

**International  
Association of  
Machinists and  
Aerospace Workers**



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OFFICE OF INTERNATIONAL PRESIDENT

April 19, 2010

Subj: Lifetime Income RFI  
RIN 1210-AB33

Office of Regulations & Interpretations  
Employee Benefits Security Administration  
Room N-5655  
U.S. Department of Labor  
200 Constitution Ave, N.W.  
Washington, D.C. 20210

**Attention: Lifetime Income RFI**

Dear EBSA:

The International Association of Machinists and Aerospace Workers (IAM) appreciates the opportunity to submit these comments pursuant to the notice in the Federal Register for the "Request for Information Regarding Lifetime Income Options for Participants and Beneficiaries in Retirement Plans" (Vol. 75, No. 21, February 2, 2010, pages 5253 to 5258).

The IAM represents over 700,000 active and retired members who work in a variety of industries including manufacturing, defense, aerospace, transportation, shipbuilding, repair services, and government. The IAM has negotiated some of the strongest retirement plans in North America and takes great pride in its multi-employer pensions. Nearly all of our members are participants in defined benefit (DB) plans. Over two-thirds of our members are participants in a DB plan and also have a defined contribution (DC) plan as supplement to save for retirement. Given our decades of experience in these programs and success in helping our members and their spouses have secure retirements, we offer a unique insight into the questions posed by the Department of Labor in its request for information (RFI).

Before we address the RFI questions, there are four issues that we want to raise that are relevant to this discussion about retirement security and employee benefit plans.

First, any policy and legislative changes that attempt to address the retirement crisis in the U.S. should do no harm to existing single and multi-employer DB pension plans. Given the success DB plans have had in creating secure retirements for millions of working people, the government should be looking for ways to strengthen DB plans and expand DB plan coverage to

more people. Although DC plans are useful supplements to DB plans, we feel that the Federal Government's efforts have been overly focused on promoting 401(k) plans, including increasing tax subsidies. This focus on 401(k) plans has contributed to the steep decline in the percentage of the workforce participating in DB plans and done little to expand pension coverage to those that have no plan at all. This shift from DB plans to 401(k) plans has also transferred investment and other risks from sponsoring employers and the plans onto participants who in almost all cases do not have the financial cushion to handle these risks.

Second, any policy and legislation to expand retirement protection should learn from the strengths and weaknesses in the current DB system. For example, we are frequently asked by our members why there is no fund similar to a multi-employer DB plan that they can make individual contributions to on a weekly basis to build towards their own guaranteed retirement annuity. These members understand that there are many problems with buying individual annuities, including being at the mercy of for profit firms that are more concerned with charging high fees than in providing a secure retirement. There needs to be a way to pool individuals together so that they can take advantage of the economy of scale that a large fund has in managing assets, such as reducing fees, having more diversity in investments, and planning for the long-term. The IAM also thinks that the Department of Labor (DoL) should seriously consider the Retirement USA's "Principles for a New Retirement System" as factors to consider when exploring new ways to give people access to a more secure retirement (<http://www.retirement-usa.org>).

Third, the Pension Protection Act of 2006 (PPA) is seriously flawed and needs long-term fixes. The fact that Congress is constantly being asked to address the unnecessary volatility and other problems PPA created shows that we are not the only ones who see this legislation as harming DB plans. This letter is not the place for a detailed discussion of the problems with the PPA, but its flaws include the multi-employer funding zone calculations and remedies, the use of bankruptcy filing dates for non-forfeitable benefits, and that the Annual Funding Notices create unnecessary panic over the health of pension plans.

Fourth, we feel that retirement plan participants and sponsors are bearing an unfair burden from the financial collapse that was not their fault. The financial giants that created the worst economic crisis since the Great Depression received huge government bailouts. The Troubled Asset Relief Program (TARP) needs to use some of its resources to help pension plans and the Pension Benefit Guarantee Corporation (PBGC) deal with the losses they suffered due to the "toxic assets" and other problems that these financial institutions created.

In our response below we use the numbers from the RFI. Since we will not be responding to every question, such as those for plan sponsors, there are numbers that are skipped. We will use the term "annuity" to refer to annuities and other forms of lifetime payments.

*"1. From the standpoint of plan participants, what are the advantages and disadvantages ... of receiving some or all of their benefits in the form of lifetime payments?"*

There are many advantages to annuity payments. These include:

- The stability of a payment for as long as the retiree lives.

- Under our DB plans, this lifetime payment also provides protection for a surviving spouse, or in many cases, another designated beneficiary.
- The basic benefits under our private sector DB plans are guaranteed by the PBGC, and our government sector DB plans have the backing of the federal, state or local governments that offer the plans.
- The extremely important fact that the plan and the plan sponsor have the investment risk; not the plan participant.
- The plan, which uses investment professionals, is responsible for managing the assets; not the plan participants.
- During their working careers, our members under DB plans know that year-after-year they are building up towards a more secure retirement.

Although there are disadvantages, in most cases these are greatly outweighed by the advantages. Disadvantages include:

- Only a handful of our DB plans include any automatic protections against inflation, such as adjustments linked to the change in the Consumer Price Index (CPI).
- For those that die before retiring or soon after retiring and do not have a surviving spouse or the ability to designate a non-spouse beneficiary, the participants' estates get no value for the accrued benefits.
- Just because someone has a lifetime of payments, it does not automatically mean that the amount of the payments is adequate to maintain a decent standard of living.
- For DB plans that the PBGC takes over in distressed terminations, our members do not always get the full benefits that they were expecting. Key features that participants view as important parts of the DB plan are excluded from the guaranteed benefit. People are especially outraged that age and service are frozen at the time of plan termination so they may be denied benefits that they were only a few months short of qualifying for.
- Retirees sometimes have trouble locating their single-employer DB plans when they are ready to start collecting the benefits that they earned years ago. This is especially a problem when an employer no longer exists or has gone through multiple changes in ownership.
- Since DB plans typically have 5-year vesting, this means mobile workers and those with low seniority do not get any benefit from participating in a DB plan.



*“2. Currently the vast majority of individuals who have the option of receiving a lump sum distribution ...choose to do so .... What explains the low usage rate of lifetime income arrangements?... Are there steps that the Agencies could or should take to overcome at least some of the concerns that keep plan participants from requesting or electing lifetime income?”*

Only a few of our DB plans had a lump-sum option. We do not collect data on whether or not the thousands of defined contribution (DC) plans our members participate in offer lifetime income options, but we are not aware of any that have this option.

Our impression is that where DB plans have lump-sum options, factors that lead a large percentage of the terminating and retiring employees to select the lump-sum include:

- The present value of an annuity is a larger amount of money than most people have ever been offered in their lives. It is worth significantly more than any other assets most people have other than possibly their homes. There is a huge temptation to take the money.
- There is a lack of understanding of retirement finances in the U.S. Very few people understand the present value of a monthly annuity or what the life expectancy is for retirees and their spouses.
- Many people have pressing financial needs so using part or all of the lump-sum immediately overwhelms concerns about the future. This is especially true where people have large medical bills and/or had their standards of living reduced due to wage and benefit concessions or job losses. The middle class has been squeezed by a generation of bad policies and corporate greed. We need to avoid “blaming the victim” when people take the lump-sum just to survive.
- Some people do not trust their employers to properly manage the pension funds and/or think that they can management the money better themselves.
- Some participants are worried that if the PBGC takes over the plan in a distressed termination that they will lose a large portion of their pension benefits.
- When there is no option to designate a non-spouse surviving beneficiary, choosing the lump-sum is often the logical financial decision, especially for people who expect to die soon after retiring.
- For many retirees, taking the lump-sum allows them to either avoid making a complicated decision or making an irrevocable decision to take an annuity. The need to choose can be intimidating and confusing. Taking the lump-sum can really be a passive “non-decision.”

Steps and policies that could encourage more people to choose an annuity include:

- There needs to be better education about finances, retirement planning, and life expectancy. The DoL should review what materials terminating and retiring employees are currently getting and determine if more oversight, regulations, standards, and/or model language is needed.
- Plan participants should be able to designate non-spouse beneficiaries when there is no spouse or the spouse has given written permission.
- DoL should explore the possibility of giving people who start collecting an annuity a second change to take the lump-sum. If feasible, this would take the pressure of making an irrevocable choice. In addition, once people get used to getting the monthly pension check they might be less likely to choose the lump-sum.
- Ways to expand what the PBGC guarantees needs to be considered. Retirees in plans that the PBGC takes over are being punished with cuts in vested benefits and other restrictions that make no sense to the average person.

*“3. What types of lifetime income are currently available to participants directly from plans ...?”*

Our DB plans offer a wide range of options. Typically these include choices (or combinations of choices) such as reduced early retirement; unreduced early retirement based on age and service thresholds; normal retirement; late retirement; single-life annuity; joint & survivor annuity with 50%, 66 2/3%, 75% and 100%; minimum 5, 10 and/or 15-year certain with lifetime payments; and income leveling (larger payouts before Social Security starts). Plans offer partial lump-sums when employees contribute to the DB plan. A majority of our DB plans also provide disability pensions.

We are not aware of any DC plans offering lifetime benefits.

*“4. To what extent are the lifetime income options ... provided at retirement or other termination of employment as opposed to being offered incrementally during the accumulation phase ...?”*

We are not aware of any DB or DC plans with phased-retirements that allow participants to start collecting “incrementally during the accumulation phase.” The only exceptions are those situations where the law requires the DB or DC plan to start making distributions to older employees who have continued working well beyond typical retirement ages.

*“5. To what extent are 401(k) and other defined contribution plan sponsors using employer ...contributions to fund lifetime income ...?”*

We are not aware of any DC plans that offer lifetime income options.

*“6. What types of lifetime income or other arrangements ... to provide a stream of income ...are available to individuals who have already received distributions from their plans (out-of-plan options) ...?”*

We are not aware of any plans where individuals retain annuity purchase rights once they receive a distribution other than certain limited situations where a former employee is rehired after they had received an automatic minimum lump-sum distribution from a DB plan.

*“8. What are the advantages and disadvantages for participants of selecting lifetime income payments through a plan (in-plan option) as opposed to outside a plan (e.g., after a distribution or rollover)?*

We view the “outside plan” as a disadvantage since individuals do not get the benefit of lower fees through a group purchase and they are making financial decisions that they may not well prepared for.

The only disadvantages to “in-plan option” from a participant perspective would be if the plan administrator failed to properly pick the annuity provider or did not provide annuity options that meet participant needs.

*“10. How commonly do plan sponsors offer participants the explicit choice of using a portion of their account balances to purchase a lifetime annuity, while leaving the rest in the plan or taking it as a lump sum distribution ...? ...Would ...such partial annuity options ...be desirable and would this likely make a difference...?”*

The only situations where DB plans allow a partial payout is when the employees are contributing and can take their account balances as a lump-sum, but the employer provided portion of the DB benefit is an annuity. We are not aware of any DC plans that have partial annuity options.

Expanding lump-sum options for DB plans is not something the DoL needs to be spending time on. If DC plans were going to offer annuity options, then having the ability to use only part of the account balance to buy an annuity at a group rate would probably increase the election of the annuity option.

*“11. Various ‘behavioral’ strategies for encouraging greater use of lifetime income have been implemented or suggested .... Would expanded offering of such partial annuity options ...be desirable ...?”*

We think giving people in DC plans partial, gradual or trial basis annuity options would be useful.

If the annuity is the default option this would probably increase the number of people taking the annuity since many terminating and retiring employees are overwhelmed by all the decisions that they need to make so they take the lump-sum by default. However, if the annuity is the default option, participants will need the opportunity within a reasonable period of time to get out of the default option if they change, or finally make up, their mind.

*“21. Should an individual benefit statement present the participant's accrued benefits as a lifetime income stream of payments in addition to presenting the ...account balance?”*

Although we think it would be useful for DC plans benefit statements to also show the annuity value of the account balance, this could create a lot of confusion if not clearly explained. For example, since interest rates impact annuity values, the changes in annuity values from one benefit statement to the next may show different trends than the participants account balance.

We also would need to know how complicated and expensive this would be for plans to include on benefit statements before we could give a “yes” or “no” answer to this question. The complexity and expense would also impact how often it would be appropriate if required.

*“22. ...how should a lifetime stream of income...be expressed on the benefit statement ...?”*

We think a single life monthly annuity showing what a person will potentially get at age 65 based on the account balance at the time of the statement would be the clearest explanation. We think this should also be shown as an amount per year of service. For example, “If you were age 65 as of {date of account balance}, your current account balance could buy you a monthly annuity of \$X which is equal to \$Y per month per year of service.” We find with our members in DB plans understand and like to describe their benefit as an amount per month per year of service.

Showing multiple ages and options would make things too complex. We do not think there should be projections about earnings and/or contributions.

*“23. ... what actuarial or other assumptions ...would be needed...?”*

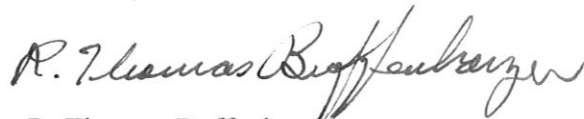
If the DC plan had an annuity option, then the value would be based on what annuity could be purchased at the time of the statement if the person was age 65. If the DC plan does not have an annuity option, then a model used by a commercial annuity provider selected based on proper standards would be used. The source of the annuity value estimation would be disclosed on the benefit statement.

*"24. Should an individual benefit statement include an income replacement ratio ...?"*

Given the complex issues related to the calculation of the projected replacement ratio and the disagreements over what is an appropriate replacement ratio, we would want to see more on this proposal before we could determine if this should be on the benefit statement.

Thank you again for the opportunity to share our views. Please let us know if you have additional questions.

Sincerely,

A handwritten signature in black ink that reads "R. Thomas Buffenbarger". The signature is written in a cursive style with a large, prominent initial "R".

R. Thomas Buffenbarger  
INTERNATIONAL PRESIDENT

RTB/mb