believe it would facilitate and encourage comparison shopping and would help to reduce the significant costs and other burdens associated with delivering a printed statutory prospectus.” Weatherford also offered the IRI’s help and expertise in moving the initiative forward.

Of course, the IRI has already been constructive in advancing the idea of a Summary Prospectus for variable annuities through its petition, and also through a series of follow-up meetings in December 2009 between IRI member representatives and their counterparts at the SEC. Among the key points discussed:

**Elimination of the Annual Prospectus Delivery:** In cases when the contract has not changed at all, and also potentially when the contract has not materially changed.

**Point of Sale (POS) Disclosures:** Customers would get disclosures at the point of sale.

**Contents of the Summary Prospectus:** IRI representatives are developing sample Summary Prospectuses for the SEC to evaluate how a summary works in practice, and what information—particularly relating to

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Cathy Weatherford, IRI

disclosures—may be lost in a shorter format. Key issues on this front include fee disclosure and the impact of investment options on restricting benefits.

In terms of what the final Summary Prospectus format might look like, one model is

mutual funds. Investors considering mutual funds can already take advantage of a Summary Prospectus. The SEC voted to approve a Summary Prospectus for mutual funds in 2009. These consist of a “brief, plain English synopsis of key information about a fund’s investment objectives and strategies, risks, costs and performance presented in a standardized order,” according to the SEC. At the same time, the full prospectus remains available online or upon request.

SEC Director Donohue explicitly referenced the mutual fund short form and the IRI’s petition—which he noted follows the same “layered approach” to disclosure found in the Summary Prospectus for funds—as a way forward for variable annuities.

As Mary Shapiro stated in her December speech: “At the end of the day, our investor in that Main Street office just wants to know the facts, so he is not taken advantage of by hidden fees or questionable motivations. And he needs this information when it is most meaningful—at the time he is making his investment decision.” This is precisely what a Summary Prospectus for variable annuities is designed for; it provides the facts in plain English to help Americans make the right decisions necessary for their retirement security. ●

## Shorter Can Be Better

New research from IRI and Cogent Research points to the increasing importance and value of the variable annuity Summary Prospectus. The survey, based on data from 961 retirees and pre-retirees with at least \$100K in investable assets (including workplace plans but excluding real estate), found that:

<p><b>Fewer than three out of five (56%)</b> respondents read the prospectuses provided with their investments (sometimes or always), with only one-fifth (21%) saying they always do.</p>	<p><b>The vast majority (86%)</b> would prefer a shorter paper summary prospectus instead of the full detail—if details were available online or upon request.</p>	<p><b>The vast majority (89%)</b> would also be more likely to read their prospectus if provided in short summary form rather than the full detail.</p>
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**The top 3 most important pieces of information to include in a prospectus are: fees, returns and risks. The full list includes:**

<b>Fees/charges/expenses</b>	<b>89%</b>
<b>Returns</b>	<b>76%</b>
<b>Risks</b>	<b>63%</b>
Tax advantages	61%
Investment option objectives	61%
Payout options	60%
Answers to frequently asked questions	55%
Company info	54%
Death benefits	37%
Company policies	33%
Definition of financial terms	32%
Voting rights	19%
Legal proceedings	8%

## Using Annuities in 401(k)s

The U.S. Treasury and Labor Departments' February request for information (RFI) about the use of annuities in 401(k)s—including a greater understanding of why both defined contribution (DC) plan providers and their participants have been averse to the annuitization of retirement assets—is a key step toward changes in this area. J. Mark Iwry, Senior Advisor to the Secretary of the Treasury and Deputy Assistant Secretary explains, "I think the RFI makes clear the issue is whether, and if so how, to encourage lifetime income. Fundamentally, it is about recognizing that for years the focus in retirement savings policy and the market has been on encouraging accumulation and not so much on helping people manage and use what they've accumulated."

Iwry explained his vision on guaranteed lifetime income back in September 2009 to the members of the Insured Retirement Institute (IRI) at their Annual Meeting in Boston. No one at the time would have thought Iwry's issues would have been at the forefront of the Administration's legislative agenda right out of the gate in 2010—no one except the IRI.

"We have been saying for well over a year that this Administration will focus on helping Americans guarantee income for life, especially as the promises of Social Security continue to diminish," IRI President and CEO Cathy Weatherford said. "That is why we reached out to Mark Iwry early on, developed a strong relationship with him and convinced him to speak directly to our members."

### Focusing on the Needs of Retirees

This shift in focus is timely: The baby boomers are about to start retiring en masse and clearly need help. There have been many behavioral economics-based changes in DC plan design to help people save more for retirement, such as automatic enrollment and automatic increases in contributions. But there have not been comparable 401(k) design changes when it comes to decumulation, even though there are just as many, if not more, financial challenges facing participants at this stage. Retirees have to manage their assets to make them last a

lifetime. In this regard, annuities are singular in providing lifetime income while protecting against longevity risk.

Assistant Labor Secretary Phyllis C. Borzi, along with Iwry, are the two government officials most closely linked with the RFI and the improvements in DC decumulation that might result. Iwry cautions, "The government hasn't made a proposal regarding annuities in 401(k)s. What we have done is ask whether there is good reason to encourage and to clarify how the rules would apply, and that is what we are exploring."

Interestingly, 22% of DC plans already offer annuities as an option. But there has been limited demand as well as supply because participants are not defaulted into annuities, and sponsors may be reticent to

make changes in this area until rules are clarified. Iwry explains, "If we are going to promote consumer-protective and low-cost lifetime income options in plans, it may be appropriate to move on several fronts at once. We may need to address the behavioral concerns that affect demand and some of the plan sponsors' and other concerns that affect supply."

**"The government hasn't made a proposal regarding annuities in 401(k)s. What we have done is ask whether there is good reason to encourage and to clarify how the rules would apply."**

J. Mark Iwry, U.S. Treasury Department

More widespread use of optional (non-mandatory) defaults regarding annuities could lead to greater uptake by participants. These changes alone won't solve America's retirement challenges—people still need to save more—but they will provide greater financial security for 401(k) participants.

And IRI is leading the way to frame the debate and shape the way the Administration proceeds. IRI has created a working group consisting of representatives from our Government Affairs Advisory Council, our Regulatory Affairs Committee and our Retirement Income Committee. There has been a great deal of interest among our member compa-

### Action Items

panies and over 60 experts have been serving on the working group. In the RFI, the Administration asked our industry to address the following issues: steps agencies can or should take to overcome participant reluctance to elect lifetime income; types and structure of lifetime income and other arrangements designed to provide an income stream; strategies for encouraging greater use of lifetime income; regulatory hurdles at the federal and state level and how best to address or modify these; advantages and disadvantages of annuities combined with other products; participant education and disclosures; and safe harbor for selection of annuity providers.

According to the RFI: "The Departments are currently reviewing rules under ERISA and the plan qualification rules under the Internal Revenue Code to determine whether, and if so, how, the Agencies could or should enhance, by regulation or otherwise, the retirement security of participants in employer-sponsored retirement plans and in individual retirement arrangements by facilitating access to, and use of, lifetime income or other arrangements designed to provide a lifetime stream of income after retirement."

While a number of companies and other organizations are preparing their own responses, IRI believes the diversity of our working group will present a unique perspective that will assist the Departments as they formulate policy options to encourage the use of lifetime income products. And IRI knows that it is the only association that brings together insurers, asset managers, distributors and financial advisors under one roof. This unique composition will help IRI answer these questions from a completely holistic perspective. ●