REG-148681-09

APR 30 2010

PUBLIC SUBMISSION

As of: April 30, 2010
Received: April 30, 2010
Status: Posted
Posted: April 30, 2010
Tracking No. 80ae3888
Comments Due: May 03, 2010
Submission Type: Web

Docket: IRS-2010-0006
Request for Information Regarding Lifetime Income Options for Participants & Beneficiaries in Retirement Plans

Comment On: IRS-2010-0006-0001
Request for Information Regarding Lifetime Income Options for Participants and Beneficiaries in Retirement Plans

Document: IRS-2010-0006-0071
Comment on FR Doc # 2010-02028

Submitter Information

Name: Kathy Virginia Hamor
Address:
1050 17th Street, NW
Suite 1000
Washington, DC, 20036
Email: khamor@savingscoalition.org
Phone: 202-223-2632
Fax: 202-223-2634
Submitter's Representative: Kathy Hamor
Organization: The Savings Coalition of America

General Comment

Thank you for the opportunity to provide comments regarding lifetime income options for participants and beneficiaries in retirement plans.

Comments from the Savings Coalition of America are attached.

Attachments

IRS-2010-0006-0071.1: Comment on FR Doc # 2010-02028

the Savings COALITION OF AMERICA

April 30, 2010

Ms. Stephanie L. Ward
Internal Revenue Service
US Department of the Treasury
Office of Regulations and Interpretations
Employee Benefits Security Administration (EBSA)
1111 Constitution Avenue, NW
Washington, DC 20224

Re: REG-148681-09

Dear Ms. Ward:

On behalf of its 45 member organizations, the Savings Coalition of America ("Savings Coalition") is pleased to submit these comments in response to the request for information (RFI) by the Employee Benefits Security Administration of the Department of Labor and the Internal Revenue Service of the Department of the Treasury. The Agencies are seeking comments regarding the rules under the Employee Retirement Income Security Act (ERISA) and the plan qualification rules under the Internal Revenue Code (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 (IRAs) by facilitating access to, and use of, lifetime income or other arrangements designed to provide a lifetime stream of income after retirement.

The Savings Coalition of America was established in 1991 to support incentives to increase the level of personal savings in the United States. The Savings Coalition has supported expansion and simplification of Individual Retirement Account (IRA) provisions and our comments will focus specifically on the aspects of the RFI which impact IRAs and IRA account holders.

What Does Retirement in the 21st Century Look Like?

When looking at Americans' retirements, there are interesting new trends emerging which veer from the traditional retirements to which we are accustomed. The generation that is beginning to retire, the baby boom generation whose size is estimated to be 79 million, is not planning to retire in the same way that preceding generations have. As the largest generation in U.S. history, the baby boomers have influenced much in American culture, business and politics during the last half of the 20th century and its aging will continue to shape much of the same during the first half or more of the 21st century. Recent survey data provide a snapshot of how Americans' attitudes toward retirement are evolving.

The *2006 Merrill Lynch New Retirement Study* surveyed individuals of different generations and employers. The survey revealed "that while many people are actually working in retirement or have taken steps for a new retirement career, most employers are not on track to prepare for this phenomenon." The survey "discovered that 76 percent of all baby boomers had no intention of seeking a "traditional" retirement."

This survey shows that Baby Boomer Retirements will be different from those of previous generations. With the dominance that this generation has had shaping American culture and business, it is likely that these changes will continue for future generations. Some key findings of the *2006 Merrill Lynch New Retirement Study* include:

- ***The New "Retirement Career."*** *The ideal retirement for 71 percent of adults surveyed is to work in some capacity. In fact, almost half of all adults who do plan to work during retirement do not plan to ever stop working completely. Among those who expect to work in retirement and eventually stop, the average tenure of their "retirement career" is over nine years and the average age at which they stop working completely is over 70.*
- ***Working equals longevity in the New Retirement.*** *Among all of the individuals surveyed, the most frequently cited reason for working during retirement was to stay mentally and physically active. As life expectancy increases, both current and future generations of retirees plan to use their longevity bonus to create a freedom-filled and fulfilling "new retirement." Concerns about health insurance and financial realities were also cited.*
- ***Gaining control over debt.*** *Paying down debt was ranked as the single most important thing to do toward securing a financial future in the coming year (33 percent), followed by saving more (21 percent). More than half (53 percent) of the individuals surveyed were concerned about the amount of debt in their households, yet most (63 percent) expected to have less debt when they retired and expected to be eventually debt-free (74 percent).*
- ***Rejecting pre-retirement rigidity and seeking out new opportunities.*** *When asked about their ideal work arrangement during retirement, the most popular option was "cycling" between periods of work and leisure. More than half of the adults surveyed would like to change their line of work and have already taken steps to plan for this new career by attending classes or training sessions and researching other careers.*
- ***Working and retired.*** *Those who are in the midst of their "retirement career" are more satisfied than those who are retired and not working. In addition, working retirees are less likely to fear not being able to afford healthcare and feel they have less debt.*
- ***Are you ready?*** *Less than one-third of individuals who are not already retired, feel adequately prepared for their retirement. However, three-quarters of boomers feel healthier, are more open to taking on new challenges and believe their work prospects are better than when their parents' generation turned 60.*
- ***The common denominator.*** *Like their employees, most companies do not believe that the majority of workers are well prepared for retirement. While the new retirement is on most company radar screens, the challenges that it brings have not been adequately addressed.*

Sun Life Financial released its research, the *Unretirement*℠ *Index,* in 2008 which showed similar trends. According to this research, "almost half (48%) of the American workforce believes it will still be working at the traditional retirement age of 67, and four of the five top reasons given were not financial in nature."

Individual Retirement Accounts

Congress created the traditional deductible IRA in 1974. Since then new types of IRAs have evolved and the eligibility and contribution rules have been altered several times. In 1978, Congress established the Simplified Employee Pension (SEP) IRA – an employer-based IRA. Between 1982 and 1986, Congress made the traditional IRA "universal" by allowing all workers under age 70½ to make tax-deductible IRA contributions. Beginning in 1987, Congress eliminated the universality of tax-deductible IRA contributions, but permitted workers meeting certain income limits to make such contributions even if they were covered by employer-sponsored retirement plans. In addition, after-tax, or nondeductible, contributions were permitted. In 1996, Congress added the Savings Incentive Match Plan for Employees (the SIMPLE IRA); an account targeted to small businesses and also increased the permitted contribution to spousal IRAs. Congress further expanded the menu of offerings again in 1997 with the Roth IRA and raised the income limits for IRA contribution deductibility. In 2001, Congress raised contribution limits for IRAs and those provisions permanent in the 2006 Pension Protection Act.

Today, the IRA successfully fulfills two primary functions. One is to give individuals not covered by retirement plans at work an opportunity to save for retirement on their own in tax-deferred accounts. The other is to provide portability for retirement assets by giving retiring workers or individuals changing jobs a means to preserve employment-based retirement plan savings by allowing them to transfer, or roll over, plan balances into IRAs. The U.S. workforce has a very low job tenure rate. The average worker tenure at a particular employer is 4.1 years, as measured by the Bureau of Labor Statistics.[1] For younger workers ages 25-34, average tenure is lower, 2.7 years. Other surveys show that the average American will hold between 5 – 15 jobs in a lifetime. The IRA plays a crucial role in consolidating retirement savings for millions of Americans. The employer plan which is an important savings accumulation tool is not necessarily the best decumulation tool for most workers, particularly given the dynamics of our workforce.

IRA Rollovers and Distributions

Distributions from traditional IRAs can be taken at age 59 ½ without any type of penalty. In addition, current rules require account holders to take a "minimum distribution" from their traditional IRA by April 1st of the year after they turn 70 ½. The Savings Coalition believes that the Agencies should consider the need to update the required age of distribution. Any changes to the RMD rules for annuity-type products should not give rise to disparate treatment for other distribution methods, such as periodic withdrawals.

IRA account holders do purchase annuities. According to research from the Investment Company Institute, "at the end of 2009, IRA assets held at life insurance companies were $303 billion and another $85 billion of IRA assets were held in variable annuities at mutual fund

[1] Bureau of Labor Statistics, January 2008.

companies. Together, these annuity investments accounted for over 9 percent of IRA holdings".[2]

The Savings Coalition believes that it is important for Americans to think through their retirement income needs when making a decision about distributions. When making these decisions, people should not only be thoughtful about their needs, but also have access to educational tools that can help them make the right decision. Distribution options should be clear about what is covered under each option; the options for each distribution product must be clearly delineated so people will have the knowledge they need to be able to make the correct decision for themselves. The costs associated with each option is an important feature that should be included in any information provided to Americans so that they can better be able to decide what approach is better for them.

Financial Literacy:

For more than a decade, the Savings Coalition has been actively supportive of financial literacy efforts; both in the public and private sectors. Every four years, at the national party conventions, the Savings Coalition and its members sponsor a presentation about how our organizations are meeting financial literacy needs at various stages of life along with efforts that are now taking place in the workplace. We know that the financial needs of someone who is 20 are different than the financial needs of someone who is 70. These needs are based on the individual's life circumstance and as such, we need to be addressing policy issues in a way that is flexible to not only meet the needs at various stages of life, but also to allow for any innovation that will occur in the future. For example, target date retirement funds have become increasingly prevalent in defined contribution plans over the past decade. Yet, their key features have become more well-known and understood by the general public since 2006.

Decisions about distribution of retirement account assets need to be made at various times in an American's life. For example, when one changes jobs, should his/her retirement funds be moved to the new workplace account, an IRA or an annuity. Having the correct information available to the individual at that particular time is critical in making the decision. The correct information should include all factors to be considered such as fees associated with each, life expectancy, and the numbers of years when the individual will continue to work are just a few. Financial literacy is critical as people need to know to ask these questions so that they can make an informed decision.

Conclusion:

The Savings Coalition appreciates the opportunity to provide comments to the Agencies lifetime income. The Savings Coalition supports additional efforts to educate Americans about the range of issues that should be considered as they approach retirement. However, it is very important to avoid limiting the flexibility of participants or add additional burdens to plan

[2] *See* Investment Company Institute, *2010 Investment Company Fact Book*, available at **www.ici.org/pdf/2010_factbook.pdf**. These data do not necessarily provide an accurate measure of annuity demand by retirees with IRA accounts, because only about 5 percent of deferred annuity contracts are ever converted to immediate annuities.

sponsors. Retirement is changing and for more than just financial reasons. As a policy matter, retirement distribution rules and regulations should provide flexibility, not "one-size fits all" solutions.

To paraphrase a recent automobile commercial, 'this is not your father's retirement." The most helpful role for government is to continue efforts to educate Americans and promote financial literacy to help individuals make informed decisions about their financial needs.