



T. Rowe Price

August 29, 2024

Mr. Bill Ryan, Member
ERISA Advisory Council
Employee Benefits Security Administration
U.S. Department of Labor
200 Constitution Avenue, NW
Washington DC 21210

Re: Testimony regarding Target Date Funds with Managed Payout Features

Dear Mr. Ryan:

We write on behalf of T. Rowe Price Associates, Inc. (“**TRPA**”) and its affiliates T. Rowe Price Trust Company (“**TRP TC**”), T. Rowe Price Investment Services, Inc. (“**TRPIS**”) and T. Rowe Price Retirement Plan Services, Inc. (“**TRP RPS**”) in response to your request for testimony about the role of retirement income within qualified default investment alternatives (“**QDIAs**”). (Collectively, TRPA, TRP TC, TRPIS, and TRP RPS are referred to as “**T. Rowe Price.**”) Specifically, you have requested that TRP submit written testimony about our target date funds with a managed payout feature.

T. Rowe Price counts among our retirement plan clients some of the largest defined benefit and defined contribution plans in the United States, as well as small business plans maintained for a handful of individuals. We believe that clients serviced by T. Rowe Price have found benefit in our quality investment management and commitment to assisting individuals save for, and live in, retirement. We are particularly proud of the role that our target date investment products have played in helping plans and participants achieve their retirement goals. As of June 30, 2024, assets under management in our target date investment products equal \$453B.

With respect to our target date investment offerings, TRPA serves as investment adviser to the T. Rowe Price mutual funds described herein (“**Price Mutual Funds**”) and provides investment advisory services to collective investment trusts (“**Price Trusts**”) maintained by its affiliate, TRP TC. T. Rowe Price offers target date investment options to the investing public as mutual funds and collective investment trusts in three ways:

Investors—both individuals and institutions, including retirement plans recordkept by third parties—can obtain Price Mutual Funds and tax-qualified retirement plan investors can access the Price Trusts through unaffiliated financial intermediaries, including recordkeepers, registered investment advisers and broker-dealers.

- Individual investors can also purchase Price Mutual Funds directly through T. Rowe Price Investment Services, Inc., a registered broker-dealer and distributor of the Price Mutual Funds. Investors who purchase Price Mutual Funds directly may hold them in taxable accounts, individual retirement accounts and certain small business retirement plans (such as individual 401(k) plans, SEPs and SIMPLEs).
- Plan sponsors and their participants may also invest in Price Mutual Funds and Price Trusts made available through employer sponsored retirement plans for which TRP RPS provides recordkeeping and administrative services.

For our target date investments, we offer 2020 and 2025 vintages that use a managed payout program designed to support regular monthly distribution throughout retirement.¹ The managed payout vintages are currently available only on T. Rowe Price's platforms: as Price Mutual Funds for individual investors or Price Trusts for participants in retirement plans for which TRP RPS provides recordkeeping services. As of July 31, 2024, \$186.4M is invested in our target date products with the managed payout feature, which represents both individual investors and participants in retirement plans with TRP RPS. At present, approximately 8% of our recordkeeping clients utilizing the Price Trusts on TRP RPS' platform also make available the Price Trusts with the managed payout program.

We turn now to your specific areas of focus related to the managed payout investment options. For this discussion, we will refer to our Price Mutual Funds and Price Trusts with the managed payout feature as the **"Price Managed Payout Investments."**

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Responses to Key Areas Outlined by the Council

1. Current Product Design

Briefly describe the purpose and main features of Income Beyond Retirement, such as providing a guaranteed or non-guaranteed income stream in retirement.

Price Managed Payout Investments, like the non-payout managed versions of the same vintage, invest in a diversified portfolio of other T. Rowe Price stock and bond funds that represent various asset classes and sectors. Each is managed based on the specific retirement year (e.g., target date 2025) included in its name and assumes a retirement age of 65. The Price Managed Payout Investments are specifically designed for investors who retired at or around the target date and who plan to withdraw the value of the account in the fund gradually after retirement by taking regular monthly cash distributions throughout retirement using the managed payout program.

More specifically, Price Managed Payout Investments are separate investment vehicles either a mutual fund or a unit class of collective investment trust of the 2020 and 2025 target date vintages. Whether a mutual fund or collective investment trust, they are designed to provide regular monthly distributions for investors in retirement. They employ a payout strategy akin to an endowment spending model designed to provide a stream of regular distributions and target annual payouts of approximately 5% throughout retirement. This percentage payout selection is generally set as a function of the long-term expected return of the underlying investment portfolio for the Price Managed Payout Investment and is intended to provide an income stream sizeable enough to support income needs of individuals while balancing against long-term risks of providing a payout greater than the investment strategy and expected investment gains can support over the long term. The total calendar-year distribution amount is determined each year by calculating 5% of the fund's/trust's average net asset value (NAV) over the trailing five years. The fund/trust automatically makes 12 equal monthly dividend payments to investors each calendar year. The amount to be paid each year is reset annually as a means to balance these competing goals and risks.

¹ We continue to offer classes of our target date investments of vintage 2020 and 2025 without the managed payout program feature. In addition, T. Rowe Price expects to add additional vintages with the managed payout program feature as we approach a particular retirement date.

Generally, investors are not expected to reinvest their distributions from the Price Managed Payout Investments. Managers of Price Managed Payout Investments seek to make payments out of the fund's/trust's returns and avoid redeeming an investor's original investment. When that is not possible, managers will draw from investment principal to ensure investors receive their expected monthly payment. Price Managed Payout Investments do not include an insurance component, and therefore are fully liquid but not guaranteed.

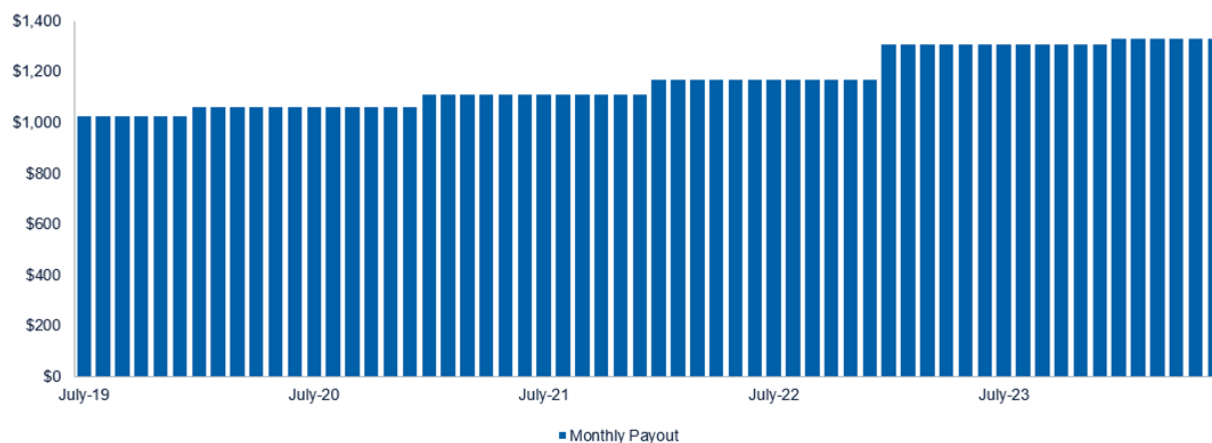
In addition, when the investor is a retirement plan participant, the Price Managed Payout Investments are offered to terminated participants who are age 59 1/2 and older. They are also offered only on an opt-in basis by the participant—meaning if the plan utilizes a Price Trust target date investment as its QDIA, the participant is defaulted to the non-managed payout vintage. We structured our product in this way so not to create taxable events for a participant through distributions that the participant had not affirmatively selected to address their retirement income needs. These attributes of participant engagement, in our view, are critical components of the participant retirement income experience.

ILLUSTRATION

MONTHLY PAYOUT EXAMPLE FOR THE MANAGED PAYOUT STRATEGY

As of 30 June 2024

Retirement 2020 Trust—Income, Managed Payout Experience



Income payments for sample retiree:			
Starting Balance	Average Monthly Income	Total Income	Ending Balance
\$300,000	\$1,164	\$69,865	\$337,476

Past performance is not a reliable indicator of future performance.
 The chart is illustrating a participant's experience assuming an individual retires on June 30, 2019, at age 65 with a retirement account balance of \$300,000. The retiree invests the \$300,000 balance in the strategy and receives distributions monthly going forward. Returns are based on the Retirement 2020 Trust and follow the experience of someone in the first plan sponsor's retirement plan. The initial investment was in Trust G on June 30, 2019, transitioned to Trust H on April 2, 2020, and transitioned to Trust J on October 21, 2021. The monthly payout streams have been smoothed to account for these transitions by taking the annual payout amount and dividing by 12.

Benefits of the Price Managed Payout Investments:

- Consistent management from accumulation through decumulation: Each vintage is managed as part of the various suites of target date funds offered by T. Rowe Price, and accordingly Price Managed Payout Investments have the same investment professionals, asset allocation, and glide path as well as similar underlying investments as the corresponding non-managed payout vintage of the same target date fund.
- Predictable monthly income: the amount distributed to investors per share or unit is intended to be steady for a specific calendar year and recalculated annually to balance the investor's current income needs and longevity risk.
- Liquidity: under normal market conditions, investors may freely redeem their shares/units of Price Managed Payout Investments without penalty or fee in the same manner as redemptions are handled by other Price Mutual Funds and Price Trusts.

2. Institutional Quality vs. Retail Alternative

Is your managed payout solution structured to meet institutional quality standards, ensuring robustness and reliability in terms. Please describe key differences and advantages over retail alternatives, such as scalability, risk management, and cost-effectiveness.

As previously noted, T. Rowe Price offers both mutual fund and collective investment trust options of the Price Managed Payout Investments. Each vintage of the target date fund with the managed payout feature is managed in the same manner as the non-managed payout vintage. Commonly, institutional investors such as employer-sponsored defined contribution plans who meet investment thresholds have access to the collective investment trust versions of the managed payout investment (i.e., the Price Trusts) while retail investors such as IRA owners may access the mutual fund version of our Retirement Date Funds with the managed payout feature.² Typical of most collective investment trusts, our Price Trusts offer multiple share classes with varying fee schedules.

Recognizing that Price Trusts are available only to employer-sponsored retirement plans, we believe offering a mutual fund option available to retail investors such as IRA owners, is critical to ensure portability from plans to IRAs should the individual choose to complete a rollover from their employer-sponsored plan. It also ensures consistency for the individual who invests in a Price Managed Payout Investment as whether the investment is in a Price Mutual Fund or a Price Trust, the managed payout feature operates in a similar manner: each has a stated payout rate which is calculated annually. Regardless of investment vehicle, we apply our time-tested, client-centered investment philosophy in the same manner to both institutional and retail options by utilizing proprietary research to guide active investment selection and diversification to reduce risk.

3. Expected Income Stream Benefit

What can participants expect to receive in the form of an income stream, e.g., guaranteed stream at a fixed annuitization rate/market-based rate, managed payout, dividends, etc., and how it supports retirement income security?

² Currently, T. Rowe Price does not offer a mutual fund version of our Hybrid or Blend target date collective investment funds with a managed payout feature.

Price Managed Payout Investments are designed and managed to support regular monthly distributions, which are expected to produce an annual payout of approximately 5% of the investment's average net asset value over the trailing five years. Specifically, the total annual distribution to be paid to an investor in a Price Managed Payout Investment for a specific calendar year is calculated as of September 30th of the previous year. The total annual amount per share/unit is 5% of the average month-end net asset values (NAV) for the trailing 60 months ended as of the calculation date (i.e., September 30). The monthly distribution per unit is one-twelfth (1/12) of the total annual distribution amount per share/unit. To support predictability of income during retirement, we use the average of the trailing 60 months month-end NAVs as a benchmark to increase relative stability in year-to-year distributions and reduce the effects of market volatility on the distributions.

The monthly distribution will vary from year to year based on investment performance and the number of units held. The monthly distribution per unit is expected to remain constant from month to month for a given calendar year. We notify investors of the anticipated monthly payout amounts for the upcoming calendar year prior to year-end.

Price Managed Payout Investments do not guarantee principal and do not guarantee a particular level of income at any time or over any particular period of time. As noted, however, our managers seek to make payments out of investment returns and avoid redeeming an investor's original investment. When investment losses occur for a period, managers draw from principal from the investment to ensure investors receive their expected monthly payment. In such an event, distributions from the Price Managed Payout Investments will reduce the amount of assets available for investment, which could make maintaining the targeted annual distribution rate difficult to maintain.

4. Legal Structure

Explain the legal structure you use to deliver your product and why you selected it. Describe the legal framework or vehicle through which the product operates, e.g., insurance contract, trust structure, etc.

Price Managed Payout Investments are available as a mutual fund, a registered investment company under the Investment Company Act of 1940 (the "1940 Act") or as a collective investment trust.

Price Mutual Funds are registered investment companies under the 1940 Act overseen by a board of directors. TRPA or a registered investment adviser affiliate serves as investment adviser to the Price Mutual Funds and TRPIS serves as distributor.

Price Trusts are sponsored by T. Rowe Price Trust Company, a Maryland-chartered, limited-purpose trust company. As noted, TRPA or one of the other T. Rowe Price registered investment adviser affiliates serves as investment adviser to the Price Trusts. Further, Price Trusts are organized as group trusts under federal tax laws and a common trust fund (also known as a collective investment trust) under Maryland state banking laws. Investments in the Price Trusts are not deposits or obligations of, or guaranteed by, the U.S. government or its agencies or T. Rowe Price Trust Company and are subject to investment risks, including possible loss of principal. Price Trusts are operated and maintained so as to qualify for exclusion from the definition of an investment company found in Section 3(c)(11) of the 1940 Act and units of the Price Trusts qualify as "exempt securities" under Section 3(a)(2) of the Securities Act of 1933 (the "1933 Act") and under Section 3(a)(12) of the Securities Act of 1934 (the "Exchange Act"). They also are not subject to the registration or regulation as a "commodity pool operator" by virtue of a claimed exclusion from the definition of such term under the Commodity Exchange Act, as amended, and the rules of the Commodity Futures Trading Commission.

We choose to offer the Price Managed Payout Investments through both mutual fund and collective investment trusts for various reasons, not least of which because of client expectations and requirements. As previously discussed, we believe our Price Managed Payout Investments offer value in terms of both portability and consistency of management.

5. Governing Body

Outline who/what is the governing body overseeing to the legal structure of your product. Identify the regulatory or oversight body that governs the operation and compliance of your product, ensuring adherence to regulatory standards.

Price Mutual Funds are overseen by a board of directors, who oversee the management and operations of the fund on behalf of fund shareholders. Although independent directors must comprise at least 40% of the Funds' board, 75% of the Price Mutual Funds' board is currently made up of independent directors. The Securities and Exchange Commission regulates the Price Mutual Funds, which are required to comply with applicable rules and regulations promulgated under the 1933 Act and 1940 Act.

Price Trusts are sponsored by TRP TC, which is overseen by a corporate board comprised of interested directors. TRP TC is regulated, supervised, and examined by the State of Maryland Office of the Commissioner of Financial Regulation (OFR). TRP TC has elected under Section 3-507 of the Financial Institutions Article of the Annotated Code of Maryland for its CITs to be administered in accordance with the federal rules and regulations that relate to the collective investment of trust funds by national banking associations. The Price Trusts are also subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") to the extent there are ERISA plan assets invested in each collective investment trust, and as a result the Price Trusts are also subject to oversight by the Department of Labor ("DOL"). In addition, each Price Trust also complies with the rules and regulation applicable to pooled investment vehicles under federal tax laws and file their own IRS Form 5500 as direct filing entities.

6. Fee Disclosure

Describe how the fees associated with your product are disclosed. Delineate how fees are communicated to plan sponsors and participants, distinguishing between implicit and explicit fees, and highlighting transparency in fee structure.

Fees charged by the Price Managed Payout Investments are equivalent to the corresponding non-managed payout investment of the same vintage. In other words, T. Rowe Price does not assess an additional management fee for the managed payout feature.

Fees are fully disclosed in various locations including a mutual fund prospectus (for Price Mutual Funds) or offering circular (for Price Trusts) and fund fact sheets. For plans for which TRP RPS serves as recordkeeper, fees are also disclosed on the plan's ERISA 408(b)(2) fee disclosure (for plan sponsors) and ERISA 404a-5 fee disclosure (for participants).

Price Managed Payout Investments assess an asset-based fee and other flat fees for services like fund accounting. T. Rowe Price does not charge fees for transactions or the distributions.

7. Liquidity Provisions

Define your products liquidity options available at both the plan and participant levels, addressing any restrictions or flexibility in accessing funds.

In normal market conditions, individual investors may freely redeem shares/units of Price Managed Payout Investments without penalty or fee. Redemption requests from individuals are generally paid out to redeeming shareholders/unitholders by the business day following the receipt of a good-order redemption request.

Please note, consistent with the policies and procedures governing our mutual funds and collective investment trusts, certain restrictions also apply to certain distributions from the Price Managed Payout Investments. For example, Price Mutual Funds, during periods of deteriorating or stressed market conditions or during extraordinary or emergency circumstances, and when deemed to be in a fund's best interests, may delay payment proceeds for up to seven calendar days after receipt of the request. For plan-initiated redemptions (when the plan is removing the investment from its investment menu, for example), the Price Trusts may require 30 days' prior notice of a large redemption request and Price Funds reserve the right to pay large redemptions by a distribution in kind of securities held by such fund.

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While we have outlined the merits and key attributes of our Price Managed Payout Investments in this testimony, we believe that no one retirement income solution serves the needs of every retiree. We are constantly reviewing our clients' needs and seek to develop and provide products and services that meet their needs. For instance, early next year we plan to launch a new product that combines a new managed payout investment option similar to the one described herein and a guarantee in the form of a qualified longevity annuity contract. We think this combination will offer investors who prioritize management of longevity risk over full liquidity an alternative to our existing product offer. We are also exploring opportunities to make available the Price Managed Payout Investments to platforms outside of T. Rowe Price.

Moreover, offering new retirement income products aligns with our research in this area, which appreciates and accounts for the trade-offs inherent in individual retirement income needs and solutions. To that end, we have developed a common framework for evaluating retirement income solutions—guaranteed or non-guaranteed—to support plan sponsors and their consultants and advisors in understanding the potential benefits and compromises various retirement income solutions make to meet retirees' investment objectives. Known as our "5-Dimensional Framework to Understand Retirement Income Needs Solutions," this patent-pending approach analyzes how various retirement income solutions prioritize five aspects of the in-retirement experience: longevity risk, level of payments, volatility of payments, liquidity of balance, and unexpected balance depletion. We analyze various retirement income solutions using these five attributes, to identify and articulate the trade-offs inherent in each solution. More information about our 5-Dimensional framework can also be found at: <https://www.troweprice.com/institutional/us/en/insights/articles/2024/q2/a-five-dimensional-framework-for-retirement-income-needs-and-solutions-na.html>. We also look forward to having one of our T. Rowe Price colleagues, Jessica Sclafani, provide oral testimony about our 5-Dimensional Framework to the Council on September 11.

T. Rowe Price appreciates the opportunity to provide this testimony. If the Council has any questions or would like more information regarding our testimony, please contact Michael Davis at michael.davis@troweprice.com or Bryan Venable at bryan.venable@troweprice.com.

Respectfully submitted,

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