

SUBMITTED ELECTRONICALLY

November 17, 2020

The Honorable Jeanne Klinefelter Wilson
Acting Assistant Secretary
Employee Benefits Security Administration
U.S. Department of Labor
200 Constitution Ave NW
Washington DC 20210

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

Dear Acting Assistant Secretary Wilson:

Dimensional Fund Advisors LP (“Dimensional”)¹ appreciates the opportunity to provide comments on the interim final regulation (“IFR”) regarding the lifetime income illustrations on pension benefit statements as required pursuant to Section 203 of the SECURE Act, published in the Federal Register by the Department of Labor (“DOL” or “Department”) on September 18, 2020.² We appreciate the Department’s continued focus on providing defined contribution (“DC”) plan participants with tools to plan for their retirement by including projected lifetime income illustrations on benefit statements.

In order to benefit from the safe harbor from liability provided by the IFR, lifetime income illustrations must be prepared using certain prescribed assumptions, which are likely to be used widely. In response to the Department’s request for comments, we would like to share our views on two elements of the IFR’s prescribed assumptions: inflation and the assumed retirement age. We believe that straightforward modifications to the model language and safe harbor assumptions could help participants better plan for retirement while preserving the simplicity of the Department’s overall framework.

Numerical Illustrations Showing Inflation’s Impact on a Portfolio Should be Required in Order to Help Participants Understand how it Diminishes the Purchasing Power of Retirement Income

The Department notes that the IFR does not include an adjustment to the lifetime income illustrations for inflation, but acknowledges that, even with a low inflation rate, the purchasing power of a fixed nominal income stream can “easily be cut in half over the remaining lifespan of the typical retiree.”³ As drafted, the IFR requires fixed nominal annuitized income streams and a clear disclosure that the purchasing power of such an income stream will decline over time. We believe retirement investing should help retirees achieve a stable standard of living.⁴ Since constant dollars measure consumption more closely, illustrations that show the impact of inflation could help participants better project their retirement standard of living.⁵

¹ Dimensional is a leading global investment firm that has been translating academic research into practical investment solutions since 1981. Guided by a strong belief in markets, we help investors pursue higher expected returns through a systematic investment process that integrates research insights with advanced portfolio design, management, and trading, while balancing tradeoffs that can impact returns. Dimensional is headquartered in Austin, Texas, and has offices across North America, Europe, and Asia Pacific. As of June 30, 2020, Dimensional manages US\$514 billion for investors worldwide.

² See Pub. L. No. 116-94, Division O, signed into law on December 20, 2019; see also 85 Fed. Reg. 59132.

³ See 85 Fed. Reg. 59136.

⁴ See Merton, R. C. (2020, August 21). Commentary: 5 ways to make the SECURE Act meet participants’ needs. Retrieved September 9, 2020, from <https://www.pionline.com/industry-voices/commentary-5-ways-make-secure-act-meet-participants-needs>; see also Merton, R. C. “The Crisis in Retirement Planning.” Harvard Business Review 92, nos. 7/8 (July–August 2014): 43–5

⁵ *Id.*

Accordingly, we believe that helping participants understand the effects of inflation on their retirement income is important.

The Department acknowledges the importance of inflation in the preamble accompanying the IFR (the “Preamble”), but strives to avoid “complex methodologies for what should be a simple hypothetical illustration.”⁶ In keeping with the Department’s emphasis on consistency and simplicity, a single inflation rate could be used for illustrations. The Federal Reserve has an explicit inflation target of 2%, which provides a useful starting point.⁷ Such an inflation rate implies a 18% loss of purchasing power after 10 years, and 33% after 20 years.

One simple option would be to amend the inflation model language to include a numerical example. This approach would place a low burden on plan sponsors, since the model language could remain the same between updates. Adding an example, in our view, would help make the effects of inflation more tangible to the average participant. The amended language could be as follows:

Unlike Social Security payments, the estimated monthly payment amounts in this statement do not increase each year with a cost-of-living adjustment. Therefore, as prices increase over time, the fixed monthly payments will buy fewer goods and services. For example, with a 2% inflation rate, \$1,000 would buy \$820 worth of goods and services after 10 years, and \$673 after 20 years.

This approach could help participants better appreciate the impact of seemingly low inflation over longer periods of time. Since the goal of such a disclosure is educational in nature, the inflation rate can be fixed, and different from recent experience: the key is to convey the large loss of purchasing power that can result from even moderate inflation. The idea is analogous to standardized fee tables in mutual fund prospectuses, which can help investors understand the impact of a small percentage fee on a \$10,000 investment for different investment horizons.

As stated in the Preamble, illustrations should be educational, but also “as realistic as possible and actionable by participants”, a sentiment we wholeheartedly share.⁸ On the first point, we believe that a 2% inflation rate is realistic, since it is explicitly targeted by Federal Reserve, and because it reflects recent inflation in the United States. If a more realistic inflation rate is desirable, inflation expectations could be inferred from Treasury Inflation-Protected Securities and regular Treasury bonds, a point emphasized by Robert C. Merton⁹ in his recent editorial on this topic.¹⁰

Participants are generally unable to purchase inflation-indexed annuities due to their lack of availability in the marketplace.¹¹ Fortunately, investors are not powerless in the face of inflation, and do have tools to act on the information provided. For instance, delaying Social Security is equivalent to purchasing additional,

⁶ See 85 Fed. Reg. 59136.

⁷ See Board of Governors of the Federal Reserve System. (2020). Review of Monetary Policy Strategy, Tools, and Communications: Statement on Longer-Run Goals and Monetary Policy Strategy. Retrieved September 15, 2020, from <https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-statement-on-longer-run-goals-monetary-policy-strategy.htm>. Adopted effective January 24, 2012; as amended effective August 27, 2020.

⁸ See 85 Fed. Reg. 59136.

⁹ Robert C. Merton is the distinguished professor of finance at the MIT Sloan School of Management and university professor emeritus at Harvard University, Cambridge, Mass. He is also resident scientist at Dimensional Holdings Inc. and provides consulting services to Dimensional Fund Advisors LP. Professor Merton received the Alfred Nobel Memorial Prize in Economic Sciences in 1997 for a new method to determine the value of derivatives.

¹⁰ See Merton, R. C. (2020, August 21). Commentary: 5 ways to make the SECURE Act meet participants' needs. Retrieved September 9, 2020, from <https://www.pionline.com/industry-voices/commentary-5-ways-make-secure-act-meet-participants-needs>.

¹¹ See, e.g., Bodie, Z., & Cotton, D. (2019). Hedging Against Inflation Risk with Real Annuities. SSRN Electronic Journal, 8(1), 61-65. doi:10.2139/ssrn.3395298.

inflation-indexed lifetime income.¹² Also, easily accessible instruments such as Series I Savings Bonds can provide protection from inflation. We believe helping participants better understand inflation is a key step towards better retirement preparedness.

The Illustrations Should Include a Requirement to Provide Retirement Income Calculations for at Least Two Different Assumed Retirement Ages – 62 and 67

Studies have shown that many workers retire earlier than 67, perhaps much sooner. For example, data from a 2013 study reflects an average retirement age of 62 for women and 64 for men; about half of workers leave the labor force between the ages of 50 and 65.¹³ Moreover, even workers who intend to retire at age 67 may have to stop working sooner.¹⁴ The 2020 Retirement Confidence Survey finds that 48% of retirees retired earlier than planned, while only 6% retired later than planned.¹⁵

Based on the above considerations, we suggest including at least two different ages in income illustrations. The ages of 62 and 67 mentioned in Section B(2)(a) of the preamble to the IFR are a useful starting point. We believe that age 62 is a natural addition because it more closely aligns with the average retirement age for participants of both genders, and, as noted by the IFR, more than 40% of retirees claim Social Security benefits at that age.¹⁶

The assumptions prescribed by the Department are sufficient to compute annuity prices at different ages. Therefore, we believe the burden imposed by an additional illustration would be manageable, while the benefits are likely to be substantial. Showing income illustrations based on different ages side-by-side could encourage participants to consider the impact of retirement age on their standard of living. In particular, the two illustrations could help participants better assess the impact of early retirement, whether voluntary or not. As noted by the IFR, the Social Security statement already includes similar disclosures, which suggests that they are feasible, and that they would be valuable to participants.¹⁷

Dimensional thanks the Department for its consideration of our perspectives. We believe that amending the model language to emphasize the effects of inflation and including two assumed retirement ages (age 62 and age 67) in income illustrations would provide America's DC plan participants with a more accurate picture of their future retirement income.

Please do not hesitate to contact us if we could be of further assistance.

Sincerely,



Gerard O'Reilly
Co-CEO and Chief Investment Officer

¹² See Hou, A., Munnell, A., Wettstein, G., & Hou, W. (2019, October). Working Papers: How Best to Annuitize Defined Contribution Assets? Retrieved September 3, 2020, from <https://crr.bc.edu/working-papers/how-best-to-annuitize-defined-contribution-assets/>.

¹³ See, e.g., Munnell, A. H. (2015). The Average Retirement Age – An Update. Center for Retirement Research at Boston College, (15-4). Retrieved September 1, 2020, from https://crr.bc.edu/wp-content/uploads/2015/03/IB_15-4_508_rev.pdf.

¹⁴ See *2020 Retirement Confidence Survey Summary Report* (Rep.). (2020, April 23). Retrieved September 1, 2020, from Employee Benefit Research Institute website: <https://www.ebri.org/docs/default-source/rcs/2020-rcs/2020-rcs-summary-report.pdf>.

¹⁵ *Id.*

¹⁶ See 85 Fed. Reg. 59133.

¹⁷ See 85 Fed. Reg. 59134.