Department of Labor ANPRM
Lifetime Income Disclosure

Benefits Briefing
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Background

- Department of Labor & Treasury Interest in Lifetime Income
  - Request for Information February 2010
  - Council files comment letter and testifies at RFI hearing
  - Treasury releases first round of guidance February 2012
  - Council files comment letters and testifies on QLAC and partial annuity proposal
Background

• “Advance” Notice of Proposed Rulemaking
  - Distinction between “request for information” and formal proposal
• DOL reasons for using ANPRM
• Effect on timing of final rule
• Deadline for comments July 8
Proposal

- Plans affected
  - Defined contribution (individual account) plans
  - ERISA-governed only, not:
    - Governmental & church plans
    - Non-ERISA 403(b) plans
    - IRAs
- Would be included in periodic benefit statements
  - Quarterly for participant-directed plans
  - Annually for other defined contribution plans
Proposed disclosure

• Current account balance, using “fair market value” as of last day of period
• Projected account balance at normal retirement age
  ▪ Omit if participant has reached normal retirement age
• Current account balance expressed as a monthly lifetime income stream
• Projected account balance expressed as a monthly lifetime income stream
• Disclosures of assumptions and that numbers are illustrations only
Determining the projected account balance

• General rule
  ▪ Reasonable assumptions
  ▪ Generally accepted investment theories
  ▪ Must express in current dollars (discount for inflation)
  ▪ Must take into account future contributions and investment earnings

• Safe harbor
  ▪ Annual contributions (i.e. employer and employee) continue, growing at 3% per year
  ▪ 7% investment return
  ▪ 3% discount rate (inflation)
Determining the lifetime income stream

• General rule
  ▪ Reasonable assumptions
  ▪ Generally accepted actuarial principles
  ▪ Must be a level payment for life (not systematic withdrawal)
  ▪ If participant is married, also expressed as joint and 50% survivor (assume spouse is same age)
  ▪ Assume participant is normal retirement age and payment commences on first day of next period

• Safe harbor
  ▪ Interest rate equal to 10-year Treasury securities
  ▪ Mortality table in Code section 417(e)
  ▪ If plan offers annuity distribution, use plan rates
Example

- John is 45 and married. His wife Jane is assumed to be the same age.
- As of 12/31/12, John’s account balance is $125,000.
- Employer and employee contributions in 2012 were $9,709.
- For 2013, contributions assumed to be 3% higher, or $10,000.
- The plan does not offer an annuity distribution option.
Example -- Assumptions

• 3% growth in contributions, 7% investment return, 3% inflation
• Assume commencement of benefit on January 1, 2013
• Assume John and Jane are 65 on January 1, 2013
• For lifetime income calculation, 10-year Treasury rate on December 3, 2012 is 1.63%
• John’s and Jane’s expected mortality is based on unisex table in Notice 2008-85
Example

- Benefit statement for December 31, 2012 would show:

<table>
<thead>
<tr>
<th>Account balance as of 12/31/12</th>
<th>Single life form --monthly payment for your life with no survivor benefit</th>
<th>Joint and 50% survivor form – monthly payment during your life</th>
<th>Joint and 50% survivor form – monthly payment to your surviving spouse</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>$125,000</td>
<td>$625</td>
<td>$564</td>
</tr>
<tr>
<td>Projected at age 65</td>
<td>$557,534</td>
<td>$2,788</td>
<td>$2,514</td>
</tr>
</tbody>
</table>
DOL Calculator

http://www.dol.gov/ebsa/regs/lifetimeincomecalculator.html
Required disclosures

- Disclose assumptions used to establish the projected account value
- Disclose assumptions used to calculate lifetime income stream monthly payment
- State that the lifetime income stream calculations are illustrations only
- State that actual monthly payments that may be received at NRA will depend on numerous factors and may vary from the illustrations provided
Additional areas comments sought

- Comments generally sought on all aspects of the proposal
- Mandate
- Frequency of disclosure
- Addressing insurance “load”
- In-plan annuities
- FINRA rules
  - Rule 2210 prohibits predicting or projecting performance or implying past performance will recur
Council issues

• Input needed. E.g.:
  ▪ Mandate
  ▪ Flexibility versus uniformity
  ▪ Annuity versus installment versus either
  ▪ Protection from liability
  ▪ Alternative means of providing illustrations
    • DOL website
    • Plan website
  ▪ Safe harbor assumptions
Future benefit statement regulations

• Follow up on Field Assistance Bulletins 2006-03 and 2007-03
• ANPRM reserves sections for future regulations to be integrated with lifetime income disclosure
• Possible topics to be addressed
  ▪ Use of multiple statements (for, e.g., multi-vendor plans or plans with brokerage windows)
  ▪ Electronic delivery of statements
  ▪ Deadline for delivery of statement after end of statement period
Comments and Questions?