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Delivered via E-mail to e-ORI@DOL.GOV

Department of Labor
Room N-5655
Employee Benefits Security Administration
200 Constitution Avenue, NW
Washington, D.C. 20210

Re: Request for Information Regarding Lifetime Income Options for Participants and Beneficiaries in Retirement Plans (RIN 1210-AB33)

Dear Sir or Madam:

TIAA-CREF appreciates the opportunity to respond to the Department of Labor and Department of the Treasury's Request for Information Regarding Lifetime Income Options for Participants and Beneficiaries in Retirement Plans published in the Federal Register on February 2, 2010.

TIAA-CREF is the leading provider of retirement services in the academic, research, medical and cultural fields. We manage over \$400 billion of retirement assets, allocated nearly evenly between equities and fixed income investments, on behalf of 3.6 million participants. We serve more than 15,000 institutions nationwide.

The Carnegie Foundation for the Advancement of Teaching formed the Teachers Insurance and Annuity Association of America (TIAA) in 1918 as a fully funded retirement system to help colleges attract talented teachers. Our mission is "to aid and strengthen" the institutions we serve and provide financial products that best meet their unique needs. Incorporated as a stock life insurance company in the State of New York, operated on a not-for-profit basis, TIAA offers a fixed-rate account that provides participants with lifetime income. To offset the loss of buying power associated with long-term fixed income annuity payments, TIAA created the College Retirement Equities Fund (CREF), a stock-based fund and the world's first variable annuity, in 1952.

In soliciting advice on the rules governing workplace retirement plans, you are stimulating an important discussion for Americans: will their current level of savings be sufficient to maintain a comfortable lifestyle after they stop working. In our response, we intend to provide the Agencies and the public with information that will be useful in

increasing the understanding of how annuities can help address shortfalls in retirement and aid in easing the looming retirement crisis.

Today most retirement savings accounts emphasize wealth accumulation with little thought to how that wealth will translate into retirement income. This thinking should be altered so that Americans start planning their retirement backwards by determining how much retirement income they will need, and then saving and investing to attain this goal.

Retirement is a shared responsibility between employers and employees. Employers that choose to sponsor a retirement plan have an obligation to help employees build savings that provide income and security in retirement, but individuals also need to take control of their financial security. TIAA-CREF focuses our participants on making contributions that will build savings adequate to support a reasonable level of retirement income while investing their retirement savings with a long-term goal in mind as opposed to chasing short-term returns. We reinforce this by offering a variety of retirement planning solutions including a fixed annuity that guarantees a minimum rate of return on investment and provides guaranteed income for life.

TIAA-CREF firmly believes a lifetime annuity that provides guaranteed income is appropriate for most retirees. Lifetime annuities help workers transition more easily into retirement by maximizing payments and providing a steady stream of monthly income. This is especially important for retirees with limited resources to meet their income needs.

It is also important for participants to have access to a fixed annuity that offers a guaranteed return on investment during their working years. This allows them to take advantage of interest rates rising and falling across a number of economic cycles, which can provide a higher, more predictable income stream at retirement than if they were to transfer accumulations into a fixed annuity at retirement and annuitize during a low-interest rate environment.

Choice is another integral piece of any retirement plan. We recognize there is no “one-size-fits-all” option when it comes to retirement planning and each person will face a unique situation based on a number of factors (e.g., financial needs, family obligations, health, bequests, etc.). Accordingly, throughout their careers individuals need access to a number of diverse investment and income options, a variety of planning tools, financial literacy programs, and personalized objective guidance to ensure they establish and maintain a comprehensive retirement plan.

To ensure each individual retiree’s situation is considered, TIAA-CREF believes participants should not be required to annuitize their entire retirement accumulation. All participants should have access to partial annuitization options. This not only recognizes

the unique nature of retirement planning, but also serves as an important avenue to encouraging the use of annuities and may allay fears many participants have that annuitizing will deplete their accumulated savings and remove all financial flexibility during retirement. In recent years, TIAA-CREF has found that approximately 30 percent of those who begin an income stream will choose to annuitize some portion of their assets. Approximately 17 percent of those beginning an income stream choose to fully annuitize. Those partially annuitizing often use other income options offered by TIAA-CREF to complement their lifetime income choice.

Finally, we firmly believe that keeping expenses low is a crucial element in the successful management of retirement accounts. As one of the lowest cost providers of investment products in the industry we have experienced first hand the positive effects this can have on participant accumulations. Steps to increase transparency and establish uniform disclosure of fees, expenses, surrender charges, and returns could help further reduce costs associated with annuity products.

We applaud you for taking this first step in bringing annuities and other forms of lifetime income to the forefront of the retirement planning debate. We look forward to engaging further on this issue as discussions about this topic progress.

Sincerely,

A handwritten signature in black ink, appearing to read "Larry M. Chadwick". The signature is fluid and cursive, with the first name "Larry" being the most prominent.

Larry M. Chadwick
Vice President, Government Relations Public Policy

RESPONSES

1. From the standpoint of plan participants, what are the advantages and disadvantages for participants of receiving some or all of their benefits in the form of lifetime payments?

One of the most effective and efficient ways to help participants reduce or prevent shortfalls in retirement income is by providing a regular stream of guaranteed lifetime income that will last throughout their retirement years and, in many cases, the retirement years of their partners. A life annuity is the only financial vehicle that maximizes periodic income while guaranteeing an individual will never outlive his or her retirement benefit. This is especially important to retirees with limited financial resources. While some financial professionals eschew the value of annuities and suggest instead the use of systematic withdrawals from one's investment accounts, such advice can be hazardous, as many people tend to underestimate their longevity.

When offered as an investment option during the accumulation stage, guaranteed annuities offer participants a safe and secure way to save for retirement. We firmly believe annuities can play a vital role in helping individuals save for and live in retirement.

The following sections describe some additional advantages of annuities and address some of the more common concerns that plan participants have when choosing an annuity.

Filling the Gap

Guaranteed income is necessary to ensure coverage of a retiree's basic needs (e.g., housing, utilities, groceries, transportation) throughout retirement. In the past, many workers were able to meet their retirement income needs through a combination of Social Security payments and employer defined benefit (DB) pension plan payments. However, in the past 25 years DB plans have been largely replaced by 401(k)-type defined contribution (DC) plans that emphasize asset accumulation as opposed to providing income at retirement, leaving Social Security as the primary source of guaranteed fixed income for many workers. Unfortunately, in many cases Social Security payments alone do not cover these basic needs, leaving individuals with the responsibility of making important decisions about how to fill this gap using their accumulated savings. When participants have the option to choose a guaranteed lifetime income option in their employer-sponsored retirement plans, they have an excellent opportunity to supplement existing sources of fixed retirement income by converting retirement assets into annuity income.

Providing for Beneficiaries

One concern often expressed by participants considering an annuity is that payments will cease upon their death, leaving a spouse or partner in a difficult position. To address this, annuity providers often include options to ensure continuation of income to dependents upon death of the original annuitant. Such options allow the primary annuitant to name an individual as an annuity partner (usually a spouse) who would continue to receive lifetime payments if the original annuitant predeceases him or her. Another way to ensure payments continue after death is by choosing a period certain option (also referred to as a guaranteed period). Under this option, the annuitant chooses a set number of years during which payments are guaranteed regardless of how long either the first or the second annuitant lives, essentially offering a type of term insurance for an annuity.

Inflation Protection

Many fixed annuities include options that can provide some protection against inflation by allowing payments to increase over time. In addition, individuals with a higher risk tolerance may choose to address the inflation issue by receiving lifetime income through variable annuities that invest in stocks or bonds and provide income based on the performance of underlying investments. Those choosing variable income in retirement would still want to ensure that they are receiving an adequate amount of fixed income to address basic needs.

Overcoming the “Psychological Threshold”

Retirement savings are intended to provide a stream of income to replace the regular paycheck a participant was accustomed to receiving prior to retiring. While there are some annuities that allow for cash withdrawals after starting an income stream, it is generally true that purchasing an annuity is an irrevocable decision, meaning that funds used for this purpose are no longer liquid, and therefore are no longer available to the annuitant. This “psychological threshold”¹ can make it difficult for participants to commit to purchasing an annuity.

Not an “All or Nothing” Option

Another common concern of participants is that when they purchase an annuity directly from their employer-sponsored retirement plan, they must convert all of their funds into the annuity. While this may be the case with some plans, many allow participants to annuitize only a portion of their accumulated savings. In fact, within almost all plans TIAA-CREF administers, participants have this flexibility. We believe that a robust retirement income plan will, when possible, utilize a variety of income options, and participants should only annuitize enough of their savings to purchase an annuity that covers the level of income replacement necessary for their particular situation.

¹ Babbel, David F. and Merrill, Craig B. (2007). “Rational Decumulation,” p. 6.

2. **Currently the vast majority of individuals who have the option of receiving a lump sum distribution or ad hoc periodic payments from their retirement plan or IRA choose to do so and do not select a lifetime income option. What explains the low usage rate of lifetime income arrangements? Is it the result of a market failure or other factors (e.g., cost, complexity of products, adverse selection, poor decision-making by consumers, desire for flexibility to respond to unexpected financial needs, counterparty risk of seller insolvency, etc.)? Are there steps that the Agencies could or should take to overcome at least some of the concerns that keep plan participants from requesting or electing lifetime income?**

There are three primary reasons that contribute to the relatively low usage rate of lifetime income options. First, while most individuals appreciate the security that a guaranteed lifetime income offers, they lack an understanding of the various income options. Secondly, individuals are uninformed about annuity pricing. Finally, how annuities are framed – the language used to present their benefits to consumers – has a large impact on the decision to annuitize.

The following highlights some of the more common concerns about annuities as well as some potential solutions to these issues.

Understanding Income Options

Ensuring participants are fully informed about their options is a way to increase the use of annuities in retirement planning. While most individuals understand, appreciate, and seek the security a guaranteed lifetime income offers, they also worry they may not live long enough to reap the full benefits of an annuity. This underscores the importance of ensuring participants are aware of the full range of annuity income options available that, among other things, allow payments to continue to heirs beyond a participant's death. Education and noncommissioned objective guidance is critical to ensuring participants make the right decisions not just when choosing income options at retirement, but as they are saving for retirement throughout their careers.

Costs

Studies have shown that when compared to many mutual funds, annuities are a very reasonably priced option.² In fact, over time charges for lifetime income annuities have actually decreased. Ten years ago, the average sales charge, or load, on an annuity was 6% to 10%. Today, annuity loads average from 3% to 5%. Considering that many mutual funds have loads ranging from 5% to 8%, and include annual expenses of more than 1% in addition to these loads, it is clear that annuities are actually quite competitive.³ It is important to note here that TIAA-CREF annuities are sold without any sales loads or commissions.

² Babbel, David F. and Merrill, Craig B. (2007). "Rational Decumulation," p. 18.

³ Babbel, David F. (2008). "Lifetime Income for Women: A Financial Economists Perspective." Wharton Financial Institutions Center Policy Brief: Personal Finance, p. 10.

Increased transparency and uniform disclosure of fees, expenses, surrender charges, and returns could help further lower the cost of annuities. Simplifying and streamlining this information could make the process of choosing an annuity easier and less confusing while allowing both plan sponsors and plan participants to make more informed decisions.

Annuity Framing

Multiple studies have addressed the way financial advisors and institutions present annuities to consumers. These studies found that a financial advisor's explanation of an annuity has a significant impact on the client's ultimate decision.⁴ Advisors need to provide a fair and balanced explanation when presenting retirement income choices to their clients and financial companies need to ensure that their advisors adhere to this standard. Most importantly, consumers need to be aware of potential biases and/or motivations (e.g., commissions) of an advisor and ensure that they are aware of the advantages and disadvantages of any product they are considering. Ultimately, this underscores the need for the availability of objective guidance in retirement planning.

3. What types of lifetime income are currently available to participants directly from plans (in-plan options), such as payments from trust assets held under a defined benefit plan and annuity payments from insurance contracts held under a defined contribution or defined benefit plan?

TIAA-CREF recognizes there is no "one-size-fits-all" option when it comes to retirement planning. Each participant faces a unique situation based on a number of factors (e.g., financial needs, family obligations, health, bequests, etc.). Accordingly, participants in TIAA-CREF-funded retirement plans have access to a number of income options, a variety of planning tools, and the objective guidance necessary to ensure their particular needs are met and a comprehensive retirement income plan is established.

Participants in TIAA-CREF-funded plans choose their income options, including annuities, at or after retirement, allowing them flexibility in determining how to structure their retirement income. Some find lifetime income sufficient for most of their income needs. For others, lifetime income may be appropriate for only a portion of their retirement income. In some situations, lifetime income may not be the right choice at all.

The following describes of the options available through our lifetime income annuities in addition to a brief description of the other income options we offer.

⁴ Brown, Jeffrey R., et al. (2009). "Framing and Annuities" (2009). TIAA-CREF Institute, p. 5.

Lifetime Income Options

When choosing a lifetime income annuity, TIAA-CREF participants have the option to choose among a straight guaranteed fixed annuity, a guaranteed fixed annuity with the opportunity for additional income after it commences to help combat inflation, and a variable annuity that provides payments that can fluctuate based on market returns of the underlying investments.

Among the most important of the income options TIAA-CREF provides is a lifetime income annuity, which promises continued payments as long as the participant lives. TIAA-CREF annuities provide lifetime income either for a single annuitant or, in the case of a joint annuity, two individuals. Depending on the option a participant chooses, joint annuities can provide a spouse or partner with a full or reduced benefit upon the death of the primary annuitant. TIAA-CREF provides joint life options that include a 100%, 75% or 50% benefit to the second annuitant upon the death of the primary annuitant. TIAA-CREF also offers a “Joint and Two-thirds” option, under which the income benefit is reduced to two-thirds of the original income upon the death of either annuitant.

Each of the above life annuity options also allows participants to add a “guaranteed” or “certain” period feature. This refers to a period during which payments would continue even if the first and second annuitant die before the end of the period. Guaranteed periods are generally 10, 15, or 20 years. For example, under the “Full Benefit to Survivor with 20 Years Guaranteed” option, benefits would continue as long as either annuitant is living, but if both annuitants die within the first 20 years of the annuity issue date, the income would continue to a named beneficiary or beneficiaries until the 20-year period expires.

Additional Income Options

To customize withdrawal plans or complement lifetime income, TIAA-CREF also offers an array of other retirement income choices. While the menu of options can vary depending on the type of contract and plan provisions, the options can generally be used in any combination.

Lump-Sum Withdrawals. With some exceptions, notably fixed annuities which can have liquidity restrictions (term certain versus lump sum) or surrender charges associated with them, participants have the option of taking lump-sum withdrawals from their retirement accounts once they have terminated employment or reached a certain age (generally 59 ½).

Systematic Withdrawal. Under this option, participants can choose to receive a regular payment that they designate based on a specific dollar amount or percentage of their beginning-of-year account balance. While this allows participants to maintain the liquidity of their retirement savings and still receive a regular income, when used as the sole method of generating income, it places them at a much higher risk of

depleting their retirement savings prematurely and resulting in an income shortfall in their later years. In fact, a study conducted by the TIAA-CREF Institute found that participants who attempt to utilize this method to simulate the level of income that would be generated under a life annuity, have a more than 50% chance of running out of funds during their retirement.⁵

Interest Only. Participants invested in our TIAA Traditional Annuity can utilize an “interest-only” option, under which the principal remains intact while the account’s interest earnings are paid out in cash on a monthly basis.

Fixed Period. This option allows participants to take a sum of money and convert it to a contract that will pay out over a certain number of years.

4. To what extent are the lifetime income options referenced in question 3 provided at retirement or other termination of employment as opposed to being offered incrementally during the accumulation phase, as contributions are made? How are such incremental or accumulating annuity arrangements structured?

TIAA-CREF provides both fixed and variable annuities (in addition to mutual funds) as accumulation vehicles for participants. Participants are under no obligation to take an annuity at retirement just because they invested in annuities during the accumulation phase. Likewise, a participant who chooses to invest in mutual funds while saving would not be excluded from choosing an annuity in retirement. A 2009 study by the TIAA-CREF Institute found that participants who do accumulate in annuities within their retirement plans were more likely to take lifetime income directly from the plan.⁶

Fixed Annuity

The TIAA Traditional Annuity is our fixed annuity offering, allowing participants to build a secure base during the accumulation phase and then convert to a secure payment in retirement. Because TIAA Traditional annuity contracts guarantee lifetime benefits that will not be paid out until many years in the future, the rates on these contracts are based on conservative interest and mortality assumptions that are intended to make the annuities fully self-supporting. While participants can purchase the TIAA Traditional Annuity at retirement, even if they have not invested in it before, they benefit most from its design if they contribute to the TIAA Traditional Annuity throughout their career. Each contribution allocated to the TIAA Traditional Annuity buys a specific amount of lifetime income based on the rate schedule in effect at the time the payment is made.

⁵ Goodman, Benjamin and Heller, Michael (2006). “Annuities: Now, Never, Later.” TIAA-CREF Institute, p. 3.

⁶ Yakoboski, Paul J. (2009). “Converting Assets to Income in Retirement: What Near-Retirees are Thinking.” TIAA-CREF Institute, p. 2.

In addition, the TIAA Traditional Annuity provides a guarantee of principal, a guaranteed minimum interest rate (currently 3% for most of our contracts), and the potential for additional amounts when declared by TIAA's Board of Trustees. When declared, these additional amounts remain in effect for the "declaration year" that begins each March 1 for accumulating annuities and January 1 for lifetime payout annuities. While additional amounts of interest are not guaranteed, TIAA has credited additional amounts every year since 1948.

Because the yields available on bonds and other fixed income investments tend to change over time, TIAA combines the contribution amounts invested in TIAA Traditional over defined periods into vintages, typically composed of one or more contiguous calendar months, for the purpose of determining the crediting rate for the applicable declaration year during the accumulation phase. The crediting rate for each vintage is determined, in part, by the net investment earnings rate of the TIAA assets supporting that vintage, minus a charge for administrative expenses and an amount set aside for contingency reserves. The net investment earnings rate associated with each vintage reflects both the yields at which premiums are invested and the rates at which subsequent cash flows are reinvested. This approach enables TIAA to distribute excess earnings to participants on a more equitable basis, so that each generation will ultimately receive benefit payments that reflect, in part, the prevailing interest-rate environment at the time the crediting rates were applied.

Crediting rates are determined by factors including expenses, investment performance, and the need to maintain adequate contingency reserves. While the investment returns of TIAA's general account do not flow directly to participants via the declared crediting rates, such additional amounts reflect, in part, the prevailing interest rates and returns expected from existing investments. As an insurance company, TIAA is required to maintain contingency reserves to ensure it can fulfill its contractual obligations to policyholders, even in the face of unexpected adverse circumstances.

However, to the extent that these reserves prove to be unneeded, they are gradually distributed to participants in the form of additional annuity income during the payout phase. If TIAA were a typical stock insurance company, reserves beyond those needed to secure the guarantee could be used for the benefit of stockholders rather than participants.

Periodic payments can never be less than the guaranteed amount, which represents the contractual payment. All guarantees are based on TIAA's financial strength – its ability to pay its claims and deliver on the guarantees it makes to participants. The TIAA Traditional Annuity provides plan sponsors with a vehicle by which employees can replicate a paycheck in retirement, which brings security and peace of mind to many individuals.

Variable Annuities

Unlike the TIAA Traditional Annuity, our variable annuity accounts do not guarantee a minimum income. Rather, income is tied directly to each account's investment returns. As a result, income from a variable annuity will fluctuate based on market performance. TIAA-CREF manages variable annuity account portfolios unavailable elsewhere in a mutual fund structure, which helps participants diversify their portfolios and can help hedge against inflation.

5. To what extent are 401(k) and other defined contribution plan sponsors using employer matching contributions or employer nonelective contributions to fund lifetime income? To what extent are participants offered a choice regarding such use of employer contributions, including by default or otherwise?

Until recently all TIAA-CREF plan sponsors offered annuities exclusively, resulting in all employer contributions being directed into an annuity investment. However, the last decade has seen a movement to incorporate mutual funds alongside annuities into 403(b) plan menus to meet the demands of institutional clients who want their plans to more accurately reflect the 401(k) marketplace.

In order to increase the use of employer contributions to fund lifetime income options, plan sponsors should examine all costs associated with any investment option, annuity or mutual fund, before a decision to offer these investment alternatives is made. Cost considerations include sales loads, mortality fees, surrender charges, and any other fees that a given investment may charge.

In addition, plan sponsors should review historical returns, while understanding that an account's past performance is no guarantee of future results. It is important that plan sponsors take the time to understand the different features available within annuity products and for the costs associated with these features.

Nearly all plan sponsors offer employees a choice regarding the allocation of employer contributions. TIAA-CREF assists plan sponsors by offering age-based lifecycle funds as a default investment option that is compliant with the final QDIA regulations. TIAA-CREF has recently expanded its lifecycle funds offering to include Lifecycle Funds 2045, 2050, and Retirement Income Funds, which cover all possible retirement dates for today's working population.

6. What types of lifetime income or other arrangements designed to provide a stream of income after retirement are available to individuals who have already received distributions from their plans (out-of-plan options), such as IRA products, and how are such arrangements being structured (fixed,

inflation adjusted, or other variable, immediate or deferred, etc.)? Are there annuity products under which plan accumulations can be rolled over to an individual retirement annuity of the same issuer to retain the annuity purchase rights that were available under the plan?

One option available to TIAA-CREF participants looking for retirement income options beyond their employer-sponsored plan is an Individual Retirement Account (IRA). We offer our participants IRAs that include the same investment and income options generally available through TIAA-CREF in the retirement plan, including our annuity accounts, lifetime income options, and any of the other withdrawal options described in our response to question 3.

In addition, certain TIAA-CREF contracts allow participants to maintain the existing interest rate vintages within TIAA Traditional accumulations when rolling these amounts over to an IRA.

Participants with retirement accounts outside of TIAA-CREF often choose to roll these funds over into an IRA with TIAA-CREF in order to take advantage of the wide selection of annuity income options that we offer.

7. What product features have a significant impact on the cost of providing lifetime income or other arrangements designed to provide a stream of income after retirement, such as features that provide participants with the option of lifetime payments, while retaining the flexibility to accelerate distributions if needed?

TIAA-CREF does not generally allow participants to accelerate annuity payments. We do provide a number of income options that participants can choose from when initiating lifetime income. The ultimate cost of an annuity depends on the amount of coverage the annuity provides. For example, assume a participant has \$100,000 to purchase an annuity. If this participant chooses a single life annuity that would provide payments only for his or her life, under a certain contract the monthly payment would be approximately \$630. If that same participant decided to use the same funds to purchase an annuity that would provide payments to both himself or herself and a spouse or partner for the remainder of both their lives, the monthly payment under that same contract would be approximately \$560. While the payment that provides more coverage reduces the monthly income by \$70, when presented with this choice most participants see the value, benefits, and security of this option and choose the joint annuity.⁷

⁷ "Lifetime Retirement Income: The Foundation to a Secure Future." TIAA-CREF Publication. June 2009. p. 11.

8. What are the advantages and disadvantages for participants of selecting lifetime income payments through a plan (in-plan option) as opposed to outside a plan (e.g., after a distribution or rollover)?

All of our institutions offer annuities within their retirement plans. Some advantages for participants that have the option of selecting lifetime income payments through TIAA-CREF include:

- access to a variety of lifetime income options;
- a limited ability to change options as needed throughout retirement;
- a seamless transition from the accumulation to the income stage;
- more favorable pricing/mortality charges due to group rates and low costs;
- avoidance of commissions that might be incurred if funds were rolled over to an outside plan; and
- an additional sense of security knowing the company that helped them fund their retirement also will assist them with transitioning into their retirement years.

TIAA-CREF clients especially value the long-term relationship they have built with the company over an entire career.

One of the disadvantages of in-plan options is that Qualified Joint Survivor and Annuity (QJSA) rules can often be cumbersome, confusing, and difficult to administer resulting, in some cases, in a delayed start to receiving annuity payments. This is one area where the Internal Revenue Service (IRS) could offer some relief by taking steps to ease this burden through regulatory action. We address this issue in more detail in our response to question 27.

9. What are the advantages and disadvantages from the standpoint of the plan sponsor of providing an in-plan option for lifetime income as opposed to leaving to participants the task of securing a lifetime income vehicle after receiving a plan distribution?

The primary advantage of offering an in-plan option for lifetime income is that it provides an opportunity to educate employees throughout their working years on the nuances of the income options that will be available to them at retirement, lessening the likelihood of surprises or uninformed decisions. While out-of-plan options sometimes provide more choice in investment and income options, this does not automatically equate to more security. While it is important to offer a diverse and robust menu of funds and income choices, we believe too many options can confuse participants and means little if they do not receive the proper guidance when considering which options are best for them.

Another advantage is some annuity options, such as our TIAA Traditional Annuity, use a “vintage” or “class” system that permits the insurer to tailor the interest-crediting rate for a particular period to the yields available on bonds and other fixed income investments made during that period. Thus, excess earnings in the general account are distributed to participants on an equitable basis, so that each generation will ultimately receive benefit payments that reflect, in part, the prevailing interest rate environment at the time the crediting rates were applied.

An in-plan annuity may be either an accumulating annuity, to which the participant directs contributions over time while an active employee, or a distribution or payout annuity, which is purchased at one point upon or after retirement. Either form of in-plan annuity is subject to ERISA’s fiduciary protections. As the DOL recognizes in Question 30, its existing fiduciary guidance is limited to distribution annuities. Expanding the guidance to include accumulating annuities would facilitate the use of in-plan accumulating annuities, which would provide participants the advantages outlined in the preceding paragraphs.

On the other hand, some plan sponsors may perceive the application of the fiduciary rules to in-plan annuities as a disadvantage, and may view any effort by them to provide information about out-of-plan annuities to be an implicit endorsement that would carry potential fiduciary or other liability to participants. Expanding IB 96-1 to address education about annuities, and providing fiduciary relief for education offered by plan sponsors about out-of-plan annuities, could help make annuity options more popular.

- 10. How commonly do plan sponsors offer participants the explicit choice of using a portion of their account balances to purchase a lifetime annuity, while leaving the rest in the plan or taking it as a lump sum distribution or a series of ad hoc distributions? Why do some plan sponsors make this partial annuity option available while others do not? Would expanded offering of such partial annuity options --or particular ways of presenting or framing such choices to participants -- be desirable and would this likely make a difference in whether participants select a lifetime annuity option?**

The presence of the ability to annuitize a portion of a retirement account could increase the use of annuities and thus provide safety through lifetime income and flexibility through other payout options.

Current advice from financial experts is that at least some, but not all, of an individual’s retirement savings should be annuitized. This amount will vary based on each individual’s situation, but the constant is that the amount used should be sufficient to cover ongoing fixed expenses in retirement. The remaining funds can be used for emergencies, vacations, medical expenses, bequests, or simply to provide

peace of mind that participants still have “control” over a portion of their retirement savings.

TIAA-CREF, under its contracts, offers the option of partially annuitizing retirement plan accumulations and the great majority of the plan sponsors we serve choose to make this option available to their participants. In fact, many TIAA-CREF participants who choose to convert their retirement savings into lifetime income use only a portion of their savings for this purpose and then avail themselves of other distribution options described previously in our response to question 3 for the remaining balance. We believe that a partial annuitization option may serve to allay the fears many participants have that annuitizing will deplete their entire accumulated savings and remove all financial flexibility during retirement.

- 11. Various “behavioral” strategies for encouraging greater use of lifetime income have been implemented or suggested based on evidence or assumptions concerning common participant behavior patterns and motivations. These strategies have included the use of default or automatic arrangements (similar to automatic enrollment in 401(k) plans) and a focus on other ways in which choices are structured or presented to participants, including efforts to mitigate “all or nothing” choices by offering lifetime income on a partial, gradual, or trial basis and exploring different ways to explain its advantages and disadvantages. To what extent are these or other behavioral strategies being used or viewed as promising means of encouraging more lifetime income? Can or should the 401(k) rules, other plan qualification rules, or ERISA rules be modified, or their application clarified, to facilitate the use of behavioral strategies in this context?**

We encourage employers to adopt programs that automatically enroll individuals into retirement savings plans on their first day of work. Automatic enrollment programs nudge participants in the direction of the necessary habit of saving for retirement. Defaulting participants into retirement plans and requiring them to actively opt-out of the plan leverages inertia, increases participation and savings rates, and presents opportunities to provide financial education and objective investment advice that will set participants on the path to a secure retirement early on in their careers.

Default annuitization, however, may not have the same effect. When initiating a lifetime annuity, participants need to take a number of issues into consideration before deciding how much to annuitize (e.g., individual health, longevity, family situation). Defaulting participants into an income stream has the potential to place participants in a vehicle that does not fit their needs, they do not understand, or in some cases they may not need. In addition, unlike contributions to a retirement savings plan, which can be stopped relatively easily, the actuarial considerations that go into an annuitized contract make it difficult and costly to reverse. Automatically placing participants in a lifetime income option has the potential to confuse, anger, and

ultimately drive participants away from annuities, while having little positive impact on the overall take-up rate for annuities as an income option.

As an alternative, we believe encouraging the use of annuities can be accomplished by ensuring participants receive objective guidance and education throughout their working years and at retirement. To ensure this guidance is universally available, we also believe all retirement plans should be required to offer guaranteed lifetime income options during the accumulation stage and as a distribution option at retirement.

We also support recent proposals to require all retirement plans to provide participants with an annuity or “annuity equivalent” illustration at least yearly, so participants can become accustomed to viewing their retirement accounts as a way to provide income, not solely a means of accumulating wealth. (We discuss this further in our response to question 21.)

Many individuals face substantial shortfalls at retirement, putting them at risk of running out of money in retirement. To address these shortfalls participants need to understand these risks and know what steps they can take to mitigate them. It is the responsibility of plan sponsors and plan providers to ensure participants have access to objective advice that will help them choose appropriate investment options while also considering retirement income, so that they are not forced into making difficult and uninformed decisions at retirement.

12. How should participants determine what portion (if any) of their account balance to annuitize? Should that portion be based on basic or necessary expenses in retirement?

Participants considering lifetime income annuities should understand it is not always necessary, nor required, to use all of one’s retirement savings when buying an annuity. Participants should only use enough of their savings to purchase an annuity that will provide the necessary level of income to cover basic expenses.

A common rule used by many financial planners is that retirees will need 80% to 90% of their pre-retirement income during retirement. Since retirement income may result from several sources, before making the decision to purchase an annuity, it is important to take inventory of potential income sources and evaluate how much each one will contribute toward a retiree’s total income. Typical sources of fixed income include Social Security, defined benefit pension plans, employer-sponsored defined contribution plans (e.g., 403(b) or 401(k) plans), IRAs, and personal savings.

Retirees should then create a retirement budget based on current essential and discretionary expenses. Some basic expenses would include mortgage and other household expenses, transportation, insurance, taxes, and dues. It is also important

to take into consideration major lifestyle changes that may affect required income such as relocating to an area with a lower cost of living, downsizing a home (or buying a second one), or potentially working on a part-time or consulting basis. The budget should also consider healthcare costs, an expense that has increased significantly in recent years, and will most likely continue to increase in the future.

Once this information has been gathered, the decision of how much to annuitize can be made by looking at the total fixed expenses and the total fixed income and determining the gap (or surplus) between the two. The participant then can consider purchasing an annuity that will generate enough income to fill the gap. Those who have saved more than enough for retirement will have the option of maintaining liquidity on a portion of their funds, and should be encouraged to do so. Additional thought also should be given to a participant's health and expected longevity and other potential threats to retirement income such as outliving assets, loss of purchasing power, and lower than anticipated returns. This process underscores the vital role of a financial planner in the retirement planning process and the need for individuals to seek out sound financial advice from a reputable firm when making important financial decisions.

- 13. Should some form of lifetime income distribution option be required for defined contribution plans (in addition to money purchase pension plans)? If so, should that option be the default distribution option, and should it apply to the entire account balance? To what extent would such a requirement encourage or discourage plan sponsorship?**

TIAA-CREF supports requiring all defined contribution plans to offer plan participants guaranteed lifetime income annuities both during the accumulation phase and as a distribution option at retirement. However, we do not believe mandating annuitization or defaulting participants into a lifetime income option is an effective means of encouraging the use of annuities in retirement.

- 14. What are the impediments to plan sponsors' including lifetime income options in their plans, e.g., 401(k) or other qualification rules, other federal or state laws, cost, potential liability, concern about counterparty risk, complexity of products, lack of participant demand?**

Many plan sponsors are reluctant to include lifetime income options in their plans because of the complexity of the products and the education required to enable participants to understand the benefits these products afford them from a risk standpoint. While some sponsors question participant demand for such products, that perception may be more the result of plan participants' lack of awareness that such products may be available, in addition to confusion about the associated benefits.

15. What are the advantages and disadvantages of approaches that combine annuities with other products (reverse mortgages, long term care insurance), and how prevalent are these combined products in the marketplace?

The only product TIAA-CREF generally combines with annuity offerings are mutual funds. We do not offer annuities in combination with products such as reverse mortgages or long-term care insurance.

16. Are there differences across demographic groups (for example men vs. women) that should be considered and reflected in any retirement security program? Can adjustments for any differences be made within existing statutory authority?

There are important demographic and labor force differences between men and women. Women have a longer average life expectancy than men. In addition, women are more likely to have gaps in employment due to life events and tend to have lower accumulated retirement assets. Taken together, these factors suggest that women face a greater longevity risk than men and are more likely to outlive their retirement resources.

Annuities can help reduce a woman's exposure to this risk by distributing longevity risk across broad risk pools. However, court decisions have ruled that plans cannot differentiate based on gender.

17. What information (e.g., fees, risks, etc.) do plan participants need to make informed decisions regarding whether to select lifetime income or other arrangements designed to provide a stream of income after retirement? When and how (i.e., in what form) should it be provided? What information currently is provided to participants, who typically provides it, and when and how is it provided to them?

When making retirement decisions, participants need to be informed about all options available in order to make choices that will best accommodate their particular situation. We recommend that annuities be a source of retirement income for most participants. The size of the annuity depends on a variety of factors including family situation, age, health, expected longevity, individual risk tolerance, and other sources of income.

Annuity providers must also ensure participants consider, and are fully aware of, fees, commissions, risks, historical returns, financial stability of the company, and any other provisions included in the annuity contract. All of this information should be provided in the form of printed literature, provider websites, and through direct

counseling sessions where employees can receive objective advice either over the phone or in person.

While many participants usually start thinking seriously about these issues as they near retirement, ideally the planning process should begin shortly after contributions to a plan commence. This is not to say that workers need to be experts in retirement income options in their twenties, but they should have a basic understanding that the ultimate goal is not necessarily to accumulate wealth, but to ensure a comfortable income in retirement.

One way to increase this awareness early on is to provide participants with a regular statement illustrating the income they could expect to receive in retirement based on current contributions. (See further comments in answer 21.)

- 18. Is there a need for guidance, regulatory or otherwise, regarding the extent to which plan assets can be used to pay for providing information to help participants make informed decisions regarding whether to select lifetime income or other arrangements designed to provide a stream of income after retirement, either via an in-plan or out-of plan option?**

Current law allows use of plan assets to provide guidance and information to participants concerning plan investment and payout options, including guaranteed life annuities. A statement from the DOL should facilitate the use of such educational tools for annuities.

- 19. What specific legal concerns do plan sponsors have about educating participants as to the advantages and disadvantages of lifetime income or other arrangements designed to provide a stream of income after retirement? What actions, regulatory or otherwise, could the Agencies take to address such concerns?**

One reason plan sponsors hesitate to provide advice relates to the fiduciary responsibility for providing advice. Many plan sponsors lack the expertise necessary to educate plan participants on the advantages and disadvantages of annuities. General educational materials prepared by the DOL would help mitigate this concern, especially if the DOL would take the position that plan sponsors would not be liable for distributing materials prepared by the DOL on this subject. In addition, the DOL can offer guidelines and templates for insurance companies to provide educational materials relating to lifetime income options.

20. To what extent should plans be encouraged to provide or promote education about the advantages and disadvantages of lifetime annuities or similar lifetime income products, and what guidance would be helpful to accomplish this?

When planning for retirement, participants often focus on accumulating wealth in their retirement savings accounts rather than creating a stream of retirement income they cannot outlive. Increased education about annuities, including information about the advantages and disadvantages of annuitizing, could help reverse this thinking and may encourage more plan participants to utilize annuity investments in both the deferral and income stages.

Educational efforts should begin early and continue throughout a participant's career so when retirement age arrives, it is not the first time they are considering retirement income. It is important to ensure plan participants become familiar with the concept of receiving lifetime income as soon as they start contributing to a retirement plan. This should include providing annual illustrations of lifetime income streams based on the guaranteed annuity purchase rates and assumptions concerning the growth of the participant's retirement accounts (see our response to question 21).

21. Should an individual benefit statement present the participant's accrued benefits as a lifetime income stream of payments in addition to presenting the benefits as an account balance?

We support current legislation in both the House and the Senate that would require providing illustrations of retirement income to all retirement plan participants at least annually.

Today benefit statements are only required to provide participants with their accumulations. This has the adverse effect of encouraging individuals to view their retirement savings as an amount to be withdrawn at retirement, rather than a sum to be used to provide income in retirement. By providing retirement income projections on benefit statements, participants become familiar with the concept of a lifetime income stream early in the saving and planning process, as opposed to in their later years. This will prompt participants to make decisions based on a goal of receiving adequate income in retirement, not just building wealth, which result in more informed retirement planning decisions.

TIAA-CREF has already taken the step of providing our participants with this valuable information. In addition to a total accumulation, each TIAA-CREF participant's quarterly review statement includes an illustration of retirement income.

- 22. If the answer to question 21 is yes, how should a lifetime stream of income payments be expressed on the benefit statement? For example, should payments be expressed as if they are to begin immediately or at specified retirement ages? Should benefit amounts be projected to a future retirement age based on the assumption of continued contributions? Should lifetime income payments be expressed in the form of monthly or annual payments? Should lifetime income payments of a married participant be expressed as a single-life annuity payable to the participant or a joint and survivor-type annuity, or both?**

When illustrating lifetime retirement income, the assumed start date should be an individual's full retirement age as defined by Social Security and income should be simply expressed in the form of monthly payments on a single life annuity basis. The statement should drive participants to a more robust illustrative tool where they can access more detailed information about the income options available to them upon retirement. TIAA-CREF participants have access to such a tool when they login to their accounts on our website, www.TIAA-CREF.org.

- 23. If the answer to question 21 is yes, what actuarial or other assumptions (e.g., mortality, interest, etc.) would be needed in order to state accrued benefits as a lifetime stream of payments? If benefit payments are to commence at some date in the future, what interest rates (e.g., deferred insurance annuity rates) and other assumptions should be applied? Should an expense load be reflected? Are there any authoritative tools or sources (online or otherwise) that plans should or could use for conversion purposes, or would the plan need to hire an actuary? Should caveats be required so that participants understand that lifetime income payments are merely estimates for illustrative purposes? Should the assumptions underlying the presentation of accrued benefits as a lifetime income stream of payments be disclosed to participants? Should the assumptions used to convert accounts into a lifetime stream of income payments be dictated by regulation, or should the Department issue assumptions that plan sponsors could rely upon as safe harbors?**

Care should be taken not to overwhelm participants while ensuring they have enough information to make rational, well-informed decisions. A minimum amount of information is necessary to protect participants from unscrupulous vendors and protect plan sponsors from fiduciary liability.

At a minimum, participants need to know:

- contribution assumptions;
- interest rate assumptions for accumulating assets;
- type of annuity being illustrated (e.g., one or two life annuity); and
- annuity factor being used for distributions.

While there may be authoritative sources or tools, we recommend that the DOL provide guidelines similar to those used in valuing defined benefit plan liabilities.

- 24. Should an individual benefit statement include an income replacement ratio (e.g., the percentage of working income an individual would need to maintain his or her pre-retirement standard of living)? If so, what methodology should be used to establish such a ratio, such as pre-retirement and post-retirement inflation assumptions, and what are the impediments for plans to present the ratio in a meaningful way to participants on an individualized basis?**

Including income replacement ratios (IRR) can be helpful but is also problematic for products that are not part of an employer-sponsored plan. For example, if assets are held in an IRA or rollover account, the plan administrator may not have salary information on which to base the IRR. In addition, there are other informational requirements of providing an IRR that have the potential to confuse participants, such as assumptions on future wage increases.

- 25. How do the 401(k) or other plan qualification rules affect defined contribution plan sponsors' and participants' interest in the offering and use of lifetime income? Are there changes to those rules that could or should be made to encourage lifetime income without prejudice to other important policy objectives?**

Please refer to our response to question 27.

- 26. Could or should any changes be made to the rules relating to qualified joint and survivor annuities and spousal consents to encourage the use of lifetime income without compromising spousal protections?**

Please refer to our response to question 27.

- 27. Should further guidance clarify the application of the qualified joint and survivor annuity rules or other plan qualification rules to arrangements in which deferred in-plan insurance annuities accumulate over time with increasing plan contributions and earnings?**

The most critical plan qualification rule affecting a DC plan sponsor's willingness to provide for a lifetime income option involves the qualified joint and survivor annuity (QJSA) rules under IRC §401(a)(11) and IRC §417, as well as ERISA §205 (with respect to §401(a) and §403(b) plans respectively). Certain plans are exempt from the QJSA rules provided they satisfy all three of the exemption criteria. IRC

§401(a)(11)(B)(iii)(II) (and parallel ERISA section 205) provides that a plan that provides a life annuity payment option cannot be exempt from the QJSA rules.

The extensive notice and waiver requirements that are triggered once a plan is subject to the QJSA rules provide an additional layer of administrative complexity, costs, and risk for non-compliance and associated corrections. As a result, many DC plans are designed to be exempt from the QJSA rules.

Consequently, many plans will avoid lifetime income options solely to avoid the QJSA rules, even if such options may ultimately be beneficial for the participants. To make such options viable, the QJSA rules should be amended to provide for a means to have annuity payment options available under the plan without triggering all the QJSA rules and specified means of payment, while still protecting spousal rights and the related policy objectives. One approach would be to maintain the spousal beneficiary rules with respect to all forms of payment, including multiple life annuity forms, absent a waiver, and to require a spousal consent for a single life annuity form of payment that does not include a 50% spousal benefit.

Another potential remedy is to not apply QJSA rules until a participant elects an annuity and then only if the annuity is not a QJSA. This can be accomplished with little burden to plan sponsors since insurance companies would be willing to administer these rules as part of the annuity contract.

In addition, liability for the fiduciary decision to offer a particular company's annuity is a disincentive for plan sponsors to offer them. This can be mitigated if the DOL were to expand its existing guidelines for choosing an annuity distribution option, to address an ongoing annuity contract.

28. How do the required minimum distribution rules affect defined contribution plan sponsors' and participants' interest in the offering and use of lifetime income? Are there changes to those rules that could or should be made to encourage lifetime income without prejudice to other important policy objectives? In particular, how are deferred annuities that begin at an advanced age (sometimes referred to as longevity insurance) affected by these rules? Are there changes to the rules that could or should be considered to encourage such arrangements?

Longevity insurance provides retired individuals with an affordable way to protect against running out of income if they outlive their life expectancy. In general, a longevity insurance contract is an annuity which provides no cash value, provides a very limited death benefit (if any), and pays a stream of periodic payments for the individual's life (or the joint lives of the individual and his designated beneficiary) commencing late in life.

Section 401(a)(9) imposes minimum distribution requirements on employer retirement plans and IRAs that provide generally for the distribution of an individual's interest in the arrangement over the life or life expectancy of the individual (or over the joint lives or joint and survivor expectancy of the individual and a designated beneficiary). Under section 401(a)(9), the individual must take required minimum distributions (RMDs) with respect to the plan or IRA that are computed based on the individual's account balance in the arrangement. For this purpose, the regulations under section 401(a)(9) provide generally that the account balance of an annuity contract prior to the date annuity payments commence is the entire interest in the contract, and that the entire interest consists of the contract's cash value and the actuarial present value of any additional benefits provided under the contract.

Under these rules, in the case of a longevity insurance contract held in an employer retirement plan or IRA, the required minimum distributions with respect to the plan or IRA are calculated taking into account the value of the longevity insurance contract. However, since longevity insurance typically has no cash value from which distributions can be made, longevity insurance by itself cannot satisfy the RMD rules prior to the time the benefit begins. Rather, the longevity insurance contract must be held in an account with other liquid assets that can be used to make RMDs. However, it is difficult to ensure that there will be sufficient other, liquid assets in the plan or IRA to satisfy the minimum distribution requirements. This problem can become more serious as the need for longevity insurance increases, i.e., as the individual approaches the end of life expectancy.

This problem can be avoided if the individual's RMDs can be determined without regard to the value of longevity insurance prior to the date annuity payments commence. Such a legislative change would not be likely to be too expensive, given the long time frames before longevity insurance would begin to pay (typically age 80 or 85).

- 29. Are employers that sponsor both defined benefit and defined contribution plans allowing participants to use their defined contribution plan lump sum payouts to "purchase" lifetime income from the defined benefit plan? Could or should any actions be taken to facilitate such arrangements? Should plans be encouraged to permit retirees who previously took lump sums to be given the option of rolling it back to their former employer's plan in order to receive annuity or other lifetime benefits?**

Since TIAA-CREF does not, for the most part, directly administer or fund defined benefit plans, we do not have a response to this question.

30. To what extent do fiduciaries currently use the safe harbor under 29 CFR 2550.404a-4 when selecting annuity providers for the purpose of making benefit distributions?

Fiduciaries are concerned with meeting their responsibilities to make prudent choices with respect to annuity distribution options if they offer annuities under their plans. For such sponsors, the safe harbor is useful and is followed. (See comment at the end of our response to question 27.)

31. To what extent could or should the Department of Labor make changes to the safe harbor under 29 CFR 2550.404a-4 to increase its usage without compromising important participant protections? What are those changes and why should they be made?

We do not have any suggested changes other than extending the safe harbor to include annuities in the accumulation phase as well as the distribution phase.

32. To what extent could or should the safe harbor under 29 CFR 2550.404a-4 be extended beyond distribution annuities to cover other lifetime annuities or similar lifetime income products? To which products should or could the safe harbor be extended?

As discussed in question 27, the safe harbor should be extended to the choice of deferred annuities as well as distribution annuities. Such guidance would help fiduciaries meet their obligation to prudently choose such annuities.

33. To what extent are fixed deferred lifetime annuities (i.e., incremental or accumulating annuity arrangements) or similar lifetime income products currently used as investment alternatives under ERISA 404(c) plans? Are they typically used as core investment alternatives (alternatives intended to satisfy the broad range of investments requirement in 29 CFR 2550.404c-1) or non-core investment alternatives? What are the advantages and disadvantages of such products to participants? What information typically is disclosed to the participant, in what form, and when? To what extent could or should the ERISA 404(c) regulation be amended to encourage use of these products?

Many of the institutions funding their plans with TIAA-CREF annuities are participant-directed ERISA section 404(c) plans. TIAA-CREF contracts generally have 10 annuity choices, most of which can function as “core funds” under the ERISA section 404(c) regulations. This includes the TIAA Traditional Annuity and our nine variable annuity accounts. Under many of our contracts, however, the TIAA Traditional Annuity cannot function as a “core” fund due to certain limitations on lump-sum cash withdrawals.

TIAA-CREF annuity accounts provide a number of advantages to plan participants including:

- access to a broad range of internally diversified investment options with materially different risk and return characteristics that enable each participant to achieve a diversified retirement portfolio at any point within the range normally appropriate for each participant;
- access to the TIAA Traditional Annuity, which offers safety of principal and interest backed by TIAA's claims-paying ability;
- each premium allocated to the TIAA Traditional Annuity buys a definite amount of lifetime income for participants based on the rate schedule in effect at the time the premium is paid and is designed to enable participants to provide for guaranteed lifetime annuity payouts throughout their working careers; and
- access to the TIAA-CREF variable annuity accounts, which are priced to compete with mutual funds and have an excellent record for competitive returns in both the accumulation and pay-out phases.

TIAA-CREF has developed extensive disclosure materials that fully explain these annuity options and enable the plans sponsored by our participating institutions to meet the disclosure requirements under the ERISA section 404(c) regulations. These include product prospectuses and detailed marketing and disclosure materials in both print and through the TIAA-CREF website.

The 404(c) regulations do not favor or disfavor lifetime annuities, do not encourage plans to offer them, and do not focus on the pay-out phase of a participant's career. The regulations could be amended to mandate life annuity options in section 404(c) plans under which a participant cannot outlive his or her income. As mentioned earlier in our responses, the primary purpose of these plans should be to provide income throughout a participant's retirement as opposed to encouraging accumulation of a lump sum that could be withdrawn in retirement. TIAA-CREF would certainly support such a change.

34. To what extent do ERISA 404(c) plans currently provide lifetime income through variable annuity contracts or similar lifetime income products? What are the advantages and disadvantages of such products to participants? What information about the annuity feature typically is disclosed to the participant, in what form, and when? To what extent could or should the ERISA 404(c) regulation be amended to encourage use of these products?

Most TIAA-CREF-funded plans are individual account plans and many of them are ERISA 404(c) plans. All of these plans are funded, to some extent, by fixed and variable annuities. TIAA-CREF contracts fund some 15,000 plans covering more than 3.6 million plan participants.

35. To what extent are plans using default investment alternatives that include guarantees or similar lifetime income features ancillary to the investment fund, product or model portfolio, such as a target maturity fund product that contains a guarantee of minimum lifetime income? What are the most common features currently in use? Are there actions, regulatory or otherwise, the Agencies could or should take to encourage use of these lifetime income features in connection with qualified default investment alternatives?

TIAA-CREF offers mutual funds that are Qualified Deferred Investment Alternatives (QDIAs) as well as annuity contracts that offer variable funds meeting the QDIA requirements. The mutual funds are the more popular option because that is what most plan sponsors are accustomed to using. None of the TIAA-CREF variable annuities offer minimum guarantees. The DOL has concluded that guaranteed contracts cannot be QDIAs and only our guaranteed annuities offer guaranteed annuity purchase rates and minimum guarantees.

36. What are the costs and benefits to a plan sponsor of offering lifetime annuities or similar lifetime income products as an in-plan option? Please quantify if possible.

TIAA-CREF believes there are numerous benefits to a plan sponsor offering annuities in a retirement plan investment menu. The following list outlines some of those benefits.

- **Peace of Mind.** For employees, annuities can smooth the transition from the working years into retirement and provide individuals with not only a regular paycheck, but also the peace of mind that comes with knowing they will not outlive their retirement income.
- **Distinction.** Offering low-cost annuities within the plan distinguishes it as a retirement plan versus a simple investment program.
- **Plan Measurement.** Annuities help ensure employees will not outlive their income and employers can set goals for income replacement that can be measured in terms of monthly income.
- **Awareness.** Participants need to think about their retirement income needs, and the presence of annuities helps increase awareness of income, which leads to more effective retirement preparation.
- **Ease of Transition.** The presence of annuities in a plan creates a more streamlined annuitization process for the participant, whose accumulation is readily converted to lifetime income, so he or she does not need to take a distribution from the plan and separately buy an annuity.
- **Workforce Management.** Having an annuity as a plan option may assist in transitioning workers into retirement since it offers a guaranteed, lifetime income stream (or retirement paycheck) that cannot be outlived.

In terms of costs to a plan sponsor, annuities can be an excellent choice for the plan if offered by a low-cost, high-quality provider. The fees charged for TIAA-CREF variable annuity accounts and mutual funds are generally half the mutual fund industry average.⁸ For example, as of January 1, 2010, the total estimated expense charges associated with the CREF variable annuity accounts vary from 0.415% to 0.510%, which includes administrative, investment and distribution charges and a small mortality and expense (M&E) charge. The total estimated expenses for the TIAA Real Estate Account are 1.01%.⁹

These considerations become especially powerful when the purpose of the plan is to provide adequate retirement income to participants, not just to help them accumulate wealth. In a true retirement income plan, annuities help a defined contribution plan sponsor meet its fiduciary obligation to consider the best interests of all participants, including those who have reached payout status.

37. Are there unique costs to small plans that impede their ability to offer lifetime annuities or similar lifetime income products as an in-plan option to their participants? What special consideration, if any, is needed for these small entities?

TIAA-CREF makes annuities available to all of our institutional clients, including small plans. While the pricing and service model differs from larger plans, it is common for these small plans to provide affordable annuity options so that plan participants have access to guaranteed, lifetime income.

38. Would making a lifetime annuity or other lifetime income product the default form of benefit payment have an impact on employee contribution rates? If so, in which direction and why?

Rather than defaulting participants into an annuity at retirement, TIAA-CREF supports requiring that guaranteed lifetime income annuities be offered in all defined contribution plans during the accumulation phase and as a distribution option at retirement. As discussed previously, we believe that this would allow plan sponsors and providers the opportunity to educate participants on the benefits of annuities early on, as opposed to at the time of retirement, which appears to be the ultimate goal of default annuitization proposals. Given that default annuitization proposals have not come to fruition and have not been tested, it is difficult to determine the impact this could have on employee contribution rates, but we feel it would likely

⁸ Morningstar Direct (December 2009) based on Morningstar expense comparison by category. This applies to variable annuities and mutual fund expense ratios.

⁹ For the CREF accounts and TIAA Real Estate Account, annual expenses are estimated based on projected expense and asset levels. Differences between the estimated and actual expenses are adjusted quarterly and reflected in the current investment results. Note that expense charges for the TIAA Real Estate Account and CREF are "at cost," in accordance with TIAA-CREF's nonprofit status.

deter certain employees from saving for fear that they would lose control of their accumulation at retirement.

39. For plans that offer lifetime annuities or similar lifetime income products, what percentage of eligible workers elect to annuitize at least some of their retirement assets and what percentage elect to annuitize all of their assets?

In recent years TIAA-CREF has found that approximately 30% of those who begin an income stream will choose to annuitize some portion of their assets. Approximately 17% of those beginning an income stream choose to fully annuitize. Those partially annuitizing often use other income options offered by TIAA-CREF to complement their lifetime income choice.