DATE: May 3, 2010

TO: Office of Regulations and Interpretations  
Employee Benefits Security Administration  
U.S. Department of Labor

FROM: Morningstar, Inc.

SUBJECT: RFI Regarding Lifetime Income Options

Thank you for giving us the opportunity to offer our insights on what steps could be taken to enhance the retirement security of participants in employer-sponsored retirement plans and IRAs. Morningstar believes that facilitating access to and increasing the understanding of lifetime income planning and products can help retirees achieve their retirement goals.

Through our subsidiaries, Ibbotson Associates and Morningstar Associates, Morningstar has been providing independent investment advice to defined contribution plan participants since the late 1990s. Today, more than 23 million retirement plan participants have access to Morningstar’s retirement advice and discretionary managed accounts through approximately 156,000 plan sponsors and 23 plan providers. Ibbotson Associates and Morningstar Associates collectively manage more than $16 billion in discretionary retirement plan participant accounts.

With the baby boom generation entering retirement, there is a great deal of public interest in how individuals should finance their income needs once they leave the workforce. Although some retirement needs are filled by pensions and Social Security, there is often a large gap that can only be funded with personal savings. Shifting from professionally managed defined benefit plans and guarantees from the Federal Government to personal savings vehicles means that investors need help making decisions about how to manage risks and generate income in retirement.

Making the right investment decisions so that savings provide income for life is a puzzle even more challenging than saving for retirement itself. Investors face three major risk factors when making asset and product allocation decisions in retirement—financial market risk, inflation risk, and longevity risk. We believe that an integrated solution that combines traditional investment products with insurance products can provide a solution to help mitigate all three risk factors and help investors obtain more comfortable, secure retirements.

The benefits of an integrated solution are well documented in academia, but not widely used in practice. Most defined contribution plan providers, sponsors, and participants have little desire for these integrated solutions. Most plan providers offer either traditional investment products or insurance products, but not both, and would face technological and financial hurdles to change their systems. Plan sponsors are concerned about the fiduciary liabilities of offering insurance products as well as the problem of portability. And finally, participants have shown little interest in buying insurance products that are irrevocable, rigid, and confusing.

Broader adoption of integrated solutions is unlikely to change on a large scale without government encouragement. In-plan insurance options would make it easier for retirees to create portfolios and get easy-to-understand information and illustrations that compare likely
income scenarios using different product assumptions. The Agencies could help by providing
guidance to plan sponsors that will make them more comfortable offering guaranteed products.

Thank you again giving us the opportunity to offer our views about regulation that can enhance
the retirement security of participants in employer-sponsored retirement plans and IRAs. We
look forward to continuing to work with the Agencies to help promote the use and
understanding of retirement income planning to provide income for life. Following are RFIs
completed by Ibbotson Associates and Morningstar Associates. Below are links to two of
Ibbotson Associates’ academic papers related to building optimal retirement income portfolios
with both traditional investment products and insurance products.

*Human Capital, Asset Allocation, and Life Insurance*

*Allocation to Deferred Variable Annuities with GMWB for Life*

Very truly yours,

F. Allen Bliss
Associate General Counsel
Morningstar, Inc.
B. Request for Information—Completed by Ibbotson Associates
The purpose of this notice is to solicit views, suggestions and comments from plan participants, plan sponsors, plan service providers and members of the financial community, as well as the general public, to assist the Agencies in evaluating what steps, if any, they could or should take, by regulation or otherwise, to enhance the retirement security of participants in employer-sponsored retirement plans and IRAs by facilitating access to, and use of, lifetime income or other arrangements designed to provide a stream of lifetime income after retirement.

To facilitate consideration of the issues, the Agencies have set forth below a number of matters and specific questions with respect to which views, suggestions, comments and information are requested. In addition to addressing any or all of the matters and questions referred to below, interested persons are encouraged to address any other matters they believe to be germane to the Agencies’ consideration of lifetime annuities and similar lifetime income issues, particularly as they relate to defined contribution plans and defined benefit plans that distribute benefits as lump sums.

General
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?

Advantages:
- Longevity risk is the greatest risk defined contribution participants face. Guaranteed products serve as a hedge against longevity risk, the risk of outliving one’s assets, which traditional investment products do not offer.
- The participants will ensure they receive some amount of a retirement benefits for as long as they are alive.
- It provides a stable predictable lifetime payment that is not subject to market fluctuations.
- The participants can plan their retirement spending around a set income amount the lifetime payment provides.
- Allows participants to maximize lifetime income.
- Establishes disciplined spending habits as opposed to a lump-sum disbursement.

Disadvantages:
- The participant may be locked into the lifetime benefit amount if the product is irrevocable. This may prevent them from accessing this money for emergency purposes.
- The lifetime payment amount may not be indexed for inflation which could cause the real income benefit to decrease through retirement.
- The fees to provide guaranteed income.
- Loss of flexibility in increasing or decreasing retirement income from one year to the next as the participant’s needs change in retirement (this disadvantage can be lessened through partial lifetime options).
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 a number of factors that explain the low usage rate of lifetime income arrangements.

- **Participant confusion** - Often the benefits of lifetime income products are not clearly outlined to the participant. Participants also tend to overlook the risk of living longer than their balances will last. They focus on a shorter retirement time period than their life expectancy. So, when they compare lifetime income payment amounts to what they would choose to withdraw on their own, the lifetime payment amounts seem low.

- **Complexity** - These products can be complex compared to investing in mutual funds, for example.

- **Limitations on their account** – Participants may feel that they are losing control of their money due to restrictions that most lifetime income options have non-scheduled withdrawals or are not portable.

- **Not living long enough** – Participants may not want to risk the chance that if they die in the early years of retirement they will not receive the full benefit of their account value.

- **Lump-sum appeal** – Investors have difficulty mentally translating a lump sum into lifetime income and perceive the lump sum as being greater than the stream of payments.

Rather than Agencies dictating a lifetime income product, producing guidance of acceptable illustrations and guidance for comparing lifetime income products to ad hoc periodic payments may help provide more appropriate comparisons of lifetime income products to periodic payments.

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?

N/A

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?
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?

N/A

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?

N/A

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?

N/A

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)?

Advantages:

It is easier for the participant to select a lifetime payment option through a plan. The plan has determined available providers so the participant does not need to spend time researching appropriate products. In addition, participants will have the advantage of institutional oversight and pricing.

Disadvantages:

If the participant is to select the product outside of the plan it requires them to conduct their own research and do product comparisons, which can be daunting. For example, guaranteed products may include variable annuities with guaranteed minimum withdrawal features (GMWB), variable annuities with guaranteed minimum income benefits (GMIB), or immediate payout annuities or life insurance.
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?

Plans sponsor have the advantage of providing a valuable lifetime option to their participants that will enhance their well being in retirement. However, providing this option will require more responsibilities on behalf of plan sponsors.

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?

Although Ibbotson is not familiar with what is broadly offered by sponsors, we believe it is important that the participants be allowed to have the flexibility of determining what portion of their retirement account to invest in a lifetime annuity option. Forcing full annuitization may not be appropriate for many participants. Each participant’s situation is different so trying to determine a percentage or amount to annuitize for all participants is too difficult. Instead allowing them to determine the appropriate amount to dedicate to an annuity based on their personal situation is most appropriate.

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?

Allowing for strategies that take advantage of participant inertia similar to automatic enrollment in 401(k) plans would increase the usage of lifetime income products. Our concern would be with dictating that all or the majority of the participant’s balance be defaulted into a lifetime income option that may be either irrevocable or force the participant to incur penalties to terminate the lifetime income contract. Instead, partial use of a lifetime income product may be appropriate in many cases.

Presenting distribution choices to the participant in a more realistic manner may also help the participant choose the appropriate form of distribution. For example, illustrating a
comparison of the benefit amount that would be paid out over a 25-year period with and without the lifetime income product could help participants make a decision.

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?

The determination of what portion of the participant’s account balance should be annuitized is specific to each participant’s personal situation. The following factors are some of the items the participant needs to consider.

- Amount and sources of other guaranteed income (ex. Social Security and DB pension)
- Retirement income need
- Importance of stable retirement income
- Their longevity risk (ex. family history, general health and concern of outliving their wealth)
- Age at retirement
- Risk tolerance
- Bequest preference

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?

Because the amount of wealth that should be dedicated to a lifetime income product varies from participant to participant, using a lifetime income product as a default distribution option may result in an inappropriate allocation to these products. We believe it is a good idea to offer some type of lifetime income option in the plan as a general benefit to the participants. It is also important that participants understand the benefits of the lifetime income option in order to determine if it is appropriate for them and what portion of their account should go to this option.

The calculation of what percentage of a participant’s account should be allocated to the lifetime income product is an important part of the distribution process. Both the participant’s specific factors (as outline in question #12) as well as the specific lifetime income product features should be considered when determining the appropriate allocation to the lifetime income option at an individual participant level.

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?

Although Ibbotson is not familiar with all the plan sponsor impediments regarding this question, cost, single-carrier risk, and portability are likely concerns. Plan sponsors may be concerned about their fiduciary liability when including options in a plan that have higher costs than traditional investment products. Given the recent turmoil, sponsors may also be
concerned about the viability of the companies from which participants are purchasing insurance. Will those companies be around in 30 years to pay out the annuity? And, maybe most importantly, is portability. If a sponsor changes providers, how will participant investments in insurance products be moved to the new provider?

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?

N/A

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?

Both life expectancy and gender are considerations that may impact the outcome.

**Participant Education**

The Department of Labor issued Interpretive Bulletin 96-1 (29 CFR 2509.96-1) to clarify that the provision of investment education, as described in the Bulletin, will not be considered the provision of “investment advice,” which would give rise to fiduciary status and potential liability under ERISA for plan participants’ and beneficiaries’ investment decisions.

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?

The following should be included in the information given to the participants about guaranteed products:

- Fees and penalties – the expenses of the product and if there are penalties for non-scheduled withdrawals.
- Amount of income – the annual income the participant will receive, which may be dependent on when they begin the distributions.
- Underlying investments of the product – is it in the general account of the provider or are there underlying investments the participant can select?
- Features of the product – are there guaranteed amounts? Is it adjusted for inflation? Is there a spousal benefit and if so in what amount?
- Portability – what will happen if a participant changes jobs.

It seems likely that the plan sponsor would provide the information to the participant based on facts and features they receive from the product provider, but plan sponsors may have a better perspective on how this should be communicated.
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?

N/A

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?

N/A

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?

Given that one of the impediments to the use of lifetime income products is lack of participant understanding, it is important that plans be encouraged to educate participants on the advantages and disadvantages of lifetime annuities or other lifetime income products. This may include providing retirement income comparisons for various products (both lifetime income and non-lifetime income).

**Disclosing the Income Stream that Can be Provided from an Account Balance**

ERISA section 105 requires defined contribution plans to furnish to each participant an individual benefit statement, at least annually, that includes the participant’s “accrued benefits,” i.e., the individual’s account balance.

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?

Yes, by presenting the lifetime income stream of payments it begins to get participants focused on the potential benefits of a lifetime income guarantees without forcing them into a specific product. It also allows them to better plan for their retirement income need prior to actually retiring. A retirement income stream can be more meaningful to a participant than an account balance at retirement.

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?
We believe that it is most helpful if the lifetime income stream is expressed as of the date the participants expected retirement. It is important to be clear to the participant the assumptions used in the projection. It is an appropriate assumption to account for continued contributions up to the participant’s retirement age. Ideally, the participant should be allowed to modify the assumptions to see the affect on their projected retirement income. It would be helpful to the participant if the lifetime income could be expressed both as a single-life annuity as well as a joint and survivor-type annuity, where appropriate.

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?

It is important that the assumptions used in the projection are clearly disclosed to the participant in an understandable manner. In addition to the assumptions, educational information should be provided to the participant so that they can better understand the lifetime income product beyond just the income projections. Any expense load should be reflected in the projections since it will have an impact on the income amount. Rather than dictating the assumptions, guidance should be provided to plan sponsors. This potentially could be in the form of safe harbors.

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?

It is helpful for participants to see what portion of their income is being replaced in retirement. There are different opinions on what specific replacement ratio should be used. Instead of using one specific replacement ratio, allowing the plan sponsor and their provider some flexibility in what replacement ratio can be used would be helpful. The rational for the particular replacement ratio should be provided to the participant. Allowing the participant to modify the replacement ratio would provide a personalized retirement income goal. Having a replacement ratio with a methodology behind it gives the participant a goal to focus on for meeting their retirement needs as they are accumulation retirement savings.

401(k) and Other Plan Qualification Rules
Income Tax Regulations that apply specifically to lifetime annuities include: 26 CFR 1.401(a)-11, 26 CFR 1.401(a)-20, 26 CFR 1.401(a)(9)-1 through 26 CFR 1.401(a)(9)-9, 26 CFR 1.417(a)(3)-1, and 26 CFR 1.417(e)-1.

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?

N/A

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?

N/A

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?

N/A

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?

N/A

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?

N/A

Selection of Annuity Providers
The Department of Labor’s regulation 29 CFR 2550.404a-4 contains a fiduciary safe harbor for the selection of annuity providers for the purpose of benefit distributions from defined contribution plans.
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?

N/A

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?

N/A

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?

N/A

**ERISA Section 404(c)**

ERISA section 404(c) and 29 CFR 2550.404c-1 provide defined contribution plan fiduciaries with limited relief from the fiduciary responsibility provisions of ERISA where a participant or beneficiary exercises control over the assets in his or her account.

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?

N/A

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?

N/A

**Qualified Default Investment Alternatives**

ERISA section 404(c)(5) provides that, for purposes of ERISA section 404(c)(1), a participant in a defined contribution plan will be treated as exercising control over the assets in his or her account with respect to the amount of contributions and earnings if, in the absence of an investment election by the participant, such assets are invested by the plan in accordance with
regulations of the Department of Labor. The Department of Labor’s regulation 29 CFR 2550.404c-5 describes the types of investment products that are qualified default investment alternatives under ERISA section 404(c)(5).

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?

N/A

Comments Regarding Economic Analysis, Regulatory Flexibility Act, and Paperwork Reduction Act

Executive Order 12866 (EO 12866) requires an assessment of the anticipated costs and benefits of a significant rulemaking action and the alternatives considered, using the guidance provided by the Office of Management and Budget. In addition, the Regulatory Flexibility Act (RFA) may require the preparation of an analysis of the economic impact on small entities of 21 proposed rules and regulatory alternatives. For this purpose, the Agencies consider a small entity to be an employee benefit plan with fewer than 100 participants. The Paperwork Reduction Act (PRA) requires an estimate of how many “respondents” will be required to comply with any “collection of information” requirements contained in regulations and how much time and cost will be incurred as a result.

The Agencies in this section of the RFI are requesting comments that may contribute to any analyses that may eventually need to be performed under EO 12866, RFA, and PRA, both generally and with respect to specific areas identified in questions 36 through 39.

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.

N/A

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?

N/A

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?

N/A
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?

N/A
B. Request for Information—Completed by Morningstar Associates

The purpose of this notice is to solicit views, suggestions and comments from plan participants, plan sponsors, plan service providers and members of the financial community, as well as the general public, to assist the Agencies in evaluating what steps, if any, they could or should take, by regulation or otherwise, to enhance the retirement security of participants in employer-sponsored retirement plans and IRAs by facilitating access to, and use of, lifetime income or other arrangements designed to provide a stream of lifetime income after retirement.

To facilitate consideration of the issues, the Agencies have set forth below a number of matters and specific questions with respect to which views, suggestions, comments and information are requested. In addition to addressing any or all of the matters and questions referred to below, interested persons are encouraged to address any other matters they believe to be germane to the Agencies’ consideration of lifetime annuities and similar lifetime income issues, particularly as they relate to defined contribution plans and defined benefit plans that distribute benefits as lump sums.

General
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?

Advantages
► Guaranteed income stream through the entirety of a participant’s retirement years
► Participants have peace of mind in knowing they will not run out of money before they die
► Payout amounts are not affected by market volatility or other financial/economic factors

Disadvantages
► Lose “control” of retirement savings allocated to the guarantee. If, for some reason, the participant needs to access the annuity investment (for a medical emergency, for instance), he or she will most likely have to pay an early withdrawal penalty.
► Insurance riders can be expensive and confusing for participants
► The annuity payout amounts are final and most likely will not be inflation adjusted
► Participant will have less money available (in his or her pocket) to spend on expenses

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?

Morningstar Associates believes there are five main reasons for the low adoption of lifetime income arrangements:

1. **Participant confusion**
   Many participants don’t understand the complexities of guarantee options.

2. **The history of annuities**
   Some people have a negative perception of guarantee options because of the history of how annuity products were sold in the past (until recently, some annuity providers engaged in fairly aggressive and less-than-transparent sales practices).

3. **Expense**
   Some of the guaranteed products available to participants are expensive. Also, many participants are confused as to what those expenses cover.

4. **Fear of dying before benefits kick in**
   Some participants fear that they will die before they can reap the benefits of the annuity and will have little money to leave for the heirs.

5. **Limitations on access to money**
   Participants are concerned that if their financial situation changes, they won’t be able to access their savings.

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?

Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.

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?

Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.

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?

Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.

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?

Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.

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?

Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.

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)?

The main advantage of offering lifetime income payments through an in-plan option is that it makes it easier for the participant to access the guarantee. With an out-of-plan guarantee, participants must take the extra step of finding an appropriate provider and then completing paperwork to purchase the guarantee. The extra steps make it less likely that participants will follow through and execute.

We generally have found that most participants won’t take action when it comes to their retirement accounts unless the plan sponsor or provider makes it easy for them to do so. For example, Vanguard recently analyzed participant behavior during the 2009 downturn. It found that “inertia is a dominant decision-making heuristic (short-cut) in retirement savings. In response to exceptional market circumstances, most participants chose the path of least resistance and did not take any action.”
Automatic enrollment of employees into retirement plans has been implemented by plan sponsors to address such inertia. Early indications are that auto-enrollment is working. For instance, according to testimony before the Special Committee on Aging in the U.S. Senate, Barbara Bovbjerg, director of education, workforce, and income security at the GAO, stated, “…automatic enrollment policies can result in considerably increased participation rates for plans adopting them, with some plans’ participation rates increasing to as high as 95 percent and that these high participation rates appeared to persist over time.’

In addition to the challenge of participant inertia, an out-of-plan option would require participants to research all the options available in the market, a fairly daunting endeavor. This is a substantial exercise and most participants have no interest in understanding the complexities of the different options. While it imposes increased due diligence on the plan sponsor, an in-plan option will alleviate a lot of this work for participants.

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?

Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.

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?

Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.

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?
As stated in our answer to Question 8, behavioral strategies, such as auto enrollment, have been successful. These strategies take advantage of participant inertia and allow plan sponsors to take a paternalistic position with their participants. It enables a plan sponsor to create a “DB-like” offering in the DC world.

Contributing to the success of auto-enrollment is that the Pension Protection Act validated such options, giving plan sponsors a level of fiduciary guidance and protection. We believe that most plan sponsors will hesitate to offer lifetime income options without regulatory guidance.

Plan sponsors also will need some guidance on helping participants understand that by taking no action they are automatically being opted into a guaranteed product. We also believe the plan sponsors will be more comfortable offering automatic enrollment if the providers of guaranteed products are required to provide participants with a reasonable window of time in which they can terminate the guarantee without incurring penalties.

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?

Before participants decide whether they want to annuitize some of their retirement savings, they need to consider how comfortable they are in tying up a percentage of their assets for the life of their retirement. One way to determine this is to have the participant conduct a self-assessment. One of the proprietary online tools we recently created for a client requires participants to fill out the questionnaire shown below. The client will make a recommendation to an annuity only when the participant has a compatible profile. The participant’s answers also guide how much of their retirement savings should be allocated to an annuity.

*I am most concerned about:
☐ Running out of money.
☐ Needing to access money that is locked into an investment.
☐ Both are equally important to me.

*It is more important to me:
☐ To have a consistent income from year to year in retirement.
☐ To have the ability for my income to keep up with inflation every year during retirement.
☐ Both are equally important to me.

*I expect that my spending patterns in retirement will be:
☐ Fairly consistent from year to year.
☐ Vary considerably from year to year
☐ Somewhere in the middle.
Morningstar Associates believes that, ideally, the percentage of a retirement account that should be allocated to an annuity should be based on what will give the participant the greatest amount of income in retirement. That amount should also be based on the probability level for which the participant is most comfortable. For instance, a participant who is willing to trade the potential for higher returns for a more predictable income stream in retirement should receive a higher allocation to a guaranteed product. Those types of participants, though, should still have a portion of their savings invested in the market in order to take advantage of returns generated by equity holdings.

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?

Requiring a lifetime income distribution option may pose an undue burden on plan sponsors and might be irrelevant to some participants. Much the same way it determines the appropriateness of other investments for the fund lineup, the plan sponsor should be tasked with establishing the most appropriate income product for its plan.

Since a lifetime income option may not be appropriate for every participant, we don’t feel that it should be a default offering. Some participants still can achieve a consistent retirement stream without an annuity. However, we believe that is a good idea to offer such an option within a plan as greater access to guaranteed income could ultimately benefit the overall participant base.

In either case, plan sponsors will need to carefully select the plan’s lifetime income option. It is imperative that participants understand the option and it shouldn’t be overly expensive. Complete disclosure needs to be provided to participants on what expenses they will incur and how a guarantee will affect their retirement spending over the long run (e.g. ongoing access to their money).

Additionally, when determining what percentage of a participant’s account should be allocated to the lifetime income option, the specifics of the option should be factored into the calculation. Because of the unique features that comprise income options, a generic calculation should be avoided. Plan sponsors should model the specifics of the income option in order to account for the unique features, which can have a substantial impact on the overall value the lifetime income option.

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?
Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.

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?

Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.

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?

Life expectancy is one factor that may vary across demographic groups that should be considered.

**Participant Education**

The Department of Labor issued Interpretive Bulletin 96-1 (29 CFR 2509.96-1) to clarify that the provision of investment education, as described in the Bulletin, will not be considered the provision of “investment advice,” which would give rise to fiduciary status and potential liability under ERISA for plan participants’ and beneficiaries’ investment decisions.

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?

Because many of these options are irrevocable or carry significant surrender charges for terminating the contact, plan participants need to be fully informed about the lifetime income option before being allowed to select it.

The following information should be provided to participants:

► **Amount of income**
  What income can the participant expect to receive from the income option? What limitations, if any, are imposed on this payout? What is the potential impact of inflation on this amount?

► **Fees**
  What is the expense of the lifetime income option?
Features
What features are made part of this offering? What happens if the participant dies at some point during the payout? What, if anything will the participant’s spouse or heirs receive?

Surrender charges
What happens if the participant’s financial situation changes and they need to gain access to the money they used to buy the lifetime income option?

We feel that plan sponsors know the most effective method of distributing information to their participants. As a result, we would not want to limit communications to just one method.

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?

Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.

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?

Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.

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?

If a plan sponsor makes specific lifetime income options available, it needs to educate participants about the pros and cons of those options so they can make a well-informed decision.

As a general note, even if no lifetime option is offered within the plan, we still feel it is appropriate for the plan sponsor to make available to their participants general information about lifetime income options. Plan sponsors have unique access to participants and can be in a position to educate them about their retirement income options. Participants should be aware what other options are available other than a lump-sum payout.
**Disclosing the Income Stream that Can be Provided from an Account Balance**

ERISA section 105 requires defined contribution plans to furnish to each participant an individual benefit statement, at least annually, that includes the participant’s “accrued benefits,” i.e., the individual’s account balance.

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?

Yes. If participants have purchased a lifetime income option, they need to know much income they will receive in retirement.

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?

Morningstar Associates believes that a lifetime income benefit should state clearly when the benefits are going to begin—whether immediately or in the future. It also should be clear how much annual income a participant should expect to receive in retirement.

That projection should either spell out the assumptions behind the calculation or clearly indicate where participants can access those underlying assumptions. Additionally, it should be clear how a participant can modify those assumptions, if such a feature is available.

We think it is a fair assumption that benefits would be projected to a future retirement age assuming continued contributions at the level the participant has indicated. The projection should include a SMarT program if participant has enrolled in that feature (the SMarT program automatically increases a participant’s savings rate over time).

We are agnostic on whether the amount should be displayed as a monthly or annual amount. We think there are just as many people that budget monthly versus annually.

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?

As stated above, we do feel that the assumptions used in the projection should be disclosed to participants either on the same communication piece as the benefit amount or it should direct participants to where they can view the assumptions and modify them, if possible. In addition, caveats should be displayed so participants understand that the projection is just an estimate. Participants need to understand the limitations of lifetime income so they can make educated decisions about their retirement income options. At the same time, the information provided to the participants should be written in an easy-to-understand format.

Expense load should be reflected in the actual projection as that can have a substantial impact on participants’ portfolios.

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?

Whether it is on the benefit statement or on some other communication, we feel participants should be presented with an income replacement ratio. The income replacement ratio should use some assumption (e.g. 70%), but allow participants to modify it. Participants don’t necessarily know what they need to save for and replacement ratio at least gives them a starting point.

We don’t think that an external agency should dictate the methodology powering this ratio. This kind of regulation has the potential to inhibit potential enhancements to the methodology. The plan sponsor should prudently select the methodology and disclose the methodology’s underpinnings.

401(k) and Other Plan Qualification Rules
Income Tax Regulations that apply specifically to lifetime annuities include: 26 CFR 1.401(a)-11, 26 CFR 1.401(a)-20, 26 CFR 1.401(a)(9)-1 through 26 CFR 1.401(a)(9)-9, 26 CFR 1.417(a)(3)-1, and 26 CFR 1.417(e)-1.

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?

Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.

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?

Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.

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?

Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.

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?

Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.

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?

Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.

Selection of Annuity Providers

The Department of Labor’s regulation 29 CFR 2550.404a-4 contains a fiduciary safe harbor for the selection of annuity providers for the purpose of benefit distributions from defined contribution plans.
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?

Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.

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? Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.

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?

Morningstar Associates feels that other lifetime income products provide reasonable investment choices and could provide valid lifetime income products.

**ERISA Section 404(c)**

ERISA section 404(c) and 29 CFR 2550.404c-1 provide defined contribution plan fiduciaries with limited relief from the fiduciary responsibility provisions of ERISA where a participant or beneficiary exercises control over the assets in his or her account.

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?

Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.

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?

Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.

Qualified Default Investment Alternatives
ERISA section 404(c)(5) provides that, for purposes of ERISA section 404(c)(1), a participant in a defined contribution plan will be treated as exercising control over the assets in his or her account with respect to the amount of contributions and earnings if, in the absence of an investment election by the participant, such assets are invested by the plan in accordance with regulations of the Department of Labor. The Department of Labor’s regulation 29 CFR 2550.404c-5 describes the types of investment products that are qualified default investment alternatives under ERISA section 404(c)(5).

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?

Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.

Comments Regarding Economic Analysis, Regulatory Flexibility Act, and Paperwork Reduction Act
Executive Order 12866 (EO 12866) requires an assessment of the anticipated costs and benefits of a significant rulemaking action and the alternatives considered, using the guidance provided by the Office of Management and Budget. In addition, the Regulatory Flexibility Act (RFA) may require the preparation of an analysis of the economic impact on small entities of 21 proposed rules and regulatory alternatives. For this purpose, the Agencies consider a small entity to be an employee benefit plan with fewer than 100 participants. The Paperwork Reduction Act (PRA) requires an estimate of how many “respondents” will be required to comply with any “collection of information” requirements contained in regulations and how much time and cost will be incurred as a result.

The Agencies in this section of the RFI are requesting comments that may contribute to any analyses that may eventually need to be performed under EO 12866, RFA, and PRA, both generally and with respect to specific areas identified in questions 36 through 39.

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.
Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.

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?

Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.

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?

Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.

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?

Morningstar Associates isn’t familiar enough with this issue to provide a comprehensive answer.