Re: Proposed Regulations on Target Date Fund Disclosure

Dear Sir or Madam:

We are writing on behalf of the Committee of Annuity Insurers (the “Committee”) to comment on proposed disclosure regulations published by the Department of Labor (the “Department”) in the Federal Register on November 30, 2010. The Committee is a coalition of life insurance companies formed in 1982 to participate in the development of federal policy with respect to annuities. The Committee’s current 32 member companies represent more than 80% of the annuity business in the United States and are among the largest issuers of annuity contracts in connection with employer-sponsored retirement plans. A list of the Committee’s member companies is attached.

The proposed disclosure regulations would modify the requirements applicable to qualified default investment alternatives (“QDIAs”) and fill in a section of the recently finalized participant-level fee disclosure regulations that was reserved for target date fund disclosures. Broadly speaking, both sets of proposed changes are meant to ensure that plan fiduciaries provide participants and beneficiaries who have the ability to direct the investment of their plan accounts with sufficient information about plan investment alternatives to make informed decisions about plan participation and the management of their individual accounts. To this end, the proposed regulations stipulate that a plan fiduciary must provide participants with enumerated investment-related information about the plan’s QDIA and any target date fund investment alternatives.

The sole issue addressed in this comment letter is the extent to which the required disclosures are appropriate for QDIAs that are structured as an “investment management service” under DOL Regulation 2550.404c-5(e)(4)(iii) – a permissible type of QDIA. As the Department is aware, it is not uncommon for a plan to offer access to an investment management service,
sometimes referred to as a managed account option. A typical managed account option constructs an asset allocation for an electing participant out of the plan’s existing menu of designated investment alternatives. The investment manager of the managed account will have discretionary authority to rebalance the investment allocations, for example, based on changes in the capital markets as well as the age of the participant. There is ordinarily a fee for use of the service and the participant will also pay shareholder and investment expenses for each of the investment alternatives that are utilized. Consistent with the requirements of the final QDIA regulations, the investment manager must be one described in section 3(38) of ERISA.

A managed account option may be different from other QDIAs, including target date funds, because it is tailored to the plan and its participant population. Like target date funds, managed account options that are used as QDIAs take into account the age of the electing participant. However, the investment strategy utilized by the managed account’s investment manager may take into account the demographics and behavioral characteristics of plan participants as a whole. Depending on the particular managed account option, the service may even take into account participant-unique factors other than the participant’s age, for example, the existence of other assets, such as other employer-provided retirement plans.

The proposed QDIA regulations would require, among others, disclosure of the QDIA’s issuer, principal investment strategies and principal risks, historical performance data, and fee and expense information, including the QDIA’s annual operating expenses. These requirements are clearly designed for investment funds, such as mutual funds, rather than for investment services, and the Committee believes that it is appropriate for the Department to develop disclosure rules that are tailored to managed account services.

A managed account option does not have an issuer; it has an investment manager. A managed account option’s principal investment strategies and principal risks are highly dependent on the factors taken into account under the program. For example, the investment strategies may be very different if the managed account option takes into account the existence of a defined benefit plan maintained by the employer. Similarly, it is far from clear how an investment provider should construct historic performance data for a typical managed account option since the performance may be unique to each plan and may even be unique to each participant. It is not practical to provide the same types of historic performance data that are routinely made available for investment funds if this information is unique for every plan and even every participant.

To be clear, the Committee has no objection to disclosure requirements that are tailored to QDIAs that are investment management services. Our concern is merely that the current proposed rules are not suitable to these services. Thus, the Committee strongly recommends that the Department develop disclosure requirements that are appropriately tailored to managed accounts. It should not be overly onerous to develop a disclosure regime that reflects the nature of the managed account service and, in fact, plan fiduciaries routinely provide information about managed accounts to plan participants. These existing disclosures should serve as a template for any new disclosure requirements.
The Committee also notes that a very similar set of issues is raised under the participant-level fee disclosure regulations. The participant fee disclosure regulations do not explicitly address the treatment of managed accounts. It is not clear under the participant fee disclosure regulations, for example, whether a managed account option is disclosed as an investment option along with the other designated investment alternatives under the plan (i.e., as part of the investment charts) or whether a managed account option is more appropriately disclosed as an individual expense. We strongly recommend that the Department issue guidance clarifying the appropriate disclosure of managed account and other investment management services under the participant-level fee disclosure regulations. These regulations are generally effective for plan years beginning on or after November 1, 2011, and we urge the Department to clarify the issue as soon as practicable.

* * *

Should any questions arise in connection with our comments, or if the Committee can be of any assistance to the Department in its consideration of this important issue, please contact Jason Bortz or Joseph McKeever, both of Davis & Harman LLP. They can be reached by phone at 202-347-2230, or via electronic mail at jkbortz@davis-harman.com or jfmckeever@davis-harman.com, respectively.

Sincerely,

Jason K. Bortz

Joseph F. McKeever, III
The Committee of Annuity Insurers was formed in 1982 to participate in the development of federal tax and securities law policies with respect to annuities. The member companies of the Committee represent more than 80% of the annuity business in the United States.