# Annuity and mutual fund interests at odds over 401(k) disclosures

Insurance groups facing off against retirement industry stakeholders over issue of lifetime income illustrations

Nov 29, 2018 @ 2:38 pm
By Greg Iacurci



https://www.investmentnews.com/article/20181129/FREE/181129943/annuity-and-mutual-fund-interests-at-odds-over-401-k-disclosures

A fight is breaking out over retirement legislation that the U.S. Congress is trying to jam through before year's end, pitting insurance and mutual fund groups, as well as large 401(k) providers, against each other.

The rancor concerns just one of the numerous measures contained in a recent bill introduced in the House of Representatives. The item calls for lifetime income disclosures on 401(k) statements.

The provision in the Retirement, Savings, and Other Tax Relief Act of 2018, introduced this week by Kevin Brady (R-TX), chairman of the House Ways and Means Committee, that would require the annual 401(k) benefit statements for participants to include a translation of their current account balance into a monthly income stream.

In other words, if a participant were to retire today, how much monthly income would he/she be getting?

The Insured Retirement Institute and American Council of Life Insurers both called the measure a "key" part of the retirement security bill.

A coalition of about a dozen industry trade groups and plan providers disagrees, outlining its discontent in a letter sent Wednesday to top officials in the Senate Finance and House Ways and Means committees.

The group includes a number of heavy hitters: trade groups such as the Investment Company Institute, American Retirement Association, and the ERISA Industry Committee, as well as big 401(k) and mutual fund providers such as Fidelity Investments, Vanguard Group, T. Rowe Price Group, Empower Retirement, J.P. Morgan Asset Management, Charles Schwab, Putnam Investments and Alight Solutions.

The group asserts, among other complaints, that the government is "inadvertently providing its imprimatur to one specific product — annuities — over other investment products" in the measure's current form, according to the letter.

Philip Chao, a retirement plan adviser, said the argument over lifetime income is an important one, but is being "polluted by self-interest."

"The two sides always try to push back on each other because so much money is at stake," said Mr. Chao, principal of Chao & Co. "It's all about products, which is really unfortunate."

(More: Variable annuity sales up 25% from this time a year ago)

The lifetime-income provision isn't new — it's been floating around Washington since 2009 as the Lifetime Income Disclosure Act and has been included in a number of recent bills, including the Retirement Enhancement and Savings Act. The Labor Department under the Obama administration was working on a regulation, but it wasn't able to issue it before the end of the Obama presidency. Participants in the federal Thrift Savings Plan, the largest defined-contribution plan in the country, already get illustrations in their benefit statements that spell out how much their balance equates to on a monthly basis.

Policymakers are trying to address what they perceive as an educational gap. A $500,000 account balance may seem like a lot of money to a near-retiree, but that individual may not know if that sum will maintain a desired standard of living.

The provision in question says the income illustration would be derived from an annuity.

However, Paul Richman, vice president of government affairs at the Insured Retirement Institute, disagrees that the bill would promote annuity products. The bill gives the Labor Department broad latitude to decide upon the ultimate criteria of the illustration, which gives "potential for other calculations," he said.

He called the backlash to the measure among specific firms "a bit surprising," since IRI hadn't "heard a peep from those individual companies" in the past, despite many of them being on IRI's government affairs committee, he said.

(More: DOL proposes rule to reduce leakage in 401(k) plans)

An Empower spokesman said the firm hadn't "been silent about our concerns with this."

Empower and the other signatories said in the letter that they agree with the primary public policy goal of the illustrations — but believe the proposed manner is inflexible and ineffective. For example, the Empower spokesman pointed to technology among many record keepers that he called more effective because it allows participants to model various savings scenarios and see in real-time the effect it would have on their retirement readiness.

The signatories are asking Congress to make the legislation language more flexible so they can tailor an illustration based on their workforce and the distribution options available to plan participants.