

# Women's Institute for a Secure Retirement

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May 3, 2010

Office of Regulations and Interpretations  
Employee Benefits Security Administration  
Room N-5655  
U.S. Department of Labor  
200 Constitution Avenue, NW  
Washington, DC 20210  
Attention: Lifetime Income RFI

Dear Sir or Madam:

On behalf of the Women's Institute for a Secure Retirement (WISER), we are writing to submit comments in response to the request for information regarding lifetime income options for participants and beneficiaries in retirement plans, issued jointly by the Department of Labor and the Department of the Treasury.

WISER works to provide low and moderate income women (aged 18 to 65) with basic financial/retirement information aimed at helping them take financial control over their lives and to increase awareness of the structural barriers that prevent women's adequate participation in the nation's retirement systems. Although women have entered the labor force in record numbers, their access to retirement benefits has not followed at the same level. As the only project to focus exclusively on the specific inequities that disadvantage women in retirement, WISER seeks to improve the opportunities for women to secure retirement income.

As the aging population rapidly grows, longevity risks have a disproportionate effect on women who will need more retirement income. Women need the best information and tools to help them determine, how much income they will need, where the money will come from and how to make it last. Many women are unaware of why they will have more challenges in retirement, yet they need help to make sure they do not make financial mistakes as they can least afford it. See WISER report, *How Can Women's Income Last as Long as They Do?* June 2009. Available at: [www.wiserwomen.org](http://www.wiserwomen.org).

We offer responses to specific questions that are of importance to the financial protection of the women we serve and that fall within our areas of focus – in particular, the importance of lifetime income for women and retirement education.

*1. From the standpoint of plan participants, what are the advantages and disadvantages for participants of receiving some or all of their benefits in the form of lifetime payments?*

For the following reasons women need guaranteed income throughout their lifetime -- Women live longer and need to know how best to manage their retirement income; They

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are more likely to have chronic illness and need long-term institutional care; More likely to be single and not remarry; Many women who have never been poor before end up living their lives in poverty.

**Advantages** of receiving some or all of their benefits in the form of lifetime payments—this would address the need for basic spousal protections in 401(k)-type defined contribution plans and rollover IRAs. While these are complicated issues with a lot of contention among the players, annuities would provide some protection for spouses without regulating 401(k) plans in a way that employers would find objectionable. (The risk is that more employers would consider terminating their retirement plans.) Women would have another source of guaranteed payout on top of Social Security benefits and they would not have to worry about mismanaging their lump sum payments.

Also, since women earn less and are more likely to have smaller account balances, research shows that they are more likely to cash out and spend their lump sums. They might be less likely to do so if lifetime payments were an option and if they understood the serious implication of having little or no money left for retirement.

**Disadvantages** to receiving lifetime income – possibility of losing access to money and not understanding the need for a guaranteed stream of income. Also, under the current system annuity products often do not come with inflation-adjustment, so purchasing power declines as the annuitant ages.

*2. Currently the vast majority of individuals who have the option of receiving a lump sum distribution or ad hoc periodic payments from their retirement plan or IRA choose to do so and do not select a lifetime income option. What explains the low usage rate of lifetime income arrangements? Is it the result of a market failure or other factors (e.g., cost, complexity of products, adverse selection, poor decision-making by consumers, desire for flexibility to respond to unexpected financial needs, counterparty risk of seller insolvency, etc.)? Are there steps that the Agencies could or should take to overcome at least some of the concerns that keep plan participants from requesting or electing lifetime income?*

Lack of understanding of options, lack of education, lack of understanding of longevity risk, women not participating in household financial decisions. Jeff Brown's extensive comments for this RFI includes research on his automatic enrollment proposal from the ACLI/WISER/ AARP Sept. 2009 conference. <sup>1</sup>

**Money in Hand:** Research shows that when people are offered the option to receive \$500 today, or \$5 a day for the next 100 days, most people want the money in hand, --

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<sup>1</sup> Jeffrey R. Brown, Univ. of Ill. and Nat'l Bureau of Econ. Research, Financial Education and Annuities (20080)

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this is the major factor indicating why so many employees choose the option to take a lump sum payment.

Other reasons people avoid annuity payouts is the fear of dying prematurely and “losing” the unpaid annuitized portion of their savings, lack of inflation protection, that choosing an annuity payout option is irreversible. The issue of “trust” adds another dimension following the economic crisis of 2008-2009.

Flexibility is an important factor, whether explicitly realized by the retiring worker or not. The retiree who annuitizes retirement income entirely loses the ability to deal with cash intensive situations that may come up unexpectedly.

Educating employees about the importance of lifetime income is important. Currently, employees see their 401(k)-type plan account balances as a lump sum amount on their statements. It would prove useful to extend this practice used by some sponsors that express the account balances as an annuity and to put it in the context of income that the retiree cannot outlive.

*8. What are the advantages and disadvantages for participants of selecting lifetime income payments through a plan (in-plan option) as opposed to outside a plan (e.g., after a distribution or rollover)?*

**The In-plan option** benefits participants. Group rates apply and can provide higher monthly income than buying a product on the retail market. For women, group plans must provide unisex pricing, which generally benefit women because it provides a higher payout rate than a retail product. Other benefits to the in-plan option include:

- Making it easier and more automatic than having to research annuity options
- The possible benefit of dollar-cost averaging purchase rates
- Certain advantageous annuity features and options may not be available under the plan such as inflation adjustment and refund options;
- Employer may limit the employee's retirement income options by offering only options of guaranteed income and a lump sum.
- A participant may be limited to a joint and survivor annuity option and may not want it and have to convince her spouse to waive it;

**Outside the plan**, men are likely to benefit from sex-distinct pricing. But participants are unlikely to have enough knowledge regarding lifetime income options to pursue it and make an informed decision.

Other disadvantages are:

- The price would include commissions, reducing income of the annuitant;
- Higher cost that comes with more lifetime income options

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- A spouse's signature is not required to elect lifetime income benefits;

*13. Should some form of lifetime income distribution option be required for defined contribution plans (in addition to money purchase pension plans)? If so, should that option be the default distribution option, and should it apply to the entire account balance? To what extent would such a requirement encourage or discourage plan sponsorship?*

A lifetime income distribution option is not optimal for all retirees. Nor is fully annuitizing 100% of a retiree's income. However, participants deserve the benefit of a more complete understanding of this option. Education and representation of the concept are key components.

Additional discussion is needed to work through the complexities of default distribution. Other questions would include:

- Would partial annuitization increase annuitization overall?
- At what minimum age would it apply?
- At what minimum account balance would it apply?
- On what portion of the account would it apply?
- Could the annuity portion be converted to longevity insurance?
- What about the "free look" provision? Can the individual take an annuity for a certain time and surrender it penalty free if it was found to be unsuitable.
- Should a default distribution be mandated or encouraged through tax incentives?

*16. Are there differences across demographic groups (for example men vs. women) that should be considered and reflected in any retirement security program? Can adjustments for any differences be made within existing statutory authority?*

A variety of unique challenges confront women and put them at risk for poverty in retirement. When it comes to retirement security programs, many women are left out because they work part-time and don't qualify for the plan or they work in industries where plans are not common. Automatic IRA enrollment would benefit women in these circumstances. Women are significantly disadvantaged by taking time out of the workforce to care for their families. Proposals among some caregiver organizations include offering caregiver credits to women under the Social Security system.

It is clear from various studies that many participants are not well-informed about their retirement needs and the management of money to make it last a lifetime. For women however, these decisions have a disproportionate impact as they bear a heavier risk of running out of money and need to know what they can do to protect themselves from poverty.

In addition, WISER's Blueprint/ Securing Women's Retirement Future is a package of ideas offered to policymakers and others for further discussion, thought and action about making women's retirement more secure. More than 40 women's organizations, the insurance industry, financial experts, actuaries and others provided input to develop a

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blueprint for securing women's retirement futures. WISER arrived at the Blueprint based on the group's input, and by looking at women's retirement security from several angles:

- Social Security
- Tax code and other legislative provisions that spur coverage and benefits
- Employer-sponsored retirement programs (including defined benefit and defined contribution plans)
- Individual saving
- Health care
- Long-term care
- Financial products that help individuals and employers implement plans and programs

The blueprint offers key facts and recommendations factored on these components. The full blueprint is available for download online, [wiserwomen.org/pdf\\_files/blueprint.pdf](http://wiserwomen.org/pdf_files/blueprint.pdf).

*17. What information (e.g., fees, risks, etc.) do plan participants need to make informed decisions regarding whether to select lifetime income or other arrangements designed to provide a stream of income after retirement? When and how (i.e., in what form) should it be provided? What information currently is provided to participants, who typically provides it, and when and how is it provided to them?*

Financial literacy/financial capability are very important. Longevity risks. Product information, fees. The nature of retirement preparation has left millions of workers to make complex decisions. These aren't just retirement planning decisions; they are life-defining decisions and most people aren't prepared to make them.

This puts women in the difficult position of making big decisions with little guidance and being unable to afford even a small mistake. Women especially need to understand the risks they face in achieving a financially secure retirement. Education should help them understand the risks of retiring too early, of outliving assets, the impact (and likelihood) of living alone, and the importance of protecting their pension rights in the event of a divorce. Surveys show that the employer is seen as the trusted messenger, so they are well-positioned to offer this education. Also highly successful are community-based education efforts. Funding is lacking but sorely needed for successful efforts such as these. WISER works through organizations that have trusted links to a constituent base to educate millions of women.

*20. To what extent should plans be encouraged to provide or promote education about the advantages and disadvantages of lifetime annuities or similar lifetime income products, and what guidance would be helpful to accomplish this?*

See above answer to question 17– financial education is vital, especially to women who often fail to recognize the unique challenges they face. Education should center on understanding longevity risks, the impact of inflation and the risk of outliving assets.

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Employers are still the best resource for employees to learn how to understand the products that are offered. As defined contribution plans are now the primary retirement plan for most participants, the government and employers need to do a better job of helping people understand how to use their account balances to support them during their retirement years.

If the participant takes a lump-sum option they need to know that they have to consider how long they might live and the investment returns they will need to make sure that they do not use up their funds too quickly. WISER's booklet, ***Making Your Money Last for a Lifetime***, jointly issued with the Actuarial Foundation, provides a good first impression on what the choices are and how lifetime annuities work.

Education efforts need to send the message that Social Security benefits and the account balances in defined contribution plans are key components toward providing a "paycheck" for the rest of your life.

*21. Should an individual benefit statement present the participant's accrued benefits as a lifetime income stream of payments in addition to presenting the benefits as an account balance?*

We believe that benefits should be presented both ways. We understand the challenges that come with showing benefits as a lifetime income stream, such as determining appropriate assumptions. We also recognize that the benefit in its annuitized form may seem so small that participants would dismiss it out of hand. We are confident both of these challenges can be overcome.

WISER supported the Lifetime Income Illustration bill (Sen. Bingaman, Sen. Isakson and Sen. Kohl) S. 2832. The bill requires participant's account balance to be shown annually on the benefit statement as a guaranteed monthly income payment for life.

*26. Could or should any changes be made to the rules relating to qualified joint and survivor annuities and spousal consents to encourage the use of lifetime income without compromising spousal protections?*

Spousal consent is a major issue for employers and for those concerned with women's rights. Under defined contribution plans with an annuity option, spousal consent is required, but if the plan offers only a lump sum, no spousal consent is required. Many advocates for women's rights raise the concept of extending spousal consent to defined contribution plans, but others question its effectiveness. Employers find spousal consent complex and expensive to administer. Electronic signature collection is important to employers and they want to reduce their burden and expense. However, these proposals are highly controversial and are opposed by many women's leaders. There is currently no consensus among the diverse stakeholders on this issue.

WISER is planning to convene its second roundtable later this year focused on, *Making Women's Income Last as Long as They Do*. We plan to include as part of the targeted dialogue, the issues surrounding survivor protections-- administration of the QJSA and

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spousal consent. The purpose of the roundtable series is to generate ideas and to provide recommendations that would be acceptable to employers, the financial services industry, government, and women's leaders as a way to encourage sponsors to add lifetime income options and to focus on the core challenges of asset management for women while discussing solutions.

On behalf of the Women's Institute for a Secure Retirement, thank you for consideration of these comments. As stated above, we welcome the opportunity to discuss these comments and engage in a productive dialogue with the Department and Treasury on these important issues.