

**MEMO# 31338**

August 16, 2018

## **ICI Testifies at ERISA Advisory Council Regarding Use of Lifetime Income Products in DC Plans**

[31338]

August 16, 2018 TO: ICI Members  
Pension Committee

Pension Operations Advisory Committee SUBJECTS: Pension RE: ICI Testifies at ERISA Advisory Council Regarding Use of Lifetime Income Products in DC Plans

On August 15, 2018, ICI testified before the ERISA Advisory Council (the “Council”) on the topic of Lifetime Income Solutions as a Qualified Default Investment Alternative (QDIA), in connection with the Council’s August 14–16 hearings.[\[1\]](#) ICI’s testimony (1) provided data to disprove the Council’s premise that Americans are under-annuitized and that promoting annuities in defined contribution (DC) plans is a necessary policy initiative and (2) explained how implementing two regulation changes proposed by proponents of increased annuitization would not serve the interests of plan participants and beneficiaries.

The Council is considering whether to identify the need for lifetime income as an important public policy issue and whether it should advise DOL to support initiatives that could lead to broader use of lifetime income options in DC plans. More specifically, the Council’s stated objective “is to focus recommendations on promoting lifetime income within DC plans through providing further guidance on an annuity selection safe harbor and modifying the [QDIA] rule to focus on asset accumulation and decumulation issues in the context of lifetime income needs and solutions.” The presumption underlying these objectives is that Americans generally should annuitize more of their DC plan savings.

### **I. Research Does Not Support the Premise That American Workers Need More of Their Retirement Income in the Form of an Annuity.**

The focus of the ICI’s testimony was to call into question the Council’s underlying premise for promoting lifetime income in DC plans, i.e., that most Americans are under-annuitized and that promoting annuitization of retirement account balances would benefit American retirees, is incorrect.

ICI’s testimony showed that retirement resources, which allow workers to reallocate lifetime resources from their working years to their retired years, should be thought of comprehensively. The US retirement resource pyramid has a strong annuitized base, Social

Security, which is progressive and provides high replacement rates for lower-income workers. When including all retirement resources, it is clear that US households are highly annuitized outside their DC plans.

Additionally, individuals entering retirement who need more annuity income should first consider delaying claiming Social Security before purchasing an annuity in the market. In addition to regular income, most households want access to resources in times of unexpected need, and required minimum distributions (RMDs) are a responsible way to produce a lifetime income stream while still maintaining access to the account balance. Most retirement savers steward their accumulations to and through retirement. Households having financial difficulty in retirement typically had difficulty while working, and promoting annuitization will not solve the problem of limited lifetime resources.

At the hearing, Council members expressed appreciation for the depth and breadth of research and data in the written testimony.

## **II. Proposals Intended to Promote More Annuitization in DC Plans Would Not Serve the Interests of Participants and Beneficiaries.**

ICI's testimony also addressed two ideas that have been heavily promoted by proponents of increased annuitization in DC plans: (1) a proposal to modify the QDIA safe harbor to limit the right of participants who have been defaulted into annuities to transfer out of those products, and (2) a proposal to require benefit statements to include a lifetime income illustration based on an annuity calculation.

The QDIA safe harbor provides express fiduciary relief for the investment of participant accounts absent direction from the participant (i.e., when the participant is defaulted into an investment). The QDIA rule includes several conditions designed to protect participants whose assets are invested by default, including a requirement that participants have the opportunity to direct investments out of a QDIA as frequently as a participant or beneficiary who affirmatively elects to invest in the QDIA, but not less frequently than once in any three-month period. Annuity providers want DOL to loosen this condition, but only with respect to annuity products. Our testimony explains why this change would be problematic and points out that DOL explicitly permits annuities in QDIAs, as long as they meet all of the QDIA conditions.

ICI also urged that DOL not prescribe a single method for providing lifetime income illustrations. Rather, DOL should expand the guidance in Interpretive Bulletin 96-1 to clarify that information on distribution options and retirement income (including lifetime income illustrations) qualifies as participant education, not investment advice. This relatively simple change would ensure continued development and innovation while protecting the interests of participants.

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### **endnotes**

[1] A description of the topic on which ICI testified is available at <https://www.dol.gov/sites/default/files/ebsa/about-ebsa/about-us/erisa-advisory-council/2018-lifetime-income-solutions-as-a-qdia.pdf>. A copy of our testimony is available at

[https://www.ici.org/pdf/18\\_erisa\\_qdia.pdf](https://www.ici.org/pdf/18_erisa_qdia.pdf).

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