From: J.Jordan Schlick [mailto:jordanschlick@yahoo.com]
Sent: Thursday, February 11, 2010 10:26 AM
To: EBSA, E-ORI - EBSA
Subject: Inclusion of Annuities in IRA/IRA Rollover

Dear Department of Labor,

I am opposed to the inclusion of annuities as part of any 401-k as a roll-over option for employees.

Annuities do offer some "insurance" to consumers via the monthly payments they offer retirees. But not having access to their funds, these payments function as an allowance to consumers, thereby preventing them from spending through their retirement savings.

However, I think the negatives VASTLY outweigh the positives. Let me enumerate some of them below:

1) The sales fee for annuities offered by insurers typically run between 7% and 11%. Think about that. Each annunity sale on a $100,000 rollover produces a commission for the salesperson of $7000 to $11000. That leaves the investor with, at best, $93,000 (or maybe just $89,000 if they unknowingly picked a high commission product) invested in the annuity.

2) The "commission" clearly makes this a "product" rather than an investment, don't you think? Similar to purchasing a car or house - something with a large, built-in, difficult-to-determine transaction fee that is unclear to the purchaser. Is that what you are REALLY intending?

3) By buying an annuity ("the product"), the buyer is completely dependent upon the insurance company who sells the annuity to STAY solvent. As we have recently seen, that may not be a lock. Yes, I know, each state sets up reserves to cover the annuitants in its state, theoretically ensuring there will always be assets to offset the insurers' annuity liability (although recovery of assets is not the same as "life time annuity payments"). But as I recall, many states relaxed those reserve levels recently to ensure that more insurance companies had the capital to stay in business. How fast will those reserves be rebuilt? Will they be rebuilt? In short, assuming that insurance companies are "too big to fail" might not be a wise assumption to make.

4) Next, if the growing field of behavioral economics teaches us anything, it is that "offering" a solution and having individuals avail themselves of it are two different matters. Instead of offering annuities, why not simply increase the incentive to those facing a roll over (of a 401-k) to actually do so (as opposed to spending it)?

5) Finally, without adequate explanation of what the purchaser of an annuity is

foregoing, I believe those seeking to leave an asset to their heirs will be shocked when they discover (belatedly) that the annuity is lost to the insurance company upon the annuitant's death. If grandma is gravely ill at 62, her children will receive nothing from her annuity upon her death at 65. While this may not be an issue for the healthy, educated population that no longer smokes or consumes fried foods, is it entirely fair to the less educated who have significantly shorter life expectancies? What a great way to keep the poor that way for longer. I just see it now in insurance company boardrooms - "We sold billions of annuities to people of color who tend to be less well educated. Statistics show they will have shorter life expectancies, so we'll pay out less and our profits will soar! Give the CEO another huge bonus!!"

Last, let me offer full disclosure. I work for a registered investment advisor who does NOT sell annuities. If I feel that a client understands why they want one and the trade-offs involved, I steer them to open one with Fidelity, Vanguard or TIAA-CREF, each of whom offers no commission annuity products.

Sincerely,

J. Jordan Schlick