From: Daniel Ford [mailto:temporal@insightbb.com]
Sent: Saturday, March 06, 2010 10:16 AM
To: EBSA, E-ORI - EBSA
Subject: Re: Lifetime Income RFI.

U.S. Department of Labor,
Office of Regulations and Interpretations,
Employee Benefits Security Administration, N-5655
200 Constitution Ave. NW
Washington, DC 20210

Re: Lifetime Income RFI.

Dear Sirs or Madam:

I respectfully write in response to your request for information regarding the advisability of annuities over more traditional pensions or 401k programs. In general, there is a place for annuities in diverse retirement portfolios, but the danger in annuities is that many folks presume "annuity" automatically equates to "safe" and that's not the case. The following are the key points:

1. Annuities are no better than their underlying investments. For example, what is the safety of an annuity that invests in sub-prime mortgages?

2. Annuities are no "safer" than the soundness of the company or governments that offers them. In the current economic crisis, many "safe" insurance companies have folded while many state and municipal governments are technically bankrupt.

3. Insurance for annuities protects against isolated, not systemic failures. The woes of AIG and the FDIC are prime examples of the flawed assumption that insurance or counter-party protections is always adequate.

4. Annuities are vulnerable to inflation risk. The problem with all "risk free" investment vehicles, i.e. low yielding, is that investors can actually lose their principle to inflation. For example, the current yield on T-Bills is about .5 percent, while the historical inflation rate is 3%. The inflation risk increases if, as many predict, the U.S. returns to an era of high inflation.

5. Annuities are hard to compare "apples to apples." The value and performance of mutual funds is easily tracked while there's ample public data to compare fees. There are few ways for the average investor to compare annuities to annuities.

6. Rating systems are unreliable. The recent failure of "highly rated" companies has economic exposed underlying problems with ratings systems (Moody's, S&P, etc.) Not only have conflicting interests been alleged, but if ratings agencies themselves don't understand certain products or risk assumptions, then the durability of their ratings suffers as a result.

7. Government annuities should be held to the same standards as private annuities. In both areas of conflict of interest as well as proving solvency, any government annuities must be held to the same standards. The problem is private companies must compete on their merits, but government plans can enjoy an unfair legislative advantage. The other important point is that governments must be held to the same financial standards, i.e. any government that's running massive deficits ("losses") can't be viewed as "safe" nor solvent just because it's a government.

8. Public annuities should not be used as "back door" taxes or as political tools. It has been proposed in some quarters that traditional 401k's be converted to public pensions or annuities. Not only is this a "back-door" tax, but as we've seen with Social Security and the imminent failure of dozens of municipal and state pensions, the "government stamp" does not equate to soundness. In fact, "public" pensions and annuities actually add a new layer of political risk as legislators face competing interests and retirement contributions are invariably viewed as spendable income. There is also the problem of politics interfering in investment decisions (if the funds are invested rather than replaced with I.O.U's.) Every constituency or special interest has their own view as what is a politically acceptable investment is.

Thank you for your consideration in this matter.

Sincerely,

Daniel Ford
Burlington Kentucky