

Statement of AXA Equitable Life Insurance Company
Target Date Fund Joint Hearing

June 18, 2009

Bringing Guaranteed Income Solutions into 401(k) Plans:
Creating Awareness

AXA Equitable Life Insurance Company is one of the nation's leading life insurance and annuity providers. We will shortly celebrate our 150th anniversary. As one of the oldest and largest providers of retirement income solutions, AXA Equitable very much appreciates the opportunity to provide comments to this hearing on Target Date Funds.

As the hearing notice points out, Target Date Funds ("TDFs") are investment products that allocate their investments among various asset classes and automatically shift that allocation to more conservative investments as a "target" date approaches. As the hearing notice also observes, TDFs have increased in popularity in recent years. Thus, it is not surprising that the recent severe market decline has prompted interest in how TDFs have operated and performed, particularly as investment options in 401(k) and other participant directed retirement plans. In that context, we think it is entirely appropriate for the Department of Labor ("DOL") and the Securities and Exchange Commission ("SEC") to consider whether additional regulatory guidance is warranted in the areas of operation, management and disclosure. We will leave to others who are more directly engaged in the management of TDFs the task of commenting on those specific areas. We write instead to urge the DOL and the SEC, in any action that may be taken as a result of this hearing, to be mindful of the rapidly evolving role of TDFs in retirement planning including nacent efforts to combine TDFs with insurer-provided guarantees; efforts that we believe have the potential to significantly increase the efficacy of TDFs in retirement planning.

Target Date Funds Address Lack of Diversification and Participant Inertia

At the outset, we submit that TDFs address at least two significant concerns relating to participant directed plans: (1) inadequate account diversification – typically reflected as either under-exposure or overexposure to equity investments, or undue concentration in particular sectors or securities, and (2) the failure of many participants to systematically rebalance their accounts to reduce volatility and preserve principal as they approach retirement.

First, with regard to diversification, we note that modern portfolio theory teaches that optimal risk-adjusted returns over time tend to come from appropriately diversified portfolios. Despite this seemingly well-established principle, examples are all too common of investors suffering outsized losses during market downturns due to over-concentration in asset classes or, worse yet, individual securities. According to Vanguard, at the end of 2008, four out of ten 401(k) participants who were not invested in target date funds held either no plan assets in equities or all of their plan assets in equities.¹ By applying a professionally managed asset allocation strategy, TDFs can help participants avoid the perils of undue concentration by providing them with exposure to a broad range of asset classes and sectors.

Secondly, but no less importantly, TDFs operate to periodically adjust their asset allocation to modulate equity market exposure and volatility as participants advance toward retirement. In so doing, TDFs address one of the more significant obstacles to successful investing; investor inertia. Inertia is a particularly common behavioral pattern among defined contribution (“DC”) plan participants. Studies have shown that most participants do not change investment options or deferral rates inside their 401(k) plans.² Even amid the market turmoil of 2008, less than 20 percent of participants made any changes to their 401(k) investment options.³ A TDF default option in a 401(k) plan can counteract the insidious effects of participant inertia by adjusting the allocation of a DC account to more closely align with changes to investment objective or risk profile that are commonly observed as a participant approaches retirement.

¹ “Target-date funds: A solid foundation for retirement investors”, Vanguard, May 2009, page 7.

² “DC Reporter: Research & Insights for the DC Professional”, AllianceBernstein/Hewitt Associates, April 2009, page 7.

³ “Inertia and retirement savings: Participant behavior in 2008”, Vanguard, April 2009, page 1.

The Dilemma: Target Date Funds Cannot Eliminate Market Risk; Many Retirees Cannot Forego Equity Exposure

It is important to emphasize that while diversification and periodic portfolio rebalancing have been demonstrated to reduce risk and improve returns over time, even when faithfully employed these strategies cannot immunize participants against market risk nor can they protect against the kind of systemic market breakdown experienced over the last year. That level of market collapse, characterized by unusually high levels of correlation among asset classes, sectors and geographies, is obviously beyond the capacity of any asset allocation program to assuage.

We offer this observation not to obviate the inquiry that is at the heart of the DOL's and SEC's hearing. It is certainly worth noting that the average 2010 Target Date Fund experienced a 23 percent loss in 2008 and, armed with that statistic, to consider the relative effectiveness of TDFs as a 401(k) investment option, particularly for those closest to retirement.⁴ Similarly, we submit that it is entirely appropriate to examine the variety of asset allocation models utilized within TDFs as well as the manner and extent to which TDFs seek to communicate the risks inherent in their respective models.

At the same time, however, we submit that it is important to do so while recognizing demographic realities and imperatives – specifically that increasing life spans will require individuals to prepare for a retirement that could last 30 years or more. With inflation averaging 3 percent annually, only 13 percent of private companies offering supplemental retiree medical coverage, and interest rates near historic lows, many 401(k) plan participants near retirement or even *in retirement* need exposure to the return potential of equity investments in order to more effectively fund the substantial costs of retirement.⁵ That exposure, the level of which will necessarily vary from participant to participant, will carry with it market risk (including market risk that materializes as the once-in-multiple-generations event risk that we are experiencing). No level of refinement or improvement of TDFs as we know them today can eliminate that risk, which will remain particularly acute for those closest to, or in retirement.

⁴ "Morningstar to Rate Target-Date Fund Families", The Wall Street Journal, May 28, 2009.

⁵ "Trends in Retirement Income and Retiree Medical Plans", Aon Consulting, November 2005, page 10.

The Next Frontier: Enhancing the Value Proposition of Target Date Funds with Guarantees

Recognizing that TDFs cannot, by themselves, eliminate the acute risk of a “late-stage” severe market decline that can undermine the best asset accumulation plans, a number of leading insurers have begun to focus on the development of guaranteed income solutions that would operate in tandem with a TDF-based retirement accumulation strategy. Utilizing variations of product designs that already exist in the individual annuity marketplace, designs now on the drawing boards would permit participants to remain exposed to equities through, e.g., TDFs, while providing a base level of income benefits that would be guaranteed regardless of market performance. The advantage of such a design, of course, is that participants would be able to benefit from the potential for equity appreciation, while at the same time offsetting, for a fee, at least a portion of the risk of an untimely market decline. And since the minimum income guarantee can be structured as a lifetime payout, participants can also protect themselves against longevity risk, which makes current withdrawal-based asset distribution programs both vexing and uncertain. In short, it is our belief that insurer-provided income guarantees used in conjunction with TDFs can provide a fully-integrated retirement accumulation and distribution program that permits DC plan participants to maintain prudent exposure to equities to and into retirement, while at the same time mitigating the risk that they will outlive their assets.

Conclusion

The widespread adoption of TDFs as default options in 401(k) plans has been a constructive development in retirement planning. TDFs help assure that participants achieve a prudent level of diversification and periodically rebalance their portfolios to reduce equity exposure and account volatility as retirement approaches. While it is appropriate to examine how TDFs have performed in recent turbulent markets, any such examination needs to acknowledge that TDFs, *without more*, cannot insulate participants from the impacts of calamitous market breaks – events which can have disastrous consequences for investors in or near retirement – nor can they solve for the daunting challenge of how to convert assets accumulated for retirement into a sustainable income stream against the demographic reality of increasing lifespans. Addressing those issues, in our view, will require the marriage of asset management tools like TDFs with some form of insurance to guard against, among other things, the event risks that have threatened to

undermine even well-conceived and executed retirement accumulation plans.

It may also require enabling legislative and/or administrative actions to provide greater clarity or relief particularly to plan sponsors. For example, as in the case of many new and innovative offerings, plan sponsors have expressed concern over fiduciary responsibility and liability issues. Specifically sponsors are concerned with the following questions: what type of due diligence must we perform in selecting a provider? What obligations do we take on for that company's promises to our employees? And, given the long-term nature of the guarantee, are fiduciary requirements or risks regarding education and advice any different than for other types of investments?

In the months ahead, we envision that it may be helpful to begin a dialogue with the DOL, SEC and/or other agencies to explore the feasibility of obtaining the clarity or relief necessary to address some of these questions and concerns. In the meantime, we would conclude by respectfully requesting that, in taking any action with respect to TDFs, the DOL and the SEC recognize the yet-untapped potential of these investment vehicles to be used in combination with insurer-provided guaranteed retirement solutions to assist in addressing the retirement security challenges that our nation is currently facing.

We appreciate the opportunity to submit this testimony and would be pleased to answer any questions that you may have.