

April 28, 2010

Phyllis C. Borzi  
Assistant Secretary  
Employee Benefits Security Administration  
Room – 5655  
U.S. Department of Labor  
Office of Regulations and Interpretations  
Employee Benefits Security Administration  
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Attention: Lifetime Income RFI

RE: 29 CFR Parts 2509, 2520 and 2550  
RIN 1210-AB33

Request for Information Regarding Lifetime Income Options for  
Participants and Beneficiaries of Retirement Plans

Dear Assistant Secretary Borzi:

I am writing in response to your RFI on lifetime income options for participants and beneficiaries of retirement plans. Natixis Global Asset Management (NGAM) is one of the 20 largest asset managers in the world with assets under management totaling \$728 billion.<sup>1</sup>

NGAM believes strongly that no single investment product or style should dominate the search for retirement income options. We also believe that many of the alternatives being discussed, including annuities and target-date funds, offer very narrow solutions for pre-retirees and retirees.

As the recent market downturn illustrated, diversification is the most important component to income protection and growth. Investors need to diversify their income sources across many types of investments, including bonds, equities and alternative investments. While investment strategies that offer a “set it and forget it” approach are attractive due to their simplicity, the events over the last two years have proven that a simple “auto-pilot” approach will not meet the retirement needs of the average investor.

The good news is that life spans have increased significantly over the last 25 years. The bad news is that means that the definition of “lifetime income” also should be adjusted accordingly. For retirees, this means that they now need to plan for a 20-40 year investment horizon. During this time horizon, simply protecting capital won’t be enough.

Investors will also have to continue to grow their capital in order to strengthen their earnings to cover their entire lifespan. This requirement calls for a well-diversified portfolio of investment options.

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<sup>1</sup> As of December 31, 2009.

A recent study shows that as many as 78 million workers don't have access to an employer-provided retirement savings plan.<sup>2</sup> As a result, investors are increasingly being called upon to make retirement investment decisions. It's incumbent on the legislative, regulatory and business communities to provide investors with the solutions they need to make the right decisions and professional and educational resources to guide them in their choices.

### ***Mutual Funds Can Provide Significant Retirement Solutions***

Today's retirement marketplace is at a critical juncture. Understanding the challenges and mapping out solutions for more effective retirement planning is a national concern shared by millions of investors. By 2030, 70 million Americans will be 65 years or older and will comprise almost a quarter of the population<sup>3</sup> and providing solutions and information for aging investors is among the key financial challenges facing today's retirement marketplace. Clearly, the current environment is an important opportunity to raise awareness about mutual funds among millions of American investors in need of information and guidance as they save for retirement—particularly those individuals who are seeking options for generating lifetime income.

A mutual fund can be described as a professionally managed form of a collective investment that pools money from many investors and invests it into stocks, bonds and other securities. With over 8,000 mutual funds available in the U.S. alone, the multitude and variety of these investments make them an easy way for investors with limited resources to participate in the financial market. Choice abounds: there's a mutual fund for nearly every investment style and goal and their structure and track record stand as proof that mutual funds can offer investors a reliable option for retirement plans. Having served investors' needs for over 70 years, the mutual fund has proven an integral component in aiding millions of individuals to prepare for retirement.

Mutual funds are well-regulated and offer investors the benefits of transparency, lower costs and diversification. These funds also give investors access to professional investment management, daily pricing and liquidity as well as a broad spectrum of shareholder services. The numbers reveal that many Americans have long realized the benefits these investments provide: at the close of 2008, mutual funds accounted for \$3.1 trillion or 22 percent of the \$14.0 trillion U.S. retirement market according to the *2009 Investment Company Fact Book*. Despite these impressive statistics, however, many investors today fear that they will outlive their retirement funds. The recent market crisis has resulted in a great number of people redefining their retirement goals with many now planning to work well past age 65.

### ***Mutual Funds Are Effective Vehicles for Generating Lifetime Income***

A well designed portfolio of mutual funds can be an effective vehicle for converting accumulated wealth into retirement income. In addition to broad mutual fund benefits, the flexible nature of these investments makes them particularly well suited for generating lifetime income.

Two key aspects make mutual funds a compelling tool for creating lifetime income. The first is diversification. By employing a diversified approach to creating lifetime income, retirees are better able to mitigate longevity risk (i.e., the risk of out-living their assets), and more effectively balance their desired income level against their tolerance for risk. The variety of mutual fund offerings across hundreds of different security types, investment styles, and income sources make mutual funds particularly well suited for building a robust, diversified lifetime income portfolio.

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<sup>2</sup> AARP.org, "AARP Issue Brief: Retirement Security", March 2010

<sup>3</sup> SeniorCareMarketer.com, "SeniorCare Marketplace Statistics"

No single investment product or style should dominate the search for income. Like total returns, income (or yield) levels vary significantly by the amount of risk borne by the investor. Knowledgeable investors seek to diversify their income sources across *many* types of investments including, but not limited to, government and agency bonds, investment-grade corporate bonds, high yield bonds, developed and emerging market bonds, convertible bonds, money market and cash instruments, preferred and dividend-paying stocks, and real estate investment trusts (REITs).

Flexibility is the second key advantage that mutual funds offer in building lifetime income. In most cases, a *lifetime* of income typically means a 20- to 40-year investment horizon (or more). Over a span of time this lengthy, the capital markets and the opportunities therein will change and morph in innumerable ways. Interest rates will rise and fall. Government policies will evolve. Technology and innovation will change how business is done and how markets are made. Because of this, investors must be armed with liquid and flexible tools to navigate this ever-changing environment. Simply put, investments or products that employ a “set it and forget it” strategy are unlikely to be successful in generating lifetime income. Products that require “contracts”, “lock-ups”, or otherwise impair the investor’s ability to access the principal or adapt to market changes may not be appropriate for a long investment horizon. Conversely, the flexibility, transparency, and liquidity of mutual funds have been proven over 70 years. Because of this, a well diversified portfolio of mutual funds allows an investor to adapt to rapidly changing markets and can serve as an effective core to an investor’s search for lifetime income.

### ***Mutual Funds Offer a Broad Spectrum of Benefits***

Mutual funds also offer many benefits to investors with needs other than generating lifetime income:

#### ***Governance & Regulation***

Mutual funds are governed by boards of trustees, with a specified number of members required to be independent from the fund company that manages the investment portfolio. As the SEC has noted on numerous occasions, the independent board of trustees plays a critical role in the oversight of mutual funds and as an important watchdog for shareholder interests.

Mutual fund assets must be held by custodians for safekeeping and these custodial arrangements are also subject to specific legal requirements. There are detailed regulations governing which banks can serve as custodians for mutual fund assets, including minimum asset size and mandates regarding responsibility of any assets entrusted to sub-custodians.

Mutual funds are required to maintain a comprehensive written compliance program overseen by a chief compliance officer who has direct communication with the fund’s board of trustees.

#### ***Transparency***

Mutual funds are highly transparent investment vehicles. Mutual fund companies are required to provide information about portfolio holdings on a regular, periodic basis. Investors can readily access portfolio holdings, including detail at the individual security-level and the cost basis of securities held.

#### ***Liquidity***

Mutual funds provide daily liquidity and offer investors on-demand redemption of shares. Performance information and the net asset value of mutual funds are available at the market’s close each day.

### *Lower Fees*

With the mutual fund format, structural costs are kept low. This means the cost of investing in a mutual fund is reasonable for the benefit that it provides the investor. Costs are fully disclosed at sale and on an on-going basis thereafter.

### *Innovation*

Historically, a portfolio consisting of various stocks and bonds was thought to be well diversified. But the recent market crisis revealed the strength of correlations among traditional assets and showcased the importance of *optimal* diversification. The good news for investors is that mutual fund companies continue to innovate to meet investors' needs. The result has been a recent growth of alternative strategy mutual funds that offer lower correlation through various trading strategies while retaining the added benefits of daily liquidity, transparency, and lower cost structure inherent in mutual funds.

### *Risk Management*

Mutual funds also must meet regulatory requirements in order to use complex investment instruments, such as securitized investments or derivatives. To invest in these types of instruments, mutual funds are required to segregate or earmark assets to ensure all exposures are covered. This limits the ability of a mutual fund to use leverage in its portfolio and protects investors from expanded risks inherent in the overextension of an investment vehicle.

### ***Innovative Investments Offering an Impressive Track Record***

The task of improving the country's retirement savings system is a major national concern of immense proportions. As the search continues for ways to increase financial security in retirement, the impressive list of benefits offered by mutual funds illustrates that the regulatory structure governing these investments has worked well, with minor adjustments, for 70 years. Mutual funds can offer investors an excellent retirement plan model that is adaptable for different market conditions and that can provide shareholders with invested assets designed to provide a predictable income stream in retirement.

Thank you for the opportunity to comment on this RFI. We would welcome the opportunity to discuss these issues with you and your colleagues in person, and look forward to the Department's forthcoming guidelines.

Sincerely,



John Hailer  
President and CEO, North America  
Natixis Global Asset Management