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Testimony to the ERISA Advisory Council on the Topic of

Examining Income Replacement during Retirement in a Defined Contribution System

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A Director, Portfolio Investments in the firm's Pension Investments group, Kevin has had responsibility for oversight of the firm's non-U.S. pensions and domestic Savings Plan since joining UTC in 2005. He holds the Chartered Financial Analyst designation and has previously worked in various roles in the asset management industry, moving into the role of a plan sponsor in 2000. Kevin has been a member of the global investment community since 1993.

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United Technologies Corporation ("UTC") is a U.S.-based, multinational manufacturer that produces a broad range of products and services around the world. Here in the U.S., we offer a broad menu of employee benefit choices which address many of the needs and aspirations of our diverse and talented workforce. Historically, we have provided several retirement benefits, including a defined benefit plan with both a traditional final average earnings pension formula and a cash balance formula, as well as a very low cost and flexible defined contribution 401(k) plan, commonly referred to at UTC as the Employee Savings Plan.

For many years, the retirement benefits offered to our U.S. employees were fairly static. Our defined benefit plan typically served as the primary source of employee retirement income, with the Employee Savings Plan functioning as a supplemental vehicle. However, we, like many of our peers and competitors, observed a more mobile workforce with changing retirement needs, increasing global competitive pressures and substantial economic headwinds for much of the last ten years. In 2009, we announced that our defined benefit plan for non-union employees would be closed to new entrants and that non-represented employees hired after 2009 would instead be eligible for an additional "company automatic" Employee Savings Plan contribution.

In the context of this changing retirement landscape, United Technologies Corporation made a concerted effort over the last several years to understand and address many of the challenges our employees will face as they save and invest for retirement in a "DC-only"

world. Ultimately, we worked very closely with several partners to develop and launch a new retirement option available through our Employee Savings Plan designed specifically for the purpose of replacing income in retirement. We call it the "Lifetime Income Strategy".

It should be noted here that defined contribution plans combined with income replacement options enjoy at least one material advantage over traditional defined benefit plans in that they offer most participants the freedom to directly influence how much retirement income they may derive from the plan in retirement through their power to increase contributions while they are working. By design, defined benefit plans simply do not offer this form of control. The flexibility to increase deferrals of one's current income to a defined contribution plan with access to an income replacement option has a twofold effect: 1.) it improves the probability of reaching one's desired level of retirement income through the accumulation of a larger asset base, and 2.) it reduces the level of income one needs to replace. While some may have unreasonable expectations of life in retirement, most people would consider maintaining the income they enjoyed before retirement as success. Those who save more while working and establish a standard of living based on an income net of those savings will have an easier time replacing that income and sustaining it in retirement.

That said, the challenge for those who wish to prepare for retirement with security and confidence in a defined contribution setting is formidable. Most individuals do not possess the knowledge, resources and/or incentives that are necessary to construct and implement a savings and investment program during their working years and subsequently adhere to a disciplined spending program in retirement which, when combined, are sufficient to reliably sustain an income comparable to what they enjoyed while working. Left to do this independently, many individuals underestimate their retirement needs and the level of savings necessary to fund those needs.

In spite of the substantial effort and investment we make at UTC to educate our employees and disclose all important information, we believe few genuinely understand the level or nature of risks inherent in many commonly available retirement options. Many employees don't have the time to pursue an in-depth financial education while

some don't even have an interest. Others would prefer that someone else "do it" for them. Even those who do make a diligent effort to learn, are well informed and actively engaged in the effort to manage their retirement savings are often exposed to factors beyond their control which can permanently impair a skillfully constructed strategy simply as a consequence of being in the wrong part of the market cycle as they approach and enter retirement. Others might save diligently during their working years, only to amass their savings in investments with such low return expectations that they run a very real risk of shortfall in spite of their substantial deferrals.

This behavior is all, to some degree, understandable as even highly trained investment professionals often fail to overcome natural biases, falling victim to fundamental cognitive errors and many end up in much the same situation as less sophisticated investors. Some argue that the solution to this dilemma is to focus on educating people on the risks of failing to save and invest for retirement, perhaps introducing basic concepts of finance and investments such as the time value of money and the benefits of diversification. However, a failure to accumulate and convert retirement savings into a flexible and robust stream of income can itself lead to spending decisions in retirement which may lead to dire outcomes. This is not just an academic problem to be studied in a lab. This problem is real. It impacts real people and has real consequences.

Make no mistake: Education is an essential element of our effort to help our employees plan for their retirement. At UTC we seek to educate our participants and, as I mentioned earlier, we invest quite a bit of time and money to do so. However, we recognize that the behavioral and logistical obstacles to achieving the required level of sophistication and ubiquity which are likely necessary to achieve an adequate level of retirement security purely through educational efforts are sizable and many. And so, we have also decided that education ideally should be underpinned with plan features designed to address key employee challenges.

Although the components required to build effective income replacement solutions exist in the market today and current regulations provide a framework within which they may be applied, employers face many obstacles to offering solutions which establish and maintain a reliable stream of income throughout retirement. The effort and staff time

required to piece together product components, integrate services and acquire knowledge of the regulatory standards governing them in sufficient detail to enable employers to implement a solution without fear of undue legal exposure is substantial. While many professionals involved with retirement plans maintain expertise in various fields such as actuarial science, behavioral finance and investment theory, employee benefits administration, information technology, insurance and options pricing, few organizations and fewer individuals possess sufficient depth of knowledge in all of these areas to understand and fully assess many alternatives. The Council should recognize that, in the current environment, it typically requires a cross functional team of professionals versed in all of these disciplines to broadly evaluate an income replacement solution and determine whether or not it is appropriate for the population of participants in a particular retirement plan. This alone is a significant obstacle for many plan sponsors, especially smaller companies.

Various government agencies have taken steps over the last several years to improve clarity and modernize guidance with respect to retirement income alternatives. To further increase the level and speed at which employers adopt these solutions, several specific additional actions may be helpful. Clear, but flexible guidance from our regulatory agencies will be most effective at promoting the development and adoption of income replacement solutions. Overly prescriptive standards will stymie innovation, reduce competition and most certainly fail to meet the needs of a broad range of plans and participants, each with their own unique set of circumstances. While the past work of the Council has been helpful to United Technologies as we developed our Lifetime Income Strategy and this hearing is another clear step in the right direction, we believe continued dialogue with the many stakeholders that play a role in the design, development and implementation of effective solutions will be productive. Ultimately, we respectfully submit that draft guidance issued by relevant regulatory agencies and meaningful comment periods will be critical to successfully addressing the many issues plan sponsors face.

One approach to immediately improve clarity for plan sponsors and plan services providers is to update language in existing guidance to reflect recent product developments and innovations so that fiduciaries and advisors may understand to which

products it applies. Knowledge and understanding of current guidance is sufficiently mottled as a consequence of dated and narrow terminology so as to lead many key stakeholders to believe some of the most promising income replacement solutions under development today are not covered by existing guidance and safe harbor provisions.

In the process of doing so, it may be possible to define the characteristics of a new concept, the Qualified Retirement Income Alternative ("QRIA"), with sufficient breadth so as to capture not only the products and services which function as the direct source of retirement income, but also address their integration within the retirement vehicles and portfolio construction strategies where they can be most effective at meeting the objective of establishing, building and maintaining a reliable and robust source of retirement income. The characteristics of a QRIA should be broad and address many aspects of effective and flexible retirement solutions. And to most effectively achieve the goal of facilitating the development and adoption of effective income replacement solutions, these characteristics should be communicated descriptively, not prescriptively. It is a fact that the ingenuity and creativity of motivated individuals can lead to tremendous advancements when given sufficient room to grow. I'll be happy to discuss our Lifetime Income Strategy and the various aspects of income replacement that we sought to address in its design and development during the question and answer period.

Additionally, we believe it is critical for the regulatory agencies to promote a clear and reasonable standard of care for plan sponsors and fiduciaries. While many in this field will endeavor to develop best• in• class practices as it relates to the design, evaluation, selection and oversight of income replacement solutions, few will devote their valuable resources to the effort in the absence of a clear and reasonable standard of care. There exists a very real risk of being criticized and second-guessed in the event that unforeseen, unfortunate and unavoidable conditions arise. The regulatory agencies are in the position to provide the necessary level of confidence to well intentioned and procedurally prudent fiduciaries by issuing and clearly and consistently communicating a process-focused standard of care for the evaluation, selection and monitoring of income replacement solutions and service providers. If plan sponsors and fiduciaries meet the standard of care, a safe harbor shielding fiduciaries from costly lawsuits and potential liability is

appropriate. Any safe harbor should be based on objective and uniformly applicable criteria.

We do not suggest that the Council or our regulatory agencies can entirely solve this dilemma, as an income replacement solution is an inherently complex and long-lived instrument. There will always complexity and some uncertainty involved with the selection of such products.

However, now is a moment in time where the current economic circumstances, demographics of our population and incentives of market participants have all aligned to create a unique opportunity for us to enhance retirement security in the United States of America. United Technologies Corporation has moved forward and we believe the Council's recommendations to the regulatory agencies can help other employers feel sufficiently comfortable to move forward, too.

This is the end of my formal written testimony. A description of our Lifetime Income Strategy and some examples of our participant communications are included as an appendix for your reference. I'll be happy to take your questions now.

Thank you.

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Appendix

UTC's "Lifetime Income Strategy" is the new Qualified Default Investment Alternative (QDIA) for our U.S.-based defined contribution plan which serves approximately 104,000 participants with roughly $15.2B of investments as of May 31, 2012.

The Lifetime Income Strategy is a professionally managed and personalized retirement savings, investment and secure income program. This in-plan option preserves the freedom, flexibility and control that our participants have come to expect from their DC plan, while introducing insured retirement income features that can provide certainty and security which was historically only available through a defined benefit plan design.

Please see attached examples of communication materials for more details.

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Lifetime Income Strategy Summary

Simple and Secure Retirement Investing

The Lifetime Income Strategy is an investment option offered under the UTC Savings Plan for participants who want to build a steady stream of secure income for retirement. Its key features include:

- **A simple way to invest** in a single, well-diversified option (similar to the UTC Savings Plan's Target Retirement Funds) that automatically adjusts its equity and bond asset mix and introduces income protection as you get older.
- **A flexible way** to protect and preserve your retirement income without giving up access to, and control of, your assets.
- **A way to secure a steady Income Benefit** in retirement that will last for as long as you live and that has the potential for investment growth.
- **An effective way to accumulate retirement assets**—and protect your retirement income from a market downturn.

How the Lifetime Income Strategy Works

Three key components make up the Lifetime Income Strategy—Equity (sub-fund), Bond (sub-fund), and Secure Income (sub-fund). When you invest in the Lifetime Income Strategy, your assets are automatically allocated into these components in certain percentages based on your age.

After you reach age 48, a portion of your Lifetime Income Strategy assets will be allocated to the Lifetime Income Strategy Secure Income (sub-fund), which secures your Income Benefit. These allocations gradually increase until age 60, when 100% of your Lifetime Income Strategy is allocated to the Lifetime Income Strategy Secure Income (sub-fund). Multiple insurance companies individually provide the protection to secure your Income Benefit. If the market falls or your Lifetime Income Strategy account balance is depleted for reasons other than Early or Excess Withdrawals, these insurers will provide Income Benefit payments for the rest of your life.

You always have full access to your Lifetime Income Strategy account balance if you need it. However, Early or Excess Withdrawals from the Lifetime Income Strategy will reduce your Income Benefit proportionally. (In the case of a complete withdrawal, your Income Benefit will be eliminated.) Please carefully consider all of your resources before accessing this feature in a financial emergency.

Professional Investment Management

Similar to the UTC Savings Plan's Target Retirement Funds, professional investment managers adjust the mix of your Lifetime Income Strategy assets over time so it makes sense for your age. The objective is to achieve the highest total return over time combined with an appropriate level of risk, which is consistent with the asset mix. The further you are from retirement, the greater the allocation to stocks. This emphasizes the growth potential you need to build wealth over the long term. As you move closer to retirement, your asset allocation automatically adjusts to a mix of investments and secure income protection.

AllianceBernstein L.P. is the asset allocation provider and investment manager for the Lifetime Income Strategy and its component sub-funds. State Street Global Advisors (SSgA) is the investment manager of the portfolios underlying the Lifetime Income Strategy and its component sub-funds.

Fees

In general, your investment management and administrative fees for the Lifetime Income Strategy will be similar to what you would pay to invest in the UTC Savings Plan's Target Retirement Funds. However, you will pay additional fees for the Lifetime Income Strategy's secure Income Benefit, beginning at age 48.

For more details on fees and performance information, please refer to the applicable Lifetime Income Strategy Morningstar Fund Fact Sheet for your age and each component sub-fund.

If you are...	Your Lifetime Income Strategy assets generally will be allocated to the...	Your approximate annual fees will be:
< Age 48	■ Lifetime Income Strategy Equity (sub-fund) *and* ■ Lifetime Income Strategy Bond (sub-fund)	0.13%
Age 48 to 59	■ Lifetime Income Strategy Equity (sub-fund) *and* ■ Lifetime Income Strategy Bond (sub-fund) *and* ■ Lifetime Income Strategy Secure Income (sub-fund)	0.21%–1.22%
≥ Age 60	■ Lifetime Income Strategy Secure Income (sub-fund)	1.24%

Key Terms

Income Benefit: Your Income Benefit is the amount of secure income you're eligible to receive each year after Activation for the rest of your life. This feature is introduced at age 48 and gradually increases over time to include 100% of your entire Lifetime Income Strategy balance by age 60. With this protection, unless you take Early or Excess Withdrawals from the Lifetime Income Strategy, the amount of your Income Benefit can never decrease—even if your account loses value. Your Income Benefit is calculated by multiplying your Income Base by your Average Benefit Rate.

Income Base: Your Income Base is equal to the amount of the initial allocation to the Lifetime Income Strategy Secure Income (sub-fund), which secures your Income Benefit. Your Income Base will increase as follows:

- Additional allocations to the Lifetime Income Strategy Secure Income (sub-fund) increase your Income Base dollar for dollar. (You cannot make contributions or transfers directly to the Lifetime Income Strategy Secure Income (sub-fund). Instead you make contributions or transfers to the Lifetime Income Strategy. The Lifetime Income Strategy then allocates a portion or all of that contribution or transfer to the Lifetime Income Strategy Secure Income (sub-fund), depending upon your age.)
- Your Income Base is increased to the market value in the Lifetime Income Strategy Secure Income (sub-fund) at Activation and on each of your following birthdays if greater than your current Income Base. This feature is known as a "ratchet" or "step-up."

Average Benefit Rate: Your Average Benefit Rate represents an average of insurer quoted lifetime benefit rates that are applied to allocations made to the Lifetime Income Strategy Secure Income (sub-fund). Benefit Rates quoted from the insurers may change. However, the Benefit Rates for any prior allocations to the Lifetime Income Strategy Secure Income (sub-fund) are fixed at that time and don't change.

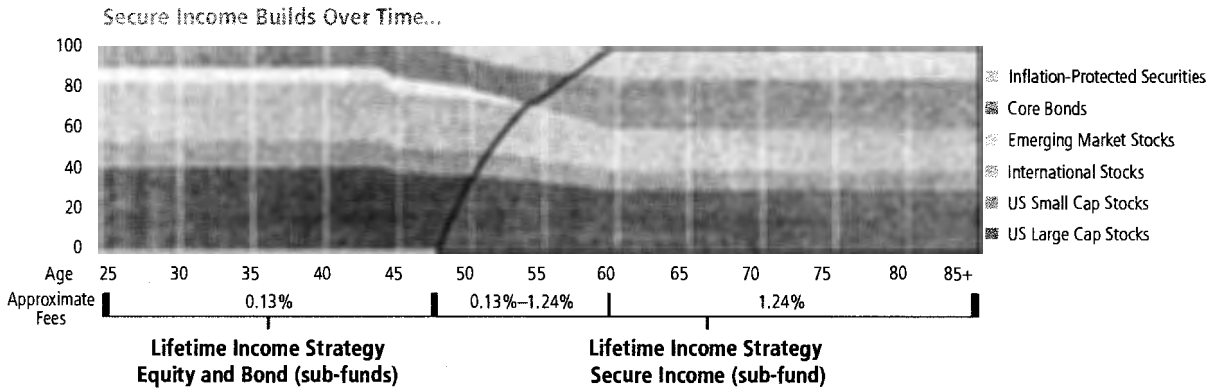
Early Withdrawal: An Early Withdrawal is any withdrawal taken prior to the Activation of your Income Benefit.

Excess Withdrawal: An Excess Withdrawal is any withdrawal taken after Activation of your Income Benefit that exceeds your annual Income Benefit. (Amounts automatically paid to satisfy required minimum distributions are not considered Excess Withdrawals.)

Activation: The process by which the factors, such as age and form of payment (single life or joint life), for calculating your initial Income Benefit are irrevocably applied.

Investment Products Offered • Are Not FDIC Insured • May Lose Value • Are Not Bank Guaranteed
Investing in the Lifetime Income Strategy does not guarantee sufficient income in retirement.

Lifetime Income Strategy Summary



With the addition of the Lifetime Income Strategy Secure Income (sub-fund) beginning at age 48, your equity and bond asset allocation is not disrupted, and your investments in the market remain intact. You begin to pay an additional insurance and administrative fee for the protection of the Lifetime Income Strategy Secure Income (sub-fund)'s Income Benefit once you reach age 48.

...While Assets Remain Invested

	25	30	35	40	45	50	55	60	65	70	75	80	85
US Large Cap Stocks	41.4%	41.4%	41.4%	41.4%	39.1%	37.6%	34.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
US Small Cap Stocks	12.6	12.6	12.6	12.6	11.9	11.7	11.0	10.0	10.0	10.0	10.0	10.0	10.0
International Stocks	28.8	28.8	28.8	28.8	27.2	25.9	23.0	20.0	20.0	20.0	20.0	20.0	20.0
Emerging Market Stocks	7.2	7.2	7.2	7.2	6.8	4.8	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Core Bonds	10.0	10.0	10.0	10.0	15.0	14.9	18.0	24.0	24.0	24.0	24.0	24.0	24.0
Inflation-Protected Securities	0.0	0.0	0.0	0.0	0.0	5.1	12.0	16.0	16.0	16.0	16.0	16.0	16.0

Age

A Word About Risk

The Lifetime Income Strategy's three components—Equity (sub-fund), Bond (sub-fund), and Secure Income (sub-fund)—allocate their investments among multiple asset classes, which will include US and foreign securities, as well as equity and fixed income securities. Additionally, these asset classes may include different types of securities, such as growth and value stocks, and corporate and US government bonds. The prices of small-cap stocks and mid-cap stocks are generally more volatile than large-cap stocks. International investing involves risks not associated with US investments, including currency fluctuations and political and economic changes. The sub-funds may at times use investment derivatives such as options, futures, forwards and swaps. The use of derivatives involves specific risks and is not suitable for all investors.

Each sub-fund systematically rebalances its allocations in these asset classes to maintain their target weightings. There can be no assurance that rebalancing will achieve its intended result, and the costs of rebalancing may be significant over time. While diversification and shifting to a more conservative investment mix over time help to manage risk, they do not guarantee earnings growth. There is the potential to lose money in any investment program.

Other Important Information

The Lifetime Income Strategy's components are only available in the UTC Savings Plan and are not offered for sale to the general public. Each component is a separate account that invests in a set of underlying investment components. Separate accounts are not mutual funds and are not required to file a prospectus with the SEC.

Interests in these components are not deposits of AllianceBernstein Trust Company, LLC or any AllianceBernstein affiliate and are not insured by the Federal Deposit Insurance Corporation (FDIC). The Lifetime Income Strategy is exempt from investment company registration under the Investment Company Act of 1940, and purchases and sales of interests in the Lifetime Income Strategy are not subject to registration under the Securities Act of 1933. Management of the Lifetime Income Strategy, however, is generally subject to the fiduciary duty and prohibited transaction requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA), and the related rules and regulations of the US Department of Labor. AllianceBernstein provides asset allocation advice for the Lifetime Income Strategy.

Any Income Benefit under the Lifetime Income Strategy is secured by the insurance companies—Lincoln National Life Insurance Company, Nationwide Life Insurance Company, and Prudential Retirement Insurance and Annuity Company—and requires that all contract provisions are satisfied. (Each insurance company only secures the portion of any Income Benefit allocated to it by UTC.) Any Income Benefit is offered by and based on the financial strength and claims-paying ability of these insurance companies.

The return and account value of the Lifetime Income Strategy's underlying components will fluctuate and may be worth more or less than the original amount contributed, including at your retirement date. However, any decreases in value to the components caused by market performance will not reduce any associated Income Benefit.

Investments in the Lifetime Income Strategy are not guaranteed against loss of principal. Investing in the Lifetime Income Strategy does not guarantee sufficient income in retirement.

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Lifetime Income Strategy Summary

Benefit Rates

Assets allocated to the Lifetime Income Strategy Secure Income (sub-fund) from **June 1 to 30, 2012** will acquire a secure Income Benefit at the following rates:

	Benefit Rates for:	
Age	Contributions	Transfers
48	4.80%	4.80%
49	4.72%	4.72%
50	4.63%	4.63%
51	4.55%	4.55%
52	4.44%	4.44%
53	4.35%	4.35%
54	4.24%	4.24%
55	4.16%	4.16%
56	4.09%	4.09%
57	4.05%	4.05%
58	3.97%	3.97%
59	3.93%	3.93%
60	3.86%	3.86%
61	3.82%	3.82%
62	3.78%	3.78%
63	3.74%	3.74%
64	3.70%	3.70%
65	3.66%	3.66%
66	3.75%	3.75%
67	3.86%	3.86%
68	3.94%	3.94%
69	4.03%	4.03%
70+	4.15%	4.15%

Income Benefits acquired through the Lifetime Income strategy are subject to adjustment based on activity in your account and a number of factors which are based on your age (and that of your spouse, if electing a joint life benefit) at the time of Activation. Additionally, investment earnings may also increase your Income Benefit, but investment losses will not reduce it.

The Benefit Rates illustrated above assume the following:

- **Ages 48 to 65:** Activation of a single life Income Benefit occurs at age 65.
- **Ages 66+:** Because you are deferring Activation of your Income Benefit until after age 65 (i.e., you will receive Income Benefit payments for a shorter period of time than if Activation began at age 65), the rates for ages 66+ above have been adjusted to include the following deferred activation bonus factors: Age 66: 1.025%; Age 67: 1.053%; Age 68: 1.075%; Age 69: 1.100%; Age 70+: 1.135%. (Deferred Activation bonus factors are set according to the terms of the group annuity contracts governing any increases to your Income Benefit at the time acquired and may change. Please review the UTC Savings Plan Summary Plan Description for a detailed description of the Lifetime Income Strategy.

Benefit Rates are generally effective on the first business day of January, April, July and October and typically apply for that calendar quarter. However, Benefit Rates for both contributions and transfers may change more frequently if certain conditions apply. For the avoidance of doubt, the Benefit Rates illustrated above will generally apply to Income Benefits acquired during the designated period, but are subject to change. Furthermore, Benefit Rates are age-specific and are only available to participants who are eligible for a specific Benefit Rate based on their age at the time they acquire new Income Benefits. If you have a birthday during the designated period, the Benefit Rates available to you will change.

If you have questions about Benefit Rates currently available to you, please contact a UTC Benefits Center representative by calling AccessDirect at 1-800-243-8135—follow the prompts for ***Retirement & Investments,*** and then ***Savings Plan***.

Investment Products offered • Are not FDIC Insured • May Lose Value • Are not Bank Guraranteed
Investing in the Lifetime Income Strategy does not guarantee sufficient income in retirement.