

# Department of Labor ANPRM Lifetime Income Disclosure

## Benefits Briefing

May 30, 2012

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# Background

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- 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

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- “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

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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

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- Benefit statement for December 31, 2012 would show:

Account balance as of 12/31/12		Single life form --monthly payment for your life with no survivor benefit	Joint and 50% survivor form – monthly payment during your life	Joint and 50% survivor form – monthly payment to your surviving spouse
Current	\$125,000	\$625	\$564	\$282
Projected at age 65	\$557,534	\$2,788	\$2,514	\$1,257



# DOL Calculator

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<http://www.dol.gov/ebsa/regs/lifetimeincomecalculator.html>

### Lifetime Income Calculator

\*All fields are required

Retirement Age

Current Account Balance \$

Current Annual Contribution \$

Years to Retirement

Statement Date (MM/DD/YYYY)

[View Instructions](#)

All of the results shown are estimates, not guarantees, of the level of the account balance or of the lifetime income streams of payments. The Department does not monitor or save data you enter online, and you cannot save calculations online. You may save your results by printing a copy or copying/pasting a copy into a text document on your computer before terminating your session.



# Required disclosures

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- 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

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- 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

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- 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

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- 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?

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