

November 2, 2020

Office of Regulations and Interpretations  
Employee Benefits Security Administration  
Room N-5655  
Attn: Pension Benefit Statements—Lifetime Income Illustrations, RIN 1210-AB20

U.S. Department of Labor  
200 Constitution Avenue NW  
Washington, DC 20210

Via email: <https://www.regulations.gov>

To Whom It May Concern:

State Street Global Advisors (SSGA) is one of the largest asset managers working with US defined contribution plans today. With nearly 40 years of experience in the Defined Contribution (DC) market, we manage more than \$557 billion in DC assets around the world, of which over \$413 billion belong to participants in the US<sup>1</sup>. Drawing upon our research into the needs of retirement plan participants and deep experience working with plan sponsors, we appreciate the opportunity to provide our views and support for the interim final rule (“IFR”) that the Department issued on August 18, 2020 implementing Section 203 of the Setting Every Community Up for Retirement Enhancement Act of 2019 (the “SECURE Act”).

We commend the Department and the work of the professional staff for issuing the IFR in a timely fashion and, more importantly, for appropriately balancing the various considerations necessary to ensure that DC plan participants have the tools they need to plan for a secure retirement. While accuracy in the illustrations is a worthy goal, we believe the Department struck the appropriate balance by focusing on simplicity of communication and understanding by most plan participants.

As we stated in our letter to Acting Assistant Secretary Wilson dated June 5, 2020 (which we attach to this letter as a more complete explanation of our views), given the variety and complexity of the assumptions required for lifetime income illustrations, we recommend an approach based on simplicity, as opposed to precision, to drive greater understanding of the projections by participants. Participants need to be able to draw a straightforward connection between decisions they make (e.g., increasing their savings rate) and how this affects their retirement income. Furthermore, recordkeepers are in need of a cost-effective and efficient means to provide income projections for participants. We believe the IFR achieves both of these objectives.

We further believe the IFR successfully achieves the objective of standardization across employers, which is also consistent with a recommendation from our June 5 letter. As the IFR states: “This IFR greatly standardizes lifetime income illustrations across defined contribution plans, which will save time by minimizing confusion for participants. A standardized illustration would make it easy for workers to add together their estimated Social Security and ERISA benefits, minimizing some of the complexity of retirement planning. This change will be of particular benefit to participants who change jobs or receive statements from multiple defined contribution plans, as different benefit statements with few exceptions will use the same model language and assumptions, and present the information in the same manner.”<sup>2</sup>

The IFR solicits views on a number of the assumptions to be used in the calculation of the lifetime income illustration. As the Department notes, consideration was given to a number of different methods that can be used to make the calculation. We applaud the Department for its consideration of the various methods and believe the assumptions that were chosen are reasonable. We believe these assumptions, particularly the use of the 100% joint & survivor annuity and unisex mortality tables, achieve the goals of simplicity and standardization, which we believe will provide clarity and understanding by most participants.

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<sup>1</sup> As of September 30, 2020.

<sup>2</sup> 85 Fed. Reg. 182, September 18, 2020, pg. 59146

Although we strongly support the Department's chosen approach, we offer two suggested clarifications in the final rule:

1. The IFR contains special rules for plans that offer distribution annuities, deferred annuities, or both.<sup>3</sup> We commend the Department for developing special rules that provide illustrations based on annuities that participants may actually elect, which we believe will further enhance the value of the illustration to participants in planning for retirement. We note, however, that in some cases, distribution annuities may be offered in the form of a deferred income annuity. Therefore, we suggest clarifying in the final rule that plans offering distribution annuities in the form of a deferred income annuity may elect to follow the special rules set forth in paragraph (e)(1), rather than the requirements for deferred income annuities that remain in-plan under paragraph (e)(2).
2. With regard to the model notice and required disclosures, we respectfully suggest the inclusion of an optional graphical illustration, particularly when comparing estimates based on different assumptions. In our work with DC plan sponsors, we have found that taking a varied approach to presenting information can be effective in conveying the meaning, particularly because not everyone absorbs information in the same manner. We recommend the Department consider permitting a graphical representation of how income payments might be higher or lower based on certain variables, including how much a participant saves. Such a graphical display may enhance the clarity of the disclosure for some participants versus the model disclosure alone. We believe this graphical display should be optional for plan sponsors, and the Department should make it clear that use of such a display would be considered investment/decumulation education under Interpretive Bulletin (IB) 96-1. Although not directly analogous to the IFR's lifetime income disclosure, we attach to this comment letter an example of some graphical illustrations that we have developed with clients on the benefits for participants of starting to save early in their 401(k) plans.

We want to thank the Department for issuing this IFR in a timely manner so that plan sponsors, recordkeepers and other financial service providers can make the necessary systems changes in order to meet the statutory deadline for including the lifetime income disclosure information on benefit statements in 2022. We appreciate the opportunity to comment and look forward to the final regulation being issued. In the interim, please feel free to contact me if you have any questions or need additional information.

Sincerely,



David Ireland  
Global Head of Defined Contribution  
State Street Global Advisors

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<sup>3</sup> Ibid, pg. 59156

June 5, 2020

**Ms. Jeanne Klinefelter Wilson**

Acting Assistant Secretary  
U.S. Department of Labor  
Employee Benefits Security Administration (EBSA)  
200 Constitution Ave, NW, Room S-2524  
Washington, DC 20210

Dear Ms. Wilson:

State Street Global Advisors (“Global Advisors”) is one of the largest asset managers working with US defined contribution (“DC”) plans today. With nearly 40 years of experience in the DC plan market, we manage more than \$435 billion in DC plan assets around the world, of which over \$325 billion belong to participants in the US (as of March 31, 2020). Drawing upon our research into the needs of retirement plan participants and deep experience working with retirement plan sponsors, we appreciate the opportunity to provide our views and support for the development of lifetime income projections for participants in defined contribution retirement plans pursuant to section 203 of the SECURE Act.

As a result of the significant research done in the area of income projections, we support the use of such projections across all age groups. We recognize that there are different reasonable views among stakeholders regarding how to implement the relevant SECURE Act provision by the statutory deadline of December 20, 2020. There is one critical point, however, to emphasize: plan participants need disclosures of projected lifetime income to better understand whether they are on track, or must save more, for a secure retirement. Accordingly, any delay in issuing guidance beyond the statutory deadline delays the point at which participants will start benefiting from this important provision. Therefore, we urge the Department of Labor (the “Department”) to issue the interim final regulations by the SECURE Act deadline.

The remainder of this letter focuses on specific recommendations with regard to the assumptions we believe should be used to project expected future income and the disclosures that should accompany a lifetime income model.

**The Importance of Providing a Lifetime Income Disclosure:**

With the decreasing availability of Defined Benefit (“DB”) pension plans, employees have lost insight into how their workplace savings translates into retirement income. When asked to identify their top sources of income in retirement, DC plan participants ranked DC plan savings almost as high as Social Security.<sup>1</sup> Given the importance of DC savings today, we believe participants would benefit from education and/or clarity regarding how much retirement income their accumulated savings will generate once it becomes a primary source of monthly income. With 63% of the \$8.5 trillion of DC plan assets held by participants 50 years of age and older, determining a participant’s lifetime monthly income potential is an increasingly pressing issue.<sup>2 3</sup>

Several DC plan investor surveys have demonstrated the need for further clarity on retirement income:

- 75% of workers between the ages of 35 and 44 would be “very interested” in a financial product providing guaranteed lifetime income as investor concerns over longevity risk, Social Security insolvency, and uncertainty about how to create lifetime income increase.<sup>4</sup>
- 58% of non-retirees believe their income in retirement won’t last their lifetime, and just four in ten workers have tried to calculate how much money they will need.<sup>5 6</sup>
- 41% of workers ages 50 and younger and 34% of workers ages 51 and older believe that the most valuable improvement to their retirement savings plan would be better explanations for how much income their savings would produce in retirement.<sup>7</sup>

Further complicating the matter is the natural tendency to overestimate the retirement income value of a large account balance. For example, a participant may view a \$100,000 account balance as a large amount of savings whereas, if translated into lifetime income, the participant may quickly see that much more needs to be saved. In fact, a LIMRA study found that 52 percent of all US workers (ages 20-79) say it is difficult to know how retirement savings will translate into monthly income. The study suggests offering workers retirement savings income estimates can help bridge this gap.<sup>8</sup>

<sup>1</sup> EBRI 2019 Retirement Confidence Survey April 2019. 59% of survey participants ranked Social Security as a major source of income; 51% ranked DC plan savings as a major source.

<sup>2</sup> ICI Retirement Market Report December 2019

<sup>3</sup> EBRI Issue Brief No. 458 (September 2018) - 401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2016

<sup>4</sup> IRI State of the Insured Retirement Industry February 2020

<sup>5</sup> Alliance for Lifetime Income Protected Lifetime Income Index Study July 2019

<sup>6</sup> EBRI 2019 Retirement Confidence Survey April 2019

<sup>7</sup> EBRI 2020 Retirement Confidence Survey May 2020

<sup>8</sup> LIMRA Secure Retirement Institute (2018)

Workplace education programs have been shown to encourage participants to save more, with a University of Wisconsin study finding programs increased participant savings rates by an average of 40%.<sup>9</sup> LIMRA found 48% of participants increased their contribution rate as a result of being shown their projected monthly retirement income.<sup>10</sup>

As you are aware, the Federal Thrift Savings Plan has been displaying monthly income equivalents on participants' benefit statements since 2012. The 2017 Thrift Savings Plan ("TSP") survey results found that 86% of respondents read and rely on their annual benefit statements. Of the respondents who use the annual benefit statement, 89% express satisfaction with the information in the statement. Even more to the point, 58% of participants under 70 agree that the estimate of monthly retirement income is helpful, including 65% of individuals ages 50 to 59.<sup>11</sup> Furthermore, 29% of active participants took some action based on the monthly income estimate, with 12% increasing their contribution levels and 10% changing their account investments.

The benefit of providing income projections is not limited to older participants. Research conducted by LIMRA to understand the role retirement income estimates play in the investment decisions of workers showed that 55% of Millennials increased their savings contribution rates after they were shown their estimated monthly retirement income.<sup>12</sup> In fact, the benefit of providing income projections may be even greater for younger participants. Over time, the value created by a small contribution increase can be substantial. For example, a 1% contribution increase by a participant at age 21 could result in roughly a 20% higher accumulated balance by age 65.<sup>13</sup>

### State Street Global Advisors' Recommendations for Best Practices for Income Projections:

The industry has been debating if and how income projections should be displayed: (i) as a static value using the participant's current balance and assuming they are age 65 today, as done by the TSP; or (ii) as a projected amount, using underlying assumptions for variables, including investment rate of return.

One challenge with attempting to project future expected income is that projections can be highly sensitive to changes in assumptions. Even very small changes in key assumptions, such as interest rates, deferred vs. immediate annuities, or expectations around future savings, can dramatically impact projections of future income. For example, if deferred annuity income scenarios are used, for a 45-year-old expected to retire at age 65, a 0.5% change in expected interest rates will change the price of a deferred fixed income annuity by 15-18%<sup>14</sup>— highlighting both the sensitivity of inputs and the likely volatility of income projections over time. Reporting on expected future income should help people plan and prepare for retirement in a way that does not result in a highly variable estimate that may confuse savers and increase anxiety or, worse, provide a false sense of security.

Given the need for increased participant education on retirement income and the complexity around income projections, we believe a successful framework should focus on standardization and simplicity.

**1. Standardization:** One of the main challenges for income projections lies in the varying sets of inputs. While much can be debated on the significance of various inputs, the key, in our opinion, is standardization. A participant receiving multiple statements with projections for roughly the same account balances that are held in different employers' plans would be confused if the income projections were not roughly equivalent.

**2. Simplicity:** Given the variety and complexity around the inputs, we recommend focusing on simplicity to drive greater understanding of the projections, as opposed to precision. Participants need to be able to draw a straightforward connection between decisions they make (e.g., increasing their savings rate) and how this affects their retirement income. Furthermore, record keepers are in need of a cost effective and efficient means to provide income projections for participants.

To achieve the above two objectives, we recommend a straightforward expression of the participant's future expected monthly income that can be easily adopted across the industry. We propose that the Department prescribe a single set of assumptions (as compared to a range of assumptions) using the following methods:

**1. Accumulated Balance:** We recommend using the participant's current balance, as if they were retiring today. As stated previously, we believe that simplicity is a key to participants' understanding of the calculation. Using the participant's current account balance is the simplest way to achieve this because it introduces the fewest number of variables into the monthly income calculation.

<sup>9</sup> University of Wisconsin – Madison Center for Financial Security, Workplace Financial Education's Effects on Retirement Planning March 2017

<sup>10</sup> LIMRA Secure Retirement Institute (2018)

<sup>11</sup> 2017 FTRIB Participant Satisfaction Survey

<sup>12</sup> LIMRA Secure Retirement Institute (2018)

<sup>13</sup> State Street Global Advisors. Results are based on the median projected outcome for a participant invested in Global Advisors' Target Retirement Fund beginning at age 21 until age 65. Assumptions include: \$30,000 starting salary; 2.50% annual wage growth; increase of contribution rate from 5% to 6%; no employer match.

<sup>14</sup> Calculation is based on historical government and corporate interest rates, Society of Actuaries mortality tables, and estimates for insurer administrative and operating costs. Sources for historical interest rates are Bloomberg Barclays and Merrill Lynch. Society of Actuaries RP 2014 White Collar Mortality Table was used. Estimates for insurer administrative and operating costs based on input from a large deferred income annuity insurance provider with consultation from an actuarial consultant firm.

**2. Lifetime Income Stream Equivalent:** For purposes of translating the participant's total accumulated balance into a lifetime income stream equivalent, we recommend that the Department use the two most basic forms of income distribution, as outlined in Section 203 of the SECURE Act: (i) an immediate Qualified Joint and Survivor Annuity, as defined in Section 205(d) of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended from time to time, providing a 50% death benefit to the surviving spouse and (ii) a single life immediate fixed annuity, with no death benefit.

We commend the Department for the work you have done in developing the lifetime income calculator found on the Employee Benefits Security Administration ("EBSA") website. While we urge the Department to use the current account balance for purposes of the required lifetime income disclosure as described above, the EBSA calculator would be a helpful model for providing participants with an additional tool for projecting future monthly income based on assumptions inputted by the participant, such as future contribution rates and estimated age of retirement.

Finally, although Section 203 of the SECURE Act sets forth a limitation on liability for the provision of the lifetime income disclosure, in order to address any plan sponsor or administrator fiduciary liability concerns, we suggest that the Department confirm that such relief from liability would extend to an income projection calculated and disclosed pursuant to the rules issued by the Department.

**State Street Global Advisors' Recommendations for Model Lifetime Income Disclosure:**

We believe that a successful approach to the model lifetime income disclosure should focus on simplicity and clarity. The disclosure is meant to serve as a series of explanations regarding the illustrative nature of the projection, as well as the assumptions on which it is based. Although these concepts are complex, it is important to clearly distill them for participants while mitigating any potential misinterpretation of the projection or the variables from which it is drawn. To that end, and with the understanding that the disclosure may depend largely on the decided assumptions used to make the income projection, we offer the following suggested language:

*The lifetime income projection you see here is a hypothetical illustration of your current account balance, shown as a monthly income payment as if you were retiring today. The illustration shows the payment you might expect if your current account balance were used to purchase an annuity<sup>15</sup> with a monthly income benefit today. It is intended to be a hypothetical example and does not necessarily represent the amount of money you will receive each month in retirement. The assumptions used in this example do not take into account other aspects of your financial situation, such as your future potential earnings, contributions or the investment growth of your account over time. The actual monthly payment you may receive in retirement will depend on a number of factors and could be quite different from the amount shown in this illustration. If you would like to better understand your potential future income stream in retirement, please speak with a financial advisor.*

**Making Retirement Work, and Inviting Further Discussion:**

A thoughtful approach for providing income projections is an important step toward helping participants on the journey of saving for a secure retirement. We appreciate the efforts of the Department and the focus being placed on income projections that affect retirement readiness and positively influence retirement security. At Global Advisors, we are committed to making retirement work for all.

Thank you for the opportunity to contribute to this important industry development. We would welcome a further discussion on the topics covered in this letter. We look forward to continuing this discussion and invite you to contact me directly.

Sincerely,

  
David Ireland, CFA

Global Head of Defined Contribution  
State Street Global Advisors

[David.Ireland@ssga.com](mailto:David.Ireland@ssga.com)

cc: Joe Canary

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<sup>15</sup> We recommend that the Department require an explanatory reference with the type of annuity used for the calculation and, perhaps, an explanation of annuities, generally.

SAMPLE



# Saving for Your Tomorrow



# Save for Your Tomorrow

“Time is money.” That old adage means a lot when it comes to saving for retirement — because the earlier you begin to save, the further your money may be able to take you.

Compare the difference between Sara and Mark based on the age at which they each start saving:



Aim to save at least 15% of your gross salary for retirement each year.<sup>1</sup>

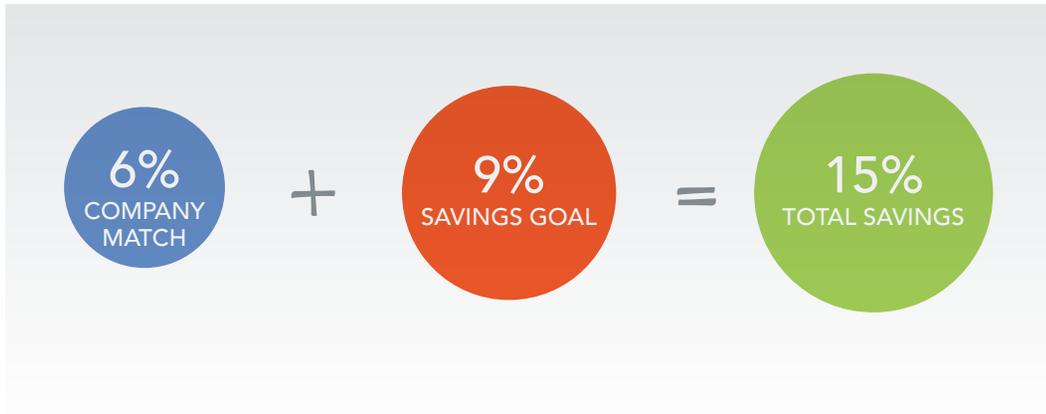


FOR ILLUSTRATIVE PURPOSES ONLY. This hypothetical illustration is not intended as a projection or prediction of future investment results, nor is it intended as financial planning or investment advice. It assumes 6% annual rate of return and reinvestment of earnings with no withdrawals. Rates of return may vary. The illustration does not reflect any associated charges, expenses or fees. The tax-deferred accumulation shown would be reduced if these fees had been deducted.

<sup>1</sup> Center for Retirement Research at Boston College, 2014.

# Set a Savings Goal

Consider aiming high. Here's what it would take to put 15% of your gross salary towards retirement each year.<sup>2</sup>



What does this really mean?

GROSS SALARY **\$45,000 / year**  
9% ANNUAL SAVINGS **\$4,050 / year**

 **\$11** That's \$156 per pay period or \$11 per day.

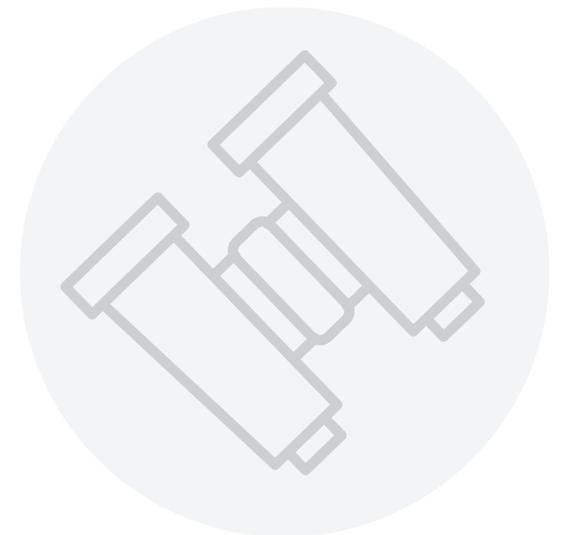
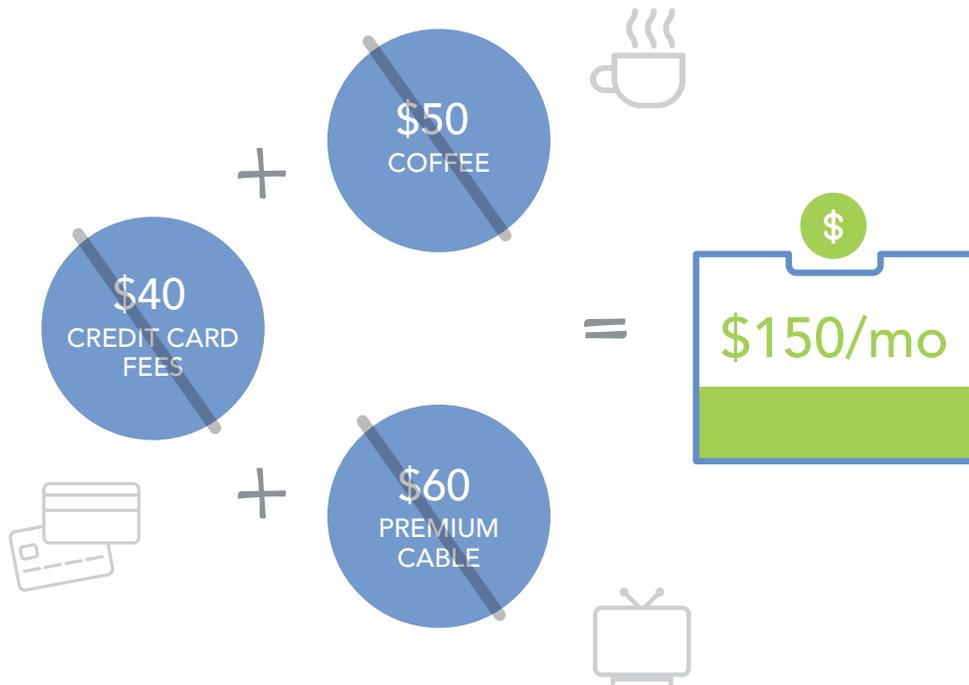


<sup>2</sup> Center for Retirement Research at Boston College, 2014.

FOR ILLUSTRATIVE PURPOSES ONLY. The amount of savings you contribute depends on your income and pension savings rates. The calculation shown reflects how much someone could save if they earn a gross salary of \$45,000 per year and contributed 9% of their earnings to a defined contribution account over approximately 26 pay periods.

## Finding Ways to Save

Sure, saving 15% is a hefty goal, but take a look at your budget and you'll be surprised by the ways you can find to save. Eating out, premium cable channels and credit card fees, for instance, can take a huge chunk out of your savings. By reviewing your spending plan and goals, you'll make the best use of your money while also working toward your tomorrow.



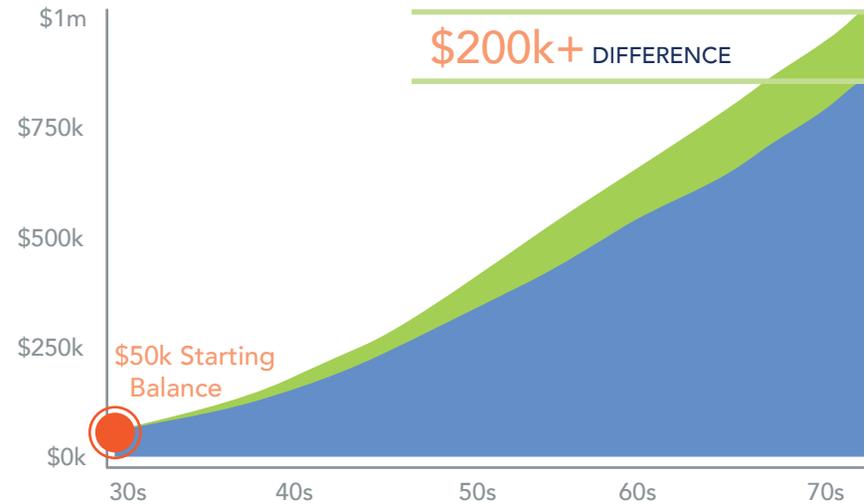
WHAT YOU NEED TO KNOW

The Magic of Saving

Money you invest has the potential to grow exponentially over time. That's because your invested savings can generate additional earnings of their own.

This phenomenon, known as compounding, is one of the biggest drivers of savings growth. The sooner you start saving, the more time your investments have to potentially benefit from the power of compounding. That's what helps Sara build a larger nest egg in the previous example.

Increasing your savings over time can make a big impact, too. Consider the difference in this scenario:



Jaclyn

Jaclyn raises her contribution by one percentage point (1%) each year until she reaches 10%



Randi

Randi keeps a steady contribution rate of 5%

Over time, Jaclyn's steady increases mean she has nearly \$200,000 more than Randi when they both reach age 65.

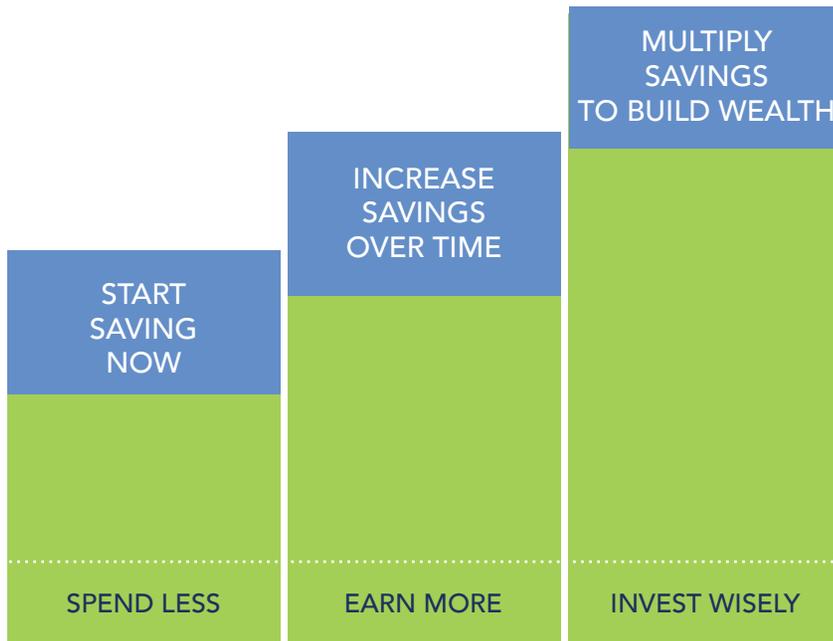


FOR ILLUSTRATIVE PURPOSES ONLY. This hypothetical illustration is not intended as a projection or prediction of future investment results, nor is it intended as financial planning or investment advice. It assumes 6% annual rate of return and reinvestment of earnings with no withdrawals. It assumes a starting salary of \$45,000 that increases 1% per year with inflation, and an initial contribution rate of 5% with a starting balance of \$50,000. Rates of return may vary. The illustration does not reflect any associated charges, expenses or fees. The tax-deferred accumulation shown would be reduced if these fees had been deducted.

WHAT YOU CAN DO NOW

**Bump It Up!**

Consider boosting your savings rate a notch — for example, from 5% to 6% — for six months to see if your budget can handle it. Chances are you might not miss the money in the short term — and you’ll have the potential to benefit even more in the long term, thanks to the power of compounding. You can also bump up your savings when you get a raise or if your expenses decline — for example, when your kids move from daycare to kindergarten.



**Get Free Money!**

Many employers offer matching dollars when you contribute to an employer-sponsored retirement plan.

**Say your employer offers matching contributions:**

For every dollar you contribute, your employer may also chip in \$1 (up to the match limit). These matching funds are of no additional cost to you — so consider saving enough to get the full match, even if it’s a stretch.

**It’s worth the effort:**

If you receive a dollar-for-dollar match, you’ll literally double the amount you could have saved on your own.

$$\begin{array}{r}
 \text{YOUR DOLLAR} \quad \$1 \\
 + \\
 \text{EMPLOYER DOLLAR} \quad \$1 \\
 \hline
 \$2
 \end{array}$$

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SAMPLE

Have questions? Ready to get started?  
Contact us at: [benefitswebsite.com](https://benefitswebsite.com) or 1-800-XXX-XXXX



[For plan sponsor use only.]

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