



Smart USA Co  
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Nashville, TN 37203

Department of Labor  
Employee Benefits Security Administration

29 CFR Part 2920  
RIN 1210 - AB20

November 12th, 2020

## **Comment on Interim Final Regulation on Pension Benefit Statements - Lifetime Income Illustrations**

We are writing in response to the recent request for comments on the Interim Rule on lifetime income illustrations.

Smart is a leading retirement technology business and one of the world's largest recordkeepers. Our Smart Pension Master Trust - the UK equivalent of a PEP - was established in 2014 and currently serves over 70,000 employers and almost 700,000 participants globally. Smart's 100% cloud-based technology platform was designed specifically for Pooled Employer Plans (PEPs) and the facilitation of lifetime income. In addition to our UK Master Trust, we also have global partnerships in Ireland, Dubai and Australia and have recently established Smart USA Co.

We would like to thank the Department for the opportunity to comment on the interim final rule on lifetime income illustrations. We applaud the Department's goal of requiring benefit statements to express a participant's current balance as a guaranteed income stream. We believe that this illustration will help participants to better understand the adequacy of their accumulated savings balance. We also agree with the Department's goal of using standardized assumptions to calculate this income stream, so that the projections are consistent across different benefits providers.

However, we are concerned that the Department's approach of basing the income projection solely on the current balance, regardless of the age of the participant, can be misleading and could even have the unintended consequence of discouraging retirement saving. Particularly for younger participants, the income stream that their current balance would generate is likely to be very modest. For example, for a 30-year-old with an account balance close to the median of \$10,000<sup>1</sup>, the projected income at current interest rates is likely to be only about \$40 per month<sup>2</sup>.

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<sup>1</sup> Source: Vanguard "How America Saves 2020", Figure 54

<sup>2</sup> Based on annuity quote from "Blueprint Income"

Showing savers in the early stages of their careers such low income expectations could even lead them to conclude that saving for retirement is futile. This would defeat the purpose of the illustration.

To avoid this potential pitfall, we believe that, at the very least, the income projection should incorporate the impact of expected investment returns prior to retirement. For example, if we assume that the 30-year-old's balance grows at a real annual rate of 3% until the age of 67, the projected balance would triple to almost \$30,000 in today's money and the projected income would rise to about \$130 per month. This approach would give a far more realistic picture of the income that the participant's current account balance is likely to generate in retirement.

We understand that questions have been raised regarding the Department's authority to project any investment returns. We do not see a basis for those questions. Under ERISA section 105(a)(2)(D)(iii), the Department is directed to "prescribe **assumptions** which administrators of individual account plans may use in converting total accrued benefits into lifetime income stream equivalents for purposes of this subparagraph" (emphasis added). So, the question of the Department's legal authority comes down to one key issue: in giving the Department the authority to prescribe assumptions, did Congress intend to prohibit the Department from including an assumption about investment returns? There is no evidence in the statute or the legislative history of any such prohibition. Accordingly, the Department has full authority to prescribe an investment assumption, just as it has the authority to prescribe other assumptions. So, there is nothing precluding the Department from prescribing an investment return assumption, which, as noted above, would make the illustration far more meaningful.

Even this projection is conservative, as it does not take into account the impact of future contributions on the participant's final balance. Ideally, the projection should also incorporate the impact of a participant's expected future contributions over their entire career and the investment return on those so that they could evaluate whether or not they are on track for retirement readiness. For example, in the UK, the Financial Reporting Council's guidelines<sup>3</sup> require that for members who are contributing a regular percentage of their earnings to a retirement plan, the income illustration should include projected future contributions based on the current contribution rate. This holds regardless of whether the participant has the right to change the contribution rate or to opt out.

To illustrate this, we have attached an example of the annual statement that we provide to participants in our UK Master Trust (Appendix I). The income projection includes the impact of both expected returns (using the same 3% real annual return rate assumption as above) and future contributions, and assumes that the participant continues to contribute at the current rate. Once these are incorporated, the expected value of the 30-year-old's retirement balance at age 67 rises to \$288,000 in today's money. The projected income rises to \$1200 per month, which is thirty times as much as the income projected from the 30-year-old's current balance.

Many recordkeepers also provide modelling tools that allow participants to calculate their projected retirement balance based on different assumptions regarding their future contribution

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<sup>3</sup> Financial Reporting Council "AS TM1 Statutory Money Purchase Illustrations", October 2016

rate or retirement age. Allowing people to engage with their savings through this type of modelling tools can also be a helpful way of encouraging them to engage with their savings and potentially contribute more to their retirement accounts.

We suggest two main modifications to the proposed rule. First, we propose that you define an additional standardized assumption for a return rate that could be used to project the participant's balance into expected current dollars at the age of 67 and expand the safe harbor to include this projection. In the interests of simplicity, the Department could determine a single rate of return for use in projections for participants of all ages. For example, the Department could specify a conservative rate of return that corresponds to the risk level of a target date fund for a 55-year-old. The projection would naturally be accompanied by language explaining that this is a projection, that capital market returns are not guaranteed and that additional contributions would raise the projected balance.

Second, we request that you clarify that modelling tools, which allow the participant to input different variables (such as contribution rates, retirement ages or investment allocations) in order to generate a customized income projection, should be deemed education, not advice. Particularly younger participants are increasingly likely to engage with their retirement savings through digital tools rather than paper statements, and any guidance should reflect the usefulness and growing importance of these tools.

We hope that these comments are useful to you and would be happy to provide you with any further information.

Yours sincerely,



Catherine Reilly

Director of Retirement Solutions

Smart USA Co

# Your 2020 annual pension statement

September 17, 2020

Mr Joe Bloggs

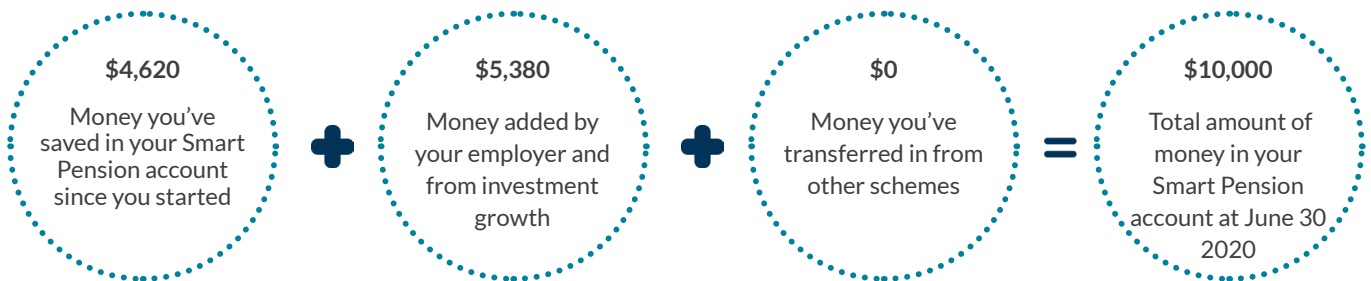
14 Broadway Street

Anytown ZIP

## Your annual statement shows you three things:

1. How much money you already have in your Smart Pension account
2. How much money you could have at age 67 at 6/30/2056
3. What you could do to save more money

### 1. How much money you already have in your Smart Pension account



<b>Last year</b>	
Total amount of money in your Smart Pension account on June 30 2019	\$5,690
<b>This year</b>	
You have saved into your account	\$1,920
Your employer has added	\$1,920
After charges, the value of the investments in your account has changed	\$470
You've transferred money in from other pension scheme(s)	\$0
<b>Total amount of money in your Smart Pension account on June 30 2020</b>	<b>\$10,000</b>
If you'd asked us to transfer your money to another pension scheme on June 30 2020, we would have transferred	\$10,000

Find out about the costs and charges that apply to the Smart Pension Master Trust by signing into your account or reading the Chair's statement, available at:

[www.smartpension.co.uk/member](http://www.smartpension.co.uk/member).

You can also request a hard copy of the Chair's statement by emailing [trustees@smartpension.co.uk](mailto:trustees@smartpension.co.uk).

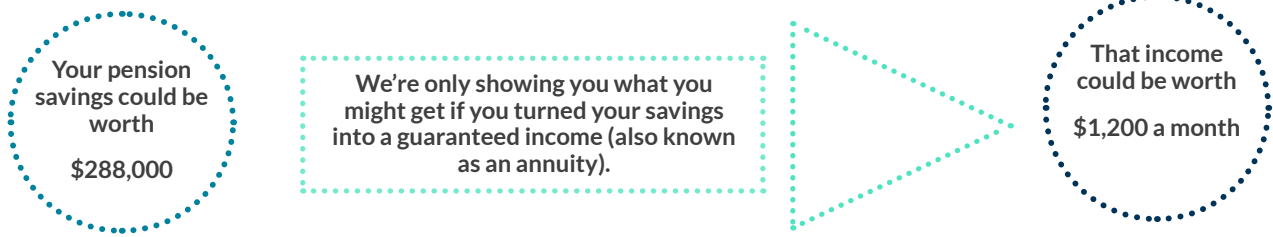
You can find out more on how we select and govern our investment strategy by taking a look at the Statement of Investment Principles here:

[www.smartpension.co.uk/member](http://www.smartpension.co.uk/member).

Your Smart Pension account allows you to take greater control of your pension savings. You'll easily be able to:

- change your retirement age
- tell us who you would like to be the beneficiary of your Smart Pension account if you die
- update your contact details
- choose where your money is invested

## 2. How much money could you have at 67 on 6/30/2056.



### Why do we talk about what your Smart Pension account and income could be 'worth'?

We do this because of inflation. We think the money in your account will buy you what \$288,000 would buy you today. We think you could then turn it into a monthly income of about \$1,200 today.

We worked these figures out on **June 30 2020**. A lot can happen between then and when you use your money, so we've had to make some assumptions to calculate these figures. We assumed that:

- if you are currently contributing to your account, you and your employer keep putting the same percentage of your salary into your account every year.
- your investments grow each year. Sign in to your account to check your funds. You can also view more information about our funds, including assumed growth rates, in our guide to your statement at [URL](#).
- when you turn your account into an income, you don't take a lump sum, you don't want your income to go up each year to keep up with inflation and you don't want to provide an income for anyone else after you die.

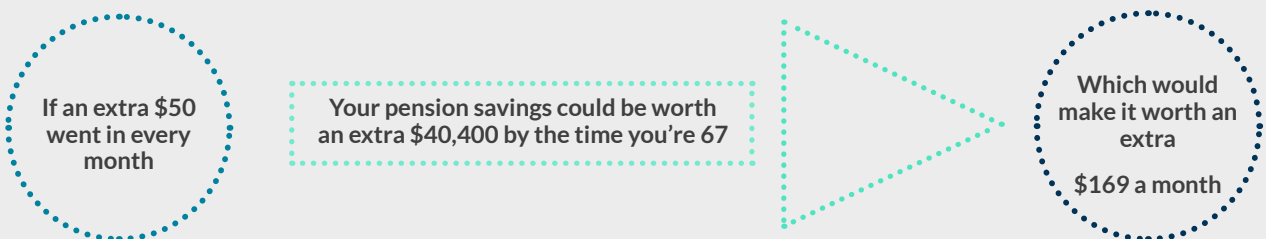
We also made some other assumptions. For example, the types of investment you have, how inflation affects what your pension savings are worth and how you turn your savings into an income on 6/30/2056.

These figures are a guide to help you plan for your retirement. What actually happens may be different from what we've assumed so these figures don't come with a guarantee. We can't promise the amount shown is the actual amount of money you, or anyone else who benefits from your account, will get. You could get more or less than this amount. Find out about the assumptions we use in the guide to understanding your annual pension statement at [URL](#).

## 3. What you could do to save more money

It's worth thinking about how much money you're likely to need when you retire. You may no longer need to worry about work expenses and commuting costs but will still need to pay bills. Remember, you may get an income from other places - for example, most people get the State Pension.

By saving an extra \$50 a month your pension could be worth more when you come to use it.



Give your money more time to grow - you don't have to use your money when you're 67. Leaving it to grow for longer could mean you have more money when you do come to use it.

You can increase the amount you save or change when you plan to retire by signing into your Smart Pension account.

If you want to find out more about your pension savings and where they are invested, please visit:

[www.smartpension.co.uk/member](http://www.smartpension.co.uk/member).

If you are over 50, you can also get help from Pension Wise, a free and impartial government service. Call them on 0800 138 3944 or visit [www.pensionwise.gov.uk](http://www.pensionwise.gov.uk).

If you have any questions or would like the information above in larger print, braille or audio format, please get in touch.

Email us – [employee@smartpension.co.uk](mailto:employee@smartpension.co.uk)

Phone us – 0333 666 26 26

Write to us – Smart Pension, 10 Eastbourne Terrace, Paddington, London W2 6LG

Please remember to keep your current postal address and email address updated in your Smart Pension account.