

Guaranteed Income for Life and Regulatory Updates

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Exclusive Purpose and Adequacy of Benefits

In addition to the **responsibility for investments**, fiduciaries should be looking at:

- Quality of participant investing.
- Level of participation.
- Rates of deferral.
- Expenses and revenue sharing.
- Level of benefits being produced.
- Distribution of benefits.

This program focuses on the last two points—the proper accumulation and distribution of retirement benefits.



"If we take a late retirement and an early death, we'll just squeak by."

The Retirement Dilemma

The concern is twofold:

- Will employees have enough money when they retire?
- Will they withdraw it responsibly, so that they do not exhaust their 401(k) accounts or IRAs before they die?

Developing Thinking

There is a growing realization that there are two distinct phases for decisions about 401(k) plans:

- Accumulation
- Distribution

However, they are connected by the need for growth and the desire for stability.

The Accumulation Phase

The primary factors in the accumulation phase are:

- participation
- “funding” or contributions
- participant investing

The Accumulation Phase

Employee investing has been a concern for many years:

- investment education
- investment advice

The “solution” that has actually worked is pre-packaged investment portfolios:

- lifestyle fund
- lifestyle or target date funds

Risk Management for Participant Investing

- ERISA’s “portfolio” perspective.
- Safe harbor for use of defaults.

Participant Investing

Recent Congressional and DOL activity has created a fiduciary safe harbor for defaults into “multi-asset class” investments (QDIAs).

Explicit and implicit protection

Implicit expectations

Safe Harbor Default Investment

The new QDIA rules condition relief on:

- a default by the participant;
- satisfying a notice requirement (at least 30 days);
and
- an appropriate default investment.

Safe Harbor Default Investment

The DOL has issued a regulation that identifies long-term “qualified default investment alternatives” or “QDIAs” as:

- managed accounts;
- age-based investments; and
- risk-based investments.

Safe Harbor Default Investment

Where are we going? The “safe harbor” investments are expanding the use of defaults:

- traditional defaults
- automatic enrollment defaults
- conversion defaults
- existing plans: re-enrollment

Change of perspective.



Schwadron
"RELAX, IT'S NOT FOR YOU. I'M HERE FOR YOUR 401 K."

Portfolio Investing

The large losses for participants in 2008, including losses in 2010 funds, have focused the government and the benefits community on the need for stability and security as participants approach their retirement ages.

Political and Policy Issues

Senator Kohl, Chair of the Senate Committee on Aging, has elevated 401(k) target date funds to a policy level—

- Inquiries of providers
- Committee hearings
- Letters to SEC and DOL

Challenges to Target Date Funds

“Despite their growing popularity, there are absolutely no regulations regarding the composition of target date funds,” said Chairman Kohl. “With more and more Americans relying on 401(k)s..., we need to make sure their savings are well-protected with strong oversight and regulation.”

U.S. Senator Herb Kohl (D-WI), Chair Special Committee on Aging (from Announcement released February 25, 2009).



"THE GOOD NEWS IS YOU CAN RETIRE AT 65. THE BAD NEWS IS THAT IT'S 2065."

Guaranteed Income for Life

There is the obvious and difficult issue of preserving benefits as participants approach retirement, but without giving up potential stock market gains.

Guaranteed Distributions

The concept of GMWB (guaranteed minimum withdrawal benefits) and GIFL (Guaranteed Income for Life) while participating:

- account value
- benefit base
- insurance guarantee and underlying investment

The cost is the payment of a fee for at least five years.

Distributions Issues

- The 4% draw-down
- Retirement income guarantees
- Real people, real needs



"WE'VE UPGRADED YOUR CONDITION FROM 'CRITICAL' TO 'COSTLY.'"

Guaranteed Income for Life

GIFL during retirement:

- benefit base
- account value
- guaranteed income
- not an annuity

GIFL Features

The typical elements of a GIFL are:

- The feature is tied to specified investments, usually a balanced investment portfolio such as a conservative, moderate or growth lifestyle fund, or a target maturity fund.

GIFL Features

- The participant is charged an annual fee – or premium – for this feature, which typically ranges from 35 basis points per year to 100 basis points and is in addition to the management fees for the investment.
- To be eligible to receive the guaranteed payment, the participant must make premium payments for a minimum period set by the insurance company (for example, five years).

GIFL Features

- The insurance company agrees to pay the participant a benefit equal to a set percentage (e.g., 5%) of the base amount if the funds invested in the participant's account runs out of money during retirement.
- The guaranteed payout for a guarantee that also covers the spouse is usually a little lower, e.g., 4½%.

GIFL Features

- Beginning at retirement, a participant who elected the GMWB may withdraw the set distribution amount (e.g., the 5% per year).
- Withdrawals in excess of 5% per year will reduce the benefit base.

Considerations

- Cost of guarantee
- Quality of the underlying investments
- Rollover for retiring participants
- Financial viability of the provider



Parting Thoughts



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