

Testimony to the 2018 Advisory Council on Employee Welfare and Pension Benefit Plans (the “ERISA Advisory Council”) on the Topic of Lifetime Income Solutions as a Qualified Default Investment Alternative (QDIA) - Focus on Decumulation and Rollovers

Kevin T. Hanney, CFA, is a Senior Director, Pension Investments, for United Technologies Corporation (“UTC”) where he maintains responsibility for oversight of the firm’s non-U.S. defined benefit and U.S.-based defined contribution plans. Kevin holds the Chartered Financial Analyst designation and previously worked in various roles in the asset management industry, moving into the capacity of plan sponsor in 2000. He was recognized in 2012 through the inaugural Innovator Awards sponsored by Pensions & Investments magazine and the Defined Contribution Institutional Investment Association (DCIIA) for his role in designing the Lifetime Income Strategy, a game-changing retirement savings and guaranteed income program available to participants in the UTC Employee Savings Plan. Kevin was also recognized by Institutional Investor in 2015 as the winner of their “Investor Intelligence Award for Defined Contribution”. UTC’s Employee Savings Plan has received numerous accolades and honors over the years and is widely recognized as a world leader for its innovations in retirement security, most recently being named a 2017 PLANSPONSOR Magazine “Best in Class 401(k) Plan”. Kevin has been an active professional within the global investment community since 1993 and served as a member of the U.S. Department of Labor ERISA Advisory Council from 2014 through 2016. But if you ask him, he’ll probably say he’s just a simple kid from Long Island, NY.

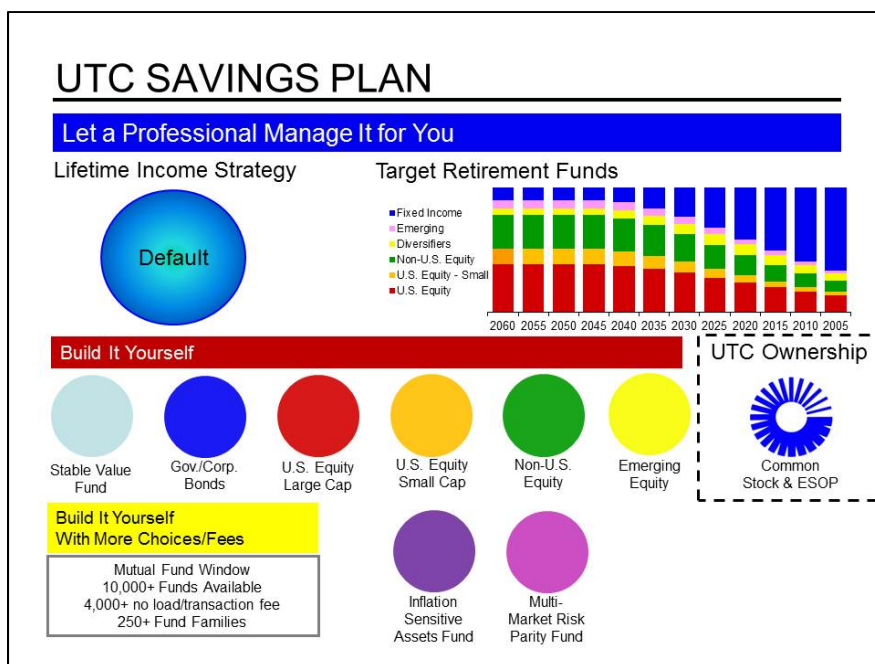
Thank you for inviting me to testify on the issue of Lifetime Income Solutions as a Qualified Default Investment Alternative (QDIA) - Focus on Decumulation and Rollovers. I should note that I was previously invited to testify before the ERISA Advisory Council on June 13, 2012 on the topic of Examining Income Replacement during Retirement in a Defined Contribution System. A copy of my written testimony from that hearing is included as an appendix to this document for ease of reference. I would note that many of the statements it contains remain relevant today and are directly applicable to the topic under examination by the Council at this hearing.

For brevity, I will not repeat them here in their entirety, but I must acknowledge that I have repeated them often, both in my professional work at UTC and as a member of the 2014, 2015 and 2016 Councils. Over that time, I functioned as both an issue team member and Vice Chair on the panels that examined lifetime plan participation, and model notices for plan sponsor education and participant communications. As such, I was deeply involved in the process of gathering information, securing witnesses and drafting the Council’s recommendations and reports on those issues. So, while I will try not to repeat myself too much, I can’t promise that you might not hear echoes of those earlier statements in this room and down the halls of the Perkins Building.

I would, of course, be happy to answer any questions you might have in relation to my earlier testimony or my contributions to the Council’s work.

That being said, much of what I cover today will be an extension of the work that supported UTC’s decision to launch the Lifetime Income Strategy on June 1, 2012, and adopt it as the enhanced qualified default investment alternative for new hires that are automatically enrolled in the UTC Employee Savings Plan. This is because, while we have learned a lot at UTC in the six years that have elapsed since then, much of what we learned has served to reinforce and confirm the reasoning that led us move forward with lifetime income in the first place.

United Technologies Corporation 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 benefits which address many of the needs and aspirations of our diverse and talented workforce. Historically, we have provided several forms of 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 Savings Plan.



However, effective January 1, 2010, UTC closed its defined benefit plan for non-represented employees to new entrants. Knowing this meant that future generations of our employees would need to rely on our defined contribution plan as a primary source of retirement income, we were determined to enhance the design of the Savings Plan so that it would function as a pension for the 21st Century. To do so, we believed it was necessary to develop an effective and affordable retirement income solution that paid particular attention to managing the longevity risk associated with relying on a defined contribution plan as a critical source of retirement income. The Lifetime Income Strategy was launched just over six years ago and it currently encompasses \$1.2 billion of assets invested on behalf of nearly 32,000 plan participants.

In order to understand how the Lifetime Income Strategy works, it's important to understand the foundation that it is built upon:

New employees eligible for automatic enrollment in the plan start saving today at a default rate of 6% of pay through pre-tax contributions that automatically escalate by 1% per year until they reach 10%. (Note: Employees have the option of setting higher automatic escalation limits up to plan maximums. Non-highly compensated employees may contribute up to 40% of pay, while highly compensated employees are limited to contributing 18% of pay to the plan.)

The Savings Plan accepts contributions from active employees on a pre-tax, traditional after-tax, and Roth basis, and permits age 50 and over catch-up contributions on both a pre-tax and Roth basis as well. Employee contributions automatically switch to traditional after-tax contributions when they reach annual pre-tax/Roth contribution limits, ensuring that impacted employees not only continue to make their own contributions, but also continue to receive UTC's matching contributions.

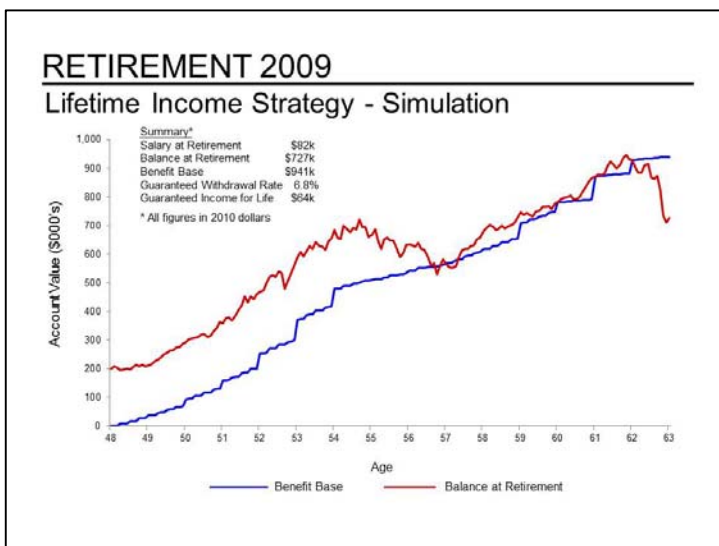
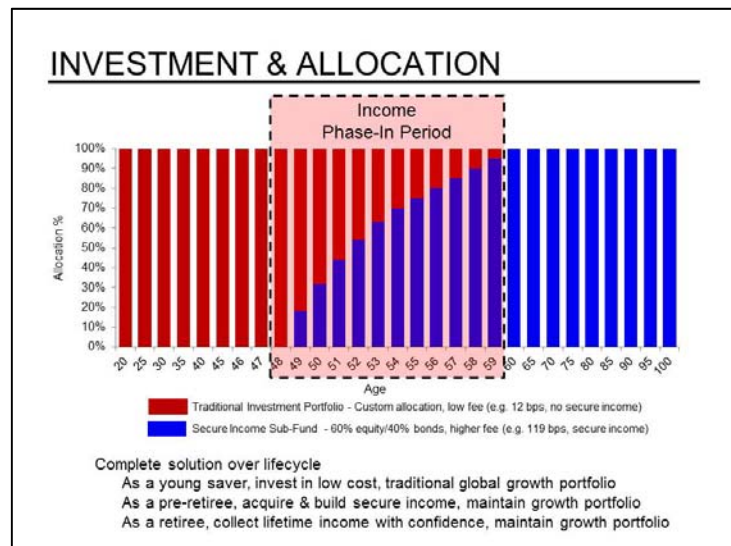
Most active participants in the Savings Plan receive matching contributions that equate to 3.6% of pay and employees who are not covered by UTC's legacy defined benefit plan automatically receive additional contributions from UTC that are independent of their own savings rate. These "company automatic" contributions vary by age, starting at 3% for those below age 30, and increase up to 5.5% for people age 50 and over. A participant's non-forfeitable ownership of UTC's employer contributions typically vests after two years of participation in the Savings Plan.

These automatic default plan features mean that combined annual contributions for UTC's active employees will typically range from 16.6% to 19.1% of pay after four years of employment, even if they take no action at all and virtually all contributions go into the Lifetime Income Strategy by default.

Furthermore, the Savings Plan accepts eligible rollovers from all participants, including former employees, making it an effective medium for consolidating retirement savings within an exceptionally low-cost plan and preserving access to the Lifetime Income Strategy for those former employees who wish to augment their savings and the income benefits they acquired while working there.

The Lifetime Income Strategy provides a carefully constructed transition from wealth accumulation to income generation. When a participant is under age 48, the Lifetime Income Strategy is like a personalized target date fund built by an investment manager specifically for them. Starting at age 48, assets begin to shift into a component that provides several key features plan participants typically look for in a retirement income solution – guaranteed cash flows, growth potential, flexibility, and continuing access to savings. This part of the portfolio is called the “Secure Income Sub-Fund”.

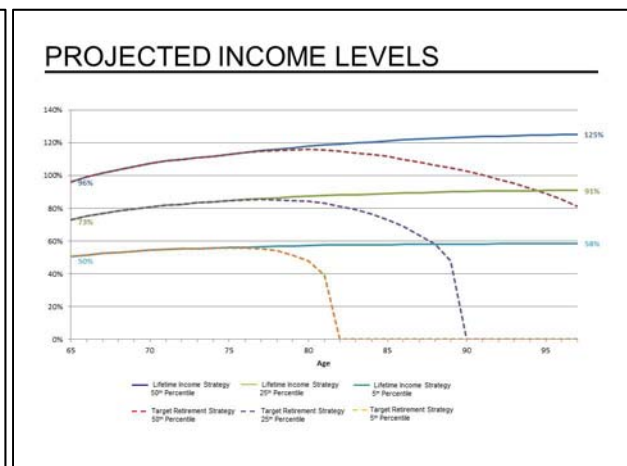
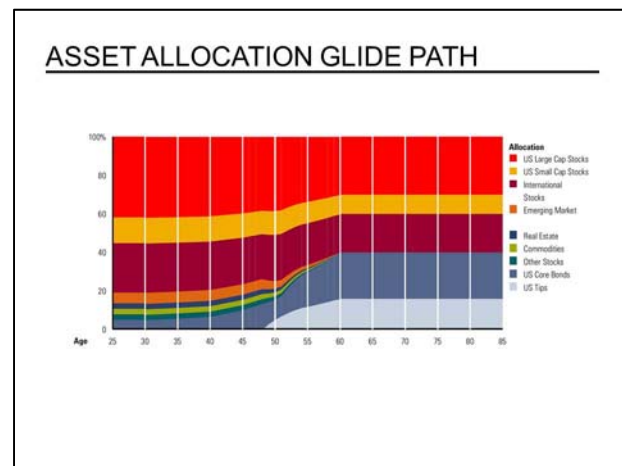
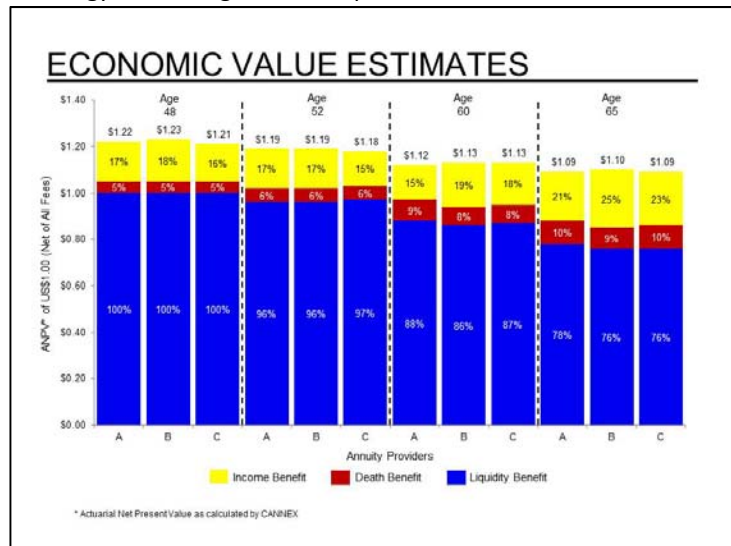
By age 60, the entire balance and all subsequent contributions to the Lifetime Income Strategy are allocated to the Secure Income Sub-Fund. Within the Secure Income Sub-Fund, an insured income base is established at inception and a guaranteed minimum income benefit is calculated. This income benefit increases whenever new money is added to the Secure Income Sub-Fund and when investment growth leads to new high market values, but it will not decline unless the participant takes an early or excess withdrawal, even if investment growth falls short of expectations.



Participants in the Lifetime Income Strategy may activate and collect their income benefits any time after they reach age 60 and separate from service. Income benefits are adjusted up or down if activation occurs at an age other than 65 or if the participant chooses a joint life option. Once activation occurs, a participant may take plan distributions each year totaling as much as their annual income benefit and the income benefit amount will continue for life (with payments continuing to the joint life recipient if applicable) even if their account balance is exhausted at which point the insurance companies that guarantee the income benefits make payments. Note that participants are free to transfer out of the Lifetime Income Strategy at any time.

In fact, one of the most valuable features of the Lifetime Income Strategy is that it preserves the right to take out some or all of the remaining balance out of the account without any surrender charges. This allows participants take distributions from the Lifetime Income Strategy according to their preferences. This can be done systematically or on a provisional basis as income is needed. If a participant has an urgent need for cash and requires access to their entire balance, that option is available as well. At UTC, we felt it was crucial to our design objectives for the Lifetime Income Strategy to preserve a substantial degree of liquidity so that participants may respond and adapt when they are faced with unexpected circumstances that inevitably arise during retirement. The value of this freedom and flexibility should not be ignored when making decisions regarding fundamental elements of a retirement income design.

Another important feature embedded in the design of the Lifetime Income Strategy is that assets in the Lifetime Income Strategy remain invested in a diversified portfolio of stocks and bonds for life. This maintains a growth-oriented investment strategy with upside potential throughout retirement and supports a high likelihood that retirement income benefits will increase in the future due to investment performance.



The Lifetime Income Strategy incorporates a number of other features and elements that serve to further enhance and refine its ability to address the many and diverse financial needs of a large population of people who will be faced with wide a variety of individual circumstances in retirement. I would be happy to provide more information to the Council if it would be helpful.

The Issue Scope document provided in advance of this hearing included a number of highly relevant topics for study by the Council. While it is not my intent to cover each item directly in my testimony the following attachments should speak to a number of issues that are within the scope of this investigation.

Attachment 1: Comparison of Lifetime Income Strategy Features to Key Elements of the Final Rule on Default Investment Alternatives Under Participant Directed Individual Account Plans (the “QDIA Regulations”)

QDIA Regulation Excerpts	Lifetime Income Strategy
Restriction on Employer Securities — The investment may not hold or permit the acquisition of employer securities, except in certain cases. 29 C.F.R. § 2550.404c-5(e)(1)(i). Employer securities held in a pooled investment vehicle regulated and subject to periodic examination by a state or federal agency are not prohibited if the investment is made in accordance with the stated investment objectives of the investment vehicle and independent of the plan sponsor or an affiliate thereof. 29 C.F.R. § 2550.404c-5(e)(1)(i).	There are no investments in employer securities other than, potentially, those held within a regulated pooled investment vehicle (e.g., a collective investment trust), which is invested in accordance with specific objectives independent of the plan sponsor (or the plan sponsor's affiliates).
Transferability — For defaulted participants, the investment must permit transfers “in whole or in part” to any other investment alternative available under the plan with the same frequency afforded to participants and beneficiaries who affirmatively elect to invest in the QDIA, but not less frequently than once within any three month period. 29 C.F.R. § 2550.404c-5(e)(2).	No liquidity or transfer restrictions, or related fees, apply to the Lifetime Income Strategy. Participants are free to transfer out of the Lifetime Income Strategy at any time.
Management of QDIA — The investment must be (i) managed by an investment manager, a trustee, or plan sponsor (or a committee comprised primarily of employees of a plan sponsor); or (ii) an investment company registered under the Investment Company Act. 29 C.F.R. § 2550.404c-5(e)(3).	The Lifetime Income Strategy is an investment management service because AllianceBernstein (“AB”) acts as an “investment manager” under ERISA and is a fiduciary.
Qualifying Investment Management Service — The investment alternative must fall within one of five specific “categories” of investment fund products, model portfolios, or services. An investment management service qualifies if it (i) applies generally accepted investment theories to achieve varying degrees of long-term appreciation and capital preservation through a mix of equity and fixed income exposures, (ii) offered through investment alternatives, (iii) is individualized based on the participant's age, target retirement date, or life expectancy, (iv) diversified so as to minimize large losses, and (v) changes over time with the objective of becoming more conservative with increasing age. 29 C.F.R. § 2550.404c-5(e)(4)(iii).	Under the Lifetime Income Strategy, AB provides an investment management service to participants in which it (i) applies generally accepted investment theories to invest the participant's account in a customized portfolio comprised of equity and fixed income funds that are (ii) investment alternatives available under the plan, (iii) the investments are individualized based on the participant's age and other individual circumstances, (iv) diversified so as to minimize large losses, and (v) shift over time to become more conservative by including higher concentrations of fixed income investments and lower concentration of equity investments.
Permissible Features — Although not required, products and portfolios that include annuity purchase rights, investment guarantees, death benefit guarantees, or other features ancillary to the investment fund, product or portfolio may qualify as QDIAs. 29 C.F.R. § 2550.404c-5(e)(4)(vi).	The regulation clearly anticipates that products that offer guaranteed lifetime income, like the Lifetime Income Strategy, will fulfill the requirements of the QDIA regulations.

Source: AllianceBernstein

Attachment 2: A Lifetime Income Safe Harbor for Qualified Retirement Income Alternatives (“QRIs”)
A tipping point toward greater well-being and improved financial security for Americans in retirement

After reviewing existing literature and considering a number of references including our own experience with the application of safe harbors and regulatory guidance in the development of the United Technologies Corporation Employee Savings Plan Lifetime Income Strategy, we would offer a suggestion for enhancing the existing regulatory framework governing qualified retirement plans in the U.S. in such a way as to promote and facilitate wide-spread adoption of effective lifetime income options. Indeed, a significant benefit of issuing a safe harbor that includes protections for plan sponsors and fiduciaries who meet the standard of care for the adoption of retirement income alternatives within employer-sponsored plans would be to shield procedurally prudent fiduciaries from costly lawsuits and potential liability that very likely acts as a deterrent to plan sponsors and fiduciaries that would otherwise take action in this regard.

Most importantly, we recommend that any safe harbor or other form of regulatory guidance emphasize specific descriptions of the functions of plan features and/or options available to participants in defined contribution plans and deliberately avoid references to specific products, product categories and industry jargon wherever possible. We believe stressing features and functions in the regulation not only simplifies drafting for regulators, but doing so clarifies intent and supports plan fiduciaries charged with determining whether or not competing solutions adhere to regulations as well as how they might avail themselves of protections afforded under the safe harbor through a clear and reasonable standard of care. Regulation focused on functional descriptions will also facilitate ongoing industry investment in research and development, whereas product-centric language will stifle innovation and stall progress.

Indeed, this approach is strongly supported by DOL in their preamble to the final rule on Default Investment Alternatives Under Participant Directed Individual Account Plans: *“Some commenters expressed concern that the Department’s approach to defining qualified default investment alternatives takes into account only products currently available in the marketplace and that the defining of qualified default investment alternatives should be based on more general criteria. These **commenters emphasized that the regulation should not stifle creativity in the development of the next generation of retirement products.** While the Department does provide examples of products, portfolios and services that would fall within the framework of the various definitions of products, portfolios and services set forth in the regulation, these **examples are provided solely for the purpose of providing the benefits community with guidance as to what might be included within the defined categories and are not intended in any way to limit the application of the definitions to such vehicles. The Department believes that... the approach it is taking to defining qualified default investment alternatives for purposes of the regulation is sufficiently flexible to accommodate future innovations and developments in retirement products.**”*

For our part, UTC met with DOL in 2011 and recommended they define and adopt the term “qualified retirement income alternative” or “QRIA” if they were to publish a new safe harbor and/or revise existing guidance. Under our definition, which remains admittedly undeveloped, a QRIA might fall within a number of product labels, but its principal function must be the provision of income to the plan participant and/or their beneficiaries in order to receive coverage under a safe harbor or other form of regulatory endorsement. For simplicity, we will use the term QRIA throughout.

It was always intended that the definition of a QRIA should deliberately allow for the income mechanism and/or the nature of the resulting income to be open-ended and that the language of the regulation should state this explicitly. A properly defined QRIA would unmistakably encompass plan features and options that might integrate any number of solutions. For example, annuity contracts, systematic withdrawal methods, and services to help participants determine the order, timing and magnitude to draw upon different sources of retirement income would fall within a robust definition of a QRIA. To be clear, a QRIA safe harbor would cover retirement income features which:

- a. may or may not last for a lifetime,
- b. may be acquired in exchange for explicit or embedded fees,
- c. might otherwise occur as the consequence of some conversion of qualified assets into one or more plan distributions, either in isolation or in combination with assets held outside of a qualified plan or other sources of income such as Social Security benefits or traditional pension benefits, and
- d. may accommodate “opt-in” and/or “opt-out” choice architecture.

Given that our preference is for a single definition of QRIA that focuses on a range of functionality without distinction as to the mechanism through which these functions are achieved, we believe a single safe harbor should apply for all forms of annuities, systematic withdrawals and social security integration strategies. One broadly drafted safe harbor for retirement income alternatives in individual account plans should validate and support all plan features and/or options adopted by a plan fiduciary with the express objective of providing retirement income to the plan participant and/or their beneficiaries in defined contribution plans. A single regulation drafted such that it encompasses all services and instruments would improve the clarity of regulatory intent and simplify fiduciary review. Entitling plan fiduciaries to rely on a fundamental standard of care under ERISA in the design, selection and adoption of QRIs would clearly assert participant-directed individual account plans as modern-day retirement plans and recognize their ubiquity across the American economy.

In spite of the QRIA's emphasis on retirement income, a prudently drafted safe harbor would allow for QRIs that generally offer features and options which preserve the freedom and flexibility that Americans have not just come to expect in their finances, but we would argue are a necessity in a modern retirement plan. An individually directed retirement plan design must allow for inherent variation amongst a wide variety of personal financial conditions if it is to function effectively across a broad and diverse population of participants and beneficiaries. In order for regulations to promote maximum utility and garner the broadest degree of adoption, we should encourage the development of robust and pragmatic retirement solutions. It is reasonable to expect regulations that anticipate a wide range of needs and circumstances to allow for an equally broad variety of solutions that balance costs and benefits based on their intended application. Features such as longevity protection, return of principal, death benefits, liquidity, portability, price certainty, competitive cost, and transparency are all important. However, each is subject to a complex trade-off between cost and benefits. The assessment of such trade-offs should be performed by a prudent fiduciary according to the unique needs and constraints of a plan and its participants.

An inescapable consequence of defining and endorsing the concept of a QRIA is the necessity to communicate its features and benefits to plan fiduciaries, participants and beneficiaries. Regulators have expended significant effort in this area. While we do not intend to address this in detail here, we would assert that it is critical that any regulatory requirements concerning the illustration of retirement income be entirely consistent with the definition of a QRIA.

We acknowledge that a strong argument exists that effective regulation would encourage plan fiduciaries to engage participants through an active choice approach. It is possible this may be true and we agree that it is generally preferable for participants and their beneficiaries to engage in active choice over inaction because of ambivalence or ignorance. However, our experience with large populations supports the theories of behavioral finance and human psychology with respect to defaults and revealed preferences. In other words, absent of significant incentives to take action, people faced with the choice to do something or to do nothing, most commonly opt for the latter.

As a plan sponsor with an interest in this area, we would offer the following working principals that might be incorporated in regulatory guidance regarding protections and standards for plan sponsors who actively promote the benefits of lifetime income through ongoing plan participation that would logically include active choice and default approaches to plan features including one or more QRIs:

Plan fiduciaries are entitled to communicate the benefits of retirement plan participation through a variety of media and at all stages of employment or plan participation. Such communications can be developed directly by the fiduciary, acquired from one or more service providers associated with the plan or other sources deemed to be credible and accurate. Messaging can be general or specific, but should be factual to the best knowledge of the plan fiduciaries or service provider responsible for the development of communications. The completeness and accuracy of communications should be based on the facts and circumstances prevailing at the time of development. However, plan fiduciaries have a duty to periodically review, revise and/or replace communications which are deemed to be outdated, inaccurate, inapplicable or inappropriate at the time of the subsequent review.

Communications may include accurate numerical values and other factual content that is subject to change so long as the date the values or other facts were collected is clearly disclosed. Communications may include estimates, projections or forecasts so long as they are

clearly identified as such and all material assumptions used are clearly disclosed. Covered communications may include text, tables, charts and graphs depicting current factual values and estimates, projections or forecasts as well as comparisons of any of the foregoing so long as each is clearly delineated as such and any material assumptions are clearly disclosed. Communications may be in static, variable and/or interactive formats so long as all disclosure requirements are met. Language, illustrations and images used in communications may be of a persuasive nature, but should fairly represent comparisons, avoid glaring omissions of pertinent information and avoid derogatory, defamatory or exploitive content.

Communications should be culturally competent to the extent possible and with respect to the intended audience and plan participants. In other words, communications should reflect an ability to interact effectively with people of different cultures and socio-economic backgrounds, particularly in the context of employment and retirement with respect to persons from different cultural/ethnic backgrounds and take into account specific characteristics of a given plan population. Communications may be tailored to segments or a subset of a broader audience.

We hope UTC's experience developing our Lifetime Income Strategy might serve as an example of how a plan fiduciary can use safe harbors in practice. We conducted a careful review of the regulations governing both QDIAs and Annuity Selection in Individually-Directed Plans and made some critical determinations with respect to our design requirements. The program needed to be simple and flexible for participants to use, but operate on a highly sophisticated level under the oversight of a professional investment manager. We performed functional analysis on a host of products before adopting a final design for the Lifetime Income Strategy. Focusing on the principle components of each available alternative and how they related to regulatory guidance enabled us to perform side-by-side comparisons, reinforce our objectives, dispel misconceptions and ultimately make our final selection.

June 13, 2012

Testimony to the ERISA Advisory Council on the Topic of
Examining Income Replacement during Retirement in a Defined Contribution System

Kevin T. Hanney, CFA, United Technologies Corporation

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.

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.

Original Appendices Omitted, But
Available Upon Request