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September 9, 2010

Peter J. Marks
Office of Division Counsel/Associate Chief Counsel
Internal Revenue Service
Department of the Treasury

Re: Lifetime Income Joint Hearing

Dear Mr. Marks,

As discussed on the phone, I was on vacation the first 2 weeks in August and missed the Notice of this hearing and the opportunity to testify at it. Given the questions and having skimmed through the outlines submitted, I, perhaps too egotistically because there are some very fine people and companies offering their experience and perspectives, feel a dearth of creative problem solving is being offered and want to throw my hopefully 3 cents into the hopper. I appreciate your being open to my submitting these views even at this date and circulating them to the degree practicable and appropriate.

That said, I just re-read my May 3, 2010 submission to the RFI (# 685 of the RFI postings, attached for convenient reference), and find that it says most of what I see missing from the prospective testimony. Nevertheless I'd like to restate the crux of my submission and add a few additional thoughts in the context of your Questions 1, 2 and 3 (they also have applicability to Questions 5).

Question 1: In terms of allaying people's fears about immediate annuities, I suggest a more fundamental presentation of how they work so that potential buyers (and advisors) can better appreciate and evaluate their pros and cons for their situations. My perspective is that "simple" black box approach is scary, and the frills offered to overcome fears and erroneous intuitions just add more question marks.

Please note that when one works with the open design suggested, many other logical choices such as indexing interest credits to market or choosing death benefit or access choices, unfold.

Please also note that this fundamental description might be offered even in the context of current product designs; in fact I have come to recently understand it is being successfully employed by New York Life in its industry leading sales efforts.

I also want to comment on other guaranteed lifetime products such as Guaranteed for Life Withdrawal Benefit riders to deferred annuities (GLWB) and Stand-Alone Living Benefits (SALB) to mutual funds. They essentially provide a guaranteed income for life hedge against market loss, nicely packaged to calm loss aversion while promoting the allure of equity gains. However, as discussed in my 1/1/07 National Underwriter magazine article "Are GLWBs All They're Cracked Up To Be?", these guarantees carry a not insignificant cost and do not incorporate the mortality credit leverage, making them poor choices for those looking for income in retirement.

Question 2: In #4. Education, I discuss a Post-Retirement Financial Planning Educator site I am looking to develop. Note that it focuses on education, rather than the “solutions” offered by calculators, and addresses the varied and varying risks encountered in retirement more robustly than the financial planning provided to date by even the best of planners. Most importantly, it addresses the overall question more interestingly than heretofore, potentially sparking people to be interested enough to undertake self-evaluating interactive 101 understanding of the concepts involved.

If such a site were offered by the Department of Labor directly to employees it would also centralize education, allay people’s confusion as to the vast amount of information “out there”, and take much of the burden off of employers.

Question #3: This is a most important feature of your initiative in educating people as to retirement planning in the context of Defined Contribution and saving for retirement in general.

In addition to the points I make at the beginning of my discussion of education, I’d like to add two thoughts:

1. Along the lines of the DOL providing an educator, I suggest that the lifetime income “equivalent” values provided to employees be made available from the DOL analogous to that done with online Social Security projections, perhaps with mandatory basic hard copy estimates to be done for employees annually by employers using the DOL site. I would also suggest combining these estimates with those of Social Security, and certainly relating these to replacement ratios, further pointing out that income can also come from pensions and personal savings.
2. The Academy of Actuaries outline discussing the issues involved in what might be offered is well done, but as I point out, merely converting lump sum projections into income using appropriate immediate annuity rates overestimates the incomes the lump sums will likely generate as few will (or should unless really under water) convert 100% of the lump sums into immediate annuities. Rather I suggest such a conversion, as well as how much will be generated along the lines of the “safe” 4%, with explanations of each, be used to give a range of conversion values, along with cautions of course about all of the other potential deviations involved.

Obviously these are still just highlight suggestions. Please don’t hesitate to dig deeper as they spark interest.

Sincerely

Steve Cooperstein, FSA, MAAA
President & Actuary

Attachment