



Department of Labor's Lifetime Income Proposal

PRACTICE AREAS

Benefits & Compensation

Employee Benefits Insider

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On May 7, 2013, the Department of Labor (DOL) released an "advance notice of proposed rulemaking" regarding adding lifetime income information to the quarterly statements provided to participants in defined contribution plans. This is a way for the DOL to float a proposal before actually issuing proposed regulations. Specifically, the DOL is considering proposing regulations that would require two types of disclosures: (1) the monthly retirement income the participant would receive based on his or her current account balance, and (2) the monthly retirement income the participant would receive based on his or her projected account balance.

The DOL explains that this information would help participants "envision. . . the lifetime monthly income that can be generated from an account balance" and "would allow participants to make more informed retirement planning decisions."

The DOL's proposal would add the following information to participants' quarterly statements:

- The current account balance converted to an estimated lifetime income stream of payments assuming the participant was age 65 (or the plan's normal retirement age). Thus, for example, a 30 year old with a \$50,000 account balance would see both the \$50,000 current value and the current value of that \$50,000 as a monthly annuity if he or she was 65 on the date of the statement.



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- The projected account balance and the projected estimated lifetime income stream of payments, assuming the participant continued to make contributions. This calculation involves assumptions about future contribution amounts and future investment returns. Thus, for example, the 30 year old with a \$50,000 account balance would also see the expected value of his or her account at age 65 and the monthly annuity that projected amount would provide.
- For married participants, joint & survivor lifetime income payments.
- An explanation of all the assumptions behind these lifetime income stream illustrations, and a statement that these illustrations are estimates not guarantees.

The DOL provides an example of what the disclosure might look like:

Current Balance

\$125,000

Projected Balance

\$557,534

Monthly Payment

\$625

Monthly Payment

\$2,788

The DOL explains that the projected balance and related monthly payment would be shown in present-value dollars (specifically, that the \$557,534 in the example was discounted by an inflation factor).

The DOL acknowledges that there are a number of assumptions needed to calculate this information and proposes a set of safe harbor assumptions and a calculator. The main assumptions include:

- Contributions continue to age 65 (or the plan's normal retirement age) at the current level, with the dollar amount of the annual contributions increasing by 3% per year.



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- Investment returns are 7% per year.
- The discount rate is 3% per year.
- The interest rate for converting the projected account balance to a monthly annuity is the 10-year constant maturity Treasury securities rate for the first business day of the last month of the period to which the statement relates.
- The mortality table is the Code section 417(e)(3)(B) mortality table in effect on the first day of the last month of the period to which the statement relates.

We are certainly in favor of participants' increasing their retirement savings and their understanding of the income they will need in retirement. But the DOL proposal raises a number of questions. For example, how much of an additional burden would this put on plans? Are the DOL's safe harbor assumptions appropriate? Would these safe harbor assumptions be applicable to all plans? If not, would a prudent defined contribution plan want to hire an actuary to assist with developing assumptions that make more sense for the specific plan? Would participants understand the assumptions behind the dollar amounts on disclosed their statements? Would participants see a small projected benefit and give up on retirement savings altogether, or would they see a large projected benefit and think it's a guarantee (no matter what the disclosure language says)? How would the projected benefit take into account the reality of 401(k) plan features such as participant loans, hardship withdrawals, or other in-service withdrawals?

Comments are due to the DOL by July 8, 2013. We intend to submit a comment documenting some of our concerns. We welcome your thoughts and reactions to this notice as we prepare a comment to the DOL.

FOR MORE INFORMATION

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