November 17, 2020

FILED ELECTRONICALLY

Office of Regulations and Interpretations
Employee Benefits Security Administration
U.S. Department of Labor
200 Constitution Avenue, NW
Washington, DC 20210

Attention:  Pension Benefit Statements – Lifetime Income Illustrations, RIN 1210-AB20

Dear Sir or Madam:

We are filing this letter on behalf of the Committee of Annuity Insurers (the “Committee”)\(^1\) in response to the above-referenced interim final rule on lifetime income illustrations (the “Interim Rule”) published by the Department of Labor (the “Department”).\(^2\) The Committee is pleased to support the Interim Rule and believes it will facilitate greater financial security in retirement by helping American workers better understand how their current savings will translate into future retirement income. We have several suggestions that we believe will help clarify and improve the Interim Rule and thereby further advance its important public policy goals. Briefly stated, we recommend that the final rule reflect the following:

1. **Projected account balances** – The required illustrations should be based on current account balances that are projected forward to the assumed retirement age, to ensure a more realistic depiction of participants’ retirement preparedness;

2. **Optional illustrations as education, not advice** – Optional illustrations that are provided in addition to the required illustrations should constitute “investment education” and not “investment advice” under ERISA, to ensure that non-fiduciary parties to such optional illustrations do not become fiduciaries merely by virtue of their role in providing the illustrations;

---

\(^1\) The Committee is a coalition of life insurance companies formed in 1981 to participate in the development of federal policy with respect to tax, securities, ERISA, and banking law issues affecting annuities. The Committee’s current 32 member companies represent over 80% of the annuity business in the United States and are among the largest issuers of annuity contracts to IRAs and employer-sponsored retirement plans. A list of the Committee’s member companies is attached.

Deferred income annuities – The phrases “deferred lifetime income stream” and “deferred income annuity” should be defined in order to clarify the types of annuity contracts to which certain mandatory disclosure rules apply;

Distribution annuities – For plans that base their illustrations on the “actual contract terms” of “distribution annuities,” there should be flexibility in determining which of multiple potential contract terms are assumed to apply when preparing the illustrations, as long as the assumptions are adequately disclosed;

Multi-vendor plans and similar situations – Separate illustrations should be permitted with respect to a participant who has accounts with more than one life insurance company or vendor under the same plan;

Flexibility for required disclosures – More flexibility should be provided with respect to the wording for the required disclosures, with corresponding liability relief;

Coordination with other regulators – The Department should coordinate with the SEC, FINRA, and NAIC on certain important issues described below before the Interim Rule becomes final; and

Additional transition relief for final rule – If the final rule imposes any significant new obligations on plan administrators compared to the Interim Rule, the Department should provide transition relief.

Each of these suggestions is discussed in more detail below.

1. Projected Account Balances

The Committee requests that the illustrations required under the final rule be based on the participant’s current account balance projected forward with interest to the assumed retirement age, to ensure a more realistic depiction of the participant’s retirement preparedness.

The Interim Rule adopts an “immediate annuity” approach to the required illustrations. In particular, it requires assumptions that (1) the participant’s current account balance is annuitized immediately, and (2) the participant is age 67 even if they are younger. These assumptions do not take into account the fact that the participant’s current account balance is likely to grow with interest or earnings, and potentially with additional contributions, until the participant reaches the assumed annuitization age of 67. In this respect, the Interim Rule’s design will typically understate the account balance that will be applied to generate a lifetime income stream at retirement, thereby understating the income the individual can expect to receive in retirement.

The Committee is concerned that designing the illustration parameters to understate future income could undermine the important public policy goal of convincing individuals to save more for retirement. If a participant sees a very small income projection on their benefit

---

3 If the participant is older than 67, the Interim Rule requires the illustration to be based on their actual age.
statement, they easily could get discouraged and decide that saving now is not worth it. Moreover, ignoring what is perhaps the key benefit of saving through a retirement plan—compounded, tax-deferred growth over time—would most impact younger participants, because they have the longest timelines for saving. This would be unfortunate, since a key determinant of retirement readiness is saving early, in order to harness the power of long-term, tax-deferred growth.

The preamble discusses several reasons for the Department’s decision to exclude growth projections from the Interim Rule. We address each of them below.

- **Alignment with the SECURE Act.** The preamble states that assuming future growth in a participant’s account balance would not “align as well” with the SECURE Act’s current account balance “directive.” We disagree that the SECURE Act is so rigid. Congress clearly intended to give the Department broad authority to prescribe the permissible assumptions. Although the SECURE Act refers to illustrations of a participant’s “total accrued benefits” and the legislative history refers to a participant’s “account balance,” the statute also expressly provides that the illustrations must be “based on assumptions specified in rules prescribed by the Secretary.” Nowhere does the law require an assumption that the participant will have zero future growth, and there is no indication that Congress objected to assuming future growth. Indeed, the legislative history discusses—without disapproval—the Department’s 2013 Advance Notice of Proposed Rulemaking (“ANPRM”), which reflected a 4% real rate of return assumption. Likewise, Ways and Means Committee Chair Richard Neal has urged the Department to reflect a future growth assumption in the regulations, stating that doing so would be consistent with the statute and congressional intent. It appears that the Department shares this view of its regulatory authority, since the preamble states that the Department “could have instead chosen a deferred annuity approach.” We urge the Department to do so in the final rule.

- **Participants can do their own illustrations.** The preamble also suggests that a future growth assumption is unnecessary because individuals could use the illustrations they would receive under the Interim Rule to create, on their own, a new illustration that reflects a future growth assumption. It is possible to do this, but it would require participants to make assumptions about future growth and then covert the account balance to income payments. We think it is highly unrealistic to expect plan participants to do this, at least regularly. The benefit statement should have information about lifetime income that is clear and useful on its face, without requiring additional work and analysis by the participant.

---

4 85 Fed. Reg. at 59152.
6 ERISA §§ 105(a)(2)(D)(i)(II), (III).
9 85 Fed. Reg. at 59151.
• **Participant confusion.** The preamble also suggests that including a future growth assumption would increase complexity and potentially confuse participants, since the annuity amount either would be in future dollars or discounted to current dollars.\(^\text{10}\) We respectfully submit that the Interim Rule’s approach presents just as much, if not more, potential for complexity and confusion. Expecting participants to create their own, more accurate illustrations if they want to take into account future account balance growth would be much more complex for participants than simply having the plan do it on the benefit statement. Likewise, participants are just as likely to be confused over the lack of any future growth as they would be over the “current dollars” vs. “future dollars” issue that the preamble mentions. In that regard, we think the illustrations could be expressed in current dollars and accompanied by an explanation of the implications, if the Department determines that an explanation is needed.

For the foregoing reasons, the Committee requests that the illustrations required under the final rule be based on the participant’s current account balance *projected forward with interest* to the assumed retirement age. For this purpose, the Committee would support adoption of the ANPRM approach, which reflected a 4% real rate of return assumption. Alternatively, the 10-year constant maturity Treasury securities yield rate that the Interim Rule requires to be used in determining the lifetime income amount could be used to project participants’ account balances forward to the assumed retirement age.

2. **Optional Illustrations as Education, Not Advice**

The Committee requests guidance that addresses when optional illustrations that are provided in addition to the required illustrations will constitute “investment education,” and not “investment advice,” under ERISA.

The Interim Rule states that nothing therein precludes a plan from including additional, optional lifetime income illustrations on participants’ benefit statements. Many life insurers and other service providers that assist plans in preparing pension benefit statements already do this and more, offering “highly adaptive, highly personal, sophisticated illustrations” to help participants understand their future retirement income.\(^\text{11}\) These tools often are interactive and allow participants to test how different assumptions might affect their retirement income. Such tools often are provided outside of the benefit statement, such as on a website that participants can access.

In the preamble to the Interim Rule, the Department expresses a desire to encourage the continued use and availability of such optional illustrations and to avoid inhibiting innovation in this area. The preamble then explains that while the Department cannot extend the same liability relief to optional illustrations as the required illustrations, comments are requested on whether the Department should clarify in guidance when providing optional illustrations would constitute “investment advice” rather than “investment education” under ERISA.

---

\(^{10}\) *Id.* at 59152.

\(^{11}\) 85 Fed. Reg. at 59141.
The Committee urges the Department to provide such guidance and to do so as soon as possible. Optional illustrations are useful tools that will continue to help plan participants understand and reach their financial goals. They are, however, still estimates that put life insurers and other service providers at risk of frivolous and expensive lawsuits. Guidance that clarifies when such estimates constitute investment advice would go a long way towards mitigating that risk and encouraging continued availability and innovation. Such guidance could be similar to that in Interpretive Bulletin 96-112 and would provide needed comfort to insurers and other service providers that assisting a plan with preparing the optional illustrations will not inadvertently trigger fiduciary status. Importantly, the guidance should apply to all media through which optional illustration tools are made available to participants, including online tools.

3. **Deferred Income Annuities**

The Committee requests that the final rule define the phrases “deferred lifetime income stream” and “deferred income annuity.” The Interim Rule includes a special, mandatory disclosure requirement with respect to the portion of a participant’s accrued benefit that has been used to purchase such benefits. However, the Interim Rule does not define these terms. It is very important to clarify their meaning because although the Interim Rule requires the disclosures, it does not extend ERISA liability protection to the person providing the disclosures.

It seems clear from the preamble that the Department meant the terms to refer to deferred income annuities (DIAs) under which the future life-contingent annuity benefits are “locked in” at the time each premium is paid. In other words, with each premium the participant has purchased lifetime annuity payments that will start on a specified date in the future without the ability to take an earlier cash withdrawal or surrender with respect to the amount used to purchase the benefits. As an example, the Interim Rule refers to qualifying longevity annuity contracts (QLACs), which meet this description – including the lack of any pre-annuitization cash conversion rights.

One point of confusion, however, is a statement in the preamble that “[p]articipants’ ownership interests in DIAs often can be converted to a lump sum cash amount, but not always.” This reference to a cash conversion right has the potential of confusing DIAs with other, more common forms of deferred annuities that provide such rights. In that regard, virtually all deferred annuity contracts (as distinguished from deferred income annuities) provide a cash value, account value, or similar feature during an accumulation period, and the individual can take withdrawals from that account value and/or later apply that value to provide various

---

13 29 C.F.R. § 2520.105-3(e)(2).
15 29 C.F.R. § 2520.105-3(e)(2)(i). With respect to QLACs, Q&A-17(a)(4) of Treas. Reg. section 1.401(a)(9)-6 prohibits them from providing any “commutation benefit, cash surrender right, or other similar feature.”
forms of annuity payments. In contrast, a deferred income annuity is understood to include only annuity contracts that have no cash value and guarantee to provide the annuitant with a life annuity of a specified amount at some specified date in the future if the annuitant is alive on that date.

We believe that the Department intended 29 C.F.R. § 2520.105-3(e)(2) to capture only deferred income annuity contracts, i.e., contracts with no cash values and with income payments that are “locked in” and will be paid over the participant’s life or over the joint lives of the participant and survivor. We therefore request clarification that the disclosure requirement applies only to deferred income annuities by defining that term in the final rule.

A good reference for the Department in this regard is guidance from the IRS in Rev. Rul. 2012-3. That guidance addressed the exception from the spousal consent rules with regard to a deferred annuity contract purchased under a profit-sharing plan. The “profit-sharing exception” in Code section 401(a)(11)(B)(iii) requires, in part, that a participant has not elected payment of benefits in the form of a life annuity, and Rev. Rul. 2012-3 provides guidance on when a participant has elected a life annuity for this purpose. The IRS concluded that the following scenario, described as Situation 2 in the Ruling, is considered an election of a life annuity:

A Plan X participant who invests amounts in a fixed deferred annuity contract may not subsequently transfer those amounts out of the contract and may not elect to take those amounts in the form of a single-sum payment. Thus, amounts invested in the deferred annuity contract will be paid in the form of a life annuity, without an option for the participant to accelerate payment of the amounts in the form of a single-sum payment. The amount payable under the deferred annuity contract on a Plan X participant’s annuity starting date in the form of a straight life annuity that is attributable to an amount invested in the contract is fixed on the date the investment is made. Thus, the amount payable under the fixed annuity contract depends on the amount invested in the contract on the date the investment is made and the actuarial assumptions, including interest rate and mortality assumptions, used to determine the annuity purchase rate on that date. (Emphasis added.)

Although not characterized as such by the IRS, the contract described in Situation 2 is a deferred income annuity. We ask that the Department clarify in the final rule that the mandatory disclosure requirements (and lack of liability protection) apply only to deferred income annuity

---

17 See, e.g., Joseph F. McKeever III and John T. Adney, ANNUITIES ANSWER BOOK (5th ed. 2017), Q&A 1:22 (describing a deferred annuity) and Q&A 1:23 (2020 cumulative supplement) (explaining that deferred annuities have purchase rate guarantees).

18 See id. at Q&A 1:25 (2020 cumulative supplement) (describing a deferred income annuity).

19 2012-8 I.R.B. 383 (Feb. 21, 2012) (addressing the application of certain joint and survivor annuity rules to a deferred annuity contract purchased under a profit-sharing plan).
contracts, i.e., contracts where the amounts invested may not be transferred out of (or withdrawn from) the contract, the payments are fixed when amounts are invested, and the payments will be made in the form of a life annuity with no option to accelerate the payment in the form of a lump sum.  

4. Distribution Annuities

For plans that base their illustrations on the “actual contract terms” of distribution annuities, the Committee requests that the final rule make clear that where a contract specifies alternative assumptions that may be used to determine annuity payments, any of those alternatives may be assumed to apply when preparing the illustrations, as long as the assumptions are adequately disclosed.

The Interim Rule provides a special rule for plans offering distribution annuities pursuant to a contract with an issuer licensed under applicable state insurance law. The plan administrator is permitted, but not required, to use the interest rate and mortality assumptions per the “contract terms” instead of those specified in the Interim Rule. We support and appreciate that the Interim Rule makes use of the “contract terms” optional.

We request clarification, however, of the phrase “contract terms.” Many annuity contracts set forth minimum annuity purchase rates that the insurance company guarantees will be available when the participant elects annuitization. In some circumstances, it would be appropriate for a plan to use these minimum rates in the annuity illustration. However, the life insurance company may offer to annuitize account balances at more favorable annuity purchase rates (based on current interest, mortality, and other assumptions) that will produce a higher annuity payment. In that circumstance, the current annuity purchase rates are appropriate to use in calculating the lifetime income illustration because those are the rates the insurer would actually use if the account were immediately annuitized. We urge the Department to allow flexibility on the “contract terms” that are used to prepare any of the required illustrations, as long as there is adequate disclosure regarding such terms. In this regard, we note that the disclosures set forth in 29 C.F.R. § 2520.105-3(e)(2)(E) and (F) appear to recognize that the interest rates and mortality used by the insurer in the illustrations for a distribution annuity may change over time.

5. Multi-Vendor Plans

The Committee requests that the final rule provide that separate illustrations are permitted with respect to a participant who has accounts with more than one life insurance company or vendor under the same plan.

Many plans – particularly 403(b) plans, but other types as well– offer access to multiple annuity providers or other vendors. Each annuity provider will offer different annuity purchase options with respect to its contracts. A participant under such a plan may be invested in more

---

20 To be clear, a return of premium or term certain benefit that applies after the death of the participant and/or spouse are common in deferred income annuities. For example, the QLAC regulations allow for a lump sum return of premium upon death. Such features are not cash withdrawal rights.
than one annuity product from more than one provider. In such cases, requiring a single illustration of a given participant’s account balance would necessitate burdensome and time-consuming coordination among the various providers. Even where a multi-vendor plan uses a single recordkeeper, we are not aware of any methodology to transmit interest rates and mortality assumptions among insurance companies and recordkeepers. Such a requirement would be particularly burdensome on plan sponsors which, in the case of 403(b) plans subject to ERISA, are non-profit entities.

These same coordination issues could arise with respect to other types of plans, such as 401(a) plans. For example, a participant in a 401(a) plan may have purchased a DIA (as described above) under the plan and may also have non-annuity investments under the plan. Sometimes DIAs may have been purchased through a prior recordkeeper, but continue to be held as legacy investments after a change in recordkeepers. In such cases, the plan’s recordkeeper may not have information about the DIA that is necessary for the disclosures required under 29 C.F.R. § 2520.105-3(e)(2). In such cases, it should be permissible for the annuity issuer to provide the required disclosure with respect to the DIA, while the recordkeeper provides the required disclosure with respect to the participant’s non-annuity investments under the plan. This is advantageous to participants because the annuity issuer may be in a better position to ensure the disclosure is accurate.

The Department addressed a similar concern with respect to pension benefit statements in Field Service Bulletin 2006-03 (Dec. 20, 2006). The Department noted that the information required for pension benefit statements often comes from multiple service providers. In response to concerns about the burdens and costs associated with compiling a single pension benefit statement, the Department treated as good-faith compliance the use of multiple documents. We believe a rule permitting multiple illustrations in multi-vendor arrangements will provide participants with the valuable information contemplated by the Interim Rule without creating additional cost and complexity.

6. Additional Flexibility for Required Disclosures

The Interim Rule provides that in order to qualify for relief from fiduciary liability under ERISA § 105(a)(2)(D)(iv), the required disclosures must include language that is “substantially similar in all material respects” to the model language provided in the Interim Rule.21 Although the preamble explains that “[w]ord-for-word adoption” is not required and provides certain limited examples of the types of changes that may be permitted,22 the Interim Rule does not otherwise define “substantially similar in all material respects.” We believe that further clarity on this standard is needed. In particular, we request the following guidance:

- The “substantially similar” standard will be satisfied if the disclosures provide the required explanations set forth in the Interim Rule (or final rule) and they are written in a

---

21 29 C.F.R. § 2520.105-3(f)(2).
manner that is calculated to be understood by the average plan participant. This is the standard that applies generally to benefit statements under ERISA § 105(a)(2)(A)(iii).

- Providing additional information in connection with the required disclosures, such as additional explanations to supplement the required disclosures, should not preclude the availability of liability relief, as long as such additional information is not misleading.

7. **Coordination with Other Regulators**

The Committee requests that the Department coordinate with the Securities and Exchange Commission (SEC), Financial Industry Regulatory Authority (FINRA), and National Association of Insurance Commissioners (NAIC) on important issues before the Interim Rule becomes final. We commented on this same issue in our August 7, 2013, letter to the Department regarding the ANPRM, and we reiterate those points here.

To the extent that the participant benefit statement is viewed as insurance company or producer marketing material or issuer or broker-dealer written communication, it would be subject to content and other standards imposed by state insurance laws and regulations, federal securities laws, and FINRA rules. In the ANPRM, the Department recognized the potential for conflicts with other regulators and pointed to NASD Rule 2210(d)(1)(D) (now FINRA Rule 2210(d)(1)(F)), which provides that “[c]ommunications with the public may not predict or project performance, imply that past performance will recur, or make any exaggerated or unwarranted claim, opinion, or forecast.” We think it is crucial that the Department resolve this and similar issues before the Interim Rule becomes final. We do not believe that Rule 2210 is inconsistent with the kind of illustration that the Department is contemplating, because the proposal requires the plan to state the assumptions used and that the information being provided is an estimate for illustration purposes only. Therefore, we believe that guidance from FINRA would confirm the absence of any conflict between the required illustrations and Rule 2210, to the extent that any communication is subject to FINRA’s communication rules. Likewise, no such conflict should arise in situations where the administrator of a plan that is not subject to ERISA (such as a governmental plan) chooses to provide the same types of illustrations that the Interim Rule requires for ERISA-governed plans. We encourage the Department to include this scenario in any discussions with FINRA, so that any FINRA guidance would apply in such cases as well.

The Department also should work with the SEC to provide similar guidance on the sales literature rules. Rule 156 under the Securities Act of 1933, which addresses investment company sales literature, states that it may be misleading to make any representations about future investment performance, including implying that future gain or income may be inferred from or predicted based on past investment performance.\(^\text{23}\) The Rule also cautions against conveying impressions about net investment results that are not justified under the circumstances. We believe that providing a lifetime income disclosure, even if the final rule requires a projection of the account balance, can be done in a way that complies with Rule 156. Nonetheless, we recommend the Department consult with the SEC to provide appropriate guidance.

---

\(^{23}\) 17 C.F.R. § 230.156 (2013).
After the Department released its final regulation (2550.404a-5) requiring a fee and investment disclosure, SEC staff issued two no-action letters that provided relief. The first letter, issued to the Department on October 26, 2011, provided that the SEC staff would treat disclosures required by the regulation as a communication that satisfied Rule 482. The second letter, issued to the American Retirement Association on February 18, 2015, extends that position to participants in Section 403(b) plans that are not subject to ERISA. To the extent that Rule 156 is applicable, we believe that similar relief should be provided for the required lifetime income illustration under Rule 156 (or any other rule the SEC might believe is implicated by the lifetime income illustration), whether or not the plan is subject to ERISA.

The Department also should work with FINRA to ensure that any relief FINRA provides does not imply that any communication from a plan administrator is a broker-dealer communication. The retirement industry was pleased to see the relief that FINRA provided in Regulatory Notice 12-02 (Jan. 2012), which clarified that broker dealers can assist plan administrators in complying with the Department’s participant disclosure rules. We ask the Department to work with FINRA to ensure similar confusion does not result from guidance issued in connection with the final rule.

Finally, the Department should address state insurance laws that relate to disclosure of annuity projections and that cover ground similar to the Department’s rule. The NAIC Advertisements of Life Insurance and Annuities Model Regulation, which includes broad standards regarding the content of advertising material, would require that any projection and related statement be complete, and neither misleading or deceptive, or have the capacity to mislead or deceive. Under these rules, an illustration that may be factually correct is nevertheless forbidden if its impact misleads or deceives. In addition, the NAIC’s Annuity Disclosure Model Regulation, particularly sections 6 (annuity illustration) and 7 (report to contract owner), prescribes rules concerning the content of annuity illustrations. Because it may not be practical for the Department to discuss these issues with 50 individual states, we recommend that the Department work with the NAIC, because the NAIC regularly addresses issues of common interest to state insurance regulators.

(8) Transition Relief for Final Rule

Plan administrators, annuity issuers, and service providers will soon begin, or have already begun, extensive efforts to implement the Interim Rule. To the extent that the final rule makes any significant changes to the Interim Rule, those changes likely will require additional development time and cost. For example, our recommendation to project account balances forward with interest to the assumed retirement date would require additional programming. Accordingly, it would be appropriate and necessary for plan administrators and service providers to have additional time to implement any significant changes in the final rule. This could be

---


accomplished by providing an additional transition period before the final rule becomes effective, with permitted reliance on the Interim Rule until then.

* * * * *

We appreciate the opportunity to comment on the Interim Rule. If you have any questions, or if we can be of any assistance in your consideration of the issues summarized above, please do not hesitate to contact either of the undersigned at 202-347-2230.

Counsel to the Committee of Annuity Insurers

Bryan W. Keene
Partner, Davis & Harman LLP
bwkeene@davis-harman.com

Michael L. Hadley
Partner, Davis & Harman LLP
mlhadley@davis-harman.com

Attachment (List of Committee Members)
The Committee of Annuity Insurers was formed in 1981 to participate in the development of federal policies with respect to annuities. The member companies of the Committee represent more than 80% of the annuity business in the United States.