

Submitted Electronically

**To: The Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5655
U.S. Department of Labor
200 Constitution Avenue, NW., Washington, D.C. 20210**

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In Re: RIN 1210-AB33

Attn: Lifetime Income RFI

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Putnam Investments is pleased to respond to the request for information on lifetime income provision in retirement savings plans issued by the Department of Labor and the Internal Revenue Service of the U.S. Treasury in the Federal Register of February 2, 2010. We hope to suggest some general principles that may contribute to a vigorous debate on lifetime income solutions and advance the next round of retirement system reform.

The Growing Need for Income Solutions

This timely request addresses what we believe to be a vital need – helping many millions of defined contribution workplace savers convert the assets they have accumulated over a lifetime of work into reliable lifetime income streams. Efforts to meet that need are urgent, because the structure of American retirement finance is changing rapidly in the direction of placing more responsibility on individuals. Workplace savings have become a central pillar of retirement security. And while the Pension Protection Act of 2006 made dramatic steps towards solving for higher accumulation in workplace plans – via auto-enrollment, savings escalation and guidance to better allocation models – the challenge of successfully drawing lifetime income from workplace savings remains open.

Like the preceding generation, many of today’s retirees draw a major share of their income, from preprogrammed sources such as traditional pensions and Social Security. But both Social Security and defined benefit pensions are on track to decline in terms of their ability to replace shares of retirees’ incomes. Social Security’s replacement rate is already programmed to fall under current law (due to increases in retirement age and deductions for Medicare costs). Defined benefit pension coverage is in a steady, long-term fall to the point of now covering less than 20% of America’s private sector workforce.

The 76 million-plus Baby Boom generation now reaching retirement age is thus the lead edge of what will be a continuing wave of future retirees who will be relying in ever-increasing measure on their work-based defined contribution saving plans for retirement income. Each year going forward, future retiree cohorts will have to find ways to convert a growing share of their own savings, mainly from workplace plans, to provide dependable lifetime income.

At Putnam, we believe that the ability to replace the income people make while working is the best measure of success or failure of any retirement system. Clearly, providing for future income is the prime rationale for the tax advantages granted to defined contribution savings plans like 401(k)s, 403(b)'s 457s and others. But this central goal – lifetime income – has often been obscured by an industry – and individual -- focus on asset accumulation, account balances, investment choices, asset allocation and other issues.

We strongly believe that the focus of workplace savings policy needs to shift. The transition to stronger accumulation models begun by PPA should be continued and refined. But much more needs to be done – and soon – to address the distribution phase. We need to provide workplace savers with access to better education, guidance, analytic tools and a variety of income products they can choose from to convert accumulated retirement plan balances into reliable lifetime income streams.

That said, the workplace savings system itself remains the most effective means of both savings accumulation and preparation for lifetime income. What is needed now are a variety of ideas on how to build lifetime income options – in the form of either annuities or other insured non-annuity income streams – directly into workplace plans or to offer them to plan participants as options on termination or “rollover.”

Obstacles to Adoption

Experience to date suggests that simply providing lifetime income options in workplace plans hasn't been sufficient. Usage of assured income products has remained low even in plans where they have been made available. This low usage – which many economists refer to as “the annuity puzzle” reflects 1) a widespread lack of understanding – among both participants and plan sponsors -- of how lifetime income options might be used and what benefits they might provide to the individual. 2) An understandable wariness among plan sponsors about the legal and fiduciary risks involved in offering annuities or other lifetime income solutions to their participants. Other obstacles to solving the “annuity puzzle” across the workplace savings system include:

- The complexity and opacity of so many existing annuity and assured income offerings
- The “wealth illusion” – i.e. the common inability to reasonably discount the value of a sizeable sum of life savings when they are expressed in terms of guaranteed lifetime income
- Participants' reluctance to cede control of a sizeable share of their life savings
- Participants' concerns about reducing potential bequests to heirs
- Worries about inflation risk on fixed annuity offerings

- Plan sponsors concern about the potential credit risk from any specific insurance provider (for either annuity or non-annuity guaranteed solutions)

Multiple changes in approach – by industry and government, asset managers and insurers, plan sponsors and providers -- will be needed to overcome these obstacles to the more widespread use of lifetime income options. But a combination of private industry and academic innovation with public policy reform -- much as was seen in the years leading up to the passage of the Pension Protection Act of 2006 – can, in our view, drive significant, positive change.

Key Changes Needed

1. From the beginning of an individual’s retirement savings journey, the lens through which workers view their job-based retirement savings plan should be changed from a focus on the accumulated savings balance to the assets’ potential for generating reliable income for life.
2. Simpler income options need to be provided -- where simpler means less complicated product features, clearer fee structures, easier portability across accounts, etc.
3. Public policy incentives – namely tax advantages and/or credits -- should be offered to encourage plan sponsors to offer and participants to adopt assured income options.
4. To fully realize the potential of lifetime income options – and provide the workplace savings system with an effective solution set for the distribution phase -- a new national insurance charter, a new regulatory body and a new FDIC-like insurance fund would need to be created. Absent such reforms, we fear, the uptake of lifetime income options in workplace plans or at rollover will be limited – even if the first three changes mentioned above do come about.

A New Lens

Workplace savers need to better understand what they are doing by seeing their savings balances through a new lens. For years, workplace saving plans have taught investors to focus on total balances, investment choices and rates of return. A more appropriate approach, in our view, would be to focus workplace savers first and foremost on exactly what the lifetime income generating capacity of their plans really is – based on their current balances, age, contribution levels and projected retirement date.

To that end, our own new 401k Participant web site offers immediate access – as the first information displayed – to Putnam’s Lifetime Income Analysis Tool[®], which enables plan participants to measure how much income their savings can be reasonably estimated to generate in retirement, see whether they are on track to have sufficient income to maintain their current lifestyle once they stop working – and take immediate action to get on track or close any income gap the tool discloses.

Through this site, then, the “lens” has been changed – and while traditional balance data is readily available – it is not primary. A lifelong income planning view is the first angle from which participants see their own progress and they are “educated” – dynamically – throughout their participation in the workplace plan to measure their progress in terms of income replacement, rather than only by raw asset accumulation.

To make such an income “view” an effective motivator, it is vital that financial service providers be permitted to use hypothetical methods (such as Monte Carlo simulations or estimates and scenarios based on the actual, long-term investment performance of various asset classes) to calculate the income potential of workplace savings at future retirement ages – not convert current assets into current potential annuity income. The latter approach can actually undermine confidence and de-motivate savers.

We believe that participants who learn to interpret their workplace savings through the “lens” of their future potential to generate lifelong income will be much more willing as they approach retirement age to consider products and services designed to convert their balances into lifetime income streams. This kind of experience-based “education” can – and should – be supplemented over time by traditional communications and information to participants about the benefits and trade-offs inherent in either annuity or non-annuity lifetime income products and strategies.

Regulatory and policy action that encourages financial service providers and plan sponsors to emphasize an “income” view of workplace savings could help speed the adoption of such an approach – and begin changing workplace savers’ mindset about their goals. We would also support efforts to offer plan sponsors and advisors strong legal safe harbor for advocating or adopting plan design elements that emphasize a lifetime income “view” or offer participants education and guidance to appropriate lifetime income products and strategies.

Simple Options

The real or perceived complexity of many annuity and non-annuity income products has significantly retarded their adoption for many years. Any actions that regulators and policy makers can take to encourage clear, brief, straightforward lifetime income products – with their terms expressed in plain English and with full disclosure of fees and benefits – would help channel innovation and competition in this area in the right direction.

It might well be appropriate for regulators to work with asset managers and insurers to develop very basic templates for pure annuity and non-annuity income offerings – without, however, limiting competition or innovation to only such basic models.

Overcoming Obstacles to Lifetime Income Adoption

Government can play an important role in encouraging plan sponsors to offer and plan participants to seriously consider lifetime income products and strategies. Lifelong income options can have a very positive benefit for many workplace savers – in managing longevity risk and raising the lifetime income baseline even for those retirees who deplete all other

personal assets. But converting life savings into lifelong income is even more challenging for most people than accumulating a nest egg in the first place.

Negative market experiences in 2000-2002 and 2008-2009 illustrate the severe risks that “fat tail” or “black swan” events can pose even to diversified retirement portfolios. These risks are seriously compounded if an individual needs to be actively withdrawing from declining asset portfolios to provide current income. Selling into a downturn sharply heightens depletion risk. Having a substantial element of guaranteed income can lower that risk – and provide a higher baseline income even if depletion occurs. Yet a variety of obstacles mentioned earlier – such as loss of control of assets and inability to reasonably value lump sums in terms of lifetime income – make the decision to commit to a long-term income solution quite difficult. We therefore, believe that it would be reasonable for public policy to offer workplace savers some real financial incentives to consider choosing an assured lifetime income option.

Specifically, we believe that workplace savers who choose to adopt lifetime income guarantees – whether annuity or non-annuity versions -- should receive additional tax breaks for choosing a more secure withdrawal strategy. Perhaps the first \$10,000 a year in protected income should be tax free. But we do have one vital caveat: There should be no bias between annuities and non-annuity lifetime income products.

Today’s financial services industry is actively innovating in the income arena – and neither current policy nor future legislation should stymie this fruitful ferment by defining a single exclusive income product as the government-favored option. To the contrary, policy-makers and regulators should foster lively competition, debate and collaboration on lifetime income options between asset managers and insurers. We should also consider creating a national institutional infrastructure that could help make lifetime income options more attractive and more widely available.

A Regulatory Infrastructure for Lifetime Income

Putnam believes that if we want to see more widespread, systemic adoption of lifetime income vehicles, we will need to see game-changing, psychology-changing reforms at the national level. Specifically, we favor the creation of an option national insurance charter, a new national regulatory body focused on lifetime income offerings – and a national fund analogous to the FDIC in banking, to back-up lifetime income product promises and make participants whole in case of a specific provider’s failure.

Such reforms, in our view, would change America’s entire view of the value and reliability of lifetime income products and strategies. The way would be opened for intense competition and innovation in these products by both insurers and asset managers. With a coherent national market, a regulator empowered to approve or deny approval to both annuity and non-annuity income products, and an industry-based fund to ensure them, we would see the full potential of an American lifetime income industry unfold – freely, and in accord with the needs of individual retirement savers.

Political and Policy Pitfalls to Avoid

There are, however, some key political risks and policy pitfalls which could derail or delay any chances of such an outcome.

- Neither annuities nor non-annuity income options should be forcibly mandated. Even though they have real value for many retirement savers, these options are not appropriate for everyone. We strongly believe, for example, that the option for workplace savers to choose – or decline – a lifetime income option should remain exactly that – a choice. There is much data to show that Americans do not want – and would actively resist – a forced mandate to either annuitize or choose some non-annuity income vehicle.
- A far better course towards more widespread adoption of income options lies through adopting a new “lens” or focus on income, plus workplace-based education plus the explicit tax incentives for assured income that were mentioned above. At the same time, policy-makers should consider strong legal safe harbor coverage for plan sponsors who structure their plans to emphasize income and offer their participants education and information on lifetime options. Experience pre-and-post the Pension Protection Act shows that absent such protection uptake of new plan policies is glacial – with it, adoption becomes very rapid. Taken together, these policy elements would be a “nudge” not a mandate. But we believe they could significantly lift the share of workplace savers who choose assured income solutions in retirement – without triggering sharp, potentially crippling resistance.
- Both annuity-based solutions, and non-annuity assured income options should be encouraged – with no bias between them. It is critical that retirement income policy foster robust innovation and experiment – not lock in or privilege any specific product-based solution. Besides curbing the dynamism of an American lifetime income industry, any such effort to limit choices to a single solution would also generate major political resistance – and needlessly. Policy makers and legislators concerned with retirement income should therefore make every effort to foster collaboration and inclusion of asset managers, insurers and other financial service providers as this debate proceeds. We need as broad a coalition as possible to solve America’s lifetime income security challenge.

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