



September 8, 2008

Office of Regulations and Interpretations
Employee Benefits Security Administration, Room N-5655
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, DC 20210

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Senior Retirement Plan Counsel

Submitted via email to: e-ORI@dol.gov

Attn: Participant Fee Disclosure Project

Ladies and Gentlemen:

AllianceBernstein L.P. appreciates the opportunity to provide our views and comments on the Department of Labor's proposed regulation for disclosure in participant-directed individual account plans. AllianceBernstein is a registered investment adviser and global asset management firm with over \$700 billion in assets under management. AllianceBernstein provides investment services to defined benefit and defined contribution plans. For defined contribution plans, AllianceBernstein or its affiliates offer mutual funds, collective investment trusts ("CITs") and separate accounts.

AllianceBernstein strongly supports the policy goal of providing meaningful information to defined contribution plan participants about fees and other matters concerning the plan's investments. We believe that the proposed regulation will go a long way in furthering that goal. Fortunately, compliance with the proposed disclosures is simple for mutual fund providers, since the reporting infrastructure already exists, put in place to assist individual investors in making better decisions in the absence of expert guidance. However, we wish to point out that compliance with some aspects of the proposed regulation with respect to certain non-mutual fund defined contribution plan investment alternatives may have deleterious consequences. In this letter we will describe a type of low-cost institutional investment strategy that is becoming more popular with large defined contribution plans, since it leverages best practices honed in defined benefit plan management in order to deliver best-in-class asset management at the lowest possible cost to participants. We will attempt to show why some of the disclosures that the proposal would require would likely not provide a benefit and are more likely to harm participants through higher costs and make the use of such a non-mutual fund strategy less appealing to plan sponsors due to more onerous, or possibly intractable, administrative compliance.

For many years, AllianceBernstein has enjoyed a prominent position as a retirement plan investment manager, primarily with sponsors of large defined benefit plans. For example, we count among our clients 53 of the Fortune 100 companies and 38 out of the 50 States. Because of their size, large defined benefit plans typically do not use mutual funds; rather investment

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management services are provided through separate accounts, CITs or other vehicles—all of which tend to be significantly less expensive than mutual funds.

In recent years, due in large part to the attention being given to defined contribution plan fees as a result of the Department's regulatory initiatives, Congressional attention, class-action lawsuits, market forces and other factors, we have observed and advocated an accelerating trend towards the use of less expensive institutional investment vehicles in large defined contribution plans. The significant cost savings which plans could realize through the use of institutional vehicles rather than mutual funds can be illustrated by AllianceBernstein's own target-date fund products. For example, the expense ratio for the least expensive share class of the AllianceBernstein 2020 Retirement Strategy mutual fund (Class I) is 0.72%. The AllianceBernstein 2020 Customized Retirement Strategy¹, a product that uses separate accounts and CIT investment vehicles, has an expense ratio of 0.50% for a plan that has \$500 million invested in the Customized Retirement Strategy Series of target-date funds. For plans with \$1 billion invested, the expense ratio drops to 0.46%. Indeed, AllianceBernstein has eliminated all mutual funds from its own defined contribution plan, in favor of lower cost vehicles.

We see this trend towards lower fees through the use of less expensive institutional investment vehicles as a positive development which should not be discouraged—and, we believe, should be encouraged—by any regulatory initiative. A second major and positive trend among sponsors of large plans is to customize multi-asset class investment options, such as target-date portfolios, by using several best-in-class managers, thereby delivering diversified institutional-quality investment strategies to participants (as opposed to the historical norm of relying on a single mutual fund company to manage every component). However, there are a number of provisions in the proposed regulation that we believe will not provide meaningful information to participants but will increase the costs of offering such strategies and make them less appealing to plan sponsors due to increased administrative burden. Additional costs will likely be reflected in higher expense ratios, to the detriment of the very people who we believe the regulation should ultimately benefit, namely, plan participants and beneficiaries.

A Sample Institutional Investment Strategy

As an example of a type of institutional investment strategy which defined contribution plan fiduciaries are making available on their plan's investment menu is a customized target-date retirement fund program offered by AllianceBernstein, which we call Customized Retirement Strategies. We believe it is especially relevant to highlight an example of a target-date fund option inasmuch as Section 404(c)(5) of the Employee Retirement Income Security Act of 1974 ("ERISA") as added by the Pension Protection Act of 2006 together with the Department's regulations on default investment alternatives under participant-directed defined contribution plans have spurred many plan sponsors to add target-date funds to their menu and designate them as the default investment alternative. Within a decade, we believe target-date funds will account

¹ Described below.

for over 60% of total private sector defined contribution plan assets. We believe the design of a plan's target-date option is becoming an important factor—perhaps the most important factor—in participant retirement security.

In essence, Customized Retirement Strategies works like a fund of funds where the top-level investment vehicle is a unitized daily-valued separate account within the plan and the underlying investment components (for example, a large cap growth fund, an international fund, a fixed income fund, etc.) are typically low-cost separate accounts or CITs, but can also be mutual funds, potentially managed by several different investment managers. Consistent with a goal of the Pension Protection Act and the Department's default investment regulations to encourage the use of more appropriate long-term default investments for defined contribution plan participants, many large plan sponsors are paternalistically embracing this approach, with the intent of providing the best possible target-date fund strategy for their plan at the lowest cost. Unfortunately, we believe some of the proposed disclosures will make compliance difficult for plan sponsors, not only increasing costs but also steering some sponsors away from what might be the best solution for their participants and towards prepackaged mutual fund implementations due to their administrative simplicity.

Supplemental Information Available Via An Internet Web Site Address

Paragraph (d)(1)(i)(B) of the proposal would require that participants be provided an Internet Web site address which would lead them to supplemental information regarding each designated investment alternative including “the assets comprising the investment's portfolio.” We suspect that the Department intended that this Web site disclosure would show the type of asset (for example, large cap growth fund, international stock fund, etc.) and not the individual securities held by the portfolio. For multi-investment manager target-date structures like the one described above it would be burdensome and expensive to prepare a list of all of the securities in each of the underlying investment portfolios in a format that would not be cumbersome and difficult for participants to comprehend. Furthermore, each plan sponsor intending to offer or already offering customized target-date portfolios would need to develop a methodology for collecting, collating and presenting this information. We ask the Department to clarify that the intent of this provision is to require disclosure of the type of asset.

Under the proposal the supplemental information available via the Internet Web site address would also include “the investment's portfolio turnover.” We believe this requirement should be eliminated. If this requirement were in place, plan sponsors with customized target-date funds would be required to collect turnover information from each underlying component manager and then calculate and report total target-date fund turnover themselves, or hire a service provider to calculate it. Yet our separate account pension fund clients—sophisticated institutional investors—rarely request turnover statistics on their own portfolios, instead requesting indicative ranges, coupled with ongoing performance monitoring. We believe that any possible benefit of disclosing portfolio turnover to defined contribution plan participants

would not be justified by the additional costs that would likely be incurred in calculating portfolio turnover, and sponsors will be loathe to assume these responsibilities. Furthermore, we expect that many defined contribution plan participants may find the concept of portfolio turnover to be confusing. For example, short-term bond portfolios—which have relatively low risk—often have very high portfolio turnover. We question whether participants would understand this. In the best case an extremely small fraction of plan participants could benefit from this information, while we expect that an overwhelming majority of participants would bear costs because of it. Furthermore, the plan sponsor presumably has already taken action in the prudent selection of the underlying component managers and has established ongoing monitoring processes.

Information To Be Provided Upon Request

Paragraph (d)(4) of the proposal would require fiduciaries to provide participants certain information relating to designated investment alternatives upon request including “copies of prospectuses...or similar documents relating to designated investment alternatives that are provided by entities that are not registered under either [the Securities Act of 1933 or the Investment Company Act of 1940].” When a designated investment alternative is a separate account containing a mix of underlying investment components such as CITs, a document similar to a prospectus is not typically prepared. Offering memoranda or other disclosure documents are generally prepared by the managers of those investment components and furnished to the plan’s investment fiduciary. However, a document that rolls up all of the relevant information about the underlying investment vehicles into a prospectus-like format is not required under the securities laws and would be expensive to produce and maintain. We suggest that paragraph (d)(4)(i) be modified by inserting the clause “to the extent provided to the plan” before “similar documents.”

Paragraph (d)(4)(iv) would also require plans to furnish upon request a list of the assets comprising the portfolio of each designated investment alternative. As mentioned above, such a list would be costly to prepare in a format which participants might find useful. We believe that a multi-investment manager target-date fund is in many ways like the portfolio of a defined benefit plan with many investment managers. A multi-investment manager target-date fund might have a dozen or more underlying investment components each of which might invest in several hundred individual securities. To compute the value of each security held in each designated investment option (or the proportion of the investment which it comprises) as the proposal would require would be onerous. Moreover, we believe that few participants would request this level of detail about their plan’s investment alternatives and those who do would not necessarily make better investment decisions even if they took the time to review it. The only feasible level of reporting would be to report the amount held in each underlying investment portfolio.

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Future Guaranteed Income Considerations

Financial service firms are working to develop target-date fund products that incorporate guaranteed lifetime income benefits. We expect that within the next few years many defined contribution plans will incorporate these guaranteed options. Our research shows that plan sponsors and plan participants are very interested in them. Participants who elect a target-date fund that has a guaranteed lifetime income benefit would pay an additional fee for the guarantee. We encourage the Department to address the disclosure of such fee in the final regulation.

Effective Date

We believe that it would be impossible to comply with the requirements of the proposal by the proposed effective date of January 1, 2009. We suspect it will take the Department some time to consider the comments it receives on the proposal and issue a final rule. Even if the final rule were issued early in the fourth quarter of 2008, it is not likely that plan fiduciaries, investment managers and other service providers will have enough time to make the necessary changes to their systems and practices to be fully ready to comply by January 1, 2009. Therefore, we ask that the Department consider delaying the effective date until at least January 1, 2010.

If you have any questions or would like additional information, please do not hesitate to contact me at (212) 969-2242. Thank you.

Sincerely,



Daniel A. Notto