



1401 H Street, NW, Washington, DC 20005-2148, USA
202/326-5800 www.ici.org

March 25, 2013

Submitted Electronically

G. Christopher Cosby
Employee Benefits Security Administration
Room N-5718
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, DC 20210

Re: Proposed Information Collection Request – Survey Regarding Pension Benefit Statements

Dear Mr. Cosby:

The Investment Company Institute¹ appreciates the opportunity to provide comments on the Department of Labor’s proposed Information Collection Request (ICR) regarding a survey on pension benefit statements. The ICR is intended to explore whether information presented in benefit statements can be presented in a manner that is understandable for participants and beneficiaries and makes them better prepared for retirement. The Institute believes that it is important for participants to understand their benefit statements and for such statements to include illustrations that help participants think about their balances in terms of the income they reasonably could generate in retirement. The proposed ICR study materials, in relevant part, consist of three sample benefit statements, a focus group discussion guide (“Discussion Guide”), and a statement of survey questions for a survey to be conducted on-line (“Benefits Survey”). We understand that the Department intends to use results from the study to develop a proposed regulation on pension benefit statements under section 105 of ERISA, including a model benefit statement as required under section 508 of the Pension Protection Act of 2006.

¹ The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of \$14.6 trillion and serve over 90 million shareholders.

G. Christopher Cosby

March 25, 2013

Page 2 of 13

We applaud the Department for including participant testing as part of its efforts to develop model benefit statements, as well as allowing for public comment on the proposed ICR study materials. Our review of the ICR study materials did raise several concerns. In particular, as discussed in Part I of the letter, although standard survey methodologies will be employed and the RAND American Life Panel (ALP) is a respected on-line survey sample, we have general concerns about certain aspects of the survey design and more specific comments on the sample benefit statements, Discussion Guide, and Benefits Survey. Parts II and III of the letter respectively discuss our concerns with the use of an annuity calculation to illustrate potential monthly income, and identify specific concerns with questions included in the Discussion Guide and Benefits Survey intended to ascertain a preference for how participants receive their benefit statements.

I. Survey Design and Materials

A. General Comments

As discussed above, the Department intends to conduct a survey to explore whether information contained in benefit statements can be presented in a way that improves recipients' understanding of the statements and helps them plan better for retirement. The proposed survey design uses a standard methodology of pre-testing the survey (with both in-person interviews in a focus group setting and an on-line survey using 50 pre-test survey respondents) and then fielding the survey more broadly through the RAND American Life Panel (ALP). Respondents will be given the opportunity to comment on sample benefit statements presented for their consideration during the survey. The basic methodology proposed is sound and in line with common survey practices. However, we have concerns related to three elements of the survey design. In this respect, we believe that: (1) one-on-one in-person interviews may be more effective than a focus group setting given the complexity and personal nature of some of the material; (2) the sample sizes of the sub-populations receiving the different proposed treatments could be insufficient to reach reliable conclusions regarding survey data results; and (3) the Discussion Guide and Benefits Survey should be compared and more closely aligned with each other, given that the in-person pre-testing is meant to inform the on-line survey wording.

1. One-on-One Interviews versus Focus Groups

When fielding new survey questions, it is helpful to test the questions on a sample of respondents before fielding the full survey to ensure that respondents understand the material. However, we find that one-on-one test interviews can be more effective than a focus group environment when the material is complicated, detailed, or personal in nature. Given the content of the proposed survey, we would recommend that the Department consider changing its approach for that component of the proposed survey work. In the focus group environment, individuals may feel intimidated and not wish to look uninformed, and thus not freely discuss the material presented.

G. Christopher Cosby

March 25, 2013

Page 3 of 13

Furthermore, some participants may just follow the lead of others in the group, rather than venture forth with their own thoughts. In addition, some of the information that will be discussed might be considered personal or confidential and therefore is unlikely to be provided freely. For example, respondents might not be comfortable discussing their 401(k) contribution activity or the amount they expect they will need in retirement (whether discussed as a lump sum or an income flow) in a group environment.

2. Size of Treatment Groups within the RAND ALP

The RAND ALP is a widely used and respected survey panel. However, the survey design proposed may run into difficulty with sample sizes, which may become relatively small for certain of the treatment groups reviewing the different sample benefit statements. Although the ALP starts with approximately 4,500 respondents, due to reductions resulting from non-response and the excluded sample components, the expected sample will be approximately 2,900 individuals.² From the Institute's experience, it is likely that approximately half of those respondents should be expected to answer that they have a DC plan,³ reducing the final sample to fewer than 1,500. It appears that the sample will then be split into nine groups, which leaves about 170 people per treatment. We are concerned that meaningful analysis by age or other demographic characteristics between samples will likely be constrained given these resultant sample sizes. Reducing the number of analysis groups will help with the robustness of the comparisons after the survey is completed.

3. In-Person versus On-Line Survey Questions

The Department indicates that the in-person interviews have the goal of pre-testing the survey questions before they are fielded more broadly in the on-line survey. However, the Discussion Guide and Benefits Survey vary in significant ways and should be conformed more closely with each other in order to ensure greater reliance on responses given.

B. Additional Specific Comments on the Study Materials

In addition to our broader comments above, we have the following specific observations on the study materials: the sample benefit statements, the Discussion Guide, and the Benefits Survey.

² See page 15 of the "Part B Supporting Statement" and page 1 of the "Part A Supporting Statement" provided by the Department.

³ Each spring ICI conducts a nationwide household survey. The latest survey conducted in May 2012, found that of 4,019 U.S. households surveyed, 2,046 or 50.9 percent owned defined contribution plan accounts (whether at their current or former employers).

1. Sample Benefit Statements

- We recommend that the hypothetical participant's age or birth date be included on the sample statements.
- In the "Activity" section of the statements, we recommend that any deductions from participant accounts, such as withdrawals, investment losses, and fees, be more clearly shown as subtractions rather than additions. We note that the term "sum" used in the Explanation column generally refers to additions.
- Sample statement version 1 shows the projected account value at retirement, including an assumption regarding average life expectancy. The average life expectancy does not appear to be relevant here and may cause confusion. Footnote 1, regarding continued contributions, does appear to be relevant and the Department might consider moving this text up to the assumptions listed in bullets. We also note that the language in footnote 1 is imprecise and could lead to confusion.⁴ The language should be clarified to explain whether the employer and employee contributions are assumed to continue at the current rate and assuming salary growth at 3 percent annually, or whether the contribution rate itself is assumed to increase as well.
- In the "Projections" section of both version 2 and 3 of the sample statement, it should be made more clear whether or not the 7 percent rate of return and 3 percent inflation rate apply to the calculation of monthly income in row A.
- In the "Projections" section of version 3 of the sample statement, we believe it would be helpful to include in the Explanation column that the annuity values assume that the participant purchases the annuity at age 67.
- In Section D ("Factors that could change monthly income at retirement") of versions 2 and 3 of the sample statement, under the heading "How much could I gain or lose depending on the performance of my investments," the "Caution" should perhaps be expanded to add some mention of the risk/return trade-off, time horizon, or range of results around the estimates presented.

2. Discussion Guide (Focus Group Survey)

The Discussion Guide progresses through six broad topic areas: (1) Introduction, (2) Ground Rules, (3) Retirement Goals, (4) Statement of Benefits, (5) Sample Statements of Benefits, and (6) Additional Thoughts. The survey does not appear to have a comprehensive approach to getting people

⁴ The footnote text reads: "This projection assumes that your current employer contribution rate and your personal monthly contributions grow 3% annually."

to think about *all* of their retirement resources, before moving into a specific discussion of benefit statements from employer-sponsored defined contribution (DC) retirement plans. In the “Retirement Goals” section, respondents could easily be confused by the questions, and the questions do not appropriately focus respondents on all of their retirement resources. Specifically, the section starts with the comment: “Let’s start by talking a bit about your retirement savings and your goals.” Households will draw on many resources in retirement, and they will not all fit into the category of “retirement savings.” Perhaps the section should start more generically by talking about resources respondents will draw on in retirement and their goals.

To help respondents recognize their specially earmarked DC plan accounts, more examples should be added to the question: “What kinds of retirement accounts do you have?” (*e.g.*, 403(b), 457, thrift savings). It may also be a good idea to ask about any defined benefit plans the respondents may have. They may also have IRAs, business assets, or other resources that they will rely on in retirement. It is unclear why real estate is singled out in the next question: “Do you have any other retirement savings, like real estate?” Furthermore, the term “real estate” has broad meaning and it is unclear whether this question is getting at investment real estate or homeownership.

The “Statement of Benefits” section should perhaps have some introductory language that narrows the participants’ focus to information that they receive from their employer-sponsored DC plan account and when, how, and how often they review the information in the statement. As discussed later, questions about delivery method should be separated from questions about statement content. Language in the questions should not presuppose paper delivery.

The Department might want to consider teeing up the sample benefit statements with additional language indicating that the leader will hand out different sample benefit statements for a DC plan participant who is a 40 year-old male (as noted above, the statements need to add this information). The Discussion Guide should also indicate that the participants should base their answers only on the material in the samples, not on what they may have been given by their own plan.

In the “General Discussion of Assumptions,” the respondents may be confused by the discussion points. For example:

- The contribution amount rises with inflation over time in the projections, yet respondents are asked if they think they will contribute the same amount.
- Respondents might also be confused by what the “same amount” might mean, the actual dollar amount or their contribution rate?
- It might be better to ask if 3 percent inflation or current annuity pricing is “reasonable,” rather than “realistic.”

- What is a survey respondent to make of “good” as a descriptor of survivor benefits? Good for the price? Good for the spouse? The respondent has no benchmark against which to compare the joint and survivor annuity, and indeed may not understand exactly what it is.

3. Benefits Survey

The Benefits Survey presumes that respondents know detailed information about their DC plan accounts. If accurate responses are important, the requests should be simplified or respondents should be encouraged to look up the information from their DC plan provider. Set forth below are specific observations about concerns that arise from the questions in the Benefits Survey.

- For questions 1 through 5, respondents are not provided with any guidance as to how they should respond if they have multiple DC accounts or have DC accounts with previous employers. Should respondents only answer about accounts at their current employer(s)? Should they aggregate accounts?
- Question 3 asks for monthly contributions to their DC plan. Although some respondents may know this information, many are more likely to know how much they contribute biweekly or semimonthly or to know their contribution amount as a percentage of their pay. Respondents should be given the option to provide the information in a different format or be encouraged to obtain the information from their benefit statements or their plan provider’s website.
- In addition, we would note that respondents should also be asked about their employer contributions. It appears that later in the survey the respondent’s information will be used to personalize the sample benefit statement, and employer contributions are required to do the calculations in that statement.
- Question 4 asks respondents to allocate the balance of their investments into their asset class components. For target date and non–target date hybrid funds, this is a difficult task (especially for flexible portfolio funds where the allocation could be constantly shifting) to do from memory, but relatively easy for most participants to find on their plan provider’s website.
- Question 5 asks respondents for their DC account balance. Again, this is information that can likely be readily obtained by many respondents, but might be unavailable solely from memory. Providing ranges also would assist respondents in pinpointing an appropriate figure.
- Questions 6 through 8 ask respondents about their anticipated retirement date. Questions and responses surrounding this decision need to be better coordinated within the survey. For example:

- Questions 6A and 6B appear to expect respondents to choose from a list of probabilities, but no list is provided. In addition, the questions ask about age 62 and age 65, when age 67 is used in the benefit statement examples and is an age that should be asked about given that the normal retirement age for Social Security is rising to 67. Social Security benefits are increased by a certain percentage (depending on date of birth) if you delay your retirement beyond full retirement age. The benefit increase no longer applies when you reach age 70, even if you continue to delay taking benefits.⁵ Given this design feature in Social Security benefits, one might consider asking about plans to retire at age 70.
- The skip pattern for this section is confusing and likely to lead to inaccurate responses.
- Should the age specified in Question 8 (age 60) match an earlier answer?
- Question 11 also suffers from the problem that a respondent may have more than one “employer-sponsored retirement plan” to rely on in retirement and will have difficulty responding to the question. A complete list was not provided, but the following should also be counted among the respondent’s resources: individual retirement accounts, wage and salary income from a job, business income, or income from an employer-sponsored defined benefit plan.
- In addition, although the language at the beginning of the survey refers to an “employer provided defined-contribution retirement plan,” later questions just ask about the “employer-sponsored retirement plan.” This could confuse respondents who are also covered by a defined benefit plan.
- Questions 12 and 13 ask about the benefit statement received in the mail. It is our understanding that the goal is to explore the material in the benefit statement that the respondents find useful. The specific delivery mechanism is not relevant to this question. We suggest separating out questions on the delivery mechanism (*e.g.*, electronic, paper, some combination) from questions on the content of the benefit statement. In addition, since the benefit statement can be provided on quarterly basis, the phrase “in the past three months” should be added as an option in Question 12.
- Questions 16 through 18 involve complex calculations and could be difficult for some respondents to answer in a short amount of time. In addition, respondents are expected to do complicated math with little guidance. For example:

⁵ See Social Security Administration, “Retirement Planner: Delayed Retirement Credits,” available at www.ssa.gov/retire2/delayret.htm.

- Question 16 requires respondents to calculate the future value of a stream of contributions and investment returns on a preexisting balance over 27 years at 7 percent interest. With the use of Excel this is a complicated question. For the average person without the aid of software, it's effectively impossible. In addition, respondents need to make an assumption on how frequently the annual 7 percent return is compounded.
- Question 17 then requires respondents to take the result of question 16 and spend down that money with no guidance as to how they should approach the question. Respondents could purchase an annuity in the marketplace, they could assume a theoretical "actuarially fair" annuity, they could assume the 7 percent return from the prior question, or they could use a simple rule of thumb (like a 4 percent drawdown). Expecting respondents to produce an answer using any one of these methods is unreasonable, but the way the question is framed, there isn't even a "correct" way for respondents to answer.
- Question 18 then asks respondents to take the result of question 16 and discount it back to today's dollars. With no guidance as to the proper discount rate, this question asks respondents to make forecasts of the next 27 years of inflation, coupled with their own personal time preferences. Any answer could be correct depending on respondents' own personal preferences and expectations of future inflation.
- In some cases, Questions 19, 20, 21, and 25 ask respondents about information they were not provided. For example:
 - Question 19 asks about the ease of locating the rate of return and contribution rate within the benefit statements. We note that none of the three sample statements include the participant's actual investment rate of return or contribution rate, although dollar amounts for earnings and contributions are provided. In addition, because one might want to understand how easily respondents can locate information on their account investments, we recommend adding "investments" as a choice on the list.
 - For questions 20 and 21, all answer choices are only shown on versions 2 and 3 of the sample benefit statement.
 - For question 25, answer choice "C" only applies in versions 2 and 3 of the sample benefit statement, and it is never mentioned explicitly. The disclosures adjust for "the average life expectancy for a man of this age" (version 2) or "an average life expectancy assumption for individual men" (version 3). The version 2 language is repeated in version 1, but no income projections exist, so the assumption is never actually used. For question 25, answer choice "D" only applies in versions 2 and 3 of the sample benefit statement.

- Respondents are asked to make judgments based on seeing only a partial portion of an individual's balance sheet. The benefit statement from an individual employer-sponsored DC plan tells the individual about a portion of their resources available for retirement. Households generally draw on many resources in retirement—including Social Security—in addition to possibly multiple retirement accounts, including IRAs, or defined benefit plans. To ask respondents to judge retirement preparedness based on one slice of their retirement pie, does not provide the appropriate context. However, it is important for respondents to understand what this slice can provide in retirement. For example:
 - Questions 22 and 23 ask about a person's preparedness for retirement, but do not reference any assets outside of the employer-sponsored DC plan. Questions 22 and 23 should be reworked to reflect that the respondent is evaluating the role of this particular account in contributing to their retirement preparedness. Most respondents will have future Social Security benefits, and many have other assets such as other employer plan money (DC or defined benefit) or an IRA. Without looking at the whole balance sheet, respondents are biased towards responding that they are not prepared for retirement.
- Questions 24 and 25 (and the sample benefit statements themselves—see comments above) contain conflicting and confusing information on the contributions to the employer-sponsored DC plan account which may make it difficult for respondents to answer correctly (when they may otherwise understand). For example:
 - Question 24 asks for agreement with the following characterization of contributions: “The projections assume that contributions will rise at 3% per year.” We think that respondents will better understand this statement if it were to read: “The projections assume that contribution amounts will increase 3% per year.”
 - Question 25 then states that the projections assume participants “[c]ontinue to contribute the same amount until retirement,” when as we understand it, the contribution amounts grow on a nominal basis with inflation (wages apparently rising 3 percent per year).
 - In addition, Question 25 asks respondents whether a 3 percent inflation rate or a 7 percent rate of return is “realistic.” “Reasonable” is a better choice of words. Given the range of inflation and investment returns observed historically, a range of numbers might be considered realistic. What is important is whether the numbers are reasonable for a long-term projection going forward from today's market environment.

II. Lifetime Income Illustration

Related to our observations regarding the design of the survey, we note that two of the sample benefit statements include lifetime income stream estimates based on what a joint and survivor annuity would pay.⁶ The estimates are presented in two ways—one using the participant’s current account value and the other using a projected account value at age 67 (assuming continued contributions and earnings). While the Institute believes that disclosure that translates an account balance into estimated monthly income is useful, we have several concerns with including only a joint and survivor annuity calculation on the sample statements, without including or considering any alternative methods of illustrating lifetime income.

As an initial matter, the sample statements do not provide pertinent information necessary to help participants understand the impact of purchasing a joint and survivor annuity at retirement, including, for example: how interest rates prevalent at the participant’s retirement date will impact payment streams; that the purchase of an annuity means that the participant will have no access to his or her account balance; that any remaining account balance at death will not inure to the participant’s beneficiaries; and that the payment stream is not inflation protected. Because such disclosures are crucial to a participant’s understanding of an annuity, it seems unusual that a survey intended to measure a participant’s understanding of his or her benefit statement would not include any reference to information of such material consequence.

We are also surprised that the lifetime income stream illustrations used in the sample statements are limited to calculations based on annuity purchases. As the Department is aware, annuities are not the only way of generating an income stream in retirement. DC plan participants have a range of options. In addition to life annuities, these options include installment payments and systematic withdrawal plans, life expectancy withdrawals, longevity insurance, and managed payout products. Most DC plan participants do not have an annuity distribution option offered under their plan, and those that do tend not to select it.⁷ This factor alone is sufficient reason not to focus solely on annuities in a lifetime income illustration. But the question of how to best illustrate the potential future income than an account balance could generate depends on many factors.

Because we do not know how any given participant will ultimately decide to draw down his or her savings in retirement, it is hard to identify the best method of illustration for all participants. With

⁶ It is not clear from the sample statement or the accompanying materials how the payment stream is actually determined—for example, whether the payments are based on actual surveys of the cost of such products in the retail market or using some other method.

⁷ See Plan Sponsor Council of America (PSCA), *55th Annual Survey of Profit Sharing and 401(k) plans (Reflecting 2011 Plan Experience)*(2012); Deloitte Financial Advisory Services, *Annuities in the Context of Defined Contribution Plans* (2011).

G. Christopher Cosby

March 25, 2013

Page 11 of 13

this uncertainty, the goals of such an illustration should be to help participants determine whether their retirement savings is on track for their own particular circumstances and to remind them that the savings must last a number of years, rather than to steer participants toward any particular distribution method. Service providers who are already offering this type of disclosure on benefit statements or in tools offered on plan websites have carefully considered and designed their estimates to achieve these goals. In testing only an annuity-based estimate in the study, the Department will miss the opportunity to gauge reaction to other valid and well-thought out calculation methods already being used by service providers today.

Other methods of illustrating and estimating the monthly income potentially available from an account balance include dividing the projected account balance by the life expectancy stated on IRS tables at a certain age, such as age 65 or 67. Another method would be to use 3 percent or 4 percent of the projected final account balance at age 65, the approach some financial planners use when advising clients at retirement. These approaches have the advantages of being straightforward and product-neutral.

It is worth noting that the illustrations in the sample statements presumably are based on current market pricing for annuities, which are constantly in flux. Each time a new benefit statement containing a lifetime income illustration is provided to a participant, the annuity rates will be different. Not only will this fluctuation cause confusion for participants, but an estimate based on current annuity rates would have very little meaning for younger participants, since the annuity rates today could be significantly different from annuity rates in effect 20 or 30 years from now. In contrast, 4 percent of an account balance of \$300,000, for example, will always be \$12,000.

As we have stated before, we believe the Department should not mandate or codify a single approach for calculating lifetime income illustrations.⁸ Likewise, we urge the Department not to focus on only one approach to lifetime income illustration in conducting this survey. The Department should include alternative lifetime income stream approaches in the sample retirement statements, so that other methods that could ultimately appear in the Department's future proposed rulemaking are evaluated.

⁸ See May 3, 2010 letter from Mary Podesta, Investment Company Institute, to the Employee Benefits Security Administration and Internal Revenue Service, responding to request for information on lifetime income options.

III. Method of Statement Delivery

The Discussion Guide and Benefits Survey each include several questions involving the manner by which participants receive their benefit statements.⁹ We believe that many of these questions, to the extent they are premised on a participant having received paper statements, may be confusing to DC plan participants and fail to consider the on-line statement delivery provisions contained in Field Assistance Bulletin 2006-03 (“FAB 2006-03”). As you know, FAB 2006-03 provides a specific electronic delivery rule for the delivery of pension benefit statements as follows:

With regard to pension plans that provide participants continuous access to benefit statement information through one or more secure websites, the Department will view the availability of pension benefit statement information through such media as good faith compliance with the requirement to furnish benefit statement information, provided that participants and beneficiaries have been furnished notification that explains the availability of the required pension benefit statement information and how such information can be accessed by the participants and beneficiaries. In addition, the notification must apprise participants and beneficiaries of their right to request and obtain, free of charge, a paper version of the pension benefit statement information required under section 105.

In the event that a plan utilizes the “notice and access” delivery method prescribed by FAB 2006-03, a participant is neither required to opt-out of receiving a paper statement nor will the participant receive a paper statement in addition to the available on-line statement – unless the participant specifically requests a paper statement. Therefore, for example, the questions on page 4 of the Discussion Guide regarding on-line versus paper statements may be confusing to participants, as a participant or beneficiary whose plan utilizes the benefit statement delivery provisions of FAB 2006-03 will not receive a paper statement unless he specifically requests one.¹⁰ Further, questions in both the Discussion Guide and the Benefits Survey seeking to compare the on-line statement to a mailed paper statement may be inapplicable to such participants unless the participant has specifically requested a paper statement.

⁹ See, for example, Discussion Guide page 3: “How many of you regularly review the Statement of Benefits that your 401k (or other employer-sponsored pension) plan sends you in the mail?”

¹⁰ See, for example, Discussion Guide page 4: “How many of you have opted out of the paper statements and only receive your account information online?” See also Benefits Survey question 12: “When is the last time you reviewed the Statement of Benefits that you receive in the mail from your employer-sponsored retirement plan?” and question 13: “How often do you review the Statement of Benefits that you receive in the mail from your employer-sponsored retirement plan?”

G. Christopher Cosby
March 25, 2013
Page 13 of 13

We therefore recommend that the Department revise the questions contained in both the Discussion Guide and the Benefits Survey to account for the benefit statement delivery method contained in FAB 2006-03. We believe this would assist the Department in its evaluation of the survey results by providing more meaningful responses from survey participants. Additionally, the Department should consider separating out the two issues—delivery method versus comprehension of the information provided—and analyzing the interaction of the two using cross-tabulations of separate (more easily understood) survey questions.

* * *

We would be pleased to meet and discuss these issues further with the Department and will follow up with you in the near future to discuss whether such a meeting would be beneficial. In the meantime, please contact the undersigned, David Abbey (david.abbey@ici.org or 202/326-5920) or Sarah Holden ([sholden@ici.org](mailto:s Holden@ici.org) or 202/326-5915), if you have any questions.

Sincerely,

/s/ David M. Abbey

David M. Abbey
Senior Counsel
Pension Regulation

/s/ Sarah Holden

Sarah Holden
Senior Director
Retirement & Investor Research