

August 6, 2013

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

RE: Request for Comments for ANPRM Lifetime Income Illustration on Pension Benefit Statements
(RIN 1210-AB20)

Dear Sir or Madam:

Russell Investments (Russell) welcomes the opportunity to provide comments on the recent advanced notice of proposed rulemaking (ANPRM) regarding lifetime income illustrations on benefits statements.

Introduction – Background on Russell Investments

Russell Investments is a global asset manager and offers services that include advice, investments, and implementation. Russell stands with institutional investors, financial advisors, and individuals working with their advisors—using the firm's core capabilities that extend across capital market insights, manager research, portfolio construction, portfolio implementation, and indexes—to help each achieve their desired investment outcomes.

Russell has more than \$237 billion in assets under management (as of 6/30/2013) globally. As a consultant to some of the largest pools of capital in the world, Russell has \$2.6 trillion in assets under advisement (as of 12/31/2012). Headquartered in Seattle, Washington, Russell operates globally.

We welcome the Department's efforts to create greater focus on retirement income

Russell supports the Department's efforts to promote a more income-focused approach for the defined contribution (DC) participant. As DC plans become the predominant source of retirement income for more and more working Americans, we believe strongly that the industry needs to reframe how these plans are viewed, so that they are no longer treated as supplemental savings plans but rather as core retirement income plans.

This belief was expressed, as you may recall, at the joint hearings held by the Department of Labor and the Department of Treasury in September 2010 on Lifetime Income Options. While many witnesses during those hearings focused on retirement income products, Bob Collie from Russell made the case ~~that~~ that the defined contribution system should be built around the provision of income throughout retirement, rather than simply the accumulation of assets. Current disclosures are, however, a barrier to this objective. They facilitate inattentive and too often unsuccessful behavior from plan participants because they fail to make clear how the progress of the investment portfolio and the choices that the participant makes are connected to the standard of living that they can expect in their retirement.... Disclosure of progress in terms of retirement income would be a force toward a better system, because, as has frequently been said, what gets measured gets managed."

Of course, there are many details to be resolved in achieving the goal of better disclosure. There are trade-offs that must be considered and addressed: the trade-off of completeness against simplicity, for example, or the trade-off of standardization against encouraging innovation and customization. Hence, while we support the approach the Department has recommended, we would identify the following areas for potential enhancements:

1. How to present the difference between the current and projected balances
2. Clearly defining the scope of the safe harbor
3. Some other brief considerations that may warrant participant market testing

The remainder of this letter provides more detail on these potential enhancements.

Presentation of the difference between the current and projected balances

A participant's current balance is clear and objective. Further, converting that balance into an annuity value requires relatively few assumptions. The assumptions that are needed are ones that can be made with a relatively high degree of confidence.

Moving from there to a projected balance, however, is a much more complex and subjective exercise. This requires assumptions to be made about investment returns, assumptions which come with considerable uncertainty attached. Thus, even though we believe there is value in showing income values based on the projected balance (especially for a younger investor whose total wealth today is primarily in the form of earnings potential rather than current financial wealth) some care is needed in how this is done.

For this reason, we would suggest that the Department consider giving greater prominence to the assumptions. Instead of putting assumptions and caveats in a footnote that may or may not be read, we'd suggest the Department encourage providers to show both the projected retirement income and the key assumptions directly on the illustration.

This would allow participants to see more clearly the assumptions underlying the numbers and how they get from where they are today to a future income stream. This would have two benefits. First, presenting the projected outcomes in this way helps to communicate the extent to which results are dependent upon the assumptions. Second, participants can make necessary adjustments to things that are within their control such as their expected retirement date or their investment or savings behavior in light of these assumptions.

The illustration might look something like this:

	ASSUMPTIONS	ACCOUNT BALANCE (expressed in today's dollars)	MONTHLY PAYMENT (expressed in today's dollars)
Current		\$XXX,XXX	\$XXX
Projected Contributions	\$XX,XXX/year for the next XX years in today's dollars	\$XXX,XXX	
Projected Returns	4% above the rate of inflation	\$XXX,XXX	
Projected Total		\$XXX,XXX	\$X,XXX

Because of the high degree of uncertainty in market returns, the disclosures should make it clear that actual investment returns are likely to differ significantly (over both the short term and the long term) from the assumptions and this could have a material impact on the final outcome.

The assumption of a 4% real return seems to us to be at the high end of the range of what would be appropriate for the purpose of these illustrations. While history suggests that such a return has been achievable over many periods in the past – especially for growth-oriented investment strategies – lower interest rates may make these returns less likely in the future.

Making clear the scope of the safe harbor

It is important that the Department make clear that the specification of safe harbor assumptions for the proposed disclosures is not intended to limit the assumptions that may be used in other tools.

We understand and appreciate the need for the proposed safe harbor assumptions that are included in the ANPRM. For one, we recognize that some administrators and plan sponsors don't have the resources and expertise to come up with their own assumptions. Further, we see great value in there being a simple and consistent approach used across the industry for statutory reporting purposes: a wide dispersion of approaches would make it difficult for individuals to make reasonable comparisons, particularly if they have multiple plans. Finally, we have concerns related to the incentives that may be created for a provider to use particular assumptions to gain marketplace advantages.

At the same time, we believe that a clear distinction needs to be drawn between the proposed statutory disclosures of retirement income amounts and the many other purposes for which assumptions of investment returns may be required, most notably planning tools. Such tools may be used to illustrate the potential effects of different investment strategies, to explore specific scenarios, to quantify the amount of uncertainty attached to projections, and so on. Those purposes go well beyond the question of retirement income disclosure.

While simplicity and consistency are important in the statutory illustration of retirement income as mandated in the ANPRM, more customized and detailed projection tools require greater flexibility beyond what is outlined in the proposed safe harbors. Plan sponsors and their providers should be comfortable using different assumptions (assumptions that are more specific and customized) for other planning and projection tools.

For example, target date fund investment strategies involve a dynamic investment allocation, so a true best estimate of future returns would not be fixed but would change over time as the investment strategy changes. Such a nuance would seem out of place in simple retirement income disclosures, but would be an important element of the return assumptions in other contexts.

This is important because safe harbors can have an impact beyond their immediate intended domain. We do worry that the industry has become addicted to safe harbors and won't act without them. We observe instances where plan sponsors are nervous to take any action without safe harbor protection, even if that action is prudent and in the best interest of participants.

One example of this is the inclusion of guaranteed products in Defined Contribution plans. While many plan sponsors would like to see these included, we consistently hear from them that they won't take action unless they are provided a safe harbor from the government.

Another example is the Qualified Automatic Contribution Arrangements (QACA) safe harbor from the Pension Protection Act. Even plans that don't take advantage of the QACA safe harbor often rely on the automatic enrollment provisions within those regulations when designing their program. These plan sponsors seem to feel more comfortable following this approach even if they are not using the safe harbor provision. This is further evidence of the power of safe harbors and the need to use them judiciously. We'd like to see a marketplace where plan sponsors and providers feel comfortable taking actions based on prudent standards, not only safe harbors.

Other considerations that may merit testing

There are a few more minor considerations that we would like to comment on relative to the proposal. In particular, there are a few areas in which we think the Department may benefit from market testing the usability and attractiveness of certain features of the proposed illustrations. In particular, we would suggest consideration of the following:

1. Is the joint-and-survivor annuity illustration necessary? Is requiring that in the disclosure more information than is needed?
2. Would monthly or annual amounts be more useful? While social security benefits are reported as a monthly amount, most individuals think of their income in annual amounts.
3. What form of wording (or possibly even quantitative illustration) is most effective at communicating the uncertainty of the market projections?

In conclusion, thank you for taking the time to consider our comments. We appreciate the efforts of the Department to enhance the quality of the defined contribution system so that it can live up to its new role as the primary source of retirement income for tens of millions of working Americans. We welcome the opportunity to discuss these and other issues with the Department in the future.

Sincerely,



Josh Cohen, CFA
Defined Contribution Practice Leader
Russell Investments



Bob Collie, FIA
Chief Research Strategist - Americas
Institutional
Russell Investments



Dick Davies
Managing Director, Defined Contribution
Russell Investments