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Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5655
U.S. Department of Labor
200 Constitution Avenue, NW
Washington, DC 20210

Attention: Lifetime Income RFI

Dear Madam or Sir:

BlackRock, Inc. is pleased to offer its comments regarding the joint request by the Department of Labor and the Department of Treasury (the "Agencies") for information on lifetime income options for participants and beneficiaries in retirement plans. The purpose of the request for information ("RFI") is to solicit the views of various retirement industry participants on whether enhancements or changes should be made to the Employee Retirement Income Security Act ("ERISA") and/or the plan qualification rules under the Internal Revenue Code ("Code") that would facilitate access to, and use of, lifetime income arrangements for participants in employer-sponsored retirement plans and individual retirement arrangements ("IRAs").

BlackRock is one of the world's largest investment management firms, managing over US$3 trillion on behalf of institutional and individual clients worldwide through a variety of equity, fixed income, cash management, alternative investment and advisory products. At December 31, 2009, it managed over US$275 billion for US defined contribution (DC) plans.

Lifetime income arrangements, which are important for DC plan participants' retirement outcome, are most likely to be an insurance product such as annuities. BlackRock does not support requiring DC plan sponsors to include annuities or any other lifetime income products in their plan, nor do we support mandatory annuitization for plan participants. We believe that such requirements in DC plans—which are completely voluntary-- could discourage employers from sponsoring DC plans or employees from participating, resulting in even less preparedness for retirement. In additions, some companies maintain both a defined benefit (DB) plan and a DC plan, with the DB plan providing the annuity/lifetime income so such a requirement would be unnecessarily duplicative. We also urge caution that any legislative or regulatory changes that may result from this RFI take into account the evolving nature of lifetime income solutions and thus retain flexibility for future innovations.

BlackRock supports making the decision by plan fiduciaries to include annuities or other lifetime income solutions in DC plans easier (including through more clarity on fiduciary responsibility). We also support making lifetime income solutions more accessible to the average plan participant. Providing clear guidance to plan sponsors will make it easier for them to adopt solutions that provide increased transparency, ease of transfer from the plan to an individual and the continuation of employee choice.

Background

For large numbers of Americans on the doorstep of retirement, 401(k) accounts and IRA savings are expected to be second only to personal real estate holdings as a source of wealth at retirement. However, as DC plans have increased in importance, DC plan investment options have failed to keep up. With the exception of target date funds, there have been few products developed for the DC marketplace that are designed to address both the average participants' lack of investment expertise and the increased importance of DC plans on participants' retirement outcome.

In particular, participants need DC investment strategies designed to manage three critical risks: asset allocation, inflation and longevity. Existing target date funds can capably manage asset allocation risk and they provide some inflation protection. However, they fall short of managing longevity risk effectively. Lifetime income arrangements, properly structured, are key to managing longevity risk.

There are several reasons lifetime income has become a scarce resource: the demise of DB plans, the rise of DC plans, and growing uncertainty of Social Security. Concerns about future health care expenses also drive DB plan participants to take lump sums. Today, the most accessible source of lifetime income for individuals are insurance based products, but few DC plans offer them, and many insurance products haven't evolved to directly address the needs of DC participants. Retail insurance products usually include a complex set of benefits that have a large degree of embedded optionality to provide buyers with future choices in the particular form of income benefit they wish to take. Some of these choices can be very complex. For instance, a high-water mark feature commonly found on insurance products depends on complex interactions between levels of market volatility and return, the buyer's birthday and the initial funding level of the policy itself. Since insurance products are sold primarily by insurance agents, it's assumed that a knowledgeable agent will guide the consumer to the best choice. Unfortunately, DC participants typically do not have the expertise nor the access to a knowledgeable sales agent to help them understand these complex benefit structures.

Another reason lifetime income products have not gathered large assets in DC plans is that the annuity purchase decision has been problematic for individuals. There is a trade-off between the income security provided by the annuity and the loss of control over the assets. A fairly priced annuity offer participants the opportunity to obtain lifetime income at attractive prices. Such an annuity consists of a series of mortality-discounted payments that begin on the exercise of the annuity and continue until the annuitant dies. For far-dated cash flows, the price is much cheaper than buying the cash flows through a zero-coupon bond ladder. However, once the buyer exercises the annuity and begins receiving payments, they cannot easily get a return on their

capital and can only get the promised annuity payments. Therefore, if the buyer dies before the average life expectancy, the individual overpaid for the annuity. To be effective in DC plans, annuities must provide additional options to address the concern over loss of control and the risk of overpaying. Important options to consider are a "period certain" feature which means the annuity will continue to pay, at a minimum, a fixed number of years to the annuity buyer or a designated beneficiary. Or the annuity can provide for joint survivorship, which provides lifetime income to both the buyer and another person, such as a spouse.

Despite historical resistance by DC participants, the recent financial crisis, combined with the growing importance of DC plans in providing retirement outcomes, have helped to change participant demand for lifetime income options. In a recent study conducted by BlackRock and the Boston Research Group, of the 401(k) participants surveyed 9% would like to receive a lump sum pay out in retirement, while 57% would like to receive a steady stream of income and 34% would prefer a little of both. The majority of those surveyed express a need for an income option in retirement and it is important for the industry to address this need with a simple and flexible solution that allows for both lump sum and steady stream payment options.

Income Accumulation Fund

The RFI requests information on the types of annuity products which are currently available, including specifically whether there are such products that permit plan accumulations to be rolled over to an individual retirement annuity of the same issuer. BlackRock is the innovator of such a product, which we call SponsorMatch .™ This is an income accumulation fund that combines the features of a target-date fund with the gradual accumulation of managed annuities. The fixed income allocation of a traditional target-date fund is replaced by a managed annuity. Each SponsorMatch portfolio provides market participation through an Investment Portfolio of equity and equity-like instruments, and secures retirement income through an Income Portfolio that includes deferred fixed income annuities managed by insurance companies. Like a target-date fund, the SponsorMatch portfolios become increasingly conservative over time, gradually allocating more assets to the Income Portfolio as the investors' anticipated retirement date approaches. SponsorMatch qualifies as a QDIA investment option under relevant Department of Labor regulations.

SponsorMatch uses an unallocated group contract for the managed annuity, meaning the participants do not hold the annuity directly until fund maturity.[1] This provides several advantages: the plan participant can transact in the income accumulation fund just like other DC options, without paying a charge for changing allocations to the annuity itself; the insurers' administrative costs are less than that of an allocated annuity (and these savings can be passed to participants) and the asset

[1] Some insurance companies offer deferred income annuities to DC plans, but because they are allocated annuities, they attach to individuals at the time of purchase. Allocated annuities generally have higher fees than unallocated annuities.

manager is able to harness its institutional scale and expertise to the purchase (and sale) of the managed annuity.[2]

The income accumulation fund is designed to mature and distribute a significant portion of its assets at the beginning of the year in which participants are expected to turn 65. Participants may then elect whether they want to either (i) have the amount distributed in a taxable lump sum cash distribution or (ii) roll the amount distributed directly into specified rollover IRA accounts and/or annuity contracts qualified under Section 408(a) or 408(b) of the Code.[3] Assuming it is permitted under the terms of the plan, if participants do not provide affirmative instructions regarding the disposition of their assets at maturity, the value of the participant's interest will be converted into rollover group annuity contracts qualified as 'individual retirement annuities': under Section 408(b) of the Code. Alternatively, plan participants typically have the option (if permitted by the plan) to reallocate any assets they have invested into another plan investment option prior to the fund's maturity.

SponsorMatch provides the following annuity advantages:

- Institutional pricing: BlackRock-negotiated group annuity contracts provide pricing that would be impossible for individuals to achieve on their own
- Transparency: Single investment management fee
- Group policy: Easier to implement for plan sponsors and record keepers, compared to the challenge of maintaining individual accounts and policies
- No transaction costs: No surrender fee with group annuity compared to potentially high surrender charges in traditional deferred annuity contracts
- Diversified interest rate risk: Annuities are purchased over an extended period of time, seeking to hedge retirement liabilities and produce "dollar-cost-averaging" benefits and lessen the risk of time-specific interest rates experienced

Fiduciary Issues for "In-Plan" Annuity Options

In deciding whether to make a lifetime income option, such as an annuity, available to its plan participants, a plan fiduciary must evaluate what additional fiduciary responsibilities this might entail. While the Department of Labor has provided some guidance (cite) on the factors to be considered in the choice of annuity providers, concerns about the responsibility in choosing an annuity provider, and potentially monitoring that insurer through the life of a participant/annuitant, creates a disincentive for a number of plan sponsors. Even when another fiduciary, such as an asset manager, undertakes responsibility for selection and monitoring, plan sponsors remain concerned about their potential fiduciary liability. This risk may discourage some plan sponsors from offering in-plan annuities, and thus lessens the availability of such programs for plan participants. Although IRA rollover annuities are available to plan participants taking a distribution, likely at higher cost, it also transfers the annuity provider selection to individuals who generally are less equipped to evaluate the provider, the options available, and the associated fees.

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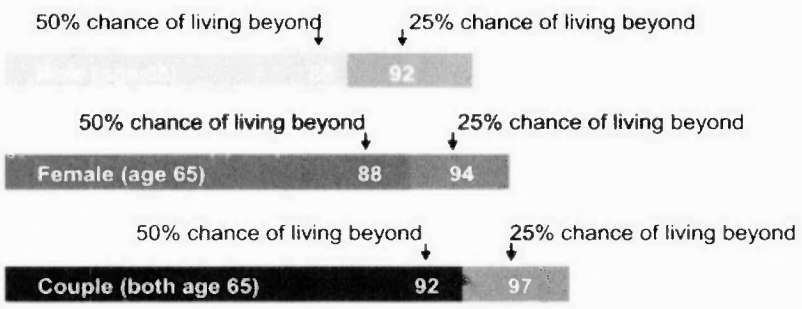
[2] The unallocated group contract is held by the insurer in a 'bankruptcy remote' separate account to provide an additional layer of credit protection in the event of insurance company insolvency.

[3] Current tax law does not permit an unallocated annuity in a DC plan to be changed into an allocated annuity without using a rollover IRA; otherwise it is treated as a distribution subject to tax. This unnecessarily complicates the communications to plan participants about their election decisions which may result in confusion or non-election, and should be changed.

Education

Longevity risk is one of the greatest risks facing DC plan participants, and it is extremely difficult for individuals to manage efficiently. To properly manage longevity risk, individuals must accurately estimate their own mortality, which is nearly impossible to do in a way that is meaningful to retirement planning. In a report by the Society of Actuaries, over sixty percent of people underestimate their life span and time spent in retirement (see graph below).



BlackRock believes that DC plan participants need information communicated in a way that is easy to understand and facilitates good decision-making with respect to the management of longevity risk. Lifetime income options that, like SponsorMatch™, that takes the familiar target-date platform and extends its capabilities is one example of an investment strategy that addresses longevity risk and is also more easily understood than other products, including some in-plan annuities. We believe participant disclosure must facilitate comparisons between investment alternatives.

In addition, it is important to include thoughts from behavioral finance to help combat the effects of inertia. Behavioral finance studies have identified inertia as the number one reason employees don't enroll in retirement plans, don't contribute adequately, fail to adjust their portfolio asset allocation, or lack the proper knowledge to manage 401(k) assets in retirement. Auto features (e.g., auto enrollment, auto escalation) are built on the principal of reversing inertia to make it work for the participant, instead of giving participants the opportunity to opt in and make the right choice about their retirement savings, they require participants to only take action if they want to opt out. By making constructive outcomes easy and automatic with plan auto features, plan sponsors can help participants overcome inertia and encourage enrollment, higher savings rate, proper asset allocation and ultimately more secure retirement outcomes. Adding an easy to understand income option as part of a DC plan's QDIA could significantly increase security at retirement.

The RFI asks specifically about whether an individual benefit statement should present the participant's accrued benefits as a lifetime income stream in addition to

presenting as an account balance. We note some plan sponsors and their service providers already offer information as a monthly or annual withdrawal amount. We would have concerns about showing a lifetime income stream when in fact there is no investment alternative in the plan that would provide such a payout, which could be confusing to participants. There are additional challenges in assuring uniform assumptions are used by the industry, which potentially could be addressed using a 'model form' of disclosure. We believe plan fiduciaries should be given appropriate liability protection if such a disclosure were mandated provided the model form and its assumptions were used.[4]

BlackRock appreciates the opportunity to comment on this important issue. DC plans are no longer savings vehicles but are now for many US employees their retirement plan. Managing longevity risk is not currently part of the investment strategy of many DC plans, and we welcome the review of the Agencies in determining what may be done to encourage the voluntary actions of employers and participants to remedy this.

We would welcome further discussion with you on this important topic.

Sincerely,

Chip Castille
Managing Director
Head of US Defined Contribution

[4] The Agencies should consider the downside of disclosure as well: that the monthly lifetime income payment would be perceived as so small as to encourage distributions in a lump sum to be spent on a participant's immediate need, for example, a car purchase.