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Submitted Electronically

July 11, 2013

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

RE: RIN 1210-AB20 Advance Notice of Proposed Rulemaking - Pension Benefits Statement

Dear Sir or Madam:

On behalf of the American Council of Life Insurers ("ACLI")[1], we write in response to the Department of Labor ("DOL") Advance Notice of Proposed Rulemaking on Pension Benefit Statements published in the Federal Register on May 8, 2013 (the "ANPRM"). ACLI is pleased that the Department has undertaken this effort.

ACLI supports this important first step to help educate workers on the retirement income potential of their savings. We encourage the Department to include in its pension benefits statement rule that a participant's accrued benefit be expressed as estimated guaranteed monthly lifetime income payments. This will help to educate workers as to the value of their plan savings as a source of retirement income. It will assist them in evaluating such factors as their income need, savings adequacy, and the amount of income devoted to retirement savings. It reframes the defined contribution plan as a retirement plan that is intended to generate retirement income, rather than just a capital accumulation or savings plan.

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[1] The American Council of Life Insurers represents more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. These member companies represent over 90% of the assets and premiums of the U.S. life insurance and annuity industry. ACLI member companies offer insurance contracts and other investment products and services to qualified retirement plans, including both defined benefit pension and 401(k) arrangements, and to individuals through individual retirement arrangements (IRAs) or on a non-qualified basis. ACLI member companies also are employer sponsors of retirement plans for their own employees.

As demonstrated in a 2010 survey, employees are interested in guaranteed lifetime income options and find it valuable to see how much guaranteed lifetime income they could obtain with their retirement plan savings.[2]

## 1. Annuity Illustration on Benefit Statements

Current law and common plan design encourage participants to consider their account balances as single sums available for payment upon retirement. This can and often does create an inflated sense of wealth. We believe that it is important to reframe retirement savings as a source of lifetime income.

Academic work has increasingly shown that the manner and nature in which information is presented affects the decision making process.[3] Today, defined contribution plan benefits are presented as a lump sum. To reframe plan benefits from a lump sum amount to a source of monthly income, we agree that plan benefit statements should show the total benefits accrued as a single sum and as a monthly guaranteed lifetime income payment amount.[4]

## 2. ANPRM Draft Rule's New Statement Elements

In addition to the current account balance, the ANPRM draft rule would require that up to seven new elements be shown on a participant's benefit statement: (1) an illustration of the current account balance as a lifetime income stream; (2) a projection of the current account balance at normal retirement age; (3) an illustration of the projected account balance as a lifetime income stream; and, for married participants, (4) items (1) and (3) illustrated as a joint and 50% survivor annuity with (a) payments during the participant's life and (b) payments to the surviving spouse. ACLI has the following comments on these elements.

<u>Current Account Illustration</u>

ACLI agrees with the provisions of the ANPRM's draft rule that, at least annually, all defined contribution plan statements should include an illustration of the participant's current account balance as a guaranteed monthly income payment for life commencing at normal retirement on an immediate single life annuity basis based on current account values. The Federal Thrift Savings Plan currently provides such a "simple" illustration. This illustration is sufficient to help reframe the value of the account balance as a source of income in retirement. ACLI recommends this provision be retained in the benefit statement rule.

To simplify plan administration, the rule should permit any plan to illustrate guaranteed monthly lifetime income payments commencing at normal retirement age as defined at ERISA §3(24)(B)(i), i.e., age 65.

[2] ACLI Study on Retirement Choice, Mathew Greenwald & Associates 2010 (see Appendix).
[3] Robert S. Gazzale & Lina Walker, "Behavioral Biases in Annuity Choice: An Experiment" (Williams College Department of Economics Working Papers, Series No. 2009-1, March 25, 2009); Jeffrey R. Brown, Jeffrey R. Kling, Sendhil Mullainathan, & Marian V. Wrobel, "Why Don't People Choose Annuities? A Framing Explanation," Retirement Security Project (March 2008) and "Framing Lifetime Income," National Bureau of Economic Research (May 2013).
[4] Two bills introduced in the 113th Congress provide for the disclosure of an annuity equivalent of total benefits accrued to participants: S. 1145, the Lifetime Income Disclosure Act sponsored by Senators Johnny Isakson (R-GA) and Chris Murphy (D-CT) with co-sponsors Senators Elizabeth Warren (D-MA), Bill Nelson (D-FL), and Tim Scott (R-SC); and H.R. 2171, companion legislation introduced in the House by Reps. Rush Holt (D-NJ-12), Tom Petri (R-WI-6), Ron Kind (D-WI-3), and Dave Reichert (R-WA-8).

Account Projections

ACLI recommends that the rule not require plans to make projections regarding the future value of the current account balance. A simple illustration provides sufficient information to reframe the account balance as retirement income.

ACLI urges the Department to ensure that the rule not preclude a plan from providing additional information on statements such as projections of future account values or illustrations of such projected values as guaranteed monthly lifetime income.

Qualified Joint and Survivor Annuities

To simplify plan administration, ACLI recommends that illustrations be made as a single life annuity, without regard to whether the individual is married or single. We believe that this is sufficient to reframe retirement savings as a source of lifetime income. The rules under Internal Revenue Code §417 provide married participants and their spouses with sufficient information at the time of benefit election regarding qualified joint and survivor annuities and their rights under the plan.

Plan administrators may not be aware of participants' marital status, separations, or pending divorces. Furthermore, it is not clear how a participant working through a divorce would receive such information. Nevertheless, plans should not be precluded from illustrating the account balance for two lives as a joint and survivor annuity based on either an assumption that all participants are married to a spouse the same age or, as their records permit, to married participants based either on an assumption regarding a spouse's age or their actual ages.

## 3. ANPRM Conversion Assumptions

ACLI recommends that the benefit statement rule utilize the draft proposal's safe harbor conversion assumptions at §2520.105-1(e)(2)(ii), i.e., the 10-year constant maturity Treasury securities rate and the applicable mortality table under Internal Revenue Code §417(e)(3)(B). We recommend the Department combine these interest rates and mortality components into a table of annuity factors which can be published on a regular basis and used by plan administrators to provide the illustration. The 10-year constant maturity Treasury securities rate and the applicable mortality table under Internal Revenue Code §417(e)(3)(B) are reasonable and do provide results that fairly represent current immediate payout annuity purchase rates. For this reason, we recommend against adding an insurance load factor to the draft proposed rule's safe harbor assumptions, as doing so would result in conversions at rates below current immediate payout annuity purchase rates to the extent of such load factor.

Interest Rates

Regarding the interest rates assumption, it is important to note that participant account balances reported on benefit statements are based on current market values. Similarly, the interest rate used with the mortality factor to illustrate guaranteed lifetime income should approximate interest rates currently used in pricing payout annuities. This is especially important when illustrating an account balance for a participant near retirement. Our members considered a variety of rates and concluded that the 10-year Treasury rate was the best representation of interest rates that are reflected in annuity pricing. The 10-Year LIBOR swap rate[5] is also fairly reflective of the current market rate.

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[5] The International Swaps and Derivatives Association (ISDA®) mid-market par swap rates are available on the Federal Reserve website each day. Set by the British Bankers' Association in the City of London, the London Interbank Offered Rate or LIBOR rate is the average interest rate that leading banks in London charge when lending to other banks.

The current nature of the 10-year Treasury rate also provides symmetry with the current account value. 401(k) balances move with the market, and as interest rates rise, fixed income investments tend to go down in value (and participants who are closer to retirement tend to have a higher percentage of their account in fixed income investments). As interest rates rise, annuity pricing becomes more favorable to the purchaser. Since a change in interest rates will impact the account balance and the illustrated annuity, the use of current interest rates, such as the 10-year Treasury, in the illustration will show annuity payment amounts that are more appropriately related to the current value of the account.

Regarding other interest rates, the IRC §417(e) factors are used for converting defined benefit amounts to a lump sum for distribution; the goal of that conversion is not to approximate current annuity prices. The morality table used is RP 2000 and the interest rates are IRS segmented interest rates. Exhibit 2 shows a comparison of annuity payouts using a 10 yr. Treasury rate, a LIBOR rate and interest rates under 417(e). The §417(e) interest rates result in payments that are over 19% higher than the payments based on Treasury rates or LIBOR.

ACLI considered interest rates used by the PBGC in determining distressed/involuntary termination underfunding. These rates were either not current or not appropriate for determining pay out annuities. The PBGC sets its interest rates based on an average of a number of surveys of insurance company group annuity rates for plan termination funding. For example, in setting a rate for the end of December, PBGC will average the rates from the June 30th and September 30th surveys. Thus, each quarter's rate is not a current rate and does not reasonably relate to annuity rates available in the market place at the end of that quarter.

Mortality Assumptions

Regarding mortality assumptions, the IRS creates and publishes unisex tables based on RP 2000[6]. These mortality rates are similar to the rates found in the 1994 Group Annuity Mortality Table (GAM-94). The GAM-94 table, developed by the Society of Actuaries (SOA), is based on group annuitant experience. It is used by pension plan actuaries and by the PBGC to determine the amount of underfunding when a single-employer plan experiences a distress or involuntary termination (§4044.53). SOA also developed Mortality Table A-2000 which is similar to GAM 94, but it is for individual annuities.

As illustrated in Exhibit I, the impact of different mortality tables on the amount of yearly payout is relatively small. In fact, the difference in the yearly payout between the highest and the lowest for a $100,000 annuity is less than 4%.

As noted, to ease administration, it would be beneficial for employers to use table of annuity factors published by the Department. Exhibit 3 describes the method for developing a table of annuity factors based on a mortality table and interest rate.

Plans with Annuity Contracts

The rule should permit, *but not require*, the terms of the plan's annuity contract to be used in place of the safe harbor assumptions. There are a number of reasons why plans may prefer to use the safe harbor assumptions of the draft rule over the terms of an annuity contract. An annuity contract's minimum purchase rates may be below the current purchase rates offered by the insurer. A 403(b) plan may be funded with a number of annuity contracts offered by more than one insurer. A plan may add (for the first time or otherwise) and/or remove insurance contracts. To simplify administration, the rule should permit plans to use the safe harbor factors described in the draft rule at §2520.105-1(e)(2)(ii) consistently regardless of whether they include one or more annuity contracts or add annuities following a period without such contracts.

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[6] See IRS Notice 2008-85.

In addition to traditional payout annuities offered at distribution, in-plan annuity arrangements can be offered as contribution allocation options. On how best to factor these in-plan annuity investments into lifetime income illustrations, ACLI recommends that the Department permit sufficient flexibility to accommodate variety and innovation. The Department should permit a plan to adopt any of the three approaches outlined in the ANPRM: (1) the current market value of all in-plan annuity units accumulated by a participant could be added to the rest of that participant's account balance; (2) add the total guaranteed monthly payment amount derived from all of a participant's in-plan annuity units to the estimated monthly payment amount of the non-annuity portion of the participant's account, if any; and (3) convert the participant's entire account balance, even any part that is not allocated to an in-plan annuity option, to a lifetime income stream using the current unit price of the in-plan annuity option. Any of these three approaches would provide the participant with sufficient information to view their total account balance as a possible source of income in retirement.

### 4. Non-Fiduciary Education

The benefit statement rule should make clear that illustrations are provided solely to educate participants; and that the illustrations do not constitute advice or otherwise constitute a fiduciary act resulting in fiduciary or plan liability. We expect that the illustration will help make participants aware of guaranteed lifetime income. We expect that they will seek additional information and education. The DOL should frame this guidance along the lines of Interpretive Bulletin 96-1.

The rule should include model language that plans may add to statements to make clear that the payment amount is illustrative and does not represent actual monthly income payments available at retirement. While it may also be helpful to tell the participant on a general level whether the illustration is based on factors set forth in the rule or a current annuity quote based on guaranteed lifetime income options available under the plan, providing more detailed information regarding the assumptions used such as the specific mortality table and interest rate likely will not be meaningful and may confuse participants.

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On behalf of the ACLI member companies, thank you for consideration of these comments. We welcome the opportunity to discuss them with the Department. We also encourage the Department to actively consider other efforts to facilitate participant and beneficiary access to, and use of, guaranteed lifetime income by providing more certainty for employers when selecting an annuity provider and by providing guidance to support educational activities on retirement income and lifetime income options.

Sincerely,

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*Attachments*

Appendix

# ACLI Retirement Choices Study

*Online Survey with*

*Near-Retiree Defined Contribution Plan Participants*

Report of Findings

Prepared for:

ACLI

Financial Security. For Life.

by:

**Mathew Greenwald & Associates, Inc.**

April 2010

# Table of Contents

## Introduction and Methodology

In an effort to gauge retirement plan participants' interest in (1) having their employers offer additional options for what they can do with their retirement plan accumulations after they retire and (2) being able to see an illustration of how much guaranteed lifetime income they may be able to get using the money in the plan, the American Council of Life Insurers (ACLI) commissioned independent research firm, Mathew Greenwald & Associates, to conduct a study of plan participants nearing retirement.

An online survey was conducted with 750 workers ages 45 to 65, who are participating in a defined contribution plan available through their current employer. Respondents were also screened to ensure that they had a minimum retirement plan account balance of at least $40,000 and were not expecting any retirement income from a defined benefit pension plan.

- Potential respondents for this study were selected from among members of eRewards Consumer Research Panel.
- The survey fielded between March 26 and March 31, 2010.

The survey data were weighted by gender, age, and education to reflect the composition of retirement plan participants ages 45 to 65 with account balances of at least $40,000. Population statistics were based on data from the 2007 Survey of Income and Program Participation (SIPP).

A similarly-sized random sample of 750 respondents would have a margin of error at the 95% confidence level of plus or minus 3.7 percentage points.

Key findings and a detailed discussion follow this section.*

*Percentages in the tables and charts may not total to 100 due to rounding and/or missing categories.

## Key Findings

Seeing an illustration of how much guaranteed monthly income they could get for life may prompt many plan participants to save more.

- Just over nine in ten respondents say that it would be valuable to have their employer show them an illustration of how much monthly income they could get guaranteed for life based on the value of their retirement plan account, including more than half who feel that it would be very valuable.
- Three out of five say that if this illustration showed that the monthly income that could be generated would not be enough to meet their needs, they would start saving more immediately. Another one-third say that, after seeing this illustration, they would monitor how their savings affected the illustration and consider saving more later.
- Eighty-five percent express an interest in having this information available in their regular retirement statement or on a secure website hosted by either their employer or their plan provider.

An overwhelming majority support the idea of having employers offer an option in their retirement plans that would use some of their retirement plan savings to provide employees with guaranteed monthly income for the rest of their lives once they retire.

- Nearly nine out of ten plan participants surveyed report that they favor a proposal to have employers offer an option that would use their plan savings to generate a guaranteed stream of income for life.
- A similar share – fully 90% – say they favor the idea of their employer offering them this type of option, and would be interested in learning more about it, if it were available.

Given the overall favorable impression of this option, it's not surprising that positive statements about why such an option should be made available resonate more than arguments against it.

- More than nine in ten agree that employers should be encouraged to offer choices to help employees attain financial security, and nearly all agree that an option that offers to guarantee income for life can help accomplish this.
- Although a large majority of respondents say they feel at least somewhat confident about their ability to personally manage their finances after they retire, this confidence may be an

overstatement, since more than nine in ten agree that it is difficult for "many workers" to know how to manage their money after they retire, and feel it would be helpful if employers offered an option to help with this.

- Likewise, seven in ten disagree that employees know how to use their savings to generate a retirement income for themselves and don't need an option from their employer to do it for them.
- Half disagree with the statement that "employers have no responsibility for helping employees determine what to do with their retirement plan savings after they retire."

Respondents' confidence in being able to manage savings and investments after retirement is lower than their confidence about managing money prior to retirement.

- Currently, eight in ten plan participants feel at least somewhat knowledgeable when it comes to selecting the savings and investment options within their plan that are best for them.
- Yet, fewer seem as optimistic about their ability to manage their assets after they retire – including being able to pick the appropriate savings and investment products, determine the right withdrawal amounts, and making their money last for the rest of their lives. While about one-quarter strongly agree that they are knowledgeable about selecting their investments right now, half as many describe themselves as being very confident in their ability to manage their money after they retire.
- Moreover, just 7% feel very confident in their ability to make savings and investment decisions once they reach their 80s or 90s.
- Perhaps as a result, three out of four plan participants indicate that they are concerned about not having enough money in retirement to meet their needs.

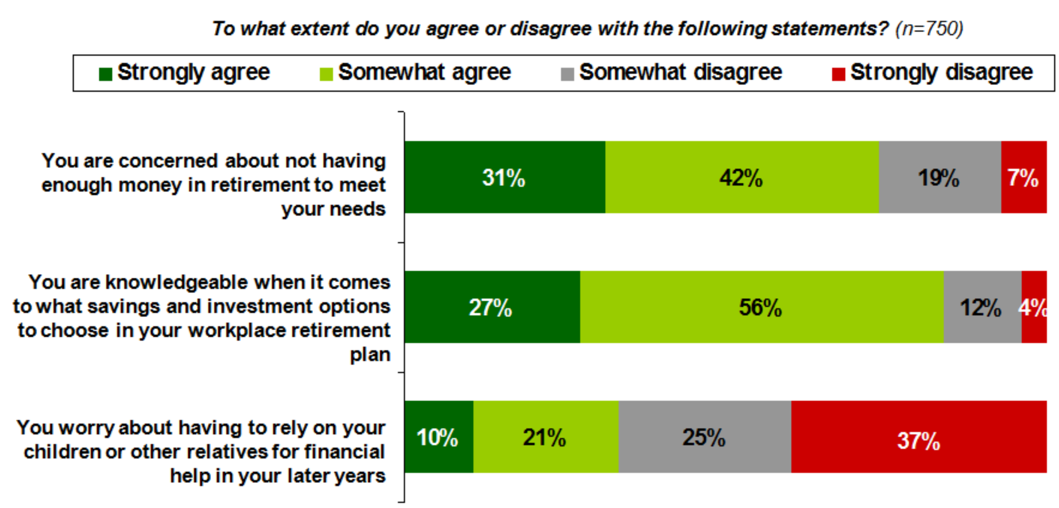
# Detailed Findings

## Retirement Outlook

**Eight in ten plan participants say they are knowledgeable when it comes to selecting investment options inside their workplace retirement plan.**

- Most plan participants (83%) describe themselves as knowledgeable when it comes to selecting savings and investment options within their employer-sponsored retirement plan, though just one-quarter strongly agree that they are knowledgeable in this area (27%).
    - Men are more likely to feel knowledgeable about selecting retirement plan investment options (86% v. 78% women).
- At the same time, nearly one-third (31%) strongly agree that not having enough money in retirement is a concern, and another four in ten (42%) suggest they are at least somewhat concerned about running out of money.
- In fact, one out of three (31%) agree that they are worried about having to rely on their children or other relatives for financial help in their later years. Women are especially likely to worry about this (38% v. 27% men).

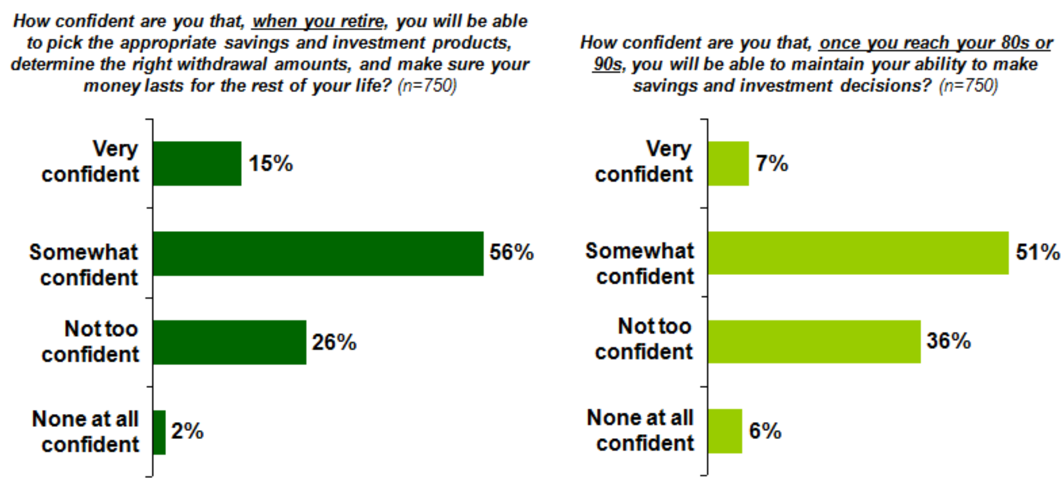
**Retirement Outlook**



**Fewer feel confident that they will be able to pick the appropriate products, determine withdrawal amounts, and make their money last after they retire.**

- Although 27% strongly agree that they are knowledgeable about selecting current retirement plan options, only 15% of plan participants feel very confident that – when they retire – they will be able to pick the appropriate savings and investment products, determine the right withdrawal amounts, and be able to make their money last for the rest of their of lives.
- A far larger share (56%) feel somewhat confident, and one-quarter (28%) say they are not too or not at all confident in their ability to manage their money in retirement.
- Even fewer feel very confident (7%) that they will maintain their financial decision-making ability into their 80s or 90s, though most (51%) remain at least somewhat confident that they will be able to make sound savings and investment decisions in their later years.

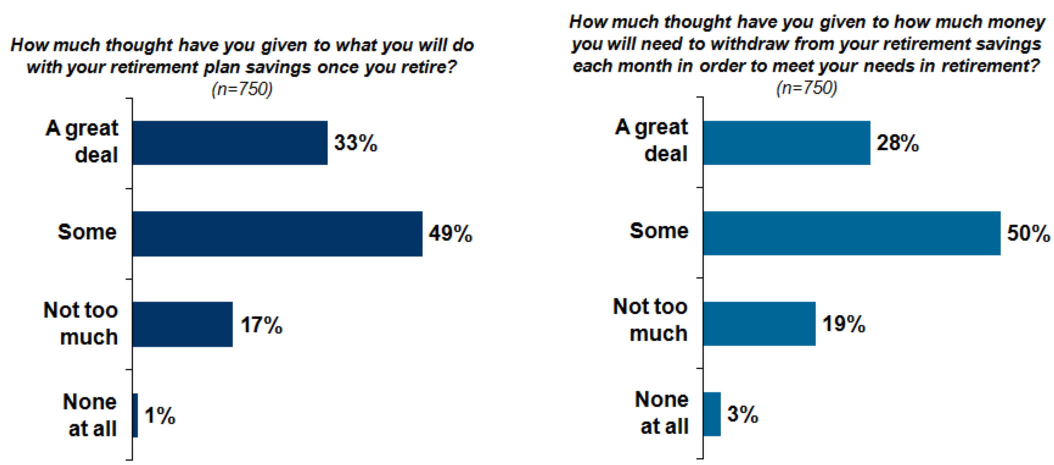
**Confidence in Managing Retirement Finances**



**A majority have given at least some thought to what they will do with their retirement plan assets when they retire and how much they can withdraw each month.**

- More than eight in ten retirement plan participants (82%) say they have given at least some thought to what they will do with their retirement plan assets once they retire. Still, only one-third have given this a great deal of thought, and two in ten (18%) indicate that they haven't given it too much thought at all.
  - Not too surprisingly, the likelihood of having thought this issue through increases with age (and proximity to retirement), such that 92% of those ages 60 to 65 say they have given at least some thought to what they will do with their plan assets, compared to 73% of those ages 45 to 49.
- Nearly as many say they have given at least some thought to how much they will need to withdraw each month from their retirement savings in order to meet their financial needs, though half (50%) say they have given this just some thought.
  - Those who are older (and closer to retirement) (88% of those age 60-65) are more likely than younger plan participants (72% of those age 45-49) to say they have thought about this to at least some extent.

**Thought Given to Retirement Plan Assets and Withdrawals**

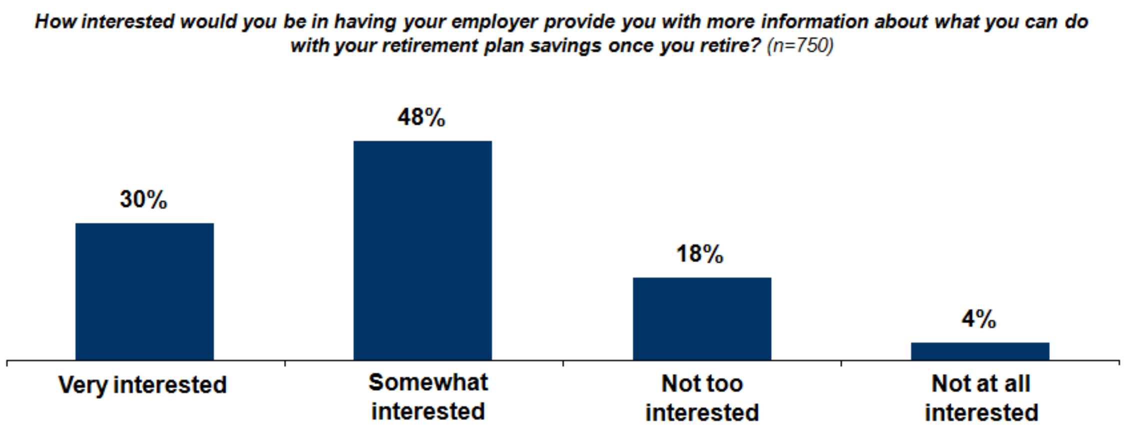


## Interest in Information On and Options for Guaranteed Lifetime Income

**Almost eight in ten would be interested in having their employer tell them more about what they can do with their retirement plan assets once they retire.**

- Nearly eight out of ten (78%) express an interest in having their employer provide them with more information about what they can do with their retirement plan savings once they retire, including three in ten (30%) who would be very interested.

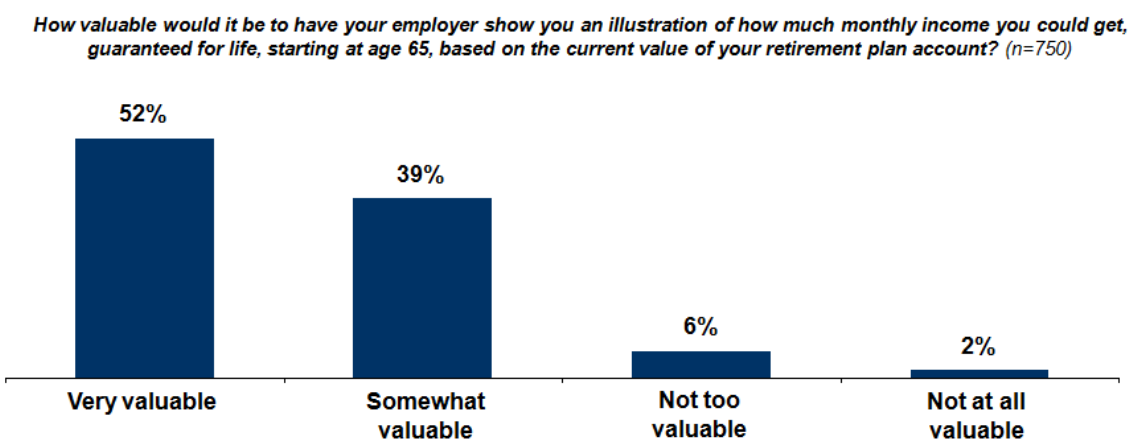
**Interest in Information On Options for Retirement Plan Assets**



**An overwhelming majority feel it would be valuable to see how much guaranteed lifetime income they could get using their retirement plan savings.**

- Just over nine out of ten plan participants (91%) suggest that it would be valuable to have their employer show them an illustration of how much guaranteed monthly income they could get for life, starting at age 65, based on the current value of their retirement plan account. This includes more than half (52%) who feel such an illustration would be very valuable.
  - Plan participants who presumably still have more time to plan for retirement (92% of 45-59 year olds) are more likely than those who are older (86% of 60-65 year olds) to feel that this illustration would be at least somewhat valuable.
  - Those with incomes under $100,000 (95%) are also more likely than their counterparts (89% of those with $100k+) to feel an illustration of how much guaranteed monthly income they could get would be valuable.
  - Interestingly, those who have not given a lot of thought to what they will do with their retirement plan savings after retirement (96%) are especially apt to say this type of illustration would be valuable, compared to those who have already thought about what they will do (90%). This suggests that showing plan participants this type of illustration may help some begin thinking about how to use their retirement savings who haven't previously given it much thought.

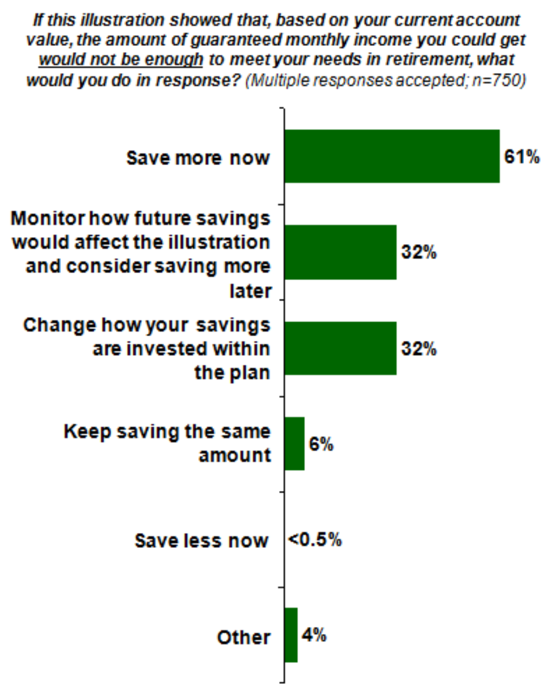
**Value of Guaranteed Monthly Income Illustrations**



**An illustration of how much guaranteed monthly income could be generated would prompt many to save more, if the current amount seemed insufficient.**

- Six in ten plan participants (61%) say that if they saw an illustration that suggested the amount of guaranteed monthly income that could be generated by their retirement plan account would not be enough to meet their needs, it would prompt them to start saving more.
  - Plan participants between the ages of 45 and 49 (68%) are particularly likely to suggest they would start saving more (v. 58% of those ages 50-65).
  - Those with incomes of $100,000 or more (69%) are more apt than those with lower household incomes (55%) to react by saving more.
- One-third (32%) say they would continue to monitor how their savings affected the illustration and would consider saving more later.
- Others (32%) indicate that seeing an illustration like this would cause them to re-evaluate and change their asset allocation.
- Only 6% say they would continue saving the same amount and less than 1% would save less as a result of seeing the illustration.

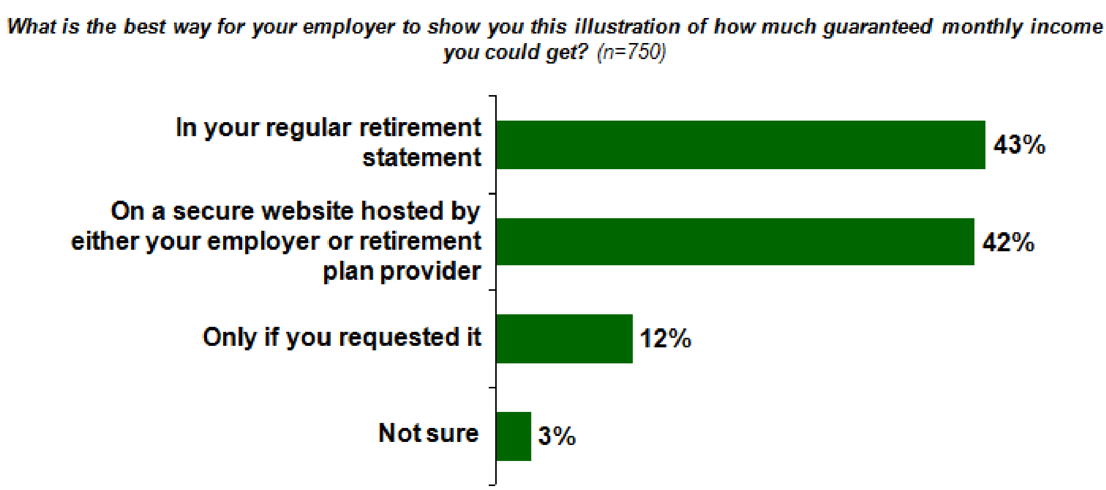
**Response to Inadequate Income Illustration**



**Five in six (85%) want to see an illustration of how much guaranteed monthly income they could get on a regular basis, only 12% want it available only on their request.**

- Eighty-five percent of plan participants indicate that the best way for them to see an illustration of how much guaranteed monthly income they could get is either in their regular retirement statements or on a secure website hosted by either their employer or their retirement plan provider.

**Showing Illustration of Guaranteed Monthly Income**



**Nearly nine in ten plan participants favor a proposal to have employers offer an option of receiving guaranteed income for life.**

- Eighty-six percent of plan participants surveyed favor a proposal that would have employers offer their employees an option in their retirement plan that would use some of the participants' assets to generate a guaranteed stream of income for life.
  - Women (92%) are significantly more likely than men (83%) to favor this proposal.
  - This proposal is viewed especially positively by plan participants nearing retirement, as 48% of those ages 55 to 59 say they strongly favor the proposal, which is significantly higher than those older (32% of 62-65 year olds) and those younger (36% of those age 45-54).
  - Those with incomes under $100,000 (91%) are more likely than higher earners (82%) to express their support.

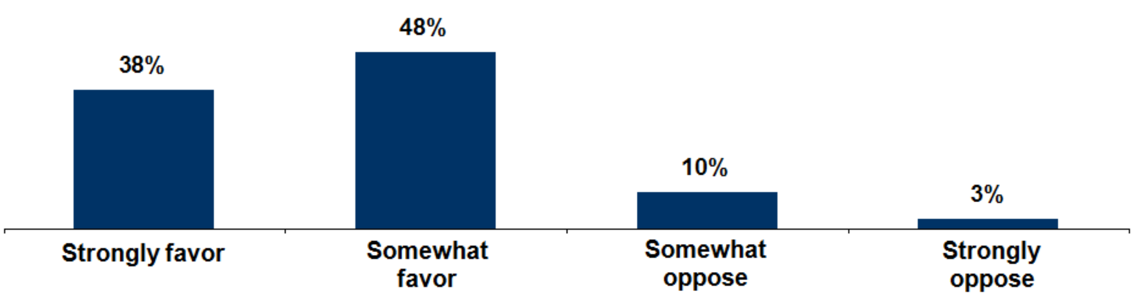
### Attitude Toward Employers Offering Guaranteed Income for Life Option

Some financial planning experts believe that employers should offer an option in their retirement plans that would provide employees with guaranteed monthly income for the rest of their lives once they retire.

Employees would be able to choose whether or not to select this option. If they did choose it, they could put in any amount of money from their retirement plan that they wanted to.

The monthly income payments would never go down and it would be paid as long as the employee lives. Married employees could also have the option to have the payments last as long as either they or their spouses are alive.

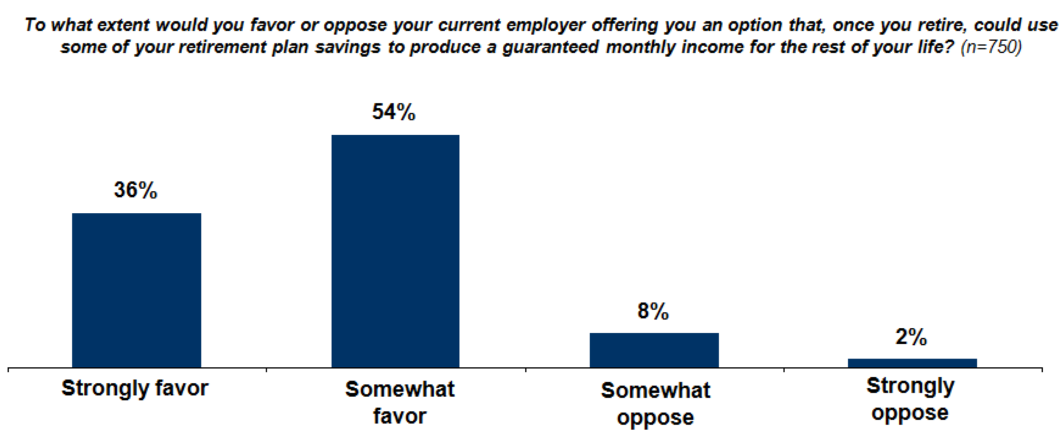
***How strongly do you favor or oppose having employers offer their employees the option of getting guaranteed income for life, if they want it?*** *(n=750)*



**Nine in ten favor the idea of their own employer offering them an option for guaranteed lifetime income.**

- Fully ninety percent say they strongly (36%) or somewhat (54%) favor the idea of their employer offering an option that, once they retire, they could use some of their retirement plan savings to produce a guaranteed monthly income for the rest of their lives.
  - Again, women (94%) and those with household incomes under $100,000 (93%) are more inclined than their counterparts to say they favor the idea of their employer providing this option (88% of men, 87% of those earning $100,000 or more).
  - Plan participants who say they tend to be investment risk averse (52%) are more likely than those who are willing to take average to above average investment risk (35%) to strongly favor having their employer offer this option.

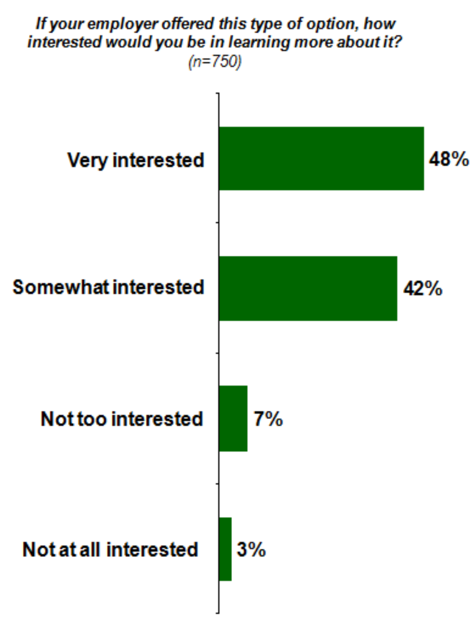
**Desire for Own Employer Offering Guaranteed Income for Life Option**



**Given these positive reactions, it's not surprising that nine in ten also say they'd be interested in learning more about this option, if it were available.**

- Nearly half of plan participants (48%) say they would be very interested in learning more about this option, if their employer offered it. And another four in ten (42%) say they would be somewhat interested in learning more.
  - Those who favor the proposal overall (96%) are more likely than those who oppose it (56%) to say they would be interested in learning more.
  - However, plan participants who have not previously given much thought to what they will do with their retirement plan assets (97%) are especially likely to say they would want to learn more about a guaranteed lifetime income option (v. 89% of those who have already given some thought), suggesting that the very offer of this option might prompt some to think through these issues in more detail.
  - Those with retirement plan account balances between $40,000 and $75,000 (96%) are more apt than those with higher balances (87%) to express an interest in more information on this option.

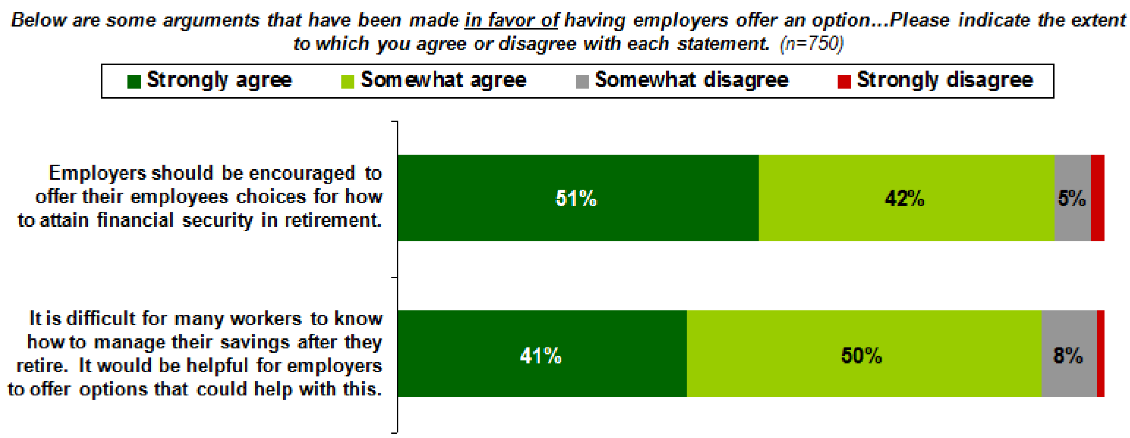
**Interest in Learning More About Guaranteed Income for Life Option**



**Nine in ten believe that employers should offer choices to help employees attain financial security in retirement; many feel it may be difficult to do this on their own.**

- Half of plan participants (51%) strongly agree, and more than four in ten somewhat agree (42%), that employers should be encouraged to offer their employees choices for how to attain financial security in retirement.
- Moreover, 91% of plan participants strongly or somewhat agree that it is difficult for many workers to know how to manage their assets after they retire and it would be helpful if employers offered options to help with this.

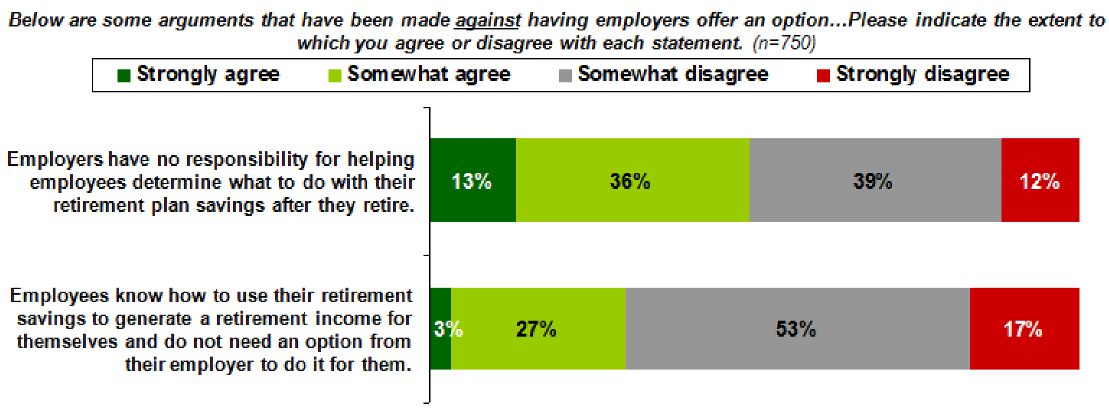
**Agreement with Statements in Favor of Employers Offering Guaranteed Income Option**



**Seven in ten disagree that employees know how to use their income to generate income in retirement and do not need the help of employers.**

- Half (51%) disagree with the statement that employers have no responsibility for helping employees manage their retirement plan savings after they retire.
- Still, the vast majority – seven in ten (70%) – disagree that employees know how to use their retirement savings to generate retirement income for themselves and therefore do not need an option from their employer to do this.

**Agreement with Statements Against Employers Offering Guaranteed Income Option**



Annuity Illustrations -Exhibit 1

Estimated Annuity Payments From Different Retirement Accounts Under Different Interest Rate Assumptions

| Retirement Nest Egg | RP 2000 Treasury Rate | RP 2000 LIBOR Rate | RP 2000 Sec 417(e) Rates |
|---|---|---|---|
| 10,000 | 616 | 627 | 724 |
| 20,000 | 1,233 | 1,254 | 1,448 |
| 30,000 | 1,849 | 1,880 | 2,172 |
| 40,000 | 2,465 | 2,507 | 2,896 |
| 50,000 | 3,082 | 3,134 | 3,619 |
| 60,000 | 3,698 | 3,761 | 4,343 |
| 70,000 | 4,314 | 4,387 | 5,067 |
| 80,000 | 4,930 | 5,014 | 5,791 |
| 90,000 | 5,547 | 5,641 | 6,515 |
| 100,000 | 6,163 | 6,268 | 7,239 |
| 110,000 | 6,779 | 6,895 | 7,963 |
| 120,000 | 7,396 | 7,521 | 8,687 |
| 130,000 | 8,012 | 8,148 | 9,410 |
| 140,000 | 8,628 | 8,775 | 10,134 |
| 150,000 | 9,245 | 9,402 | 10,858 |
| 160,000 | 9,861 | 10,028 | 11,582 |
| 170,000 | 10,477 | 10,655 | 12,306 |
| 180,000 | 11,094 | 11,282 | 13,030 |
| 190,000 | 11,710 | 11,909 | 13,754 |
| 200,000 | 12,326 | 12,536 | 14,478 |
| 210,000 | 12,942 | 13,162 | 15,202 |
| 220,000 | 13,559 | 13,789 | 15,925 |
| 230,000 | 14,175 | 14,416 | 16,649 |
| 240,000 | 14,791 | 15,043 | 17,373 |
| 250,000 | 15,408 | 15,669 | 18,097 |

Notes:

GAM94 = Group Annuity Mortality Table, 1994 (updated to current years)

A2000 = Annuity 2000 Annuity Mortality Table (updated to current years)

RP 2000 = 2012 Applicable Mortality Table from IRS Notice 2008-85

LIBOR Rate = 10-Year Interest Rate Swap, 5/31/13, 2.33% (published by Federal Reserve)

Treasury Rate = 10-Year Treasury Bond, 5/31/2013, 2.16% (published by Federal Reserve)
Segmented Interest Rates (0.97%, 3.76%, 5.01%) are the 2013 plan year applicable interest rates under Code §417(e)(3)(D)

Unisex mortality rates are either as published or a 50/50 blend of Male/Female rates

Interest Rate Source: http://www.federalreserve.gov/releases/h15/update/

Federal Reserve Statistical Release - H.15 - Selected Interest Rates (Daily)

Annuity Illustrations -Exhibit 2

Estimated Annuity Payments From Different Retirement Accounts Under Different Mortality Assumptions

| Retirement Nest Egg | RP 2000 Treasury Rate | GAM94 Unisex Treasury Rate | A2000 Unisex Treasury Rate |
|---|---|---|---|
| 10,000 | 616 | 620 | 598 |
| 20,000 | 1,233 | 1,240 | 1,196 |
| 30,000 | 1,849 | 1,861 | 1,794 |
| 40,000 | 2,465 | 2,481 | 2,392 |
| 50,000 | 3,082 | 3,101 | 2,990 |
| 60,000 | 3,698 | 3,721 | 3,588 |
| 70,000 | 4,314 | 4,341 | 4,185 |
| 80,000 | 4,930 | 4,962 | 4,783 |
| 90,000 | 5,547 | 5,582 | 5,381 |
| 100,000 | 6,163 | 6,202 | 5,979 |
| 110,000 | 6,779 | 6,822 | 6,577 |
| 120,000 | 7,396 | 7,442 | 7,175 |
| 130,000 | 8,012 | 8,063 | 7,773 |
| 140,000 | 8,628 | 8,683 | 8,371 |
| 150,000 | 9,245 | 9,303 | 8,969 |
| 160,000 | 9,861 | 9,923 | 9,567 |
| 170,000 | 10,477 | 10,543 | 10,165 |
| 180,000 | 11,094 | 11,164 | 10,763 |
| 190,000 | 11,710 | 11,784 | 11,361 |
| 200,000 | 12,326 | 12,404 | 11,958 |
| 210,000 | 12,942 | 13,024 | 12,556 |
| 220,000 | 13,559 | 13,644 | 13,154 |
| 230,000 | 14,175 | 14,265 | 13,752 |
| 240,000 | 14,791 | 14,885 | 14,350 |
| 250,000 | 15,408 | 15,505 | 14,948 |

Notes:

GAM94 = Group Annuity Mortality Table, 1994 (updated to current years)

A2000 = Annuity 2000 Annuity Mortality Table (updated to current years)

RP 2000 = 2012 Applicable Mortality Table from IRS Notice 2008-85

LIBOR Rate = 10-Year Interest Rate Swap, 5/31/13, 2.33% (published by Federal Reserve)

Treasury Rate = 10-Year Treasury Bond, 5/31/2013, 2.16% (published by Federal Reserve)
Segmented Interest Rates (0.97%, 3.76%, 5.01%) are the 2013 plan year applicable interest rates under Code §417(e)(3)(D)

Unisex mortality rates are either as published or a 50/50 blend of Male/Female rates

Interest Rate Source: http://www.federalreserve.gov/releases/h15/update/
Federal Reserve Statistical Release - H.15 - Selected Interest Rates (Daily)

Annuity Factor Calculation - Exhibit 3

**Formula**

Annuity Factor = $\sum V_t P_{65+(t-1)}$

$t=1$

Where:

W = the last year of the mortality table

$V_t$ = the discount factor

$= (1+r)^{-(t-1)}$

Where: r = the 10-year treasury rate

$P_{65+(t-1)}$ = probability a person aged x will be alive after t years

$= L_{65+t}/L_{65}$

Where: $L_{65}$ = 100,000 (the starting population or any number)

$L_{65+t}$ = the number of annuitants alive at age 65+t

$L_{65+t} = L_{65+t-1} * (1 – \text{Mortality Rate}_{65+t-1})$

Where: Mortality $\text{Rate}_{65+t}$ is from the RP 2000 table

**Numerical example**

From the RP 2000 table for annuitants who annuitize in 2012

| Age | Mortality rate | $L_x$ |
|---|---|---|
| 65 | 0.009233 | 100,000 |
| 66 | 0.010567 | 99,077 |
| 67 | 0.011774 | 98,030 |
| … | … | … |
| 119 | 0.4 | 0.48 |
| 120 | 1.0 | 0.29 |

Where: the discount rate is 1.92% per year.

<u>Year 1 or age 65</u>

$V_{65}$ equals $(1+1.92\%)^{-0} = 1$

$P_{65}$ equals (100,000)/(100,000) = 1

$V_{65}P_{65}$ equals 1*1 = 1

<u>Year 2 or age 66</u>

$V_{66}$ equals $(1+1.92\%)^{-1} = 0.981162$

$P_{66}$ equals $L_{66}/L_{65}$

$L_{66}$ = Expected number alive or (1-Mortality $\text{Rate}_{65}$) * $L_{65}$ = (1-0.009233)*100,000 = 99,076.7

$L_{66}$ = 99,077/100,000 =0.990767

$V_{66}P_{66}$ equals 0.981162*0.990767 = 0.972103

Year 3 or age 67

$V_{67}$ equals $(1+1.92\%)^{-2} = 0.962678$

$P_{67}$ equals $L_{67} / L_{65}$

$L_{67}$ = Expected number alive or (1-Mortality $\text{Rate}_{66}$) * $L_{66}$ = (1-0.010567)* 99,076.7 = 98,029.76

$L_{67}$ = 98,029.76/100,000 =0.980298

$V_{67}P_{67}$ equals 0.962678*0.980298 = 0.943711

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Year 55 or age 119

$V_{119}$ equals $(1+1.92\%)^{-54}$= 0.35809

$P_{119}$ equals $L_{119} / L_{65}$

$L_{119}$ = Expected number alive or (1-Mortality $\text{Rate}_{118}$) * $L_{118}$ = (1-0.4)* 0.795742= 0.477445

$L_{119}$ = 0.477445/100,000 =0.000005

$V_{119}P_{119}$ equals 0.35809*0.000005 = 0.000002

Year 56 or age 120

$V_{120}$ equals $(1+1.92\%)^{-55}$= 0.351344

$P_{120}$ equals $L_{120} / L_{65}$

$L_{120}$ = Expected number alive or (1-Mortality $\text{Rate}_{119}$) * $L_{119}$ = (1-0.4)* 0.477445 = 0.286467

$L_{120}$ = 0.286467/100,000 =0.000003

$V_{120}P_{120}$ equals 0.351344*0.000003 = 0.000001

**The annuity factor equals:**

1 + 0.972103 + 0.943711 + . . . . . + 0.000002 + 0.000001 = 16.621684

If $100,000 is being annuitized, the annual payment = $100,000/ 16.621684 = $6,016.24

| Interest Rate | Mortality Table | Age | Annuity Factor | Account Value | Annual Payment |
|---|---|---|---|---|---|
| 10-yr Treasury | RP 2000 | 65 | 16.621684 | 100,000 | 6,016 |