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

RE: RIN 1210-AB20 - Pension Benefit Statements Project

Ladies and Gentlemen:

Great-West Financial Financial® appreciates this opportunity to comment on the Advanced Notice of Proposed Rulemaking on including lifetime income disclosures in pension benefit statements (ANPRM). We commend the U.S. Department of Labor (the “Department”) for tackling this very difficult and yet very important issue.

Great-West Financial currently serves 4.7 million retirement plan participants, the majority of which are in Employee Retirement Income Security Act of 1974, as amended (“ERISA”) covered defined contribution plans. We strongly support the Department’s view that it is critical to change the mindset of plan participants so that they understand how the decisions they make today about retirement savings will impact their income during their retirement years.

The participants we serve currently see on their annual and quarterly statements their current account balance and a projection of the lifetime income they will receive at retirement assuming future contributions and earnings. These numbers are also available on the participant website along with planning tools that allow participants to further customize the lifetime income illustration to their individual circumstances. Participants on the Web are able to see a gap analysis, access additional education, obtain fiduciary investment advice, and take immediate action (for example increasing salary deferrals or changing investment choices) to improve their chances of success.



We believe that separate purposes are served by the statement illustration and the Web planning tools and that both are important. The statement illustration is the “wake-up call” designed to move participants away from looking at their retirement plan like a savings account to thinking about it as a source of monthly income in retirement. The Web tools are designed to allow participants who have “woken up” to take it a step further and customize the illustration to their individual circumstances, model the impact of changing variables used in the illustration, and take appropriate action to improve their results. For this reason we believe the ANPRM, which focuses on statement illustrations, should be designed to provide illustrations that are simple and easy to understand, cost efficient and relatively standard across plans and employers. We believe further that the statement should contain a plan-specific website address, which offers modeling tools, so participants can model other projections.

Given the extent of Web-based tools that have been developed to assist participants with retirement income planning and the current pace of development in this area, it is critical that the Department’s rule regarding benefit statement illustrations not lead to fewer Web-based modeling tools and/or inhibit future development of these tools. We believe the ANPRM may cause plans to revert to the safe harbor standard lifetime income illustrations only and to avoid more robust and effective planning tools out of concern for fiduciary risk, as described in more detail in Section 1 below. We believe that revisions to the ANPRM are necessary in order to avoid those unintended consequences.

Our comments are based on these core beliefs, as well as on the Department’s stated goals in the preamble to the ANPRM of providing projections that are:

- Meaningful to participants;
- Not overly burdensome for plan administrators to perform; and
- Do not disturb current projection and illustration best practices or stifle innovation in this area.

1. IMPACT ON CURRENT WEB-BASED PLANNING TOOLS

The most troubling aspect of the ANPRM is that it does not take the step of declaring that providing lifetime income illustrations and supporting services is education and not fiduciary advice. In recent years there has been tremendous growth in the development of Web-based tools to help participants plan and act effectively toward having sufficient income in retirement. Record keepers and others have made significant investments in developing these tools in response to market demand, academic research on the importance of “changing the mindset,” survey data showing how critical these tools are in promoting retirement success, and consistent messaging from the Departments of Labor, Treasury, and members of Congress on the importance of making these tools available. We are greatly concerned that one of the unintended consequences of the ANPRM is that it will cause plan sponsors to be reluctant to make these tools available out of concern for fiduciary risk.

Following is a description of the types of functionality currently available on Great-West Financial’s “Retirement Income Control Panel” or “RICP.” Many other record keepers and other types of retirement plan service providers have developed similar Web-based tools. While the specific features may vary based on service provider and the options a plan or participant elects, these tools are available to millions of defined contribution plan participants today.



Ability to Create a Comprehensive View of Retirement Income Sources

Participants can choose whether or not to incorporate a personalized social security projection in to their lifetime income illustration. They may also input data regarding spousal assets, IRAs, expected inheritance, or other outside savings intended for use in retirement.

Customization of Assumptions

Participants can edit their expected retirement age, annual salary, or income replacement ratio and immediately see the impact of those changes on their projected lifetime income.

Integration With An In-Plan Annuity Option

Participants who are invested in Great-West Financial's guaranteed lifetime withdrawal benefit option can see the integrated effect on their lifetime income of that investment combined with their other plan investments.

Gap Analysis and Education

Participants are presented with a chart showing the difference between the estimated amount of monthly lifetime income (after-tax) they are on path to earn based on current savings and investing behaviors and their desired monthly income based on their selected income replacement ratio. They may perform "what if" analyses to see what the impact might be on closing that gap by changing their retirement age, income replacement ratio, or other variables. They receive education about how they might close the gap by taking full advantage of employer matching contributions, increasing their salary deferral contributions, modifying their asset allocation, or taking advantage of fiduciary investment advice.

Ability to Take Immediate Action to Improve Outcomes

Participants who want to take action to close their projected retirement income gap can do so immediately by changing their deferral election, modifying their asset allocation, or signing up to receive fiduciary investment advice. Lessons from behavioral science have shown that enabling participants to take immediate action in response to information they receive about their account before procrastination and inertia set in is a key reason why providing information in a Web-based environment is far more effective in promoting retirement income success than providing paper-based communications.

Personalized Future Draw-Down Strategy

For participants nearing retirement age we provide a chart showing an annual withdrawal plan of retirement assets from retirement age through expected mortality. The chart incorporates social security, the participant's plan account, and all other retirement assets that a participant has provided data on. The individualized withdrawal plan shows the amount of suggested annual withdrawals from each source and takes into account the various tax implications of each retirement income source.

Impact of Web-Based Tools on Participant Behavior

While these tools were just recently made available to Great-West Financial plan participants, preliminary data suggests that they are effective in helping increase awareness and improve retirement outcomes. For example, 22% of participants who logged on to the participant website and saw their monthly lifetime income illustration clicked on the link giving them access to our



Retirement Income Control Panel (RICP) that contains the features described above. Among those who accessed their income projections via the Web tool RICP, 53% more changed their salary deferral election as compared to participants who did not access the Web-based retirement income tool. Similarly, 17.8 % of those who accessed their personalized retirement income illustration on the Web changed their asset allocation as compared to a general rate of 10% who did not use the Web-based tools. We consider these behavioral variances to be significant, particularly given the general newness of these tools to our participants, and believe that the Department would be doing a grave disservice to participants if it did anything that might unintentionally discourage plan sponsors from providing access to these tools.

Concerns with Effect of ANPRM on Web-Based Tools

These tools were developed on the assumption that they are education and not advice as defined by DOL Reg. § 2509.96-1 because they provide general financial and investment information and interactive investment tools. We are concerned that by creating a list of “safe harbor” assumptions, which suggests that other assumptions may not be “safe,” and not simultaneously clarifying that these illustrations are not fiduciary advice, the effect of the rule will be to limit the access participants have today to Web-based retirement income planning tools. It is our belief that the unintended consequence will not just be limited future innovation but may also cause plan fiduciaries to eliminate access to Web planning tools they are currently making available.

2. COST OF COMPLIANCE AND POTENTIAL SAVINGS IF USE SIMPLER ASSUMPTIONS

The Department requested cost data in order to help it understand whether it has struck the right balance in the cost versus benefit of mandating the illustrations required in the ANPRM. There are two major cost elements to consider when looking at the total cost of complying with the ANPRM proposal or any other new disclosure requirement:

- the initial cost to develop and roll out the new information, and
- the ongoing costs of supporting it.

We provide the data below based on our own experience in developing lifetime income illustrations.

At Great-West Financial we developed our statement and Web-based products simultaneously since the data used was generally the same for both purposes. We took into account only the time spent by core personnel in information technology, products, legal, and operations and estimate that the total cost of development was approximately \$715,981. This estimate does not take in to account time spent educating our internal staff or our customers on the illustrations and how to use the Web-based tool. BrightScope’s database of Plan Year 2011 Form 5500 Plans suggests there are 370 record keepers of defined contribution plans with five or more plans. Using our cost of development as a proxy for the cost of development at a firm level would suggest that the core cost to develop lifetime income illustrations in the defined contribution market industry wide is projected to be \$264,912,970. We believe this estimate to be conservative as a number of smaller providers may not have the internal resources to develop these illustrations and may need to rely on more expensive external resources. Additional required expenses of this magnitude ultimately may have the impact of increasing fees charged to plans and participants and reducing the number of service providers plans may choose from.



In addition to these initial development costs, there are ongoing costs for supporting lifetime income illustrations. For example, when we added the single lifetime income illustration and disclosures we currently offer, we had to add another page to our participant statements. This resulted in increased paper, printing and processing costs of roughly 2.6 cents per plan participant, per quarter. If you multiply this number by the total number of defined contribution plan participants nationwide (88,000,000¹) times four annual statement periods, the projected annual paper, printing and processing cost of implementing the proposal is an estimated \$9,152,000 per additional page industry wide. The incremental environmental impact of one additional sheet of paper each quarter for the total number of defined contribution plan participants means the industry will print 352 million additional sheets of paper to comply with the ANPRM (or approximately 42,242 trees).²

Supplying lifetime income illustrations also increased the number of calls and average talk time per call received by our participant call center resulting in additional staffing costs of \$.28 per each plan participant we serve who currently receives these illustrations. Multiplying those costs by the total number of defined contribution plan participants (88,000,000), the total projected annual industry cost of call center support for lifetime income illustrations is \$24,640,000.

In addition to the added participant calls and talk time we received due to having only one lifetime income estimate number on participant statements, we anticipate the ANPRM will further increase the talk time from what we have experienced if enacted as proposed. The ANPRM requires incorporation of data, such as plan specific normal retirement age, marital status, or reference to Treasury rates or mortality tables, that is not always readily accessible or integrated into plan record-keeping systems. In order to estimate the cost of accessing that data, we researched the amount of time it took to look up a plan's normal retirement age. At Great-West Financial this information can be accessed by clicking a link to the plan document from the general call center screen and does not require accessing the physical document, searching through multiple screens, or accessing data maintained outside of our record-keeping system. Even with this measure of efficiency, the cost of looking up the data averaged \$.61 per participant, or a projected \$53,680,000 in total industry cost of accessing participant specific data. This cost would increase significantly if the data to be accessed needed to be acquired from sources outside of the plan's record-keeping system, such as a report from a third-party administrator (TPA) or other external data.

¹DOL Employee Benefits Security Administration Private Pension Bulletin: Abstract of 2010 Form 5500 Annual Reports, November 2012

²Conservatree; <http://www.conservatree.org/learn/EnviroIssues/TreeStats.shtml>

ANPRM-Related Costs

One Time or On Going	Type of Cost	Cost Formula	Cost
One Time	Development Cost	Number of DC Providers Times Est. cost per recordkeeper 370*\$751,981	\$264,912,970
On Going	Print Costs Per Additional Page	# of Participants * 4 Statements per year (88mm *1 page per ppt *2.6 cents per page*4 qtrs)	\$9,152,000
On Going	Calls from Participants - Data Efficient	Cost of Calls from Participants Specific to Lifetime Income divided by total participants to determine cost per participant. Then apply cost per participant times full participant universe. (88mm participants*1 call per ppt/yr*28 cents incremental costs per call)	\$24,640,000
On Going	Added Cost - Non-Data Efficient Calls	Additional talk time due to using plan specific retirement date and marital status per ANPRM divided by total participants to determine cost per participant. Then apply cost per participant times full participant universe. (88 million ppts *1 call per ppt/yr *61 cents additional incremental costs per call due to data look up required by ANPRM)	\$53,680,000
Total One Time Costs for Industry Recordkeepers to Make Necessary Builds for ANPRM			\$264,912,970
Total Annual On-Going Cost Estimate for Industry to Comply with ANPRM			\$87,472,000
Potential Annual Cost if Use Simpler Illustrations & Assumptions			\$33,792,000
Number of Trees Used for Each Additional Statement Page (88mm ppts, 4 statements per year)			\$42,242

We believe that adding lifetime income estimates on statements for participants is the right thing to do. However, we believe only one lifetime income number should be provided with disclosures kept to a minimum by referring participants to a website where they can obtain details on the estimate so as to reduce the additional costs associated with providing the lifetime income estimates. We are concerned that over a quarter of a billion dollars in onetime costs and over \$87.472 million annually in additional costs for the industry is overkill when simpler and less costly assumptions would accomplish the goal of providing an estimated number that can serve as a wake-up call and is consistent with the Department's stated goal of avoiding overly burdensome requirements. Our experience in providing lifetime income estimates on statements and the corresponding costs associated with participant calls suggests that by following our comments in this letter the industry would incur incremental print costs of \$9.1 million per year and \$24.64 million in additional costs from participant calls for a total of \$33.792 million. The increased cost due to longer talk time and data look up required by the more complex ANPRM method would cost the industry an additional \$53.68 million per year. In other words, making these proposed changes to the ANPRM would reduce the on-going annual industry wide cost associated with lifetime income estimates on statements by \$53.68 million, or from \$87.472 million to \$33.792 million.



3. BASIC CONTENT REQUIREMENTS

- a. *Requiring Multiple Projections:* The ANPRM requires that multiple numbers be illustrated and that income projections be shown in the form of a joint and survivor spousal benefit. We believe that only one projection number should be shown in addition to the participant's current account balance and that should be an illustration of the lifetime income the participant will receive based on their account balance projected to a generic retirement age that is uniform industry wide (for example, age 67). Providing multiple projections significantly increases the likelihood of confusing and potentially misleading participants and adds unnecessary cost and complexity to the process.
- b. *Projecting Benefits in the Form of a Joint and Survivor Annuity:* While we support and advocate the benefits of annuitization of retirement income for participants, we do not support including spousal annuity benefits in the statement projection. Neither record keepers nor TPAs maintain data on the marital status of participants for all plans so it would be a significant burden to obtain this data and to keep it current. We conducted a survey of TPAs representing 11 different firms and 684 jointly served plans and none of them maintain data regarding the current marital status of participants. Some of the comments we received were, "Marital status changes and we are unlikely to be notified when or as that occurs," "This would be quite an additional data collect burden," "If we had to start requesting and uploading information to the various record keepers, the additional cost to the Plan Sponsor and/or Plan would be substantial," "The clients themselves may not have accurate marital status throughout the year." In addition to expressing concerns about cost and data accuracy, the TPAs expressed concerns with privacy and the risk of having conflicting information regarding marital status when it is relevant for plan distribution purposes. Roughly half of all small plans work with TPAs who are responsible for plan data collection so the additional cost and burden of requiring marital status would have a significant cost impact on small plans.

The challenges involved in collecting data on marital status and keeping it current will be further complicated given the recent Supreme Court decision declaring some provisions of the Defense of Marriage Act (DOMA) unconstitutional and the diversity of state law rules defining what is "marriage." Plan sponsors are already concerned with the increased risks to them of determining marital status based on the DOMA decision so adding a requirement to maintain this data on a quarterly basis and not just in the context of plan distributions will exacerbate that concern.

The Department asked for comment on the alternative of assuming all participants are married for purposes of the illustrations. While this solves a data collection issue, it would be extremely misleading and confusing to participants who are not married. It is also significant that most defined contribution plans (88% of the defined contribution plans we serve) offer a 100% spousal death benefit in lieu of a qualified joint and survivor annuity benefit so joint and survivor annuities are not even available or relevant to most participants in defined contribution plans.

The ability for participants to access a Web-based planning tool where they can create multiple projections for their individual situations should address any concerns the Department may have about using a single life annuity and simplifying the content requirements for mandatory benefit statement illustrations.



4. PROJECTION METHODOLOGY

- a. *Including Tax Impact in the Illustration:* We recommend including in the safe harbor the ability to show income projections in after-tax dollars assuming a flat 25% tax rate on all amounts. We make this recommendation based on our experience with participants who more frequently can state what their paycheck is by pay period than what their gross income is. Prior to providing our lifetime income estimates on statements we conducted a survey of participant preferences and the results showed a clear preference for seeing retirement income on an after-tax basis. Failing to adjust for the impact of income tax may create unrealistic expectations as participants are likely to compare the monthly income illustration against the amount of their current take-home pay.
- b. *Current Account Balance:* We recommend that the safe harbor include the flexibility to either include or exclude participant loan balances. Record keepers vary as to how they maintain outstanding loan balances on their systems. In some cases the outstanding balance is included as part of a participant's account balance for statement illustration purposes, and in other cases it is not. Arguments can be made either way as to the appropriateness of including these balances so there is no reason to increase the burden on plan recordkeepers of mandating one approach over another.
- c. *Years to Retirement:* The ANPRM requires use of each plan's normal retirement age when determining this number. Many record-keeping systems for defined contribution plans do not maintain this data, particularly in circumstances where the plan document is maintained by a TPA or other third party and not by the record keeper, and it is not significant to most participants when deciding when to retire. We recommend use of a standard assumed retirement age for all participants such as age 67.
- d. *Future Contributions:* We commend the Department for using annual contributions, not wages, as the basis for factoring in future salary growth. Determining compensation can be very complex, particularly for part-time or seasonal workers, commission or bonus based compensation, or other variations in compensation.

We do think additional clarity is needed in terms of which contributions to include in the calculation (salary deferral, matching, profit sharing, etc.) and how to perform the calculation for participants who have less than 12 months of contribution experience. Our recommended approach is to include all employee and employer contributions that are recurring but to exclude forfeiture allocations, QNECs, or other non-recurring allocations. We further recommend that if the total salary deferral contribution exceeds the IRC §402(g) annual limit, those contributions should be capped at the limit.

Finally, for participants with less than 12 months of contributions who have a 12-month window to contribute, we recommend projecting their most recent contribution over a 12-month period. For example, if a participant has less than 12 months of contributions because they recently entered the plan but they are an active employee, contributions would be projected. Conversely, if a participant had less than 12 months of contributions and they are flagged as a terminated participant, contributions would not be projected. When projecting contributions we also recommend that the plan's payroll frequency be used if known and, if not known, that an annual payroll frequency of 26 be assumed.



- e. *Pre-retirement Rate of Investment Return:* We do not object to the use of 7%. As noted below, we also recommend that the post-retirement rate of return be a fixed number and not tied to an external source.

5. CONVERSION METHODOLOGY

The ANPRM takes the approach of calculating lifetime income assuming a life annuity for single participants and a joint and 50% survivor annuity for married participants. Our concerns with including spousal data have been expressed previously.


We also urge the Department to use a single life annuity for a period certain as the safe harbor method for showing lifetime income illustrations. We have recommended using fixed retirement and mortality assumptions for all participants, which then means the annuity period is also fixed and offers the simplest and most cost effective way to show lifetime income. For example, if retirement age is set at 67 and mortality is set at 92 for all participants, projections should be shown as a 25-year period certain annuity. This approach is not only the simplest one to use, it also represents somewhat of a hybrid between the life annuity approach used in the ANPRM and the systematic withdrawal approach that is advocated by many among the regulated community as noted in the preamble to the ANPRM.

We have the following comments with respect to specific variables used to convert:

- a. *Interest Rate or Post-Retirement Earnings Rate:* The ANPRM requires plans to reference the 10-year Treasury Rate for the first business day of the last month of the period to which the statement relates. This approach will require record keepers to use different rates for different statement periods and plans, thus adding cost and complexity to the process. It is difficult to understand why the Department chose to use a fixed number for its pre-retirement earnings rate but not for the post-retirement rate. We recommend using a post-retirement rate that is 2% lower than the pre-retirement earnings rate or 5% if the Department uses its recommended 7% pre-retirement rate. In addition to creating a cost savings, this approach is more realistic than relying on the 10-year Treasury Rate since most participants maintain an exposure to equities during their post-retirement years.
- b. *Mortality Assumption:* The ANPRM would require plans to calculate individual mortality rates for each participant in reference to a table. In keeping with the principle that statement illustrations are intended to change the mindset and that individualized illustrations will be available on a website, we recommend using a specified age for all participants. We use age 92 and believe that it should be uniform for all participants and not require reference to a table when projecting lifetime income on statements. If the Department is concerned with changes in expected mortality ages over time, we recommend that the final rule contain the ability for the Department to change the assumptions it uses at specified intervals of time without the need to go through a rulemaking process.

6. OTHER CONSIDERATIONS

- a. *Frequency of Disclosure:* We supply our illustrations on quarterly statements and do not object to a quarterly disclosure rule but would also support a rule that these illustrations be provided at



least annually. However, we caution the Department in concluding that it is less expensive to supply illustrations just once a year. Most DC providers use the same statement format for each quarterly statement. If disclosure is required once a year it would likely be more expensive for providers who would then have to use two statement formats - one with lifetime income estimates and one without. The additional statement format is certain to add cost and potential confusion to participants.

- b. *Insurance Loads/Other Fees:* We do not believe that insurance loads or other fees should be factored in to statement illustrations. Insurance loads are variable so adding them in would add significant cost to the illustration. Further, this information is available to participants through electronic websites.
- c. *Treatment of Guaranteed Minimum Withdrawal Benefits (GLWBs) and Similar Products:* For any in-plan guaranteed investment product that allows participants to move money in and out of the underlying investments until they begin receiving guaranteed payments, the investment should be treated like all other plan investments for purposes of both calculating the account balance and projecting lifetime income. This approach is most consistent with how participants use and think about these investment products.
- d. *Need for FINRA Relief:* We agree that relief from NASD Rule 2210(d)(1)(D) is needed and commend the Department for anticipating the need for this relief. We also believe that relief will be needed from FINRA Rule 2210(d)(1)(F), which prohibits communications from predicting or projecting performance of an investment or investment strategy. In the alternative, assurances from FINRA that lifetime income disclosures will qualify for the limited exception provided by FINRA Rule 2214 will be acceptable. We also urge the Department to work with FINRA to ensure that this relief is extended to non-ERISA retirement plans that choose to comply with the lifetime income disclosure rule.

Thank you again for the opportunity to comment. If you have any questions regarding this letter or are interested in accessing and exploring Great-West's Web-based tools, please do not hesitate to contact me at 303-737-3086 or via e-mail at charlie.nelson@greatwest.com.

Regards,



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