August 30, 2010

SUBMITTED ELECTRONICALLY

Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-6555
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, D.C. 20210

Re: 408(b)(2) Interim Final Regulations published on July 15, 2010

Dear Sir or Madam:

This letter is submitted on behalf of the Variable Annuity Life Insurance Company ("VALIC"). We appreciate this opportunity to submit comments relating to the interim final regulations that were published by the Department of Labor's Employee Benefits Security Administration on July 15, 2010, regarding the fee disclosure requirements for a "reasonable" contract or arrangement under Section 408(b)(2) of the Employee Retirement Income Security Act of 1974 ("ERISA").

Who We Are

VALIC is a life insurance company based in Houston, Texas, and a major provider of investment products (including annuities and mutual funds) and related services to sponsors of Section 401(a)/403(a) qualified plans, Section 403(b) tax-deferred annuity arrangements, Section 457(b) deferred compensation arrangements, and other qualified and nonqualified deferred compensation plans. A significant percentage of the plans that VALIC serves are subject to ERISA, meaning that contracts between such plans and VALIC are subject to the requirements of Section 408(b)(2) of ERISA.

General Comments about the Interim Final Regulations

VALIC commends the Department of Labor's Employee Benefits Security Administration (hereinafter, the "Department") for its work on these interim final regulations. In our view, these regulations represent a significant improvement over the proposed rules (and the proposed class
exemption) that were published in the Federal Register on December 13, 2007. VALIC generally agrees with the Department's decision to treat pension and welfare plans separately, to limit the categories of service providers that must comply with the disclosure requirements and to incorporate relief for innocent fiduciaries directly into the regulation, as well as its decision not to require a formal written document delineating the disclosure obligations (even though the disclosures must be made in writing) and not to require specific conflict of interest provisions.

VALIC also generally believes that the Department has struck an appropriate balance between the need for full disclosure of fees and the need to avoid unnecessary burdens on services providers that could eventually translate to higher costs for plans and participants. However, there are some specific issues that we believe merit comment.

"Summary" Disclosure Statement

The preamble to the regulations provides that the Department has not determined whether it is feasible to provide specific standards for the format in which the required fee information must be disclosed, given the large variety of plan service arrangements that are covered by the regulations and the variation in the way service providers currently disclose information to plan fiduciaries. The preamble also provides that, although the Department believes that plan fiduciaries may benefit from increased uniformity in the way fee information is presented, the Department does not wish to unnecessarily increase the cost or burden for service providers to furnish the required information unless it is clear that the benefit to plan fiduciaries outweighs such cost and burden.

We understand that the Department is considering adding a requirement (to the final regulations) that covered service providers furnish a "summary" disclosure statement (possibly limited to one or two pages) that would include key information intended to provide the responsible fiduciary an overview of the information required to be disclosed. According to the preamble, this "summary" would be required to include a "roadmap" for the plan fiduciary describing where to find the more detailed elements of the disclosures required by the regulation.

VALIC agrees with the Department’s decision to allow flexibility in the manner in which the required disclosures may be provided. VALIC can also appreciate that, in some situations, a "summary" of the required disclosure information (with a roadmap of how or where to find more detailed information) may be helpful to a plan fiduciary. We also believe, however, that in order to avoid a costly burden on both plan fiduciaries and service providers, this "summary" information should not be required to be provided in any particular format (such as a separate document). And most importantly, we strongly believe that a "one-size-fits-all" summary document (such as a prescribed "form" that all service providers must complete) would not be appropriate, given the variety of services (and service providers) covered by the regulation, and may in some cases make it
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even more difficult for the plan fiduciary to evaluate the reasonableness of the service provider's fees. Certainly it would not be cost-effective (or helpful) to require a service provider that charges only a flat annual fee to complete the same disclosure document as another service provider that is offering a platform of 50 different investment options, each with different amounts of revenue sharing.

Covered service providers should have the flexibility to provide the required information in either (i) the actual service contract (provided that a copy is made available reasonably in advance), (ii) a separate document that describes the services to be provided under the contract and the fees for such services, or (iii) a combination of documents (which, in the case of a recordkeeper that offers a "platform" of investment options, may include the disclosure documents provided by an unrelated investment provider). Covered service providers should be free to choose the format of such disclosure documents, so long as the requisite information is clearly provided to the plan fiduciary. Although it may be appropriate to require that there be a concise summary in at least one document provided to the fiduciary (which summary would include the roadmap indicating where the fiduciary may find additional information), we do not believe it will be cost-effective to require that summary to be provided as a separate document (or in any particular format).

Requirement to "Unbundle" Recordkeeping Costs

VALIC is very concerned that the requirement to "unbundle" and identify the amount that is being charged for "recordkeeping" services (even if there is no separate fee for those services, or even if the fee for those services is offset or reduced by revenue sharing or other compensation) will greatly increase the burden on service providers while providing little meaningful information to plan fiduciaries. First of all, the term "recordkeeping" is so broadly defined, it will be difficult (if not impossible) for fiduciaries to make a meaningful comparison of such costs. For some providers, "recordkeeping" will involve solely plan level services (i.e., year-end testing, contribution calculations and preparation of a signature-ready annual report), while for other providers, "recordkeeping" will involve solely participant-level recordkeeping (accounting for transactions within a participant's account, such as investment changes, distributions, loans, etc), and for others it will include a combination of both of these. For some providers, participant-level recordkeeping is virtually an "automatic" function that cannot realistically be "unbundled" from the investment management services.

If service providers are required to "allocate" a portion of a "bundled" fee to "recordkeeping," it is far from clear whether such allocations or estimates will provide any meaningful information to plan fiduciaries. If a fiduciary receives two quotes for a "bundle" of similar services that both total 80 basis points (where one provider allocates 30 bp to recordkeeping and 50 bp to investment management, while the other provider allocates 20 bp to recordkeeping and
60 bp to investment management), how will that information be useful to the fiduciary? The usefulness is even further reduced if one or both of those recordkeeping fee quotes is merely an "estimate" based on whatever particular methodology or assumptions that the service provider chose to use.

VALIC urges the Department to remove this provision, and to allow fees for "bundled" services to be disclosed under the same guidelines as the reporting of such fees on Schedule C.

Comparison to Schedule C of Form 5500

VALIC notes that the service provider disclosure requirements under the 408(b)(2) regulations are similar, but not identical, to the reporting requirements for Schedule C of Form 5500. Although we recognize that the 408(b)(2) regulations require disclosure of fees and expenses that the service provider reasonably expects to receive (which in many cases is only an estimate), while Schedule C requires annual reporting of fees actually paid to the service provider by the plan, it seems only logical that the two sets of rules should be coordinated to the extent possible. Investment providers and recordkeepers have already invested significant resources to capture the information that must be provided to plan administrators to allow them to satisfy their reporting obligations under Schedule C. If the 408(b)(2) fee disclosure requirements are not coordinated with the Schedule C requirements, service providers will have to spend additional resources to provide information that varies only slightly from the Schedule C reporting information.

Despite the differences noted above, the interim final regulations impose a new requirement on service providers to provide, within 30 days after a request by the responsible plan fiduciary, any information relating to the compensation received in connection with the contract that is required for the covered plan to comply with its reporting and disclosure requirements under Title I of ERISA (including, but not limited to, the requirement to file an annual return, which may include a Schedule C). However, the regulations do not address how this requirement relates to the existing rule under Section 103(a)(2) of ERISA, which requires banks, insurance companies or other similar organizations that (i) hold plan assets (or provide plan benefits), and (ii) are in possession of information necessary to enable a plan administrator to comply with the reporting requirements of ERISA, to transmit (and certify the accuracy of) that information within 120 days after the end of the plan year. At a minimum, the interim final regulations should be modified to address the relationship between these two rules. Otherwise, such financial institutions could be required to provide information on 30 days notice that their systems are already programmed to provide within the existing 120-day deadline. This too, would be an unnecessary burden on service providers without providing any meaningful benefit to plan sponsors or plan participants.
Disclosure of Fees by "Platform" Providers

The regulations require specific disclosure by providers of recordkeeping and brokerage services with respect to each designated investment option that is made available by such provider as part of a "platform" of investment options. The regulations also provide that the service provider may comply with this requirement by providing current disclosure materials (such as a prospectus) provided by the issuer of the designated investment alternative (so long as it includes the required information), but only if the issuer is not an affiliate of the service provider, and the service provider is not aware that the materials are incomplete or inaccurate.

VALIC feels that this latter requirement is overly restrictive. For example, if an affiliate of VALIC provides a platform of investment options that include a number of mutual funds (some of which are VALIC proprietary funds and some of which are funds of unrelated mutual fund companies), the regulations provide that the VALIC affiliate may satisfy its reporting requirements for an unrelated fund by providing that fund's prospectus (so long as the VALIC affiliate is not aware that the materials are incomplete or inaccurate), but it cannot satisfy the requirements for a VALIC-managed fund by providing a VALIC prospectus, even though the VALIC affiliate that is providing the platform of options is likely to be in a better position to know whether those materials are complete and accurate. So long as the materials are regulated by a State of federal agency, it should not matter whether those materials are provided by an affiliate or an unrelated company.

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We appreciate this opportunity to comment on the interim final regulations. We firmly believe that the comments and suggestions set forth herein will allow the Department to attain its goal of fee transparency without an undue burden on service providers. If you have any questions about the issues raised in this letter, please do not hesitate to contact us.

Sincerely,

Robert A. Browning

RAB/bsf

cc: Richard A. Turner
     Vice President and Deputy General Counsel
     Variable Annuity Life Insurance Company