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Sent: Monday, August 16, 2010 11:56 AM

To: EBSA, E-ORI - EBSA

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Subject: Lifetime Income Joint Hearing

Vanguard would welcome the opportunity to testify at the upcoming joint hearing on lifetime income being held by the Departments of Labor and Treasury on September 14 and 15. Because of scheduling constraints, we are only available to present on Wednesday, September 15. Your accomodation of this request would be greatly appreciated.

Our witness at the hearing will be Stephen Utkus, a Principal at Vanguard and head of our Center for Retirement Research. We would like to address the following questions posed in the hearing notice:

1. Certain Specific Participant Concerns Affecting the Choice of Lifetime Income Options Relative to Other Options  
2. Information to Help Participants Make Choices Regarding Management and Spend Down of Retirement Benefits  
5. Alternative Designs of In-Plan and Distribution Lifetime Income Options

We look forward to sharing our views on retirement income. Vanguard has been at the forefront of research into participant behavior and, as a result, we approach retirement income from a slightly different perspective than others in the industry. We would also like to discuss a new retirement income service we are planning. An outline of our testimony is attached.

Thank you in advance for considering our request to testify on September 15. If you have any questions, please contact me at the numbers below.

(See attached file: Vanguard Proposed Testimony outline.doc)

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**Outline of Proposed Testimony**  
**Stephen Utkus, Principal, Vanguard Center for Retirement Research**  
**For September 15, 2010**

**1. Certain Specific Participant Concerns Affecting the Choice of Lifetime Income Options Relative to Other Options**

- The desire to manage a portfolio in retirement, rather than annuitizing, arises from legitimate participant concerns about flexibility and liquidity of savings. As a result, withdrawal programs (such as those based on a 4% spending rule) will likely be the dominant strategy for generating retirement income. Annuities are expected to play a secondary role because of these concerns as well as concerns about issuer credit quality.
- At the same time, annuity purchases have been hindered by a fragmented marketplace and lack of use of technology. We are introducing an innovative online annuity marketplace to address these concerns.

**2. Information to Help Participants Make Choices Regarding Management and Spend Down of Retirement Benefits**

- Interpretive Bulletin 96-1 can be amended to include guidance and examples applicable to the retirement income or “drawdown” phase.
- Examples of the types of information the Bulletin might incorporate include: descriptions of the drawdown decision and the factors participants need to consider in making effective choices; descriptions of the types of retirement income products, offered “within” and “outside” the plan, and their risks, benefits and costs; case studies of hypothetical participants; plus worksheets or online calculators designed to help participants make effective drawdown decisions.

**3. Alternative Designs of In-Plan and Distribution Lifetime Income Options**

- *In plan v. out of plan.* Most retirement income decisions are likely to occur in the IRA marketplace for several reasons—including concerns among plan sponsors regarding ongoing fiduciary responsibility for oversight of the product; the complexity and difficulty of administering current product offerings; the desire of participants for direct control of savings; and the weakening over time of the relationship between an employer and their former employee.
- *Role of defaults.* Absent any strong preference by participants for a specific retirement income strategy, we would rely on an approach that generates some reasonable income, while preserving liquidity and flexibility for the participant. Thus, the most appropriate approach to retirement income may be a withdrawal amount set at 3% or 4% of assets—whether those assets are in a qualified plan or IRA rollover account.
- *Role of active choice.* Given the complex nature of retirement income choices, we anticipate that most participants will want to make active decisions. Today, the choice set for participants include: withdrawal plans from a portfolio; payout funds and other non-guaranteed income from mutual funds; and various kinds of annuity-based contracts.