

Fact Sheet



U.S. Department of Labor
Employee Benefits Security Administration
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Lifetime Income Illustration

The Department of Labor's Employee Benefit Security Administration (EBSA) published today in the Federal Register an advance notice of proposed rulemaking (ANPRM) focusing on lifetime income illustrations in periodic pension benefit statements of defined contribution pension plans, such as 401(k), 403(b) plans, etc. Specifically, the ANPRM requests comment on whether, and how, a worker's quarterly or annual pension benefit statement could present his or her accrued benefits as an estimated lifetime stream of payments, in addition to being presented as an account balance. EBSA believes that illustrating an account balance as a lifetime income stream will help workers in defined contribution plans to better prepare for retirement.

Background

Workers today face greater responsibility for managing their assets for retirement, both while employed and during their retirement years. This greater responsibility is primarily a result of the trend away from defined benefit plans, where a worker's retirement benefit is typically a specified monthly payment for life, and toward defined contribution plans, where typically contribution, asset allocation and drawdown decisions are made by the participant. Managing finances in order to provide income for life for oneself and one's spouse is a tremendously difficult but important task. Individuals may not understand what savings, asset allocation and drawdown decisions are necessary to achieve both of these goals. In particular, participants in defined contribution plans may have difficulty envisioning the lifetime monthly income that can be generated from an account balance.

There are almost 660,000 private sector employer-sponsored defined contribution plans covered by the Employee Retirement Income Security Act (ERISA). Of these, approximately 500,000 are participant-directed, meaning that participants are responsible for directing the investment of their own retirement assets. Section 105 of ERISA requires administrators of defined contribution plans to provide periodic pension benefit statements. Benefit statements must be furnished at least annually, unless the plan is a participant-directed plan, in which case benefit statements must be furnished at least quarterly. Benefit statements must show the participant's total benefits accrued.

The Department of Labor through EBSA and the Department of the Treasury (the Departments), on February 2, 2010, published a request for information titled, "Request for Information Regarding Lifetime Income Options for Participants and Beneficiaries in Retirement Plans" [75 FR 5253]. As stated in the summary to the RFI, the Departments are reviewing the rules under ERISA and the plan qualification rules under the Internal Revenue Code to determine whether, and, if so, how, the Departments could or should enhance, by regulation or otherwise, the retirement security of participants in employer-sponsored retirement plans and in individual retirement arrangements by facilitating access to, and use of, lifetime income products or other arrangements designed to provide a lifetime stream of income after retirement. The RFI contained 39 questions on a wide array of subjects. The Departments received in excess of 700 comments in response to the RFI. The

Departments subsequently held a joint hearing on lifetime income options for retirement plans on September 14 and 15, 2010, in order to further consider several specific issues. Comments received in response to the RFI, written hearing testimony and the official hearing transcripts are available on the Department's Web site at www.dol.gov/ebsa/regs/cmt-1210-AB33.html.

Overview of ANPRM

The ANPRM sets forth certain language and concepts EBSA is considering as part of future proposed regulations. The language and concepts being considered are limited to pension benefit statements of defined contribution plans. The language and concepts would be part of the regulatory framework under section 105 of ERISA under which:

- A participant's pension benefit statement would show his or her current account balance and an estimated lifetime income stream of payments based on such balance. The lifetime income illustration would assume the participant had reached normal retirement age as of the date of the benefit statement, even if he or she is much younger.
- For a participant who has not yet reached normal retirement age, his or her pension benefit statement also would show a projected account balance and the estimated lifetime income stream based on such balance. A participant's current account balance would be projected to normal retirement age based on assumed future contributions and investment returns. The projected account balance would be converted to an estimated lifetime income stream of payments, assuming that the person retires at normal retirement age. This account balance and the related lifetime income payment would be expressed in current dollars.
- Both lifetime income streams (i.e., the one based on the current account balance and the one based on the projected account balance) would be presented as estimated monthly payments based on the expected mortality of the participant. In addition, if the participant has a spouse, the lifetime income streams would be based on the joint lives of the participant and spouse.
- Pension benefit statements would contain an understandable explanation of the assumptions behind the lifetime income stream illustrations. Pension benefit statements also would contain a statement that projections and lifetime income stream illustrations are estimates and not guarantees.

Assumptions and Safe Harbors

The lifetime income illustrations contemplated by the ANPRM depend on the use of certain assumptions. For example, contribution and investment return assumptions are needed to project an account balance to a person's retirement age, and mortality and interest rate assumptions are needed to convert an account balance (whether current or projected) into a lifetime income stream. The ANPRM requires that plan administrators use only reasonable assumptions taking into account certain professional standards when developing lifetime income illustrations. The ANPRM, however, provides two safe harbors under which certain assumptions are deemed reasonable.

Projection Safe Harbor

When projecting account balances, it is reasonable for a plan administrator to assume:

- Contributions continue to normal retirement age at the current annual dollar amount, increased at a rate of 3% per year.
- Investment returns are 7% per year (nominal).
- A discount rate of 3% per year, in order to show the projected account balance in today's dollars.

Conversion Safe Harbor

When converting current and projected account balances into lifetime income streams, it is reasonable for a plan administrator to assume:

- A rate of interest equal to the 10-year constant maturity Treasury securities rate.
- Mortality as reflected in the applicable mortality table under section 417(e)(3) of the Internal Revenue Code.
- If married, the participant's spouse is the same age as the participant.
- Payments commence immediately and the participant is normal retirement age, if younger than normal retirement age.

Example & Online Calculator

The ANPRM has two main sections. The first section, titled "Background," contains the relevant statutory language on which the Department is basing the ANPRM and a discussion of the Department's general policy concern underlying the ANPRM. The second section, titled "Overview of Intended Regulations," presents questions, ideas, and potential language on certain rules the Department is considering as part of proposed regulations under section 105 of ERISA. Each of these sections has multiple subsections. A regulatory framework consistent with the style and other requirements of the Code of Federal Regulations follows the two sections. Appendix A contains an example that demonstrates how to calculate a lifetime income illustration under the regulatory framework. In conjunction with the publication of this ANPRM, the Department also has made available on its Web site an interactive calculator that computes lifetime income streams in accordance with the proposed regulatory framework. This calculator is at www.dol.gov/ebsa/regs/lifetimeincomecalculator.html.

Public Notice and Comment on the Proposal

The ANPRM invites public comments from interested persons. Comments are due no later than July 8, 2013. Public comments can be submitted electronically by email to e-ORI@dol.gov or by using the Federal eRulemaking portal at www.regulations.gov. All comments will be available to the public, without charge, online at www.regulations.gov and www.dol.gov/ebsa and in the EBSA Public Disclosure Room.