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Managing Lump Sum Retirement Benefits

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Summary: The trend toward 401(k), IRA, and other defined contribution plans is changing the relative mix of annuities and lump sums in the benefit package for retirees. This session addresses various questions, such as how are retirees typically handling "large" lump sum payments? How do retirees who take their benefits in a lump sum protect themselves against longevity risk? What pension purchase options are employers offering? What role can the plan administrator play in helping participants manage lump sums?

MS. RONNIE SUSAN THIERMAN: This is "Managing Lump Sum Retirement Benefits." First I'd like to introduce the panel to you. To my immediate right is Judy Mazo. She is senior vice president and director of research for the Segal Company. She attended Wellesley College and Yale Law School. Before joining Segal, she was in private law practice in Washington, D.C. She was also a special counsel to the PBGC and a consultant to the Pension Task Force of the Committee on Education and Labor for the U.S. House of Representatives. Judy is a member of the Pension Research Council of the Wharton School. She is on the editorial advisory board of the BNA Pension & Benefits Reporter, Benefit Law Journal, and the board of governors of the American College of Employee Benefits Council. She has also served on the Department of Labor's ERISA Advisory Council, and she just told me

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Note: The chart(s) referred to in the text can be found at the end of the manuscript.

this morning she has one more accomplishment to add to her list, the PBGC Advisory Committee.

To her right is Becky Miller. Becky, a partner of McGladry & Pullen, is also the managing director of RSM McGladry. She has a bachelor's degree in economics and a master's degree in accounting from the University of Minnesota. She is a certified public accountant and is currently licensed in 16 states, which is quite amazing. She is the author of a book called *ESOPS, Practical Applications*, which was published by the American Institute of Certified Public Accountants (AICPA), and she has contributed to another book, *Leverage ESOPS and Employee Buyouts*, which is published by the National Center for Employee Ownership.

Becky served on the AICPA's Employee Benefits Committee from 1995 through 1998. She also served as a technical advisor on employee stock ownership plan (ESOP) issues to the Accounting Standards Executive Committee and the FASB. In 1999, Becky was elected by the U.S. Secretary of Labor to be the accounting industry member of the ERISA Advisory Council, and then she was elected vice chair of that council. In 2002, Becky also testified on the importance of protecting employee stock ownership plans from negative legislation in response to Enron at numerous Senate hearings.

We decided to break our discussion on managing lump sums into seven different areas. The first is an overview, and we're going to talk about the advantages and disadvantages of lump sums, from both the employee and the employer perspectives. Then we're going to go into some historical background and talk about some of the regulatory framework, both pre-ERISA and post-ERISA. We're going to cover some demographic data — who is taking lump sums, and what are they actually doing with them — and then we're going to get into some recent technical developments, including the new mortality table for lump sums and some of its implications. Then, from both the participants' perspective and the employers' response, we're going to look at what an employee who is thinking about taking a lump sum should ask and what information the employer must provide, and what other information the employer could provide to such employees. Finally, we're going to conclude with different resources that you can go to, both online and in hardcover, to get additional information or insight into lump sum benefits.

In researching the information for this discussion, I came across a very interesting quote, which is, "Die before your money runs out, and you've gambled and lost. Outlive your money supply, and you've won." That's really ironic but quite true. After all, the goal is economic security in retirement, and how an individual handles his or her lump sum payment will often determine whether they do have economic security during the retirement years.

What about the advantages of lump sums? First I'm going to talk about it from the participants' perspective. Portability is really a tremendous advantage. If an employee leaves a company and takes his or her benefit as a lump sum and rolls it

over, that lump sum can continue to grow with inflation. If, however, they leave their benefits frozen in an employer's defined benefit pension plan, those benefits will just stay there based on the salary and service that the individuals had earlier in their careers, so they don't have the chance to grow.

Another advantage is flexibility. There are many more investment and distribution options when a lump sum is taken. Having the money in an IRA allows employees to dovetail that payout to complement other retirement incomes that they will get. Liquidity is another tremendous asset. This is especially important if a person becomes sick or loses his or her job and really needs access to a pile of money, though it won't be in a tax-favored way. There will be a penalty for taking a lump sum before 59 and a half, and we'll get into some of the details of that later in the presentation. However, the lump sum gives an employee access to those assets if needed. Finally, many surveys have shown that having the option of a lump sum as a distribution mechanism really encourages employees to participate in a plan.

What about advantages of a lump sum from the employer's perspective? Certainly, it simplifies administration by reducing the participant population and also the need to keep track of former participants. So, recordkeeping becomes much easier for employers when their employees are no longer participants. In addition, the PBGC premium does not have to be paid by the employer for an employee who is no longer a plan participant. That also saves money for the employer. And finally, as we mentioned before, having a lump sum does appeal to employees, so it will encourage more employees to join the plan.

There are a number of disadvantages, though, and as you can see here, you need to weigh the pros and cons to come to your own conclusions. One of the disadvantages from the participant's point of view, is a potential "leakage," which basically means they use the assets from a lump sum distribution for something other than their retirement security. This is especially true if a terminated employee takes a lump sum and the lump sum amount is not all that large. Another disadvantage is that individuals are responsible for either investing the money or getting an investment manager to help them invest the money. Do they know how to do it? Do they have the time and energy to do it? It puts the responsibility on the employee.

Another issue is the danger of underspending your assets, as the quote that I shared with you explained. Unlike an annuity, for which you have a predictable stream of dollars coming in each month, when you have your investment in an IRA, where you're doing your own investing, you don't really know or you don't have any surety of what the amounts will be.

Another critical issue that I think some employees don't understand is that when you take your money out as a lump sum from an employer plan, you could miss out on other employer benefits, such as any ad hoc benefit increases that the employer may decide to give and maybe even something like retiree medical benefits. There's

also a tax inefficiency, which I mentioned before. The Tax Reform Act of 1986 added an additional 10 percent income tax on top of ordinary income taxes if the lump sums are not rolled over and the employee is under age 59 and a half. Another issue from the income tax perspective is that you may pay more taxes on a lump sum if you take it out than you would if you received annual distributions over time, just because of the progressiveness of our income tax structure.

Finally, when an employee receives a rollover directly from an employer, the employer is required to withhold 20 percent, which is used to apply to taxes that are due on that lump sum amount. If the whole 20 percent is not needed because of the individual tax situation of the employee, the refund doesn't come until the employee files a tax return at the end of the year. So, there is a potential time delay on that.

What are disadvantages from the employer's perspective? If required lump sum interest rates are low, the employer could find that it is providing very costly subsidies to those employees who decide to take lump sums. The employer has responsibility to explain the financial impact of all the options, including the lump sum, so that's one more area that they really need to get across to their employees. Then finally, there's a potential for public relations problems or employee morale problems if a retiree comes back after he or she has spent the lump sum and then doesn't have enough money to live on.

MS. MILLER: I had the privilege of joining the profession right when ERISA passed. I practiced for a year and a half before ERISA was effective, and then came into the ERISA world. People use the term "paradigm shift" too much for minor tweaking of the system. But ERISA really was a paradigm shift in how employers provided benefit plans. Before ERISA, most plan payouts were some sort of annuity or installment stream because most plans weren't funded. They didn't have a boatload of assets sitting in a trust. Many plans did because there were some tax incentives, but many plans were funded on a pay-as-you-go basis, so distributions were also on a pay-as-you-go basis.

There were a number of defined contribution (DC) plans, a lot of stock plans surprisingly. Sears & Roebuck, for example, got a determination letter on their stock bonus plan under the Excess Profits Act, so these are long-standing arrangements. Many stock plans did provide for lump sum distributions, but most defined benefit pension plans only provided for annuity-type distributions because that's really the way they were funded. The whole idea of the capital gains treatment really was associated with the stock plans and reflected that these were seen as investment plans rather than retirement plans. If it was an investment plan, benefits accumulated over a long period of time and should be taxed like an investment plan's long-term capital gain.

People don't think about it, but those long-term capital gains provisions are still in the tax code. If you happen to have some very grown-up person who is getting a

lump sum distribution now and had pre-ERISA years of service, you should actually have somebody look at it. It works very well for people who quit in 1986, deferred distribution, had 30 years of pre-ERISA service, and for some odd reason, they're eligible to take a distribution now. You'd be surprised at how the capital gains treatment might work for them.

ERISA made a huge change in how benefit plans were operated. The trust requirement was there, as was the whole idea of the qualified joint and survivor annuity, this being a family vehicle for retirement planning. Ten-year averaging replaced capital gains, although as I said, the capital gains provision was grandfathered in. This portability vehicle, this idea of an IRA, was created under ERISA. But at that time, the only portable pension distributions were lump sum distributions. So if somebody took installment distributions from a defined benefit plan, from a DC plan, those distributions were not eligible for rollover or tax deferral through an IRA.

Since ERISA, with every tax bill, we have changes in the pension provisions. Frequently these changes have related to the distribution rules, whether it's the taxation of distributions, the privileges of distributions, the notices on distributions, spousal consents on distributions, the excise tax, the withholding tax — there's an ongoing series of changes, which frankly we don't really cover in the materials. I think one of the reasons that sponsors like lump sums is because they just don't have to deal with grandfather rules then — you're out; you're done. It's a new set of folks with a new set of rules.

MS. THIERMAN: My favorite lump sum feature is — those of you who work with pension plans will be familiar with this — the zero cash out lump sum. In our plan document we have two provisions. One is small benefit cash out, which is the \$5,000, and one is called very small benefit cash out, teeny benefit cash out, the zero cash, in which you lump sum out somebody to zero for just the reason that Becky was mentioning.

MS. MILLER: Right, they're gone. They don't count for any of the numbers. If you have only 102 participants, it might get you down to the point that you don't need an audit, assuming that you don't otherwise fail the small-plan audit rules. So there's a lot of motivation for people to get folks out of plans so they don't have to deal with the situations.

What have we seen in terms of changes? The Retirement Equity Act (REA) added the spousal consent rules. The actuarial factors have been prescribed; they're now subject to cutback, so you can't just change them willy-nilly. The tax favored treatment went from 10-year averaging to five-year averaging. Now, we've repealed five-year averaging, though 10-year averaging and capital gains are still there. We have, as Ronnie mentioned, the early distribution penalty tax, the 20 percent mandatory withholding on certain types of distributions.

Good news also happened. The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) made some wonderful changes in that we used to create these artificial barriers between plan types. So 401(k) plan assets couldn't be mingled with a 403(b) plan, even though they had substantially similar attributes. Those characteristics have gone away now, so rollovers are allowed among different types of plans and for virtually all nonannuity distributions. It's no longer just lump sum distributions that are eligible for rollover, but any stream of payments that comes out over less than 10 years. They changed the rules — first it was \$1,750, then it was \$3,500, and now it's \$5,000 — on the amount that can be cashed out without having to get 12 sheets of paper signed by the participant and his or her spouse.

MS. MAZO: One of my colleagues had compared the consents that are needed to take a lump sum to the documents that you're given at a closing on real estate. Don't ask, just sign.

MS. MILLER: My marketplace is mostly small to mid-sized employers, and it's so frustrating for them, the amount of effort involved in dealing with distributions. One of the things that their folks always ask them is, "Now what do I do with this money?" Of course, they tell them what they think they should do with it, and then they get in all sorts of trouble. One of the reasons, in my opinion, that we're seeing a lot more interest in lump sum distributions is that the investment marketplace has changed, too.

My dad retired in 1983 from a career in teaching. My mom did the tax returns. He didn't know anything about managing his money. At that time, the mutual fund marketplace was a baby. If you wanted to invest your lump sum distribution, you had to pick stocks, basically. These pooled funds weren't as readily available. You went to your insurance person, you went to the bank and bought CDs, or if you were really bold and daring or sophisticated, you went out and bought individual stocks.

But look at what has happened to the mutual fund marketplace (Chart 1). This slide represents the number of mutual fund offerings. The chartreuse ones are the money market-type funds, and then the gray area is stocks, bonds, and other diversified investment funds. Look at the huge growth in this marketplace. That tells us that unsophisticated investors can manage their money in a diversified marketplace by purchasing mutual funds. We see this in the marketplace in terms of where people have their funds, and this is the shift in investments.

The fuchsia, again, is individual securities, and the gray is mutual funds (Chart 2). This covers the last 10 years, the last decade. You see how individual securities were still fairly active early in the 1990s. But then in recent years, there has been a shift out of individual securities into mutual funds. I think a lot of this correlates with what's happening with retirement plan money. Whether it is the participant-directed marketplace existing within DC plans or rollover distributions coming out of plans, you get individual investors, relatively unsophisticated, knowing in general

that diversification is a good thing, and it is reflected in this growth in the mutual fund industry. There are a lot of other factors that are contributing to this trend away from an annuity distribution into lump sum distributions, and Ronnie is going to cover some of those.

You see the same trend in IRAs over the last decade, the same shift (Chart 3). The individual securities have held fairly strong. It's the mutual fund marketplace, the yellow bar, that has been growing significantly. This is by percentages of IRAs rather than by dollars. If it were recast as dollars invested, you would have seen a large increase in the size of the bar.

MS. THIERMAN: Now, I'm going to talk a little bit about the spread of lump sums. As we mentioned, typically lump sums come to individuals when they either terminate employment or when they retire. Each year, four million to five million employees are eligible for lump sums and three million to four million of them actually choose a lump sum option.

One of the most significant changes in the retirement plan world over the last 20 years has been the growth of DC plans. Unlike defined benefit plans, which must offer an annuity option, defined contribution plans don't have to do that. That's one of the reasons that lump sums have grown so dramatically because most of the DC plans do offer lump sum options. This has been further exacerbated by the shift to cash-balance-defined benefit plans.

Chart 4 illustrates the spread of DC plans over a 15-year period, 1983 through 1998. This is by the number of participants in the plan. In 1983, the number of people in defined benefit plans exceeds the number of people in DC plans. Over that 15-year period, you can see, by looking at the purple line, the tremendous growth in DC plans. So by the end of the period, we have almost twice as many people in DC plans as in defined benefit plans.

MS. MAZO: Again, I started to say just for the actuaries, the number is not quite as dire on defined benefit plans because some of the people in the defined contribution total are also in DB plans. There's overlap. There's a group of them.


MS. THIERMAN: Right. A lot of companies do provide both forms of retirement plans for their employees.

Now I'm going to look at a recent Hewitt study. All DC plans participating in this study offered a lump sum option for the employees, and 95 percent of those employees who were offered a lump sum option actually took the lump sum option. In this same study, only 30 percent of the plans offered an annuity option. Very, very few people — only 2 percent — chose to have their benefit paid in the form of an annuity. I thought these were very interesting results.

There are many factors that affect the consumption of lump sum payments, such as age, the size of the payment received, and the event triggering the distribution. What I'd like to talk about here is the impact of age. Chart 5 shows how these lump sums are being used by those under age 40 versus those over age 40. The purple shows the amount that was taken out and spent — current consumption. As you can see from the chart, almost 60 percent (58 percent) of those under age 40 just take their money and run and spend it today, and only 27 percent put it toward retirement or other savings. That proportion changes dramatically when you look at employees over age 40. Over age 40, about 36 percent actually take the money and spend it today, and 46 percent, or almost half, put it into retirement or other savings. So age is a critical factor, and it really also shows the vulnerability of retirement savings paid as a lump sum, particularly to younger employees.

Table 1 illustrates the percentage of individuals electing a lump sum by the size of payment. Underneath this data, we saw that the size of a retiree's lump sum is about five times that of the terminatee's lump sum. In this particular study, which was a Lombardi and Potter study for LIMRA International, the average retiree had a lump sum of \$120,000, while the terminatee had only \$32,000. Another interesting fact is that research has shown that the majority of lump sum payments are not rolled over, but the majority of the dollars are. That goes back to the fact that those people near retirement have larger lump sums in most cases, and they have more of a tendency to save it for retirement.

Table 1



Demographic Developments Consumption of Lump Sum Payments

Percentage of Individuals Electing a Lump Sum,
by Size of Payment

Size	% of Terminees	% of Retirees
■ \$250+K	3%	14%
■ \$100K – \$249K	3	19
■ \$50 - \$99K	6	20
■ \$25K - \$49k	14	21
■ \$5k - \$24k	37	20
■ < \$5k	37	6

18

MS. MAZO: As you saw at the outset, we are from the ERISA Advisory Council, but we carefully gave you an FSA, a CPA and an attorney. While I have legal training, I don't formally practice law, but I'm here to talk to you about some legal issues and to get some help where the legal concerns shade over into actuarial issues. This is about technical developments affecting plan design that relate to the provision of lump sums under plans. We talked about the tendency of employer plans to provide lump sums, a growing tendency, particularly based on plan design.

Some recent changes will affect or have affected how lump sums operate. One thing, which is not mentioned in the slide, is from the point of view of the DC plans. Ronnie pointed out that the Hewitt study said about 30 percent of the DC plans in their universe offered annuities. That is probably much lower now, or will be within the next year or two, because of the regulations provided by the Treasury Department and then codified in EGTRRA authorizing DC plans to eliminate all payment forms other than lump sums. This even applies to money purchase plans, except that they still have to offer a qualified joint survivor annuity to maintain their qualification position. But they can eliminate every other annuity form. They can eliminate installment forms, going to the simplification from the employer's perspective — just get your money out, roll it over to an IRA and you take care of how it is distributed. . These regulations will probably speed up that activity. Not that it mattered, because again as the Hewitt data showed, and all of our experience shows, when people, particularly those in DC plans, are offered annuities, they always take the lump sums.

How many people here have the experience with terminating defined benefit plans? I get a lot of calls. "We're waiting for the lump sum interest rates to change." Nobody worries about buying annuities under terminating defined benefit plans. The whole question is about the interest rates or the other factors for the lump sum cashouts. At PBGC in the older days, we worked really hard on the issues about buying insurance company annuities to cover the benefits. Now as a practical matter, it's almost irrelevant in planning the termination of a sufficient plan.

MS. THIERMAN: Let me just add to that. In a prior life I worked for the telephone company, and we had a lump sum option. The interest rate changed quarterly and on the tenth day of the month, when the rates were coming out, the human resource department got so many calls. That was the one thing people really focused in on. "What's the change in the interest rate? What is that going to do to my lump sum, and do I want to retire now?" So I'm just supporting that. It's a critical thing in most companies, the one thing the employees really hook onto because it has a significant dollar impact for them.

MS. MAZO: That's interesting because, of course, having quarterly changes was designed to reduce the amount of gaming that could go on since people couldn't wait and bet on annual numbers. So it turns out, in that case, going to quarterly changes just meant they took even more time from human resources and more time away from their jobs worrying about that.

Let me just ask a question. Has anybody here left a job during his or her career where there was a pension plan, but a lump sum was offered? I have. I worked for the government at one point. It was a pension agency, and I had the choice of taking my employee contributions out and forfeiting my pension or leaving the money in and maybe getting a higher pension if I returned to government service. What do you think I did? Obviously, I took the lump sum. I wanted to buy furniture. It's a natural thing. Just keep that in mind as we talk about what's good for people versus what they do, even when they know what they ought to be doing.

Something that you all will understand better than I do is the switch to the 94 GAR mortality table. It is mandated in the code in Section 417(e) and 411(a)11. The applicable interest rate and the applicable mortality table, which together set the floor on lump sum payouts, are pegged to the interest rate that is used by the states for valuing insurance company reserves. Once a majority of states switch to a new mortality table, the IRS is required to issue regulations, which, by the way, was a blessing. Initially, the bill would have required all of us to monitor and then, when the 26th state changed its rules, the change would have been automatic. At least as it turned out we can wait until the IRS issues regulations.

But that happened. The IRS did issue a revenue ruling this year announcing that this new mortality table must be used by qualified defined benefit plans, such as ERISA-defined benefit plans, by December 31 of this year. A plan can use it earlier if they want to.

You can use it for lump sums paid earlier. You have to use it as setting the floor, the minimum value of the lump sums that are paid after that date. This, because it's a recognition of longer life expectancy, and it means higher lump sums. To the extent that you have cash balance plans that want symmetry in determining the value of the lump sums and then determining the equivalent annuities that the cash balance account turns into, the use of this mortality table will mean lower annuities, a translation into lower monthly annuities from the account balance. The IRS announced when they issued the mandate for the new mortality table that even though this will mean turning this into a lower annuity value, that's permissible. It's not considered an illegal reduction in accrued benefits. It is explained in the revenue ruling and provides relief from Section 411(d)(6) rules against benefit cuts.

There was some ambiguity. If you're changing to the new mortality table in a cash balance plan, do you have to send notice to participants under Section 204(h), saying this will be a reduction in the rate of benefit accrual? Actually, in this case, it would be a reduction perhaps in a retirement-type subsidy. In any event, the proposed regs under 204(h) were issued about a month ago. We have as recently as last week gotten clarity and confirmation, albeit verbally, from Treasury and IRS officials that the 204(h) notice will not have to be given when a plan adopts this mortality table. Basically the principle is that you only have to give a 204(h) notice if a benefit is the type that is protected from cutback under Section 411(d)(6). If it's a feature or something that is not protected from cutback, then you don't have to give the 204(h) notice. You're obviously going to have to tell people and explain it, but it doesn't come with the whole array of rules that attach to 204(h) notices. What they have clarified is that this also applies to changes in benefits that would have been protected by 411(d)(6), but for an IRS waiver of the protection. Here the IRS has said, "We're allowing you to make the cutback. It's not protected by 411(d)(6)." That automatically means that it's not subject to 204(h). That's just a little bit of compliance trivia, if you will.

The issues with 204(h) are interesting and challenging. I think most of what's required in the notice is what employers would want to give, should give, and would expect to give in terms of explaining to people what's going on with their benefit plans. The real issues about 204(h) in general are making sure that you give the notice within the time frames that are required and that you cover all the bases in terms of who you send it to. I have the feeling that, in the main, it will not change the standard practice by responsible employers. It just will make people ensure that they cross t's and dot i's in a very careful way.

Obviously another major issue is the decline in terms of absolute numbers and the demise, in terms of not being issued any more, of 30-year Treasuries. Since the interest rate prescribed for setting the floor for lump sums is based on 30-year Treasury rates, what do we do? The drop in the interest rate has meant, as we know, higher lump sums. This has really been propelling a large inadvertent subsidy for lump sums. Employers have been very troubled by it, and employees have been wise to take advantage of it, from their point of view. With the very low

interest rate, lump sums have been a great deal. Have people actually been able to take lump sums from a plan and buy a higher annuity from an insurance company? Is that true, even with the loads on individual annuities? That's what we worried about after the interest rates were enshrined against cutback. Initially, that was the problem that was going on shortly before GATT. That's why GATT came in and theoretically used a more up-to-date interest rate than the PBGC rates, but that up-to-date interest rate is no longer up to date.

MR. DONALD J. SEGAL: Just on the point of 30-year Treasuries, Ron Gebhardt'sbauer at the Academy of Actuaries has done a lot of work and issued various charts showing that, historically, the 30-year Treasuries had been approximately 100 basis points below corporate bond rates. Now, with the decline of the issuance and then the demise, it's more like 200 basis points, so what you have been talking about has been exacerbated by this situation.

MS. MAZO: We don't yet have either 411(d)(6) relief or 204(h) relief for switching to another interest rate, because we don't yet have another interest rate to use as the benchmark for lump sums. And that's going to be hard to get. There's been a lot of collaboration and support — and I don't know that there's really been any substantive opposition — to giving some relief on these interest rates when they're used for funding, for deficit-reduction contributions, and that sort of thing. There will be a lot of political opposition to applying a higher interest rate for lump sums. It will come along in a couple of years, so I would bet that we won't have 411(d)(6) relief, that a new interest rate will probably be stair-stepped and applied only for new accruals.

But that may be a way to reach a political compromise among the employees, who like getting big lump sums even if it undermines the funding of the plan, and the employers, who are very disturbed, and frankly, the policy people. I am in some ways a policy person, but I am against lump sums because I just don't think they're good for people in terms of the issues that Ronnie raised: retirement income security, long-term. I don't think we should encourage people to take lump sums by subsidizing them, but that's a personal belief, that's neither the opinion of the Society or the Segal Company or whatever.

MS. THIERMAN: Yet you took a lump sum to buy your furniture.

MS. MAZO: Absolutely. That was when I was young and not smart. I was on the other side of the under 40/over 40 divide. The reduction in 30-year Treasuries for cash balance plans that are using a 30-year Treasury rate because it fits within both the safe harbors offered by the IRS Notice 96-8 also affects cash balance accounts. The lower the interest rate, obviously, the lower the annuity that results from converting the cash balance account. So, for those few people who might actually consider their defined benefit and cash balance plans as retirement benefit programs and want to take annuities, it creates a lower annuity. It also creates another dilemma for employers who would like to spur people to use their

retirement savings program for retirement income and who would like to create incentives for people — or at least not disincentives — to take annuities from the plans that have to offer them. Given the whipsaw issues on cash balance plans, the decline in the interest rates is a big problem, a big impediment.

I'm not going to walk through the cash balance whipsaw analysis, although it's an important feature in thinking about plan design and lump sums, because cash balance plans are such an important feature in the evolution of the lump sum phenomenon. In the cases so far that have directly addressed the question, the court decisions tend to agree with the IRS position that the lump sum paid from a cash balance plan has to be the actuarial equivalent of the annuity that would be paid from the account at normal retirement age. And to come up with that annuity value, you have to use the GATT assumptions. There was one exception. The Northern U.S. District Court in Georgia, in the Georgia-Pacific case, has twice said, "No, I don't believe it." It has basically said the IRS regulations on using the prescribed interest rate do not apply for anything other than determining when a benefit is small enough to cash out on an automatic basis; they're not forced to apply for determining the value of lump sum distribution. So, either locate all of your cash balance plans in Atlanta, or at least consider with your attorneys whether or not to address the whipsaw issue in a way you operate the plan.

We all know the Labor Department's inspector general thinks that if you're not following a whipsaw analysis, you're cheating your employees. They don't seem to have been shy about naming names and publishing names of companies that they say made a mistake in the calculation of benefits because they gave people their account balances as lump sums rather than the larger whipsaw lump sum. Again, this is maybe giving away a little bit of personal view here.

We'll turn now to consider the big issue, the real point of what we're talking about. The title of our program is "Managing Lump Sum Retirement Benefits." Somebody from our San Francisco office said to me yesterday, "Oh, I'm so glad you know how to do that. Please tell me." I said, "No, I just know pages and pages and pages of questions. I can't give you answers. This is to stimulate discussion, not to come up with answers." It helps to be over 40 to think about the questions as you get more focused — just a tiny aside.

It's interesting to me to listen to Becky's story because mine is similar. Like so many people who got into ERISA in the early years other than actuaries, I just stumbled through the door. There I was, and there was ERISA. I went to work for the PBGC in 1975 because I was looking for a job in Washington, and they offered me a higher position than whatever other government agencies were offering then. You didn't need to know anything to get a job in an ERISA agency because it was all brand new and you were going to make it up as you went along. New people in government still feel that way, I discover. Now, I'm no longer the brash, young kid; I'm the one who says, "What do you kids know?" But the other thing was that when I came to the Segal Company in 1980, I'd been in the practice of law, and I

thought, "I don't know. My whole career will be working with one law, ERISA; how boring is that?" Well, of course, that one law has changed two or three times a year since then, so it certainly hasn't been steady.

Then we get to these issues as we look back after having been in ERISA for that long. In the paper we prepared, we have two scenarios. One is an executive who has a lot of complicated issues. She has a rich defined benefit pension, a \$1 million 401(k) account, and rich SERP benefits on top of that. She also has available at about age 58 quite a nice early-retirement subsidy. How should she make these decisions? What kinds of questions should she ask or might she ask? How do the different sources of retirement income — without even considering other investments — interact with one another? How is the SERP benefit paid out? Is it going to be paid out automatically as a lump sum, as many companies do? In that case, maybe she would want to take her qualified plan pension as an annuity, because she has big amounts to manage and has the flexibility for operating the money anyway. She could use her qualified plan annuity similar to how Americans in general use Social Security: as a base that she can always look to while she does other things with the rest of the resources.

We then look at a more standard employee: someone who has only been at this company seven years; who has taken lump sums from his earlier jobs whenever he was terminated; who is at a much lower income level; who doesn't have the challenge, the burden, of having to figure out how to handle his SERP benefit. He faces many of the same questions. Some of the questions are less complicated because he doesn't have as much money to worry about handling. But in many ways, they're harder because he has much more at stake with every decision he makes.

First, when to retire is, to some extent, an important issue when there's an early retirement subsidy available. Then you get into the lump sum question: What if the lump sum doesn't include the value of the subsidy? How do you take into account the value of the subsidy? Taking it as an annuity versus taking a lump sum and giving up that subsidy, how valuable is the subsidy? Is it better to work a little bit longer on the assumption that you're neutral about how you pass your time?

For all these people, there are family considerations, other income, and employment options. What are your financial needs, and what are your resources? How do you run through that in deciding to retire? And then how do you make the decision if you have lump sums available, and how do you handle them? One important question involves the qualified joint survivor annuity (QJSA). How important is that insurance-type protection for the employee and the employee's spouse? Is the cost of the insurance protection that you would get from the QJSA worth it? Would you be better off taking the single life annuity, let's say, and taking the extra cash you get and buying term insurance or buying whole life?

There are many complicated tax and financial issues involved there, but it is important for people to remember that the QJSA is like a form of life insurance. The survivor benefit is paid on a taxable basis to the survivor. If you paid tax on the money coming out and bought life insurance, the survivor obviously would not have to pay tax on the benefit. Many of these questions are really the same, and they're the ones Ronnie identified at the outset. The key questions, I think, are how equipped, how able is the employee to manage the assets, and how willing is the employee to do it, even if she's equipped to do it?

We have the same questions from a different perspective in terms of a 401(k) account. We're assuming somebody with a balance of more than \$5,000. Maybe they want to leave it in the plan. Maybe the plan offers good and efficient investment options without having to pay transaction fees and charges like that, so they'd rather leave the money in until they reach 70 and a half and have to start taking it out. The employer can't force you to take it out in a lump sum. The employer can force you to take it out in an annuity form. Again, your 401(k) plan doesn't pay an annuity, so you have that option.

Maybe you'd want to roll it over to an IRA annuity and not pay taxes on it now. Or would you want to pay taxes on it now and buy an individual annuity? Again, the lower-income person has less at stake and fewer questions to try to answer in terms of tax rates and the tax arbitrage. Maybe you want to pay tax and put it into some growth stocks and pay at a capital gains rate rather than ordinary income later. The higher income person, being burdened with all these resources, is burdened with choices, but most people would probably vote to do that. Again, maybe you want to spend it on a retirement dream, buy a beautiful home somewhere. Maybe you want to spend your time in retirement managing your money — being what's called in the *New York Times* "a private investor." All of these are both available and challenging. In the paper you'll see a list of the kinds of questions that you would ask, the kinds of issues on which you'd want to touch base as you stop at this point and try to make a plan for the rest of your life, which is I think in itself the most challenging and daunting part of it.

The paper identified some very interesting survey information about employee attitudes. This is from the Society of Actuaries and Matt Greenwald Associates and the Employee Benefits Research Institute (EBRI). The bottom line was that people overall had strong confidence and strong expectations that they would have decent retirement incomes. They were very weak on actually preparing financially for retirement. Until two years before retirement, 50 percent of the retirees had not given a great deal of thought to preparing for retirement financially, 26 percent gave it some thought, and 22 percent had given it little or no thought. That's up to two years before retirement. Their strategies for managing risk, predetermined by what they expected, was to invest a large percentage of this money in stocks and maybe buy insurance for things like nursing care.

Before retirement, about half the people said they would prefer a joint and survivor

annuity, and only eight percent said they preferred a lump sum. However, at retirement, the great majority of people who had a lump sum available took it. Being offered this big chunk of cash, I guess, is maybe very hard to resist.

I'm not going to walk through the statistics about mortality. One of the features of the improved mortality is the new mortality table that we talked about. The challenge is harder for people now that retirement is just a step along the way to a much longer period of living on their fixed income or resources.

I want to talk very briefly about how employers can and/or must and/or might help people address these questions. There are two things that employers or plan sponsors must tell people to help them make some judgments about the lump sum distribution at retirement. One is the 402(f) notice. I was once driving home, listening to a radio talk show, and they had somebody who was an expert on 401(k) plans. People were calling in and asking questions, and one person said, "Why is it called a 401(k) plan?" And this expert didn't know. I was dying to pull over and call him, when the host said, "Maybe it's named after the section of the Internal Revenue Code." We have these catchy names, such as 402(f), in the ERISA business.

As you know, you have to give people a notice explaining the consequences of the different forms of payment options. The IRS has prescribed a standard notice. Everybody gives the IRS standard notices. It's one of the many, many documents that are given at the point of retirement that are something like a house closing. We recently refinanced, and my husband pointed out that you get a million documents to sign. Then you get a document that authorizes your attorney to change everything you've already signed, just in case one of these papers didn't work out right. So, you sign all these documents and then you give somebody else the right to sign everything else over again. We don't have that right with retirement plans, but the kind of ritual nature of this disclosure is probably comparable.

In offering people their options, we are required to explain the financial impact, whatever that means, of the different options. You may remember about two years ago there was a flap in Congress and in the *Wall Street Journal*. People did not understand that their lump sums, for example, did not include the value of an early retirement subsidy and got lower lump sums than they were later told that they might have gotten, lump sums that were much lower in value than if they had taken annuities. Periodically, there have been proposals in Congress to expand the kinds of explanations that have to be given to people to help them decide among options. I think people should understand what they're giving up if they take a lump sum, but it's very hard to figure out how to explain the concept of actuarial value to individuals in ways that will enable them to make intelligent choices, as any of you who have worked in the QDRO area certainly know.

For those who want to do something to help their employees voluntarily, employers have been given some encouragement by the Labor Department in terms of helping people make decisions about investments. The Department has said that investment education, explaining and demonstrating general principles about investment theory, is something employers can do without worrying about any fiduciary implications. Individualized advice on planning investments is something that employers can arrange to have an independent vendor provide without running into impenetrable ERISA problems, according to the two principles here. Thanks to EGTRRA, employers can provide retirement planning services on a tax-free basis. I don't know how many employers that were providing retirement planning services previously thought they were taxable. It wasn't that uncommon to provide that kind of help, but I don't know that anybody taxed employees on the value. But now we can come out of the cold and say you can provide those services. There's also a proposal in some of the Enron legislation to allow employees to pay for retirement planning and financial planning services on a pretax basis. There's just a limit to how much of this sort of assistance you can provide. You can create the incentives and the basis for it by using the tax code.

Employers that do provide retirement counseling have an extra impediment, and Becky alluded to it. If you do offer this counseling, you should be very careful that you don't start down the road of having to disclose more about what the company is planning in terms of changes. The one big question that often comes up is, "If I retire now, are you planning to increase benefits or offer a special window, a special deal, six months from now? Should I wait?" If the retirement counselors are working with people, it's a natural question for people to ask, but it's a sticky area, legally. If they say, "I don't know that here's anything in the works," they'd better be sure that there's nothing in the works that might change people's decisions.

Again, the Enron legislation offers two approaches to providing more fiduciary shelter for employers that want to offer investment advice. I truthfully don't think that anything is going to pass this year, so we'll wait for that.

There are two important issues. One is that almost all of this advice and information is provided to active employees to help them manage their 401(k) accounts during their careers. It stops when they terminate. It stops when they receive their lump sums. Then where do they go for help and advice in managing the money? Even if legally employers felt much more comfortable and the market were much richer to provide these services to retirees, right now the structure isn't there for getting it to them. But another question, which is pretty interesting, is would employees use it?

There was a report in *Plan Sponsor* magazine last month that was fairly interesting. Financial Engines, mPower, and Morningstar are three independent online providers of investment advice and retirement income modeling and that sort of thing. They're offered through vendors and TPAs, *et cetera*, to about 6 and a half or 7 million people through plan sponsors and online. Financial Engines and Morningstar

report that about 20 percent of the plan participants to whom their advice is available actually use it, but the story said that even these kinds of statistics might be a little misleading. They cited one plan sponsor who said that 46 percent of its employees have gone to the Financial Engines site at least once since it was made available to them almost two years ago, but fewer than 2 percent do so each month. So, people might have gone to look at it and see what it was, but it's not like they're using it. Very few people seem to be using the investment advisory tools that employers are providing, at least so far. On the other hand, when employers were surveyed about why they are not providing investment advice, 82 percent of them said they were worried about fiduciary liability, and only 10 percent said they didn't because the participants won't use it. Somewhere in there is a mix of expectations and understanding that needs to be clarified.

And now, things that people might use.

MS. MILLER: I think what Judy said about the resources and what the survey said about people actually doing their financial planning can be explained, in part, by the idea that people are fundamentally skeptical of what the employer makes available. People fear that if it's too closely aligned with the employer services, that it's not going to be confidential, or that there's some sort of bias built into the process, that the employer is trying to lead them to a decision. In general, the employers we work with are not trying to do that. They're honestly trying to help their folks get good advice and find good information, and they're struggling. The large employer marketplace is looking at reducing costs; the small employer marketplace is looking at not incurring costs; and they're all looking around saying, "Okay, how do we help our employees make good decisions without being fiduciaries, without influencing or misleading them?"

So, we end up looking at self-help things, telling people to discuss this with their accountants or their brokers. Frequently, their accountant is H&R Block or something similar, which is not a great source for advice for some of these decisions. Their banker is their mortgage loan or car loan officer, who is not a good source of advice. Their insurance person may be a fabulous source of advice, but not always. Their cousin Vinnie knows somebody down the street who knows something, and they're kind of helpless. All too many people use the look around approach — what is somebody else doing? That may be good because those neighbors or whoever may have made good decisions, but on the other hand, maybe they haven't. Today they can go to the Internet, and there are fabulous sources of assistance in retirement planning — and there are awful sources of assistance.

I did a survey of three retirement planning calculators for the AICPA. We didn't look at mPower and Financial Engines, because those are services that are not freely available yet. They're subscriber services; your employer may subscribe to them and they're free to the employee, but they're not free to the general public. We looked at three resources and found some interesting things. Some of them are so

simple that they're worth very little. They ask your current age, when you expect to retire, how much you have in a retirement plan, and what you expect to earn. Then you can enter either the annual contribution you plan to make or the desired funding amount. There are no variables. You can't change the interest rate over time. You can't have one set of assumptions for what it's going to be while you're active and another set of assumptions for what it's going to be when you retire. It's a present value calculation. You guys can do this in your sleep. You don't need that.

On the other hand, there are some fabulous tools. Let's say that you're talking about your age, when you want to retire, and what your current salary is. How much — you pick a number — what's your targeted retirement income?

My favorite of its type is the smartmoney.com 401(k) calculator. This is really aimed at helping somebody. It starts with their current 401(k) balance. Then it asks what they are going to make as a contribution; what's the company's matching contribution; do they have savings outside of the 401(k); what are they adding annually to that; what's their preretirement return; what's their post-retirement return; what's their expected annual raise; what do they think is going to happen for inflation; and do they or don't they want to include Social Security. This will show the participant how his or her balance is growing and then after retirement, how it shrinks.

This would help an employer who has somebody who is making a lump sum decision. You can enter the lump sum amount, the current balance, and then set all the current contributions and other fields to zero. Then the employee can play with what his or her retirement income return will be because all too frequently people get too conservative. I'm seeing folks right now taking lump sum distributions and putting them in money market funds. So, instead of getting a post-retirement yield of 6 percent, they're looking at a post-retirement yield of 1.78 percent. If you use this kind of tool to illustrate what that investment strategy is going to do to their income stream — they'd be out of money at age 70 — it will help them. They would have two decisions to make. Either they take the annuity because it's going to give them better internal rates of return, or they're going to have to change their investment strategies.

What we're seeing with a lot of our employers that offer annuity options is that they are changing their distribution options to add a partial lump sum because people — middle income people in particular — have specific goals that they're worried about. They want to be secure, so they want to pay off that mortgage or pay off their car loan or pay off their kids' student loans or whatever. They don't want the full balance in a lump sum, but they need \$40,000 to cover some obligation. With these kinds of quick and easy tools, you, as the employer or as an advisor to the employer, are not making the decisions. You're just showing them tools they may use and maybe helping them with some worksheets.

For example, what's the desired retirement income? People come up with numbers out of the clear blue sky. They have no idea. Somebody told them it was 70 percent of their current income, and they don't know. Well, a number of the calculators will actually help you figure what you need for retirement. A number of the calculators have charts that allow you to input detailed items of what you currently are spending for clothing, for insurance, for commuting, for child care. My favorite of all the calculators is a Calc Builder calculator, and it has systems that allow you to go through and calculate expenses. It will take you by the hand. Here are expenses that will increase with retirement. Prescription drugs, medical expenses, and those kinds of costs are going to increase with retirement, whereas housing costs and maybe certain kinds of insurance will decrease with retirement. It helps you classify and think about the expenses so you can think about what you need per month. If you combine those calculations — what do you need per month plus something like the smart money illustration of what you're going to get if you take a lump sum and invest it in a way-too-conservative manner — you're going to find yourself naturally drawn to a distribution alternative that doesn't involve an immediate lump sum.

MS. THEIRMAN: Becky, do any of these search engines or tools that you've been sharing with us allow the employee to account for the fact that toward the end of retirement, when maybe medical expenses are increasing, that he or she will need more than in the middle or early years of retirement?

MS. MILLER: It's a great question. You just have to set your expenses and, yes, the calculators will allow you to set different growth rates on expenses that are going to increase versus expenses that are going to decrease or stay the same. There are even a couple of financial calculators that will allow you to play games with Medicare and Social Security. In general, many of them just assume that the current levels of Social Security and the current rate of change will continue. But there is one provided by *U.S. News and World Report* that was built by Watson Wyatt. It allows the user to ask questions, such as what if I think Social Security is only going to provide 40 percent or 60 percent of my income? What does that do to my cash flow over retirement? What if I think that Medicare is going to decrease in what it provides? What does that do to my required cash flow? What if prescription drugs become included in Medicare coverage? What is that going to do to my required cash flow?

So there are fabulous resources available. What we're suggesting to our clients is that as advisors — you guys as advisors to your clients — that they help them identify tools that maybe coordinate with their benefit program. For example, the Calc Builder tool will allow for different benefit plans for both the husband and the wife: 401(k) plans; IRAs; defined benefit pension plans; and old assets or benefits from former employers, both annuity and lump sum form. All of those variables are in there. Find the tool that is responsive to your client's situation. Then develop a checklist or some sort of an input sheet in common English that the participants can use that will say if you're looking at this line, this is the information, and you find it

on this statement or from this resource. That will help your participants drop their data into these external tools.

I would look at the different tools. It was interesting when I did this survey. We picked a standard set of facts. I said I wanted to live to 95, and actually I have a family history in the 100s, so that was a conservative assumption. The Calc Builder 1 said that I was fine, but I had to die at 87 because I was going to run out of money, like our introduction said. I was going to be living with my kids after that, which might be good for me, but bad for them. Yet, another tool with which I set up the same basic information said that I already had enough money and I could, in fact, reduce my savings. And a third tool said that, to satisfy my retirement objectives, I would have to save \$82,011 this year, which was more than my income. You have to look at the tools. They make different built-in assumptions, so you have to test them in relation to your client's program to see which will provide the best and most reliable information for their plan participants.

It seems that everybody has a computer geek in the family, so if it's your employees and they're not comfortable with the Internet, tell them to get a grandson or granddaughter to come over and help them. It may be that they're not comfortable with that whole environment. They don't even own a computer; they don't trust them; they don't like them. There are some good old-fashioned resources. When we were on the ERISA Advisory Council last year, one of the topics that we studied was preparing for retirement, and somebody brought in this book, *Your Retirement Planning Guide, Ready or Not*. It's a handbook for retirement. It just goes through all of those decisions about where are you going to live; are you going to travel; how are you going to travel; are you going to sell your home and buy a mobile home — what are you doing and how are you going to get there? So I used this as a guide when I was looking at the Web sites.

There's good information on Social Security. There are fabulous Web pages on retirement places. For example, the people where I live in Minnesota, for some reason, like to retire to Branson, Missouri. That's great if you like to fish, but if you're not healthy, currently there is only one hospital within 30 miles of Branson, Missouri. You can get that information off the Web, what kind of medical facilities are in places. The state attorney general's offices in almost every state have Web sites that list information on HMOs and other managed care organizations — how fast they process claims and that kind of data. There's a lot of good information available on the Internet. Even if you're using a paper service, you'll find that it's going to trigger questions for your folks that they'll need to think about. Many of the sources for answers to those questions can be found on the Web.

This is an expanding marketplace. When I first started the search, I went to Google, a comprehensive search engine for the whole Web. I typed in plus retirement plus planner and got 16,682 hits. That's a little overwhelming for the rank-and-file person. That's why I did it, so that you can at least find some that have been

identified as reliable or unreliable, as the case may be, and good sources of information for your employers and for their employees.

I think Judy said it best, that the purpose of this study was to set the framework and highlight questions and places where you can find answers. When you're talking about managing lump sums — whether it's an employer's goal in relation to maintaining good funding levels in a defined benefit plan or an employee's goals of what to do with it or how to take it — each of us would have a different answer.

MS. THIERMAN: I have a question. A couple of years ago, when the stock market was booming, a lot of people said, "Great, I'm going to take my lump sum, roll it over into an IRA, invest in the market, and I'll be rich." Now, in the last 12 to 18 months, things have not been so rosy in the stock market. I'm wondering if any of your clients have seen a change in the usage of lump sums. In other words, more people may be a little bit more reticent to take the money out because they're not sure where they can invest it and get a good return. Are more people, therefore, taking annuities?

MS. MILLER: Frankly, I'm in that category. I have very few plan sponsors who offer annuities because they just hate the whole spousal consent thing. They don't want to have to deal with it. Is this really your spouse or just some person you dragged in off the street? So we don't see a lot of annuities, but we do see a lot of people not taking their distribution, which I think is sort of the same symptom. It's the same response to the marketplace. They don't know how to manage their money. They know that somebody who's supposed to know what they're doing has selected the eight funds that are in the existing plan. So if they're over \$5,000, they just want to leave the money there rather than rolling it over, because they're just afraid. Their response is to do something like put it in a money market fund at 1.78 percent or something.

MR. ERIC M. HANSEN: Most of my clients with DC plans have employer stock plans, and it seems like they do a generally poor job of describing the in-kind lump sum option. I just wondered if you were aware of any decent educational materials around that issue, whether or not there are tools on the Web that might be able to help some of these retirees?

MS. MILLER: The thing about employer securities is that there is this old provision that came out in the early 1950s under which, if a participant takes a lump sum distribution that includes employer securities, they don't have to pay tax on any appreciation. They pay tax on the plan's original cost of those securities and then if they sell them, they pay tax at capital gains rates. It's a bizarre provision that nobody really understands, but the gain that's built in on the date of distribution is eligible for long-term capital gains treatment. Then they have to hold the securities for any gain that accrues after the date of distribution to qualify for long-term capital gains. You have to hold it for the required period to get long-term capital gains on that host distribution. It's an obscure, silly rule.

From the employer's perspective, this is using the Web to its best advantage. I would search the Web for plans that have filed 11Ks, because a plan that holds employer's securities generally has to file a Form 11K; it depends on what kind of attributes the plan has. But when you find those plans, then go to their company Web pages. The company Web pages of employee-owned companies frequently have wonderful descriptions of their plans and the taxation of the plans. I haven't seen any kind of generic information. The ESOP Association publishes a plan administrator's guide that has some good basic description of the whole concept of net unrealized appreciation, and the standard IRS notice has some information about net unrealized appreciation, but they're extremely boring and tedious.

MS. MAZO: That's correct, but you're going to give them the information — it's bound to be...

MS. MILLER: It is technically accurate.

MS. MAZO: And the IRS version is also available in Spanish, so Spanish-speaking people can be bored at this time.

MS. MILLER: Right. The National Center for Employee Ownership provides a lot of employee security information in Spanish, too.

MR. DAVID G. ADAMS: One is left with the distinct impression that security and retirement are being left to the individual plan participant, that employers are in many ways discouraged from offering annuities. Do you see any change in that coming along? With all these DC plans with an increasing proportion of retirement assets in those individual accounts, do you see the insurance industry coming up with new creative products and really making the case for annuities? I don't hear or see evidence that that's happening.

MS. MILLER: It's hard to predict, but there is some activity on the part of the insurance industry. Congress is only willing to go so far. Some observers said the only way they could really promote defined benefit plans and annuities is to repeal Section 401(k), and there is no likelihood of that happening. TIAA-CREF is doing some interesting things in offering annuities that would include lump sum features to cover long-term care, for example. I know Metropolitan is doing a lot of promotion of annuities. Whether it will take hold is a very different question.

MS. THIERMAN: We have to remember that we have a generation of folks in the workforce who lived through this high-growth era of the stock market. All of a sudden, they felt like somebody somewhere let them down when the stock market did this. It's this era of very high growth in the stock market that all of our trend lines are reflecting. There were a lot of decisions. People thought they could manage their own money. I think there's going to be a natural return to thinking about security. My parents' generation, the Depression Era people, were big on

annuities, and I think we might see at least some return to that just because of this recognized instability in the financial market.

MS. THIERMAN: On the other hand, though, when you think of something like retiree medical or just medical benefits in general, we're moving more toward a DC approach, where there's more responsibility put on the employee or the retiree to manage the money for themselves. Looking at a trend overall, what we see at least now emerging is more responsibility being put on the individual and less on the employer.

MS. MILLER: And the expansion of rollovers is another feature of that. Again, Congress is at least creating the environment to make it more hospitable to turning it over to the employees.

FROM THE FLOOR: My question is rather technical in nature. There were some slides that seemed to allude to the fact that you can roll defined benefit money into an IRA. I was unaware of this. Is this possible?

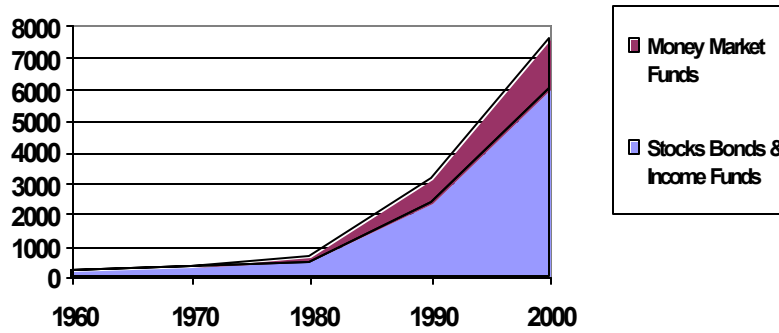
MS. MAZO: If you get it as a lump sum, yes, or if you get it in an installment payout.

MS. MILLER: Yes, if it's in installments of less than ten years.

Chart 1

Historical Background Marketplace Developments

Growth in Number of Mutual Fund Offerings

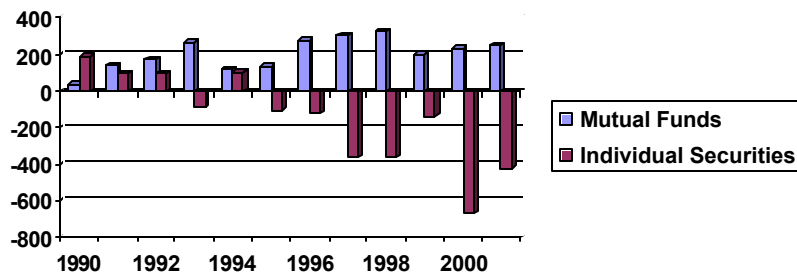


11

Chart 2

Historical Background Marketplace Developments

Shift from Individual Securities to Mutual Funds

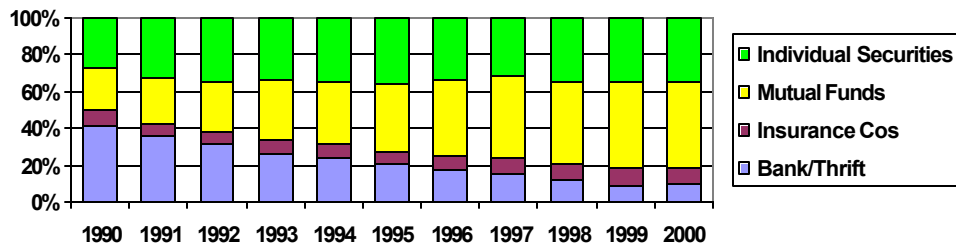


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Chart 3

Historical Background Marketplace Developments

IRA Investments by Type

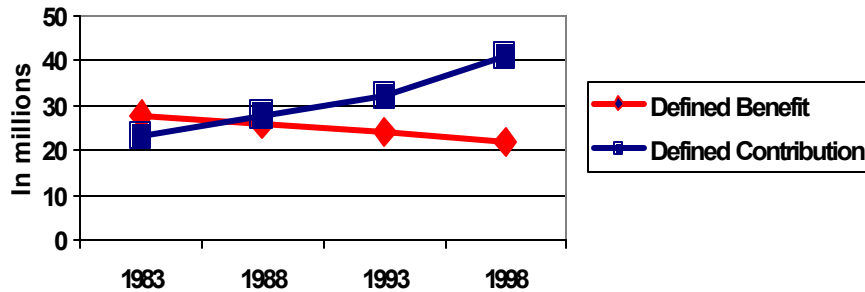


13

Chart 4

Demographic Developments Spread of Lump Sum Options

Number of Participants by Plan Type



15

Chart 5

Demographic Developments Consumption of Lump Sum Payments

- Likelihood of rollover depends on participant's age, size of payment and event triggering distribution

Uses of Lump-Sum Distributions

