Testimony of Tracey E. Flaherty
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Before the Joint Hearing of the Department of Labor (EBSA) and the Department of the Treasury on Lifetime Income Options for Retirement Plan Participants

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On behalf of Natixis Global Asset Management, I would like to thank the Departments of Labor and the Treasury for this important opportunity to comment on issues relating to lifetime income options for retirement plans.

I am Tracey Flaherty, senior vice president, Natixis Global Asset Management, one of the 15 largest asset managers in the world with assets under management totaling $651 billion as of June 30, 2010. As it relates to retirement, our affiliated asset management companies manage pension assets, sub advise insurance portfolios, implement managed account programs and through advisors, we offer a variety of products for individuals and retirement plans.

My testimony offers comment and addresses issues concerning two of the topics that this joint hearing is examining today:

- Specific Participant Concerns Affecting the Choice of Lifetime Income Relative to Other Options

and

- Information to Help Participants Make Choices Regarding Management and Spend Down of Retirement Benefits

Let me begin by commending you for sponsoring this forum to gather information and encourage dialogue on a significant issue of vital importance and major national concern to millions of individuals and families.

This hearing is an important step in the recognition by policy makers to create common ground in a fragmented industry, streamline the regulatory process, offer improved transparency and education and provide real solutions for retirement plan participants.

Retirement income planning is complex. For many plan participants, successful planning requires a carefully balanced mixture of vehicles to create a portfolio that meets the needs and timeline of a participant while minimizing complexity. Considerations often must include longevity risk, inflation adjustments and withdrawal options. *But no matter the plans or strategies employed, we believe there are four prime universal concerns that should be regarded as Action Items for immediate consideration:*

1. **Offer Maximum Choice and Flexibility**
   Most individuals planning for retirement today factor Social Security, employer savings programs as well as personal savings among their retirement saving vehicles. Where investments are concerned, no single investment product or style should dominate the search for retirement income options –

annuities, mutual funds, alternative investments and other financial planning sources should all be considered.

We can no longer base retirement planning simply on the age of an individual. Age alone does not tell you enough about the individual or their family. I know 45 year olds with college-age children, some who are empty nesters and some, like myself, who have a toddler in diapers. All three represent different life stages, and necessitate different retirement savings strategies.

Americans also have diverse visions for their futures. For example, according to a national survey conducted this past July sponsored by Hearts & Wallets, a multi-year research series of retirement and savings trends, 52% of American pre-retirees say they envision that they and their spouses "will work full-time as long as health permits." Yet 21% of those surveyed plan to work part-time and another 27% look forward to stopping work altogether.

The diversity of these responses indicates why maximum choice of retirement savings strategies is needed to give participants the flexibility to choose the right retirement solution(s) for their needs.

As an asset manager that offers a wide variety of mutual funds, we believe that in addition to annuities, mutual funds offer many different types of people an effective vehicle for converting accumulated wealth into retirement income. Mutual funds are broadly used and well liked by Americans. Mutual funds are owned by over 50 million U.S. households.

In addition, the flexible nature of these investments makes them particularly well suited for generating lifetime income. The variety of mutual fund offerings across hundreds of different security types, investment styles and income sources make mutual funds particularly well suited for building a robust, diversified lifetime income portfolio.

Annuities are not as widely held as mutual funds but are a smart choice for many investors. Research shows annuities are popular among those who hold them, with about 1 in 5 people saying they plan to add more. An additional 27% of Americans who do not own annuities say they are interested in these investment products.

2. **Insure Optimal Portability**

Portability of retirement assets or the ability to move retirement savings from one qualified plan to another has become a significant concern.

Workers are changing jobs more than ever. The average years for a person to hold the same job is 4.1 years resulting in an average of 7 to 10 jobs in a lifetime. As a result, the average employee could participate in several retirement plans during his or her career.

Additionally, workers want the option to take their retirement money with them when they change jobs. The recent Hearts & Wallet study revealed that over 70% of retirement plan participants are *not* comfortable leaving money in a retirement plan where they no longer work.

Care should be given to prevent locking a participant into one product with one firm. Workers may be more willing to use retirement plans if guaranteed that their assets can move easily with them from employer to employer, while retaining the benefits unique to qualified retirement plans.

3. **Enhance Education**

   Easy to access information and proven effective education initiatives are a must in the ongoing effort to shift the focus of retirement participants from accumulation of a specific savings balance to the best way to generate a reliable income throughout their retirement. Simply put, retirement savers of all ages must understand that the goal of retirement planning is to build an adequate retirement income.

   The current fragile economy and the recent financial crisis have generated a growing demand for retirement plan transparency and “real time” information. A recent study (Mathew Greenwald & Associates and KK & Co. *“The Second Annual DC Participant Experience Study”)* shows that sixty percent of participants want more personalized and effective communications such as websites, proactive emails and on-demand videos. Eighty percent of participants are interested in information about how to improve their retirement plan savings.

   But just providing information is not enough. Many plan participants will be unlikely to research, analyze and educate themselves about their plans. The features begun with the Pension Protection Act, such as auto-enrollment and its attendant safe harbor provision, should continue to be encouraged. Automatically showing participants a retirement income calculation as part of their benefit statement would help the education process as well. And finally, a set of simple “retirement education best practices” could also be designed to provide easy to understand and useful information needed by most plan participants

4. **Keep it Simple – Streamline Regulations**

   The best product with the best education is not going to change retirement savings behavior if the rules and regulations are not made easier to implement by both employers and employees.

   Policymakers considering ways to help individuals with retirement planning should consider simplifying the complex and often inflexible rules that govern retirement programs. We know that participants consider Individual Retirement Accounts, employer-sponsored retirement plans and Social Security as part of their retirement savings. Each has their own complex set of rules that makes using the combination together or separately ever more difficult.

   Confusing regulations and fear of costly mistakes can deter employees from participating in retirement plans and can discourage sponsors from offering retirement programs. Focusing serious attention on simplifying retirement plan regulations is one of the best results that this hearing could have.

In summary, we urge the Department of Labor and the Department of the Treasury to take timely action on the four prime areas of concern we have outlined here today. Addressing these four major retirement plan issues: finding effective methods to offer choice and flexibility, providing optimal portability, enhancing education and streamlining regulations are critically important steps in helping Americans save more for retirement. Tackling these concerns and developing workable, effective solutions will provide vital answers as the search continues for ways to increase financial security in retirement.

I want to thank you again for the opportunity to provide our thinking on lifetime income solutions. We appreciate your consideration of the information presented at this hearing, and we welcome the opportunity to respond to additional questions you might have.

Respectfully submitted,

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