Oral Testimony of

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DCIIA

Defined Contribution
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Introduction

Ladies and Gentlemen, on behalf of the Defined Contribution Institutional Investment Association (hereafter, DCIIA), thank you for the opportunity to offer our views on lifetime income solutions for qualified plan participants. I am here today as the Chair of DCIIA's Retirement Income Committee, representing the association and its objectives. We applaud the Agencies for evaluating how to improve the retirement security of Americans. The views expressed here do not necessarily reflect those of my employer, UBS Global Asset Management.

DCIIA is a broad-based organization with members from the asset management, investment consulting, recordkeeping, insurance, plan sponsor and other vendor communities. In fact, over a dozen of the organizations speaking at these hearings are members of DCIIA. As an industry association with a diverse membership, DCIIA is, by design, product-agnostic.

We are not, however, neutral – among our five core beliefs (submitted with our response to the RFI), one is that defined contribution plans should take a "full lifetime approach to providing retirement income adequacy." DCIIA fundamentally views the conversion of accumulated balances to a stream of lifetime income payments as the *point* of retirement plans, and the system should make that simpler and easier for sponsors and, ultimately, participants. Additionally, another of our core beliefs is in the "Nudge" principles of behavioral finance/economics, which we define as "Improved default programs are the most effective path to realizing successful retirement outcomes." If you want to move the needle on any of these topics, automation is demonstrably the best way to do it – education alone will not affect enough participants in a meaningful enough way.

DCIIA is a new organization, formed earlier this year, to advance the notion that the existing employer-based defined contribution system can create comfortable, secure retirements for American workers. In order to achieve this, we need to more fully utilize techniques that address participant behaviors, such as automation. In addition, the defined contribution system should more fully take advantage of the scope of institutional investment skills/knowledge accumulated over the years of managing and overseeing defined benefit plans to improve participant retirement outcomes.

Based on yesterday's (September 14, 2010) testimony, I would like to add a few comments: frequently discussions on these topics are framed in either/or, binary terms: "in-plan vs. out-of-plan," "annuities vs. not annuitizing," and so on. This is not helpful, and will increasingly be less so – new products and solutions can and will blur many of these artificial distinctions. At DCIIA, we always bring the discussion back to: does it help improve retirement outcomes for participants? If the answer is yes, then the distinctions shouldn't matter. While there are early adopters, those willing to act in the presence of uncertainty will not be sufficient to affect enough participants.

My remarks today will address primarily two of the five questions raised by the Agencies. These two questions have immediate, practical consequences, and Agency action in the form of guidance/safe harbors can quickly and dramatically alter the retirement plan landscape for the benefit of participants: 1.) in order for plan sponsors to incorporate lifetime income options in plans, we must design a fiduciary safe harbor for them and 2.) in order to change the "framing" context in DC plans, we must agree to display accumulated balances as a stream of lifetime income for participants.

1. Fiduciary Safe Harbor

As a starting point, DCIIA's view is that making lifetime income solutions broadly available in qualified plans is an important policy goal, and legislation / regulation should encourage plan sponsors to adopt these options in their plans, up to and including using them or incorporating them as default options for participants. Unless a safe harbor for selection is offered, we believe that plan sponsors will not adopt in-plan solutions at a rate sufficient for participants to meet their retirement income needs.

DCIIA views in-plan offerings as important for FIVE key reasons:

1. In plan solutions offer participants **valuable scale pricing and fiduciary oversight** benefits which are not available in a retail setting.
2. In plan solutions can allow participants to **dollar-cost average into a distribution option**, helping them avoid critical point in time risks associated with both equity market levels and interest rate levels.
3. Dollar cost averaging allows for **smaller incremental purchases of lifetime income** which can help offset the widely-documented behavioral objections individuals have when faced with the "binary" decision of fully annuitizing or taking a lump sum.
4. In plan solutions **facilitate the use of pre-tax dollars** to purchase lifetime income solutions.
5. In plan solutions **can be more liquid than retail purchases** of traditional fixed annuities.

In light of these important benefits, DCIIA believes it should be simpler and easier for plan sponsors to incorporate these solutions in their plans, but sponsors have been reluctant to adopt them, often due to concerns regarding new forms of fiduciary liability and regulatory uncertainty.

One of the central sources of concern is related to the selection of lifetime income solutions. Today, in managing 401k plans, plan sponsors, and their advisors have clear guidance regarding how to select investment options for a plan lineup – there are regulations such as 404(c) or the Pension Protection Act of 2006, but more fundamentally ***the principles of a prudent process***, well-documented in both the selection of and ongoing oversight of investment options in a plan, are clear and well understood, and more importantly, widely applied.

Plan sponsors are deeply concerned that attempting to offer lifetime income solutions will introduce new, unfamiliar and potentially heightened fiduciary responsibilities. Unfamiliarity, combined with the perception of higher risk, becomes the formula for the negativity plan sponsors have regarding their reluctance to utilize lifetime income options.

This need not be the case: regulatory clarification could allow plan sponsors to employ the same principles of a prudent, well-documented process in the selection and monitoring of lifetime income solutions in a qualified plan which they currently use for the monitoring and selection of investment options. More importantly, with that regulatory clarity many plan sponsors will be more likely to offer these innovations in their plans.

This is no fairy tale of wild-eyed optimism; Regulatory guidance has already helped make a remarkable difference in 401(k) plans. The simplicity offered under PPA 2006 has led to widespread and rapid adoption of automatic enrollment, auto escalation and diversified default investment options. Plans that have adopted these features demonstrate large improvements in participation rates, deferral rates and portfolio diversification metrics and many of these benefits accrue to lower-paid employees. Similar improvements in retirement security are available if the regulatory / fiduciary context regarding lifetime income solutions can be similarly clarified.

2. Disclosure of Account Balances as a Monthly Income Stream

The other key item DCIIA would like to comment on is the display of accumulated balances in 401k plans as lifetime income streams. This is an absolutely critical objective. The sooner we can change the conversation regarding defined contribution plans away from "*a number*" which emphasizes wealth accumulation, to a *series of numbers* (e.g., "this is the amount of income you can expect to sustainably withdraw from your plan"), the better. We must change the way participants think about DC plans from a "savings" plan to a "retirement" plan.

The behavioral finance literature (including studies from professors Moshe Milevsky, Jeffrey Brown, and Shlomo Benartzi, who will be testifying here later today) has clearly demonstrated that the choice of taking a lump sum versus an annuity is largely a function of how the decision is "framed," and that for many participants, if they are accustomed to viewing their retirement plan assets in a monthly income format, as opposed to a single value, they are more likely to select at least partial annuitization over a lump sum.

It is true that any approach to converting current balances to a projected income level would require a host of assumptions; however, Americans are already familiar with this embedded complexity in their annual Social Security statement. They can see the impact of retiring early vs. waiting to start withdrawals.

There are a variety of assumptions that go into creating any projection and different assumptions can lead to different projected outcomes. But, plan sponsors and their vendors should not be in a position where the fear of the fiduciary liability if they offer such projections **prevents** them from doing so. The Agencies can create some fairly broad safe harbors and encourage sponsors to begin communicating this valuable information to participants right away. Many of my fellow panelists and their organizations have specific insights as to how to construct the projections or how to provide guidance to sponsors on specific variables in the projections. DCIIA's view is that simple projections, with clear emphasis on the assumptions used, without fear of incremental fiduciary liability, represents a huge improvement over the current state of affairs and we urge the Agencies to provide clear guidance and encouragement to plan sponsors and vendors on this point as soon as possible.

Three Additional Questions

With respect to the remaining three questions, DCIIA will like to offer brief remarks on each:

A. Participant Concerns Regarding Carrier Solvency:

Following the financial crisis, heightened concern regarding financial institution solvency is certainly understandable, however we would highlight several important points:

1. There are state-level guaranty associations providing additional security for participants utilizing insurance based products.

2. There is an important, relevant and under-reported distinction between insurance company parent/holding companies and their highly-regulated and better-capitalized insurance subsidiaries.

3. Ultimately, the notion of avoiding the purchase of any longevity insurance because of credit concerns is analogous to not buying homeowners insurance because of the fear that a carrier may have solvency issues. The peace of mind from coverage outweighs credit risk.

B. Catalog of Products:

DCIIA has opted not to provide a list of current offerings. In a rapidly evolving market such as this, such a list would likely rapidly become obsolete.

DCIIA's view is that the Agencies should encourage, by regulation, further innovations in this arena and that any regulations should be product and design neutral. There is no one-size-fits-all solution.

C. Information to Help Participants Make Choices

DCIIA's primary observation on this topic is ensuring that plan sponsors are able to communicate with plan participants regarding lifetime income solutions in such a way that any communication or education regarding the option in the plan is not automatically construed as investment advice.

Conclusion

In closing, I would again like to sincerely thank the Agencies for the opportunity to testify on this critically important set of issues. We would like to remind you that, as the guidance surrounding PPA 2006 has demonstrated, the Agencies can make a difference.

Simply put, can we design a fiduciary safe harbor for plan sponsors to eliminate their legitimate concerns about the risks of helping their participants longer-term, and second, can we agree to display accumulated balances as a stream of lifetime income for participants (as we already do with Social Security)?

At DCIIA, we believe that we have the tools available in the current private-employer-based retirement system to create meaningful, secure, comfortable retirements for millions of Americans, but to be most effective, we need guidance that is safe for us to use all of those tools.