SSgA
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U.S. Department of Labor
Employee Benefits Security Administration
Office of Regulations and Interpretations
200 Constitution Avenue, NW
Washington, DC 2010

Via email: e-ORI@dol.gov

RE: Department of Labor RIN 1210-AB20

Dear Sir or Madam:

State Street Global Advisors (SSgA) appreciates the opportunity to comment on the Department of Labor's Advance Notice of Proposed Rulemaking (ANPRM) focused on lifetime income illustrations for participants in defined contribution pension plans.

State Street Global Advisors (SSgA) is the asset management business of State Street Corporation, one of the world's leading providers of financial services to institutional investors, with a heritage dating back over two centuries. With $2.15 trillion[1] in assets under management, SSgA offers one of the broadest selections of service across asset classes, risk profiles, regions and styles. The firm's investment culture is built on the experience and skill that each of our more than 440 investment professionals and over 2,350 employees globally deliver on behalf of the institutions and individuals who invest in our funds.

With $266 billion[2] in global defined contribution (DC) assets, SSgA is one of the leading investment-only providers of DC solutions in the marketplace today. SSgA has managed target date strategies since 1995 and has extensive experience working with clients through multiple market cycles. DC clients rely on SSgA to provide a robust, global investment platform that offers access to virtually every major asset class, capitalization range and style, including low-cost index funds, a suite of QDIA-eligible target date, custom target date and balanced funds, capital preservation and distinct DC share classes. In addition, SSgA provides dedicated DC

[1] This AUM is as of June 30, 2013 and includes the assets of the SPDR Gold Trust (approx. $37.1 billion as of June 30, 2013), for which State Street Global Markets, LLC, an affiliate of State Street Global Advisors, serves as the marketing agent.
[2] As of June 30, 2013

research, thought leadership, implementation assistance and participant communications assistance, demonstrating the firm's commitment to holistic DC solutions for clients.

The Need for Increased Participant Education on Retirement Income

As the nation transitions from reliance upon defined benefit programs to a workforce that is increasingly dependent on retirement savings from defined contribution plans, the context for investor education, investment strategies and planning for retirement income is also changing.

DC participants, especially those nearing retirement, need clarity on how much retirement income their DC nest egg will generate once it becomes a primary source of monthly income. With 60% of the $5 trillion of DC assets held by participants 50 years of age and older, determining a participant's lifetime monthly income potential – and what investment vehicles may help to secure it – is an increasingly pressing question.[3]

In a participant survey recently completed by SSgA, 69% of DC investors between 40 and 70 say that they'll need a guaranteed income source in addition to Social Security, but they are unclear how to accomplish that goal. Only 24% say that they've saved enough to retire comfortably. And only 19% believe their employers have demonstrated expertise when it comes to income planning. Combined, this data highlights the importance of broadening our focus. We need to pair our efforts to educate participants on the need to save more with support for participants as they plan for the decumulation phase.

Importantly, employers appear to appreciate the shortfall that exists in helping employees as they retire and move from the accumulation into the decumulation phase. We recently conducted structured conversations with approximately 40 of the largest and most influential plan sponsors and investment consultants in the United States. In these discussions, plan sponsors expressed concern about their employees' post-retirement income strategies. They believe that the DC plan is an appropriate place to deliver information on retirement income and to provide income solutions; however, only a few plans are doing so today.

When we probed on the barriers to supporting decumulation within the DC plan, we heard from plan sponsors that the regulatory framework which supports the retirement system must be enhanced to stimulate the development of retirement income products and educational programs related to how they work. In particular, we distinctly heard plan sponsors express concern around fiduciary risk as they consider adding income options to their participant investment offerings. We mention this because it is by helping participants to both achieve their retirement savings goals but also to manage risk within their portfolio that we can help participants reach their retirement objectives. We view lifetime income products as a "guard rail" of sorts because these products can help protect participants against both longevity and market risks.

[3] Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project, Issue Brief, December 2012

To properly assist workers, the efforts by plan sponsors and retirement product and service providers to educate participants on income replacement strategies must accelerate. The proposed changes outlined in the ANPRM regarding the expression of an estimated lifetime income stream of payments can be an important step forward in providing valuable information to workers in addressing the fundamental changes in the US retirement system.

As the Department points out in the ANPRM, retirees intend to continue their current lifestyle after they retire but may not fully understand the amount of savings it takes to replace their income, even at a discounted level to their final salary. In fact, in our recent participant survey we found that 53% of respondents see retirement as a new life stage and view it as an opportunity for freedom, leisure and recreation. At the same time, a study from the Employee Benefit Research Institute (EBRI) in 2010 found that 47% of Early Baby Boomers, 44% of Late Boomers and 46% of Gen Xers are "at risk" for having inadequate savings to pay for basic retirement expenditures, including uninsured health costs. [4]

Concerns with the Department's Suggested Approach

The Department's concern for confronting the shifting burden for income replacement and creating a lifetime income mindset is clearly an important issue. We support the Department's proposal in concept, but believe it could be modified to enhance its benefits to plan participants.

While we believe the lifetime income illustration can be an important component of meeting the overall retirement education challenge, we believe that participants will benefit when all of the levers available are put to optimal benefit, from the use of the safe harbors around the default to re-enrollment, maximizing automaticity and, importantly, increasing investor communication around both the accumulation and decumulation of assets.

We also believe that it is critical to work with employees to enhance their income replacement ratios through investing in diversified and age-appropriate investment options early in their savings years. By investing in well-diversified portfolios, this can help reduce the risk of significant shortfalls in the income projections provided to participants.

Therefore, while we support the concept of helping participants gain perspective on their future monthly income potential based on a current balance and an end-state balance, we believe the proposed approach to monthly income projections is just one step and the participant messaging should be carefully crafted to explain that there is room for error based on the uncertainties that a relatively long time horizon for these projections may entail.

For those with a short period of time remaining before retirement, there is also a risk that misunderstanding income projections could prompt participants to take on undue investment risk that could set back participants' retirement readiness under adverse market conditions. Thus, we believe it is imperative to couple education about future monthly income potentials with

[4] The EBRI Retirement Readiness Rating: Retirement Income Preparation and Future Prospects, July 2010

additional tools and communication. With regard to the proposed lifetime monthly income projections, we understand the benefit in helping participants to understand the long-term implications for saving, but we also believe there could be real challenges in determining what an accurate projected account balance will look like, perhaps 25 or 40 years down the road. We are concerned that these projections may cause a participant to be less clear about his/her income replacement potential than the proposed regulations intend.

Let us take a moment to briefly mention just a few of the risks we see in calculating a person-specific end-state balance based upon a savings rate that has a continuous escalation at a set percentage each year (currently proposed at 3% in the ANPRM), when any combination of factors may come into play to distort the final number. Among the factors that may cause distortions in the single monthly income amount are loans, hardship withdrawals, changes in savings levels, variations in market returns, employment changes with delays in re-entering a plan, unemployment of varying durations, a shift to part-time status, family leave, disability leave and the impact of changes in the company match as a result of economic conditions. While these types of leakages, broadly defined, may vary by income level and account size, they are by no means uncommon in the retirement system as a whole.

There is also the distinct possibility of creating confusion if a participant receives multiple statements with varying projections for roughly the same account balances that may be held at both the current employer's plan and one or more former employers' plans. As we read the ANPRM, there is room for varying sets of inputs (beyond the Department's current suggestion of 3-7-3) that would meet a standard of using "reasonable assumptions" and therefore would be protected by the proposed Safe Harbor. Ironically, this may lead to a degree of confusion on the part of participants who hold balances in multiple plans.

SSgA's Recommendations

In light of these concerns, we have a suggestion for how the Department might mitigate some of these pitfalls – and we believe that the problem is mostly about the projection of the end-state balance as calculated *specifically* for each individual.

To provide a useful and understandable disclosure of potential retirement income, we recommend plan participants receive:

1) A calculation of future income based on current savings as the Department has suggested.

2) A DOL constructed table for hypothetical monthly lifetime income amounts at designated increments based on the current level of savings that will help illustrate whether a participant can achieve a meaningful income replacement ratio. For example, a person who has $100,000 in savings and is 40 years old can be shown what the lifetime monthly income potential would be if he/she is able to save and

benefit from investment returns at three different hypothetical levels by the time retirement age is reached: $150,000, $200,000 and $250,000, for example.

For simplicity sake, we suggest the Department only offer three potential end-state balances and their associated monthly income amounts on a participant's statement. However, it would be useful for the Department to also publish a more extensive set of tables on its website that will enable individuals to see a wider range of potential end-state balances based on appropriate age-based retirement horizons.

Shifting the conversation to three hypothetical monthly income levels (high, medium and low) could be more productive in generating savings behavior than creating uncertainty about whether the participant will meet, exceed or fail to achieve a person-specific end-state balance.

3) Create wide access to the DOL's Lifetime Income Calculator and ask providers to offer a link on their websites or a URL on printed participant materials. With some modifications to allow individuals to make their own assumptions about savings rates, investment returns and other variables, this tool can provide great benefit to plan participants.

   In addition, we know that about 47% of plan participants have savings outside their current plan, many in IRA rollovers from previous employers' plans, and these buckets of savings will not be included in the calculation provided on the benefit statements.[5] Providing the fixed increments in round numbers as we suggest may make it easier for a participant to aggregate the various savings buckets and approximate what the aggregated retirement savings may produce on a monthly basis.

Conclusion

SSgA believes it is essential to employ multiple levers to drive the mindset shift that will motivate participants to manage both accumulation of savings and turning retirement savings into a steady stream of income, enabling participants to live a healthy and vibrant life in retirement.

In our most recent participant survey, conducted in April 2013, we found that a significant majority of participants, at 69%, believe they need a guaranteed income source in addition to Social Security in retirement. Yet, they are uncertain on how to achieve that secure income source and how to reach their retirement objectives. A thoughtful approach for providing income projections is an important step to helping participants in the journey from accumulation to the successful decumulation of assets.

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[5] EBRI estimates from the 2010 Survey of Consumer Finances

The trepidation felt by this relatively large group of plan participants sends a clear signal that solving the retirement security puzzle requires a multi-faceted approach. SSgA believes that combining an increased focus on the various automaticity options, increased enablement of lifetime income product offerings through regulatory reforms and a straightforward expression of the participant's future monthly income potential will create a stronger overall retirement security system. This will best serve the next generation of retirees whose retirement security is increasingly dependent on their defined contribution plans and their individual choices as they transition from work to the next life phase.

Once again, thank you for providing SSgA the opportunity to comment on this proposal. We welcome the opportunity to discuss new approaches to lifetime income and the importance of increasing participants' awareness regarding their future income requirements and how to achieve them.

Please feel free to contact me with any questions.

Sincerely,

Fredrik Axsater
Global Head of Defined Contribution
State Street Global Advisors