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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

Attention: Pension Benefit Statements Project

Re: Advance Notice of Proposed Rulemaking – lifetime income illustrations (RIN 1210-AB20)

Dear Sir or Madam:

I write on behalf of T. Rowe Price Retirement Plan Services, Inc. ("TRP RPS") and affiliates (collectively, "T. Rowe Price") in response to the Department's Advance Notice of Proposed Rulemaking ("ANPRM"). The ANPRM outlines the framework[1] for a potential rule that would require a participant's accrued benefit in a defined contribution plan to be displayed both as a current account balance and as a projected income stream at retirement, in addition to a current balance.

T. Rowe Price Retirement Plan Services, Inc. provides recordkeeping and administrative services to over 1,100 plans with 1.8 million participants as of June 30, 2013. TRP RPS is affiliated with T. Rowe Price Associates, Inc., a registered investment adviser that serves as investment adviser to the T. Rowe Price family of mutual funds. T. Rowe Price offers mutual funds and investment products to defined contribution retirement plans recordkept by TRP RPS as well as those recordkept by others.

T. Rowe Price has long championed the need to help defined contribution plan participants understand the impact of current behavior on future retirement readiness. One hallmark of TRP RPS' message to participants is the importance of focusing on what each participant can control today—his or her savings rate. This conviction is one of the key reasons that, as early as 2006, TRP RPS began to include a retirement income projection in quarterly account statements provided to individuals with at least one year of plan participation.

T. Rowe Price is firmly committed to the principle underlying the proposals in the ANPRM that retirement income estimates are helpful to plan participants. Our experience shows that retirement income estimates help focus retirement savers on their goals. Individuals who can see an account balance translated into future income can understand how current behavior affects their future. We support Department efforts to encourage plan administrators and service providers to help individuals understand their savings goals through income projections. We believe that Department guidance on this topic must support a variety of approaches, encourage innovation, promote the use of realistic assumptions, and aim for simplicity. While the ANPRM proposals accomplish some of these goals, we believe that they can be improved.

[1] For convenience, we refer to the ANPRM framework as a "proposal."

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TRP Experience with Retirement Income Projections

Since July 2006, TRP RPS has provided a retirement income estimate on its quarterly statements for any participant under age 65 with at least one year of participation. The income estimate uses simple, deterministic projections that take into account likely future contributions, and provides the result in current dollars. The projections assume that contributions (employer and employee) over the past year will continue, that salary will increase at a rate to match inflation (assumed to be 3%), and that participants will retire at age 65, and live 30 years in retirement. Participants are assumed to take no loans or withdrawals until retirement, balances are projected to earn a static amount each year,[2] and inflation is assumed to be 3%. The result is provided as a monthly income for the first year in retirement, assuming a 4% withdrawal rate. A disclosure of less than 100 words explains the methodology, and participants are directed to the TRP RPS website for additional details.

TRP RPS provides a similar estimate through another on-line tool, the Retirement Income Estimator. That tool is offered to all participants--the same participants who receive the statement version, as well as those who are 65 or older, or those who have participated in the plan for less than one year. The on-line projection differs from the statement in two important respects—it allows users to tailor inputs (such as salary and proposed retirement age), and it seeks information on current income and a desired income replacement ratio. Other assumptions are substantially similar to the assumptions used in the statement estimate. The output is reflected in a chart that compares the monthly income estimate for the first year in retirement to the user-defined monthly income goal. At the user's option, the monthly income estimate can include estimated social security benefits, and user-defined retirement payments from other sources, such as defined benefit plan payments.

TRP RPS has expanded its retirement income modeling suite through another tool. The Retirement Income Calculator is a tool that can be used either to determine savings goals or to help participants at or near retirement to model an income stream. The tool adopts a different approach to estimating retirement income than the projections used on statements. Instead of a static return, the tool uses average long term real rates of return and fees for various asset classes, and applies Monte Carlo simulations to develop a likely future account balance, based on a user defined asset allocation or a T. Rowe Price glide path. Other than earnings, the assumptions are similar to the assumptions used for statement estimates. Users of the Calculator supply income, contributions and likely retirement age, and the tool reports a retirement income estimate (based on an 80% likelihood) for the first year in retirement, assuming a 4% withdrawal rate.

TRP RPS has received very positive reactions to its retirement income estimates, both from sponsors and participants. Prior to the introduction of retirement income estimates on participant statements in 2006, focus group members testing the proposed addition noted that the income projection was among the most helpful information on the statement. TRP RPS has received few inquiries or complaints since the launch, and those participants who have raised the topic of the retirement income estimates have been largely complimentary. We have received only one negative comment, although statements including a retirement income estimate have numbered in the millions since the 2006 launch. As recently as June of 2013, TRP RPS conducted a voluntary online survey of visitors to TRP RPS' website to measure reaction to TRP RPS's retirement income estimates. Almost 70% of those participating in the survey reported that they reviewed the retirement income estimate either online or on the quarterly statement. Over 20% of those individuals noted that they have taken action based on the

[2] Earnings assumptions used by TRP RPS have varied historically between 7 and 8%.

estimate—approximately 2% reduced contributions, but 18% increased contributions by 1% or more. While the survey responses are limited,[3] they provide anecdotal support for the proposition that retirement estimates that include the impact of projected contributions are important inputs in helping participants shape their savings behavior, and that a diversity of approaches to estimating retirement income does not dilute the essential savings message.

Finally, TRP RPS has used the simple projection methodology to pilot a customized participant outreach program to increase savings rates. In a pilot program conducted in the first half of 2012, TRP RPS mailed customized retirement income estimates to more than 4,000 participants. The mailing included current income estimates using the methodology substantially similar to that used on quarterly statements.[4] The statements made projections based on continuation of current contribution rates (increased by 3% per year to match assumed inflation) as well as projections that reflected additional savings of $100 to $200 per month. The statements also modeled estimated income resulting from delaying retirement to age 67 or 70. Approximately 8% of those who received the mailing subsequently increased their contribution percentages. [5]

From this experience, TRP RPS draws several important conclusions. First, participants derive important insights from simple retirement income estimates that include projected contributions. We believe that participants who are actively contributing are likely to discount those insights if retirement income estimates do not take into account future contributions. Second, tools that allow participants to model different scenarios based on changes in their own savings rate are very helpful to connecting participants to the importance of their savings choices today. Finally, customized messages based on a participant's own data along with suggested "stretch" savings goals can encourage participants to take action to align their savings behavior with their retirement goals. These insights inform our perspectives on the ANPRM proposals.

T. Rowe Price Perspective on ANPRM Proposals

1. **Regulatory guidance should support flexibility and foster innovation. Any safe harbor is unlikely to accomplish that goal.**

The ANPRM outlines a mandated retirement income estimate based on certain types of allowed assumptions, but then raises the possibility of defining a safe harbor from among the possible assumptions. In T. Rowe Price's view, a "safe harbor" proposal would disadvantage innovators such as TRP RPS and others that have invested in systems to support a reasonable, but non-safe-harbor approved, approach to retirement income estimates. Moreover, the existence of a safe harbor would stifle future

[3] The survey was made available on a T. Rowe Price website for a brief period of time. During that time, 4,234 participants responded to the survey. Of those, 2,970 (70.1%) report that they review the retirement income estimate. Six hundred fifty-six participants (20%) report having taken action relative to contributions based on their review of the retirement estimate; 62 reduced contributions, but 575 reported increasing contributions (222 increased by 1 percentage point, 106 increased by 2 percentage points, and 247 increased by more than 2 percentage points. (Note that 1,326 survey respondents did not respond either positively or negatively to the question concerning whether they had taken action).

[4] The customized mailings used a 7% earnings rate until retirement, and a 6% earnings rate after retirement.

[5] TRP RPS has another tool for participants at or near retirement who seek to design a plan for drawing income in retirement. That tool, known as the Retirement Income Manager, uses an approach very similar to that used in the Retirement Income Calculator. The tool is designed to help pre-retirees rather than those in the accumulation phase, and is inapposite here. Nonetheless, this tool, along with Retirement Income Calculator, makes clear that participants have not been confused by the existence of tools with different approaches to estimating future retirement income.

innovation of the sort that has allowed TRP RPS to test and learn through a number of scenarios. In our experience, sponsors are understandably risk averse—the cost and distraction of private plaintiff class action litigation is so serious that many sponsors are unwilling to accept variation from any ordained "safe harbor." Inclusion of a safe harbor in practice will serve to eliminate the regulatory flexibility that the Department's proposal should foster, and would cause service providers with estimator tools to expend considerable amounts to re-tool current systems.

Any safe harbor would likely include specific assumptions and methodologies that might become outdated. To be effective, assumptions should reflect the industry's best thinking, informed by experience. The recession starting in 2008 caused a reevaluation of a number of financial principles that had seemed unassailable just a few years earlier. (It was this type of reevaluation that has caused TRP RPS to test a 7% earnings rate assumption.) Yet, the regulatory process is not sufficiently nimble to allow prompt changes in assumptions when it may be warranted. As a result, a safe harbor with specific requirements for assumptions is likely to result in retirement income estimates that do not represent the most recent thinking on financial modeling.

2. Regulatory guidance should use realistic assumptions that are agnostic to the strategy for achieving lifetime income.

The ANPRM's proposal to require an annuity assumption for drawdown causes T. Rowe Price concern because it is inconsistent with many participants' experience. Annuity forms of distribution are not available in many plans recordkept by T. Rowe Price, and investments that offer contractual purchase rates at retirement are even more rare among our recordkeeping plan clients. Those plans that do offer an annuity form of payment support the option through the purchase of private annuities at retirement. An extremely small percentage of participants elect to annuitize. (For example, in the past fifteen years in T. Rowe Price's own 401(k) plan, only one participant electing a total distribution (representing less than .04% of that population) has elected to receive their distribution in the form of an annuity.) Recent studies have concluded that retirees do not favor annuities because an annuity is not sufficiently flexible. Participant reluctance to annuitize benefits is a key reason that the ANPRM's annuity assumption is not applicable to most participants. The annuitization factors used by the ANPRM do not reflect the insurance load of a privately purchased annuity, and annuities actually available to a participant at his or her retirement are likely to vary substantially from the assumed annuity incorporated into the ANPRM's retirement income estimate. [6]

Of particular concern to TRP RPS is the ANPRM's proposal to use assumptions in the drawdown phase that are inconsistent with the assumptions in the accumulation phase. The ANPRM's proposal appropriately factors in the effects of inflation in the accumulation phase, but in using an annuity form of distribution, ignores the impact of inflation in the drawdown phase. (Inflation adjusted annuities are extremely rare in the market and the annuitization factors discussed in the ANPRM do not appear to take inflation into account.) Unlike income estimation approaches used by T. Rowe Price, annuitization methodology suggests that distributions will be equal each year, even though inflation will mean

[6] A subsidiary concern about annuities is the proposal to require joint and survivor annuities for those participants whom plan records show as married. This is ill-advised for a number of reasons. First, plan records about marital status are often out of date because individuals do not self-report changes promptly. Second, joint and survivor annuity features are difficult for participants to understand and assess, and will require extensive additional disclosures, both concerning the principles of such annuity features as well as the additional assumptions that must be made to include the feature in a retirement income projection. Finally, married participants in common two-earner households are unlikely to benefit from two separate projections for each spouse that include complex joint and survivor principles.

spending power is reduced. If a standard retirement can be expected to last 30 years, inflation is a particularly important concept to include in the drawdown phase assumptions.

A more realistic assumption for retirement income is to assume a 4% annual initial withdrawal amount from the retirement account over a 30 year time frame. A projection based on an assumption that a participant will take periodic withdrawals from his or her retirement savings is more likely to reflect an individual's actual experience than a projection based on annuitization. The initial 4% withdrawal amount is commonly used in the financial planning industry, and implies the flexibility to adjust the withdrawal amount (either to a lower rate, to insure that money lasts through retirement, or to a higher rate to take advantage of higher-than-expected returns). Further, the 4% assumption can easily be expressed in current dollars so as to account for inflation throughout retirement.

3. Regulatory guidance should encourage but not mandate a retirement income estimate.

As a general matter, mandated disclosure increases the cost of plan administration, but may not actually improve a participants' understanding. Any mandate of the sort outlined in the ANPRM would dampen innovation in the area of retirement income. Like other service providers, T. Rowe Price aims to help participants prepare for a successful retirement, and we are focused on piloting and testing the efficacy of various ways to improve participant outcomes by encouraging appropriate current behavior. Were retirement income mandates to be instituted, service providers like TRP RPS would focus on implementing prescribed rules rather than searching for better ways to connect participants to their savings goals. Even assuming that the Department has the authority to impose requirements outlined in the ANPRM as a mandate,[7] we do not believe that it is the most effective course. TRP RPS encourages the Department to substitute for mandates interpretive guidance that encourages retirement income estimates by enunciating general principles that serve as guardrails, and establishing limits on fiduciary liability for those adhering to the general principles. Alternatively, the Department could mandate that statements provide the website address of the Department's own retirement income calculator, rather than requiring each plan to absorb the cost of creating such an estimate for plan participants.

4. Retirement income estimates should be provided in a simple, streamlined manner that is designed to minimize administrative burden.

T. Rowe Price encourages the Department to streamline requirements so as to simplify the presentation to participants and reduce administrative burden, as follows:

The Department should not require both an estimate based on a current balance as well as an estimate based on an assumption that contributions will continue for those under age 65 who are actively participating in the plan. The former "current balance only" projection is unlikely to be realistic for many participants, and may discourage action.

The Department should not impose requirements that do not improve the quality of the estimate. For example, there is no reason to choose an annual income stream over a monthly income projection. Some audiences will prefer an annual projection; others will prefer a monthly projection. Any guidance should be sufficiently flexible to allow either approach.

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[7] A number of trade organizations have raised important questions concerning the extent of the Department's authority under ERISA section 105 to mandate the provision of estimates. We share those concerns, especially with respect to mandating provision of a retirement income estimate that is most helpful in influencing savings goals, namely a projection that includes likely future contributions along with a projection based on "stretch" savings goals.

The Department should not specify plan specific criteria be used. Service providers will be able to provide the estimates more efficiently (and at lower cost) if they are able to use general assumptions (such as age 65 for retirement). Because this is an estimate designed to improve participant savings behavior, little purpose is served by requiring plan specific assumptions.

The Department should avoid specifying assumptions that create false precision. Earnings rates or inflation assumptions expressed as fractional percentages suggest a precision that simply cannot be achieved in any retirement income estimate.

To the extent that complex discount calculations or mortality assumptions are required, the Department should provide them. This should be particularly easy as the Department has already created a free calculator to estimate retirement income.

Conclusion

We appreciate the opportunity to share our perspectives on the ANPRM proposals. Please do not hesitate to contact me if you have questions concerning our comments.

Sincerely yours,

Maurl H. Pound