DATE: **January 5, 2010**

TO: **IIPRC Management Committee**

FROM: **IIPRC Industry Advisory Committee (IAC)**

SUBJECT: **Comments on GLB Annuities**

Following are comments on the uniform standards listed below that were issued on October 29, 2009

> ***Guaranteed Living Benefits for Individual Deferred Non-Variable Annuities***
> ***Guaranteed Living Benefits for Individual Deferred Variable Annuities***
> ***Guaranteed Minimum Death Benefits for Individual Deferred Variable Annuities***

For simplicity, these comments will focus on ***Guaranteed Living Benefits for Individual Deferred Variable Annuities (GLBs),*** but would also apply similarly to the other two uniform standards.

Why GLBs are Important

The *New York Times* reported in January 2009 that 20% of working Americans have a defined benefit pension plan (down from 62% in 1983); while more than 66% have a 401k Plan (up from 12% in 1983)[1]. The decline of the traditional pension plan and commensurate increase of Americans with 401k Plans, IRAs, or non-qualified retirement plans, increasingly puts retirees in the position of having to fend for themselves in retirement.

Most retirees are not skilled or disciplined enough to take periodic withdrawals from their savings without outliving their assets. They can convert a portion of their assets into an immediate lifetime annuity to help cover essential retirement expenses, but many are reluctant to do so for several reasons:

- Retirees are generally uncomfortable locking up assets in retirement, no matter the guaranteed income advantage.
- New retirees are not yet certain about their living standard needs in retirement and they will require flexibility.
- Liquidity is important; retirees want the ability to tap their assets if needed.
- Many retirees are unwilling to lose the opportunity to pass their money to their heirs in a lump sum upon their death.

[1] "From Here to Retirement" *New York Times*, January 26, 2009

Using an annuity with a GLB annuity for a portion of one's retirement assets provides:

- A guaranteed lifetime income to help cover essential expenses.
- The ability to continue to participate in "the market" with a guaranteed income floor and potential for more income, i.e., protection of retirement income from depletion by a market downturn while saving for retirement.
- The ability to decrease or increase payment amounts as income needs change.
- Access to one's entire annuity contract for additional funds if income options are limited.

GLB annuity products, for the reasons above, are very popular in the marketplace.

Should Companies be able to terminate the GLB if the contract is sold to an institutional investor?

The promise of a lifetime guaranteed income stream is not sold as a "liquid asset" to be resold in exchange for other assets. Its value to consumers lies in their ability to invest in the market while safeguarding their potential retirement income.

If a resale of an annuity is permitted without termination of the GLB, individuals may be tempted or persuaded to sell their GLB annuity in exchange for a lump sum payment. There is a risk that they might not receive adequate counseling and will lack a thorough understanding of all their options. Plus, they will lose the flexibility and security their GLB annuity provides and will lose a guaranteed lifetime income they might not be able to replace.

If an annuity with a GLB could be resold to an institutional investor it would create an opportunity for such investors to prey upon seniors by making an offer that is nowhere near the true economic value for the benefit. This would be likely to happen because the transaction would not be profitable to the investor, given all the expenses involved, unless the offer was considerably less than the economic value. These institutional investors would then make all future ownership decisions in the aggregate (withdrawing money, reallocating investments, etc.) consistent with the needs of institutional investors, not individuals with varying needs. Those are vastly different behaviors, which would need to be incorporated into the pricing of the product. Pricing for institutional behaviors would raise the cost of those benefits considerably over what it is today.

Allowing companies to terminate the GLB if the annuity is sold to an institutional investor will allow this popular product to continue to be sold at an affordable price.

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