July 17, 2013

Submitted electronically via the Federal Rulemaking portal @ www.regulations.gov

Attention: Pension Benefit Statements Project
Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N–5655
U.S. Department of Labor
200 Constitution Avenue, NW
Washington, DC 20210

Dear Sir or Madam:

Subject: Request for Comments for ANPRM Lifetime Income Illustrations on Pension Benefit Statements (RIN 1210-AB20)

Aon Hewitt welcomes the opportunity to submit for consideration our comments relating to the advance notice of proposed rulemaking (ANPRM) issued by the Department of Labor (Department) on lifetime income illustrations. We laud the Department for attempting to help participants understand their income needs and resources in retirement. We also agree with the Department's three main underlying premises:
1) participants have a greater responsibility in managing their retirement assets now than in the past;
2) participants may have a difficult time determining how their account balances translate to periodic lifetime income; and 3) lifetime income illustrations may encourage retirement savings by demonstrating how a participant's account balance equates to possible income for life.

Aon Hewitt's study, "The Real Deal: 2012 Retirement Income Adequacy at Large Companies," shows that, on average, workers will need to have accumulated retirement assets equal to 11 times their pay at retirement after Social Security in order to have sufficient assets to get through retirement. Unfortunately, the average plan participant will have a shortfall, and for many, the shortfall is significant. Regardless of the amount they have saved, most participants do not think about how their defined contribution account balance can translate to retirement income, which can lead to insufficient retirement savings. An amount such as $300,000 may seem like a great deal of money to a participant until it is converted to monthly or annual income and they determine that the income amount may be insufficient to cover expenses through retirement. (Using the ANPRM's online calculator, a projected account balance of about $300,000 produces about a $1,500 monthly benefit for a retiree with no survivor benefit.) Additionally, workers may not contemplate the impact of inflation, which will erode the value of their retirement savings. Therefore, Aon Hewitt agrees that it is important to show workers' projected retirement income as a step toward improving the adequacy of workers' retirement income.

Who We Are

Aon Hewitt empowers organizations and individuals to secure a better future through innovative talent, retirement and health solutions. We design and execute, as well as advise on, a wide range of solutions that enable organizations to cultivate talent to drive organizational and personal performance and growth, navigate retirement risk while providing new levels of financial security, and redefine health solutions for greater choice, affordability, and wellness. Aon Hewitt is the global leader in human resource solutions, with over 30,000 professionals in 90 countries serving more than 20,000 clients worldwide. For more information on Aon Hewitt, please visit www.aonhewitt.com.

4 Overlook Point | Lincolnshire, IL 60069
t 847.295.5000 | f 847.295.7634 | aonhewitt.com

Comments

The primary purpose of our comments is to suggest an alternative regulatory framework for the Department's consideration. The alternative framework would provide more certainty to plan sponsors which have already been providing illustrations and tools to their workers. In addition, we have made comments (based primarily on our third-party plan administration experience) pertaining to certain elements of the ANPRM that we believe are important considerations under either the alternative or existing safe harbor model. These suggestions, if adopted, would provide flexibility for plan sponsors.

Proposal for Alternative Regulatory Framework: Using Guidelines as a Regulatory Safe Harbor

As the Department has recognized, many (though not all) employers already utilize a myriad of very good calculator tools that provide modeling, projections, and lifetime income calculations for their retirement plans. Some of these tools account for Social Security, inflation, and other factors to provide a relatively comprehensive economic analysis to participants. These tools may already be integrated with current third-party administrator (TPA) platforms, so that participants are able to easily see how changes to their contribution rates and investment allocations impact retirement income projections. In some plans, participants have access to modeling and projections via mobile technology, such as smartphones and tablets, making the information highly accessible. In addition, some tools take into account specific participant information, rather than using more general plan assumptions.

Aon Hewitt recognizes that the Department is considering a "reasonableness" standard as a general rule combined with a narrower and more prescriptive regulatory "safe harbor." We understand that the idea behind this approach is that the general rule would permit an array of projection "best practices" to continue (assuming they meet a reasonableness standard), while the safe harbor would offer more certainty for those plan administrators who seek such certainty or who do not currently provide projections.

In our experience, however, most plan sponsors will seek the certainty of a safe harbor, even if they believe their existing approach would satisfy a reasonableness standard. In practice, the "safe harbor" becomes the rule out of a plan sponsor's concern for possible noncompliance or litigation. We believe this would be particularly true under this regulatory guidance (even with disclosures to participants around any assumptions and disclaimers) given that an intended purpose is to illustrate a person's retirement preparedness. We believe employers which sponsor defined contribution plans will want all of the protection available under regulatory guidance.

Safe Harbor as General Reasonableness Standard

Given these factors, we suggest that the safe harbor be the general reasonableness standard.

This would be a structure similar to the Department's 2008 safe harbor on selecting an annuity provider for an individual account (defined contribution) plan. The 2008 safe harbor provides guidelines, and, similarly, we suggest that guidelines are a preferred regulatory framework and methodology for lifetime income illustrations.

Aon Hewitt suggests that guidelines requiring an employer to adopt reasonable assumptions for the illustrations, without prescribing particular assumptions under a safe harbor, would allow plan sponsors to review their existing tools against the guidelines and retain them (assuming their reasonableness). If an employer does not currently use calculators or tools to provide lifetime income illustrations for their retirement plan, the safe harbor guidelines would allow them to select from the tools and estimators available in the marketplace.

If a plan sponsor, which has already adopted an online modeling tool, also adopted the Department's ANPRM safe harbor assumptions for the illustrations, the sponsor may have concerns about the accuracy and clarity of plan communications, particularly if such safe harbor illustration leads to a different result than an existing tool or estimator.

Delivery Outside of the Benefits Statement

Part and parcel to this alternative regulatory framework is a request that the illustrations be permitted to be shown on a benefits statement or, at the choice of the employer, in a stand-alone or different paper or electronic communication (provided that the electronic communications requirements are satisfied). Many employers and their TPAs already provide illustrations separate from the benefits statement or provide online tools that can be accessed at any time based on current individual account information.

In-Plan Lifetime Income Products

In addition, some employers have adopted lifetime income products in their defined contribution plans. Our understanding is that those employers may have reviewed and relied upon the Department's 2008 safe harbor guidelines for selecting an annuity provider for an individual account plan.

Aon Hewitt suggests to the Department that an employer's adoption of a lifetime income product is another situation where an alternative regulatory framework (i.e., where guidelines create a safe harbor) would be beneficial to the benefits community. If that were not the framework, and if the Department's safe harbor would not be satisfied by a product's existing calculator, there could be confusion for participants regarding differences between the product provider-produced illustration and the Department's ANPRM safe harbor lifetime income illustration. This may discourage plans from offering lifetime income products to their participants.

Considerations for Either Framework: Projecting Income and Other Delivery Considerations

Under an alternative framework or the existing framework, Aon Hewitt would ask the Department to consider the following suggestions:

- **Annual vs. Quarterly Delivery**—At the option of the employers sponsoring the plans, we suggest that the Department permit plans to provide illustrations on an annual basis as is permitted for defined benefit (DB) plans, instead of quarterly, for participant-directed plans. Some plan sponsors and their TPAs already provide illustrations annually outside of the benefits statement. In addition, in our view, annual illustrations would be sufficient for long-term retirement planning.
- **Annual vs. Monthly Illustration Amounts—**Also, we would ask that plan sponsors be permitted to illustrate the lifetime income amount as an annual amount in lieu of a monthly amount. Many participants, salaried participants in particular, think of retirement income as replacement of their annual salaries and wages rather than thinking of replacement income on a monthly basis.
- **Illustration Based on Current Account Balance**—In our view, the proposed methodology for determining a lifetime income illustration of a current account balance (e.g., by assuming the participant has reached normal retirement age instead of current age) has very little value to plan participants. For a participant who has not yet reached normal retirement age, it would not accurately show either: 1) the lifetime income amount the participant would receive if they began receiving benefits today; or

2) the lifetime income they would receive if they waited until normal retirement age to receive benefits. We believe that illustrations of an immediate annuity based on a participant's actual age and a projected annuity benefit commencing at normal retirement age would be more meaningful, and many DB plans currently provide such illustrations.

Cost and Disclosure

As we noted in the opening paragraph, Aon Hewitt lauds the Department for attempting to help participants understand their income needs and resources in retirement. At the same time, plan sponsors will want to balance the benefit of the additional disclosure against the potential confusion to participants and costs to the plan. From our perspective and experience, it would make sense to consider ways to minimize the burdens to plans in providing the illustrations.

One way to manage the cost is to allow participants to receive lifetime income illustrations as they currently receive them, under existing tools and estimators, which would include on-line disclosures.

Spouses and Beneficiaries

We would suggest that illustrations taking into account spouses and beneficiaries (and a beneficiary's spouse) be optional for plans. In the ANPRM, it is assumed that a participant's spouse is the same age as the participant if the participant is married. However, based on our experience, employers may not be comfortable using the "same age" assumption since the actual calculation can be much different based on the spouse's actual age. The use of this same-age assumption could therefore create disclosure or misinterpretation issues, and plan sponsors may not want to risk participant confusion, even if the same-age assumption is a safe harbor. We believe that, as the ANPRM has been drafted by the Department, plan sponsors would feel required to send spousal, beneficiary, and spousal beneficiary information to TPAs. If plan sponsors are required to provide that information to TPAs, it may add cost to the plan and also generate questions from participants about why the information is being sent to a third party.

3% Contribution Growth Assumption

The 3% contribution growth assumption is likely intended to incorporate increases in income over time. We would ask that the Department provide suggested approaches for handling growth assumptions that would produce projected contributions exceeding the 402(g) dollar limit and give consideration to the potential complexities around projecting legal limits.

Marketplace Annuities

Currently, the ANPRM does not address marketplace annuity fees. Although the ANPRM clearly states the illustration will not be guaranteed, participants may feel misled by the illustration amount if annuity fees are not addressed and they would apply to a particular participant. We would ask the Department for suggestions for handling costs associated with purchasing an annuity in the retail market.

Application to Installments

It is unclear whether the Department anticipates that illustrations would be required for a participant or beneficiary who has already elected a payment option under the plan, such as installment payments or other "systematic withdrawal" options, if the election is irrevocable such that the individual cannot change future payment amounts. While this group has not been excluded from the ANPRM, illustrations would likely add confusion for this group of participants. In our view, illustrations would not be necessary for this group.

4 Overlook Point | Lincolnshire, IL 60069
t 847.295.5000 | f 847.295.7634 | aonhewitt.com

Closing

Overall, Aon Hewitt believes the Department's effort to provide lifetime income illustrations to participants is a positive step toward better retirement outcomes for participants. However, we believe some changes are needed to provide more flexibility for plan sponsors and to accommodate an integrated market approach that will result in a neutral cost impact to sponsors and participants, as well as increased information for participants. Our experience tells us that sponsors do not deviate greatly from safe harbor wording when it is available (even if general guidelines are articulated)—they fear possible noncompliance or participant litigation. Therefore, we urge careful consideration of safe harbor construction.

We thank the Department for the opportunity to engage in the national dialogue on lifetime income. We continue to support efforts to improve retirement income adequacy for all Americans.

If you have any questions or comments, please contact the undersigned at the telephone number or email address provided below.

Sincerely,

Daniel J Campbell
Aon Hewitt Defined Contribution Practice Leader
(847) 442-0621
dan.campbell.2@aonhewitt.com

Steve Shepherd
Hewitt EnnisKnupp Head of Institutional Annuities and Life Insurance Solutions
(203) 523-8164
steve.shepherd@aonhewitt.com