August 7, 2013

Mr. Joe Canary, Director
Office of Regulations and Interpretations
Employee Benefits Security Administration
Department of Labor
Room N-5655
200 Constitution Avenue, NW
Washington, D.C. 20210
Delivered via E-mail to e-ORI@dol.gov.

Re: Advance Notice of Proposed Rulemaking regarding Lifetime Income Illustrations (RIN 1210-AB20)

Dear Sir or Madam:

I am writing in response to RIN 1210-AB20, the Advance Notice of Proposed Rulemaking regarding Lifetime Income Illustrations. I am the William G. Karnes Professor of Finance at the University of Illinois at Urbana-Champaign. A Ph.D. economist, I have spent over 15 years studying issues related to lifetime income security. For background purposes only, I also note that I serve as Associate Director of the National Bureau of Economic Research (NBER) Retirement Research Center, and have previously served with the President's Council of Economic Advisers (2001-02), the President's Commission to Strengthen Social Security (2001), and as a member of the bipartisan Social Security Advisory Board (2006-08). Since 2009, I have also served as a Trustee for TIAA, the leading provider of retirement services in the academic, research, medical, and cultural fields. However, I stress that the views represented in this letter are mine alone, and do not represent the views of any organization with which I am or have been affiliated.

I am a strong supporter of an income disclosure requirement. In research conducted with Jeffrey Kling, Sendhil Mullainathan and Marian Wrobel,[1] [2] we have shown that individuals are much more likely to view annuities and other lifetime income products favorably if the information is presented in a frame that emphasizes consumption rather than in a frame that emphasizes wealth accumulation. Our work is strongly suggestive that framing the conversation about retirement in terms of income instead of point-in-time account balances reminds

[1] Brown, Jeffrey R., Jeffrey Kling, Sendhil Mullainathan and Marian Wrobel, "Framing Lifetime Income." *Journal of Retirement*. Vol. 1(1): Pages 27 – 37. Summer 2013.

[2] Brown, Jeffrey R., Jeffrey Kling, Sendhil Mullainathan and Marian Wrobel, "Why Don't People Insure Late Life Consumption? A Framing Explanation of the Under-Annuitization Puzzle." *American Economic Review*, 98(2): 304-309. May 2008.

individuals about why they are saving for retirement, and makes them more attentive to managing longevity risk in retirement. These research papers are in the public domain, but I would be happy to provide copies of these papers to you upon request.

Although I am supportive of the broad intent of the income disclosure requirements, I would like to make three observations of ways in which I believe the proposal misses an opportunity to further improve the utility of this approach.

1. <u>The income disclosure should emphasize the important potential for inflation risk to erode the value of a nominal income stream</u>. As proposed, I understand the regulation will focus on a nominal annuitized income stream. However, even with a 3% inflation rate, the purchasing power of a fixed nominal inflation stream can easily be cut in half over the remaining expected lifespan of the typical retiree. I would encourage DOL to consider either (i) illustrating the value of a real (i.e., inflation-indexed) stream, or (ii) at least requiring that income disclosure statements include some sort of disclosure that the purchasing power of a nominal income stream will decline over time.

2. <u>The current proposal has an incomplete treatment of investment risk</u>. The illustrations assume an average rate of return based on a diversified portfolio of risky assets, but the return is then treated as if it is risk-free. Although I understand and applaud the desire to keep the illustrations simple and understandable (and thus I would not propose using fan charts or confidence intervals, which most people will find too confusing), this does suggest that conservatism is in order when choosing return assumptions. One approach would be to use the expected risk-free return, because any choice to deviate from such a portfolio increases expected returns only at the cost of increase volatility. This would clearly be below a 4% real return – something more akin to a 2% real return would be more appropriate.

3. <u>The proposed illustration that artificially assumes the individual is of retirement age today will not be salient for most participants</u>. The idea that – regardless of one's current age – we designate the amount of income that individual would receive today if they were of retirement age is not a salient calculation for anyone who is more than a couple of years away from retirement. I see very little value of this approach. I would prefer it be replaced with a calculation that (i) assumes no further contributions, (ii) allows the account balance to grow by investment returns, and (iii) is then converted to an annuity at the individual's normal retirement age.

Summary

I tend to be wary of imposing new plan qualification requirements on plan sponsors, particularly given that the act of providing a retirement plan is purely voluntary on the part of employers. Nonetheless, I believe the value of income disclosure outweighs these concerns in this case so long as the safe harbor provisions are clear and relatively easy to comply with.

No method of projecting income will be perfect, but some information is clearly better than no information when it comes to understanding how a retirement account will translate into an income stream. Research suggests that income disclosure will help to "change the conversation" about retirement away from a narrow focus on wealth accumulation and towards a more productive conversation about lifelong retirement income security. Additional research suggests that doing so may also increase savings rates.

I appreciate the opportunity to comment on this ANPRM. This brief letter barely "scratches the surface" with regard to the growing body of academic research in this area. If Department representatives would like to discuss this research further, I would be happy to assist. Please feel free to contact me at brownjr@illinois.edu.

Thank you.

Sincerely,

Jeffrey R. Brown
University of Illinois