

July 31, 2013

Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5655
U.S. Department of Labor
200 Constitution Avenue, NW
Washington, DC 20210

Attention: Benefit Statements Project

RE: RIN 1210-AB20

Dear Sirs and Mesdames:

This letter is the response of Towers Watson to the request for public comments on the advance notice of proposed rulemaking regarding pension benefit statements for defined contribution plans.

Towers Watson is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. Towers Watson offers solutions in the areas of employee benefits, talent management, rewards, and risk and capital management. Towers Watson employs approximately 14,000 associates on a worldwide basis. Our more than 600 Enrolled Actuaries under ERISA provide actuarial and consulting services to more than 1,700 defined benefit plans in the U.S. We appreciate this opportunity to comment. The undersigned have prepared our firm's response with input from others in the firm.

Towers Watson shares the Department's concerns regarding the levels of preparation and understanding of retirement issues of participants in defined contribution plans. Defined contribution plans are now the primary retirement vehicle for millions of Americans, and participants need to better understand how to use these plans to provide lifetime income. However, we do not believe that mandating the disclosure of specific annuity amounts on benefit statements is the best way to accomplish this. We are concerned that a mandate will lead to an overly complex notice that will not be particularly useful to plan participants and might leave participants with the often incorrect impression that the plan will pay an annuity. Furthermore, we are concerned that a mandate may result in plan sponsors doing less than they might otherwise (or currently) do in this area out of concern for conflicting with mandated information or for exposing themselves to risks.

Moreover, we believe that the best way to educate and assist participants is through interactive modeling tools such as the one the Department has created (although we suggest substantially more functionality be included than in the current calculator). We believe that a mandate to present specific calculations on a benefit statement will reduce the use of such models both by plan participants (because they may falsely believe the information on the statement is sufficient) and by plan sponsors (who may be concerned about consistency of model results with required amounts). Our view is that plan sponsors should continue have the flexibility to address these issues on a voluntary basis in the manner that is most appropriate for their plan participants.

We do not object to the Department proceeding with this as a suggested approach and providing sample statements and educational pieces. However, we believe it is critical that plan sponsors clearly have the flexibility to vary from these as they deem appropriate. We note that this was not necessarily

the case with the model Annual Funding Notice, as plan sponsors were cautioned by government sources in various forums that deviating from the models in any way carried risk of non-compliance. Below we provide some comments on the specific approach taken (including the lifetime income calculator) should the Department proceed with this approach.

We believe that having a reasonableness standard along with specified safe harbors is the right approach to take, with respect to both the form of communication (i.e., a statement or interactive modeling tool) and the assumptions employed in projections. As stated in the notice, this approach allows plan sponsors to continue to address the issues as they believe appropriate for their workforces, while offering the certainty of a safe harbor as an alternative to encourage sponsors to address areas that they may have been reluctant to address without such safety. We also agree that the variables listed are the correct ones required to project an account balance, although we would be more explicit that the assumption as to contribution increases is a pay increase assumption.

Assumptions

We have several comments regarding the safe harbor assumptions that are discussed in the proposal. The first comment is that the safe harbor assumptions are to some degree chosen individually, rather than as a consistent set that embodies a common economic scenario that would produce such assumptions. Although relationships and real rates are discussed, the ultimate decisions on safe harbors seem to have been made more in isolation than together. For example, the contemplated safe harbor for annuity conversion is the 10-year Treasury rate. We agree with making the safe harbor index-based, as this will ensure that the rate will always reflect current market conditions. However, the contemplated safe harbor for investment returns is a flat 7%. Such a flat rate could easily be inconsistent with the index-based annuity purchase safe harbor. In fact, some would argue that this is the case today with historically low interest rates, making a 7% return difficult to attain for many asset mixes. Having a flat safe harbor that does not reflect the wide variation of expected returns caused by different asset mixes is also a concern.

We have similar concerns regarding a flat inflation safe harbor of 3%. Inflation is generally the primary building block to which most other economic assumptions can be related. The movement of the inflation assumption will typically permeate through all other assumptions such as salary increases, annuity rates and investment returns. A safe harbor could easily be tied to one of the readily available CPI measures. To adopt a fixed approach is to assume static economic conditions, which does not seem an advisable approach.

In another consistency issue, we note that amounts are expressed in current dollars to adjust for pre-retirement inflation; however the issue of post-retirement inflation is not considered. We suggest that the issue of inflation adjusted annuities be considered.

We believe that an index-based approach should be used for all safe harbors so that they remain current and internally consistent.

We understand that the Department faced difficult choices in suggesting safe harbors. There is a constant struggle between providing reasonable, relevant information that the participant can understand, and overwhelming the participant with details, technical issues and caveats. If the statement fails on either of these criteria, it will be of limited, if any, use to the participant. We believe that the best solution to this dilemma is not to require static statements, and instead to allow plan sponsors to continue to communicate with their workforces in the manner that works best for them, and to supplement that communication with modelers, either from the plan sponsor or that are generally available in the public domain.

Lifetime income Amounts Presented

As discussed above, we do not believe that a requirement to show lifetime income illustrations at a specified age to all participants is advisable. The age chosen will often not correspond to the desired retirement age of the participant, and therefore the information might not be useful and, in fact, might be misused by not properly adjusting it to the desired retirement age. This is yet another example of why modeling that allows tailoring to the individual situation is preferable to a required, static communication. If such a communication is prescribed, we would suggest two illustrative retirement ages, perhaps normal retirement date and five years before that. We also suggest that Social Security Normal Retirement Age be permitted instead of plan normal retirement age as the latter date does not have the same importance in a defined contribution plan as it does in a defined benefit plan. We agree with showing both life and joint and survivor annuity amounts.

We do not believe that communicating the annuity as if a participant were normal retirement age today provides useful information. We struggle to understand just what message the Department intends a participant to receive from this measure, nor how it is actionable. It is simply not a meaningful amount as there will be investment gains/losses, additional contributions and changes in annuity rates between now and normal retirement. Providing this amount is arguably more misleading and confusing than useful. If the Department wants the participant to get a sense of annuity rates via this measure, then we suggest it would be much better to simply say that “at normal retirement age xx, an annual life annuity of approximately y% of the account balance or a 50% joint and survivor annuity of approximately z% of the account balance could generally be provided by the account balance for the average person at current interest and mortality rates”.

Lifetime Income Calculator

We commend the Department for making an annuity calculator available to plan participants and, in fact, the broader population. This provides useful information and can serve as a powerful educational tool. Many such calculators exist in the market today and we believe that the Department’s model should be expanded to include some of the functionality that we have seen in other calculators. Additional functionality would enable participants to do more sophisticated modeling, and also help educate them as to the complexity of providing lifetime income from an account balance. The flexibility would also provide the ability to educate participants on what variables affect the annuity amounts and by how much. If properly designed with safe harbors as defaults, the calculator should not be overwhelming to participants. Among the additional variables we suggest for consideration are:

- Multiple retirement ages for comparison
- Spouse information
- Rate of investment return (and possibly investment mix, as an investment education tool)
- Expected longevity (high, average, low – education opportunity)
- Rate of pay increase
- Rate of future contributions
- Rate of inflation
- Rate of annuity conversion (education opportunity)

Note that the model could be designed to warn about or disallow assumptions that seem internally inconsistent or outside of pre-determined “normal” ranges. The model should also provide a replacement ratio (preferably including social security) so that participants can gauge to what extent the lifetime income calculated would support their retirement lifestyle. This would also provide an opportunity to educate regarding replacement ratios.

Conclusion

We thank you for the opportunity to comment on the planned guidance. We strongly support the goal of improving understanding of lifetime income issues by defined contribution plan participants; however we are concerned that the articulated requirements may not accomplish this. We are encouraged that the Department has issued a lifetime income calculator, have made suggestions that we believe would make it substantially more useful to participants, and believe that these suggestions should not be difficult or costly to implement. We would welcome the opportunity to discuss these comments at your convenience.



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