From: Chris Weber [mailto:chrisw@community-resourcebank.com]
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To: EBSA, E-ORI - EBSA
Subject: Lifetime Income Comment

I do recognize that people do foolish things with their retirement accounts. Some people take out large sums of money at the expense of security in their retirement. Others make foolish mistakes with their investments. On the flip side, most people that have full control of their accounts do a good job managing the balances very well and invest commensurate with their risk tolerance.

My worry with a lifetime income annuity option is that it locks people into a payment they can't ever revoke. Based on personal experience as a financial advisor, I can see people getting letters they don't understand in the mail and waiting until the last minute to decide what to do. People don't spend the time crunching the numbers to really understand how a decision will affect the rest of their life. Everyone's situation is different and life changes over a 20 or 30 year period in retirement. I feel that a lifetime income annuity might be as much of a mistake as picking an investment that is too aggressive.

If someone make the election for lifetime income, how do we handle the following situations: the person who realizes they need to be more aggressive because they don't have enough income to live the way they want to; the frugal retiree who decides they don't need to take as much out of their retirement account to live on; the person whose health starts to fail that decides to spend more aggressively in retirement because it will be shorter; the person who decides they want to leave the remainder of their retirement account to charity; the person whose income requirement goes up because they become disabled.

Another huge worry is inflation? If you lock people into a lifetime income, how will inflation be handled? Even at 3%, prices will double over 25 years. Most insurance companies currently build in a fixed rate/payment into an annuity, not an open ended variable rate/payment. If a company did develop a variable rate, what if you had 70's style inflation? Being on the hook for a variable rate might bankrupt the carrier. If you had certificates of deposit, you could at least get an adjustment on the interest rate. If the government backs that up, you are putting the government on the hook for a huge demographic.

Who picks the insurer? Who ensures that the insurer is well rated and competitive? What happens when the carrier falls into financial trouble? Is the government again going to pick up the tab if it is a systemic issue across the industry?

I do have a different solution to the withdrawal problem. Don't allow any withdrawals before age 59½ for any type of retirement plan or account, including IRA's. The only exception would be if the person has retired early and committed to a 72(t) distribution. Also, limit the amount the amount that can be withdrawn from an IRA in any given year to 10% of the account balance. That percentage could be indexed, too … say 5% for a 60 year old and 15% for an 85 year old.

On the investment side, you could limit the types of investments. No initial stock purchases of stocks under $2 dollars or bonds that are below investment grade and no private issues. Foreign securities must have similar limitations. No use of leverage and very limited use of derivatives for hedging. Underlying mutual funds must also adhere to those rules.

I also see a regulatory hole with product providers. Maybe mutual fund companies, insurance companies, custodians/trustees, and all brokers/advisors/agents should be held to a fiduciary standard? Mutual fund and insurance companies market their products, but take not responsibility for who purchases them.

The big problem is ultimately education. We must educate the public on the merits and risks of different investments as well as how their income needs will change over their lifetime. Maybe a DOL brochure could be included with distribution paperwork?

Ultimately, I think it would be a big mistake to take away choice or lead retirees in certain directions, whether conservative or aggressive.

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