August 16, 2010

Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5665
U.S. Department of Labor
200 Constitution Avenue, NW.
Washington, DC 20210

RE: Request to testify at Joint Hearing on Certain Issues Relating to Lifetime Income Options for Participants and Beneficiaries in Retirement Plans

The Defined Contribution Institutional Investment Association (DCIIA) respectfully requests the opportunity to testify at the Joint Hearing of the Agencies regarding Lifetime Income Options in Retirement Plans. DCIIA also responded to the Request for Information Regarding Lifetime Income Options for Participants and Beneficiaries in Retirement Plans (the "Lifetime Income RFI") of the Employee Benefits Security Administration's ("EBSA"), Department of Labor, and the Internal Revenue Service, Department of Treasury, published on February 2, 2010, earlier this year, and our remarks will be based on our response to that RFI.

Who We Are. The Defined Contribution Institutional Investment Association (DCIIA) is a recently formed non-profit trade association dedicated to enhancing the retirement security of American workers. DCIIA members include investment managers, consultants, record keepers, insurance companies, plan sponsors and others committed to improving retirement outcomes for American workers by advocating for better defined contribution plan design and institutional investment management approaches. Please see our attached core beliefs.

DCIIA's Retirement Income Committee. DCIIA would be represented by the Chairman of its Retirement Income Committee at the hearing. DCIIA's response to the Agencies' Lifetime Income RFI was prepared by DCIIA's Retirement Income Committee. The Committee was formed to foster and promote research, education, and best practices related to institutional retirement income issues and improving outcomes for plan participants through the application of sound retirement income policies and solutions. The Committee was established in accordance with DCIIA's founding charter and core beliefs. A copy of the Retirement Income Committee's Charter is included with this request.

DCIIA Supports a Full Lifetime Approach to Retirement Income Adequacy. DCIIA commends the Department of Labor and the Department of Treasury for seeking additional information regarding the specific questions on lifetime income solutions, and for reviewing the rules under the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and the Internal Revenue Code of 1986, as amended (the "Code") to determine whether, and, if so, how both Agencies could or should enhance, including by regulations or otherwise, the retirement security of participants by facilitating access to, and use of, lifetime income or other arrangements designed to provide a lifetime stream of income after retirement. DCIIA urges both Agencies to take prompt action to enhance and support the ability of retirement plans and their plan sponsors to offer lifetime income solutions to working Americans.

DCIIA strongly believes that the likelihood of a successful retirement income outcome is improved by careful attention to both the working (accumulation) and retirement (distribution) phases, and, importantly, by enabling a combination of employer-sponsored and individual retirement account solutions to initially grow and ultimately preserve retirement savings to meet spending needs over an individual's total life expectancy.

To start, the retirement industry and dialogue around retirement plans and retirement income adequacy must be framed in outcome based terms. The Agencies, along with the entire retirement industry – providers and plan sponsors alike -- must work together to support efforts to create retirement income solutions which are professionally overseen, simply-designed and well-communicated and which facilitate plan sponsors taking the next steps to adopt retirement income solutions to promote a successful retirement outcome for all participants.

DCIIA respectfully requests that the Agencies seek to promote acceptance of retirement income strategies, including by adopting fiduciary safe harbors for retirement income solutions, such as by clarifying how retirement income products can serve as a QDIA (qualified default investment alternative) and encouraging adoption of auto-enrollment into retirement income strategies. The Agencies should also promote portability of retirement income products and support both guaranteed and non-guaranteed income solutions. Plan sponsors should also be provided support, through regulations, model communications or otherwise, to create participant communications reflecting a lifetime income stream, in addition to account balances.

The Agencies have requested testimony on five topics, and we wish to address all five. In addition to testimony on the five topics, outlined below, we also plan to submit more detailed written testimony (to complement our RFI submission) to further expand our thoughts on these five critical topics.

TOPIC	TIME ALLOTED
1. Certain Specific Participant Concerns Affecting the Choice of Lifetime Income Relative to Other Options	One Minute
2. Information to Help Participants Make Choices Regarding Management & Spend Down of Retirement Benefits.	One Minute
3. Disclosure of Account Balances as Monthly Income Streams	Three Minutes
4. Fiduciary Safe Harbor for Selection of Lifetime Income Issuer or Product	Four Minutes
5. Alternative Designs of In-Plan & Distribution Lifetime Income Options	One Minute

The five topics, along with an outline of our remarks are detailed below.

1. Certain Specific Participant Concerns Affecting the Choice of Lifetime Income Relative to Other Options.

- Insurer Risk – Lack of confidence in the solvency of the lifetime income provider (most typically an insurer) is common concern among participants. Participant education on what would happen to their assets and guarantees if the provider were to become insolvent would be a first step in overcoming the concern, but the development of diversified provider options, similar to wrap provider diversification within stable value funds, and the ability to offer more than one provider's option within a plan addresses this concern directly.

- Inflation Risk – Inflation must be addressed when considering the purchasing power of a retirement income amount. A Cost of Living Allowance (COLA) or an inflation-adjusted feature are included in some income solutions, but are not a common product feature. We believe whether or not these features are included must be communicated clearly to participants.

- Fees – Lifetime income products charge fees or incorporate costs in a variety of ways that are not always explicit, adding to participant confusion or wariness with these products. Fee disclosure requirements may lead to clearer, more transparent information and thus fewer concerns for participants. Also, participants may potentially gain access to significantly lower fees than offered in the retail market by being lumped into a large asset base (i.e. plan level assets).

- Complexity – Many participants likely do not appreciate the complexity associated with generating retirement income. Plan sponsors do not have a financial incentive to drive participants to specific options, thus are uniquely positioned to provide unbiased education in an effort to simplify the complexities typically associated with retirement income solutions. Plan sponsors (and their advisors) can individually and collectively improve transparency and comparability of a wide array of lifetime income solutions.

- Lack of Death Benefits/Withdrawal Options – A common concern among participants is the perception that the lifetime income provider will benefit if the participant dies sooner than expected. Participants need to be educated that lifetime income and annuity products are almost universally offered in the form of either a single or joint and survivor payout structure and, with respect to guaranteed minimum withdrawal type products, any account balance remaining at the time of a participant's death is paid to their beneficiary, which typically is the spouse. We also believe further guidance on the application of qualified joint and survivor rules to in-plan annuities are necessary.

2. Information to Help Participants Make Choices Regarding Management And Spend Down of Retirement Benefits.

There are a range of approaches that plan sponsors could take to communicate information regarding lifetime income solutions to plan participants, including printed material, interactive online features or in-person financial counseling. DCIIA and its member organizations are strong believers in the insights provided by behavioral finance with respect to participant savings, investment and retirement decision-making, and we believe that the Agencies should continue to promote the application of "auto" approaches to retirement savings in the distribution phase as well. That may include incorporating lifetime income solutions as default options, as well as utilizing "framing" approaches to help overcome some of the traditional objections to annuitization.

The early data with respect to the success of automated approaches to savings (which were only widely adopted following the passage of PPA in 2006, and subsequent clarity regarding fiduciary safe harbors in the application of auto approaches) is clear - participants are more likely to join a plan, continue to save, save at higher rates, own more broadly diversified portfolios, and accumulate larger balances. In addition, these benefits appear to accrue disproportionately to the lower-paid components of the work force. DCIIA believes similar improvements in retirement security could be achieved through the use of default approaches with respect to lifetime income solutions.

One critical issue that plan sponsors and their advisors are concerned about is the distinction between investment "advice" vs. education with respect to lifetime income options. Since most plans are likely to offer only one lifetime income option to its participants, plan sponsors and their advisors are concerned that any education at all with respect to that investment option will be construed as advice.

3. Disclosure of Account Balances as Monthly Income Streams. Due to both the importance of this topic and the relative ease with which this agenda item could be implemented, DCIIA would propose to spend three minutes on this topic.

As we noted in our RFI response, DCIIA believes that this may be the single most important change in the current approach to defined contribution retirement plans. The sooner we can begin educating plan participants that they are saving for a retirement income, as opposed to the accumulation of wealth, the better the health of the retirement system generally. Further, we are of the opinion that this represents a simple change, one that is easy to implement and communicate, as long as plan sponsors and their providers are not concerned that they are accepting undue additional fiduciary and legal exposure for these additional communications. To the extent that the Agencies can ease this concern, possibly through some sort of safe harbor, the more likely plan sponsors and their advisors are to implement this critical change. More specifically, DCIIA believes:

- Disclosure of account balances as a future monthly income amount would clearly help shift a participant's mindset towards generating an income stream, and as importantly will help raise awareness and help drive a participant to increase contributions or modify investment strategies to close projected income gaps.

- High level disclosure of uncertainties within projections is more important than dictating specific methodologies. Projections of monthly income are necessarily full of uncertainties. Therefore, a fairly simple, reasonable projection with clear disclosure of uncertainties is likely of the greatest value to participants, vs. a sophisticated projection with assumptions that will ultimately be wrong.

- If the participant has access to a retirement income product within the plan, the projection should be allowed to be based on that product.

- Methodology for income stream projections should be focused on simplicity and appropriate disclosure of uncertainties. Specific recommendations include:

- Reflect a baseline accrued benefit projection based on current balance only. Additional projections could be provided based on current contribution rates.
- Assume an appropriate real rate of return until Social Security Retirement Age
- Be displayed in today's dollars (similar to the Social Security annual statement)
- Be based on simplifying assumptions of either a prudent monthly drawdown strategy, or reasonable annuitization rate at normal retirement age.
- Be provided to participants of all ages
- Uncertainties should be clearly disclosed at a high level; for example:
  - Market Risk: if the account value declines significantly or interest rates decline, the income level would decline significantly if not guaranteed
  - Product selection: if assuming annuitization, income will be lower of participants do not annuitize (and most do not)
  - Detailed methodology disclosures and additional modeling should be available online.

4. Fiduciary Safe Harbor for Selection of Lifetime Income Issuer or Product. As the biggest obstacle to widespread adoption and availability of these products, DCIIA would allot 4 minutes to this topic.

The Agencies have noted in the request a number of additional questions surrounding this topic, but DCIIA believes this is the most critical issue with respect to widespread adoption of lifetime income solutions in retirement plans. Unless plan sponsors and their advisors are confident that they are not taking unknown and additional fiduciary liability, in an area outside their traditional selection and monitoring process, and under a new set of guidelines or rules for prudent behavior, neither sponsors or their advisors are likely to adopt these products. The Agencies can encourage broad adoption of lifetime income solutions by assuring plan sponsors and their advisors that the selection and monitoring of these products can be conducted under the same rules and guidelines that have traditionally applied to other plan investment options in 401(k) or other qualified plans.

Currently plan sponsors are reluctant to add lifetime income insurance products because of the liability that sponsors may be exposed to if they introduce the products into their plans:

- DCIIA does not believe that standards regarding initial selection or ongoing monitoring should differ based on plan size.

- Granting safe harbor based on the solvency of an insurance company could help to reduce reservations that sponsors currently have. Also, because of the length of time for these obligations the solvency of the company issuing the guarantee is very important.

- DCIIA feels that products that provide lifetime income products provide retirees an improved likelihood of successful retirement because they can provide a hedge against longevity risk.

5. Alternative Designs of In-Plan and Distribution Lifetime Income Options. DCIIA and its member organizations believe that a wide range of products should be available for plan sponsors to select, based on the specifics of their plan demographics, industry, existing benefit plans, and other criteria unique to that sponsor. Other organizations may be better suited to cataloging the range of available products, and as such, we plan to spend one minute on this agenda item.

There is already a wide range of retirement income solutions available in the market today and we expect continued product development in the future. We believe a variety of insurance and investment solutions should be contemplated by the Agencies as they draft regulations or take other actions.

Solution types include, but are not limited to:

- Variable and fixed annuity lifetime income options including lifetime annuity payments (immediate or deferred) and living benefits attached to variable annuities. The most popular living benefit has been the Guaranteed Minimum Withdrawal Benefit that guarantees a minimum withdrawal regardless of market performance or the size of the account balance.

- Longevity insurance is an annuity contract that begins lifetime income payments at a future date. For example, a 65 year old person can buy a lifetime income stream that begins at age 85. Some contracts provide a death benefit, withdrawals, and flexibility to change the date that income begins.

- Payout mutual funds can provide income for a certain period of time in retirement instead of for life. However, a payout fund can be combined with longevity insurance annuities that begin lifetime payments immediately after the fund's term to create a complete lifetime income stream. Payout funds can offer different investment strategies and can provide purchasing power protection or equity market exposure.

- Stand Alone Living Benefits (SALB) are relatively new lifetime income options that attach guarantees similar to the living benefits within variable annuities to mutual funds. This decouples the longevity risk management and asset management functions of a variable annuity. This allows investors to continue to invest in mutual funds but still receive the benefit of a lifetime income guarantee provided by an insurance company. As a result, SALBs have the potential to reach people who do not typically buy annuities but are used to investing in mutual funds.

Thank you again for the opportunity to provide our views on lifetime income solutions and to respond to the questions you have posed. Speaking on behalf of DCIIA would be Drew Carrington, Chairman of DCIIA's Retirement Income Committee. We look forward to continuing to work with you to better the retirement security of American workers.

Respectfully Submitted,

Drew Carrington, CFA
Chairman, DCIIA Retirement Committee
Managing Director, UBS Global Asset Management

cc: Lew Minsky, Executive Director, DCIIA
Stacy Schaus, Chairperson of the Board, DCIIA
Ross Bremen, Chair, Public Policy Committee, DCIIA

enclosure

<u>DCIIA's Core Beliefs</u>. DCIIA members believe the current defined contribution retirement system, with the adoption of institutional design approaches available today, can and will provide for the retirement security of working Americans. The important advances contained in the Pension Protection Act, particularly the safe harbor protections for plan automation features and appropriate default investment selection, provide plans with important guidance and fiduciary safe guards which can result in higher participation and savings rates, more appropriate investment allocations and improved long-term investment performance.

By incorporating techniques of professional pension management found in traditional defined benefit pension plans, defined contribution sponsors can improve retirement savings outcomes, affording their employees a better quality of life in retirement while managing their own fiduciary liabilities in plan governance. Some of the most prominent best practices include:

1. Open Architecture in Assembling Best-in-Class Plan Design

Open architecture provides plan sponsors and their consultants with the ability to select the best combination of partners to meet plan needs, including investment manager, record keeper, custodian, managed account, advice and other service providers.

2. Full Support for All Investment Vehicles and Product Solution Formats

The continued development of standard industry trading systems and information sharing protocols provides plan sponsors with a very wide range of DC-appropriate investment and pricing options which, depending on plan preferences, may be best delivered through mutual fund, insurance contract, collective trust or individual and institutional separate account formats.

3. Improved Default Programs as Most Effective Path to Realizing Successful Outcomes

Auto-enrollment and sufficient auto-escalation of contribution rates – coupled with a well-constructed qualified default investment and an effective employee communications and education program – can generate sufficient balances for workers to fund an adequate income replacement rate at retirement. Spending needs and longevity risk can be addressed by existing as well as new post-retirement investment and income management solutions being introduced to the market.

4. Full Lifetime Approach to Providing Retirement Income Adequacy

The likelihood of a successful retirement income outcome may be improved by careful attention during both the working (accumulation) and retirement (distribution) phases, and by including a combination of employer-sponsored and individual retirement accounts, to initially grow and ultimately preserve savings necessary to meet spending needs over an individual's total life expectancy.

5. Full Expense Transparency from All Service Providers

Plan participants benefit from plan sponsors providing fiduciary oversight of plan economics, and being knowledgeable about the breakdown of all plan costs and sources of revenue, including but not limited to investment management, record keeping and other administrative expenses.