

WRITTEN TESTIMONY

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ON BEHALF OF METLIFE

FOR

**THE DEPARTMENT OF LABOR
THE DEPARTMENT OF TREASURY
THE INTERNAL REVENUE SERVICE**

**HEARING ON CERTAIN ISSUES RELATING TO
LIFETIME INCOME OPTIONS FOR
PARTICIPANTS AND BENEFICIARIES IN RETIREMENT PLANS**

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Good afternoon. My name is Bob Sollmann and I am the Executive Vice President for Retirement Products at MetLife. I am here today to testify on behalf of MetLife.

MetLife commends the Department of Labor (the “DOL”), the Department of the Treasury and the Internal Revenue Service (collectively, the “Agencies”) for issuing the RFI and holding this hearing on this very important topic. Thank you for inviting MetLife to testify and to share our thoughts and experiences with you. We believe the hearing today and the work of the Agencies are critical to the future retirement security of America’s retirees.

MetLife’s Perspective

With over 140 years of experience, MetLife, Inc. is a leading provider of insurance, employee benefits and financial services. As a well-known and trusted industry leader, MetLife serves more than 70 million customers around the world and over 90 of the top one hundred FORTUNE 500[®] companies in the United States.

MetLife has a broad perspective of the retirement market and the retirement needs of American workers because of its longstanding presence in -- and commitment to -- the individual and institutional markets, its broad product portfolio and its multiple distribution channels.

In the individual markets, MetLife has been one of the leading sellers of annuities since 2007 and has \$134.5 billion of variable and fixed annuity assets under management, \$2.3 billion of fixed income annuity assets and \$26 billion of assets relating to our 403(b) clients as of June 30, 2010. MetLife supports its customers through one of the broadest distribution systems in the industry, selling through banks, independent broker-dealers, independent agents, full service national broker dealers and its own representatives. This provides insights not only from the perspective of a leading issuer of annuities, but also from the daily in person interactions through its own representatives.

In the institutional markets, MetLife is a leading provider of institutional income annuities with a history of firsts. The company was the first insurer to issue a group annuity contract in 1921, the first to offer an in-plan accumulation option (Personal Pension Builder[®]) for defined contribution plans in 2004 and the first to introduce a longevity insurance product. MetLife manages \$60 billion of group annuity assets, has over 10,500 group annuity contracts and guarantees income payments to more than one million individuals.

MetLife's commitment to strengthening Americans' retirement security is informed by the Mature Market Institute[®] (MMI), MetLife's research organization and a recognized thought leader on the multi-dimensional and multi-generational issues of aging and longevity. MMI's groundbreaking research, gerontology expertise, national partnerships, and educational materials work to expand the knowledge and choices for those in, approaching, or caring for those in the mature market.

Background

The retirement landscape has changed dramatically since the introduction of 401(k) plans in 1978. Historically, large numbers of Americans relied on traditional defined benefit plans; today, most Americans are relying, in large part, on defined contribution plans as their primary source of retirement savings. In most cases, defined contribution plans were designed – and are maintained today – as supplemental retirement savings vehicles not generally structured to provide guaranteed lifetime income.

Why is lifetime income so important? One of the greatest risks facing retirees is longevity risk – the very real risk of outliving retirement savings. Individuals who spend down their retirement assets based on their life expectancy will run out of savings if they live longer than expected, which half the population will do. On the other hand, many individuals who spend as if they will live well beyond their life expectancy will run the risk of under spending, forcing significant changes in lifestyle for fear of running out of money. The only product capable of avoiding both of these adverse results is an annuity.

Until now, policymakers have focused their attention on coverage and savings rates. However, with increased longevity, the continued decline of the defined benefit plan system, and the impending retirement of 47 million baby boomers – the first boomer turns 65 in 2011 – the Administration's focus on strengthening lifetime income for Americans is both needed and timely.

Topic 1: Information to Help Participants Make Choices Regarding Management and Spend Down of Retirement Benefits

MetLife believes that one of the cornerstones making retirement successful for Americans is to ensure that participants have available particular type(s) of information necessary in order to make choices regarding the management and spend down of their retirement assets.

The DOL has done excellent work in providing guidance on how plan sponsors can effectively provide participants with education and advice regarding the accumulation phase of defined contribution plans. It is now time to turn the industry's attention to the decumulation phase, which will focus on ways to enable American workers to retire with dignity. If the industry provides the appropriate education and tools to American workers, such as those being used during accumulation, we should see substantive progress towards enabling Americans to feel secure in their retirement.

Education. Interpretive Bulletin 96-1 (“IB 96-1”) sets forth guidance regarding how employers can provide participant education with respect to the allocation of retirement savings among classes of investments. IB 96-1 has been used extensively by employers that want to help their employees without taking on fiduciary liability for the provision of investment advice.

Advice. The DOL has also issued critical guidance with respect to the provision of investment advice. The SunAmerica Advisory Opinion has led to a great expansion of advice based on computer models using generally accepted investment theories. Much of this computer model advice is provided through managed accounts, where the advice is implemented automatically and can prove to be more effective than advice that participants may follow on their own. The DOL has an opportunity to build on the important success that it has achieved in the accumulation phase by applying the same framework to the distribution phase.

Recommendations. MetLife recommends four additional steps be taken with respect to participant education and advice. The first two relate to IB 96-1 and the second two relate to guidance with respect to advice provided through computer models.

Education.

1. Guidance is needed to clarify what education may be provided to participants about the distribution phase without that guidance being treated as investment advice leading to fiduciary liability. Such guidance should be as detailed as IB 96-1. For example, the guidance should clarify that computer models that generate generic distribution approaches should be treated as education, not advice. Under the IB 96-1 expansion that MetLife is recommending, a participant could provide his/her own information, such as other assets, other sources of income (such as Social Security or a pension or spousal pension), age, risk tolerance and annual living expenses. The computer model could then generate a generic distribution model regarding the portion of the participant’s account that should be annuitized, the portion that should be rolled over to an IRA, the portion that should be taken in the form of installment payments, etc. This type of modeling should be permissible for providing distribution education. Finally, as with the DOL’s investment guidance, the DOL’s distribution phase guidance should permit such guidance to be paid for with plan assets.
2. The current investment elements of IB 96-1 should be expanded to clarify that education regarding investment in in-plan accumulation annuities and guaranteed insurance products is within the reach of IB 96-1’s existing framework and is not investment advice.

Advice.

3. The DOL should issue “SunAmerica-like” guidance with respect to the distribution phase. In other words, a financial institution would be allowed to contract with an independent expert that would develop and apply a computer model for providing distribution advice based on generally accepted decumulation principles. The computer model would receive the same type of participant data described above regarding assets, expenses, etc. It would generate specific recommendations based on the plan’s distribution options. For example, the computer model might recommend receiving a specific portion of the account in the form of a particular annuity available under the plan, and receiving another portion in the form of a specific installment option. The computer model could also make recommendations regarding how undistributed assets should be invested.
4. The final step for the DOL to take is to incorporate in-plan accumulation annuities and guaranteed insurance products into the SunAmerica and Pension Protection Act of 2006 (“PPA”) computer models. In-plan accumulation annuities provide the distribution analogue to dollar-cost averaging into the market by permitting participants to buy guaranteed pieces of future income at then prevailing interest rates with each contribution. This avoids the risk that interest rates will potentially be low at the point of retirement when a large annuity purchase is made. In-plan accumulation annuity education material would also help participants by framing retirement needs in terms of future income, rather than asset accumulation. Finally, in-plan accumulation annuities allow participants to buy annuities in small increments, thereby avoiding the intimidating “big purchase” at retirement.

If defined contribution plans are to be successful as the primary retirement income plan for today’s workforce, it is essential that annuities become a prominent feature. The DOL can help achieve this by providing that neither a SunAmerica type computer model nor a PPA computer model will be treated as valid unless it takes into account any annuity available under the plan. To allow computer models to disregard these types of products is to relegate them to second-tier status and effectively ensure that these products will not be utilized materially by participants.

We make these recommendations because our research tells us that people are more confused than negative about annuities. This confusion underscores the need for education. When education and advice about distributions are provided, especially at the workplace, participants show they are hungry for the information. MetLife’s retirewise® program is an employer-sponsored workplace retirement planning seminar offered by over 500 employers nationally. Approximately 50% of the employees who attend these seminars request the complimentary face-to-face consultation to gather information for their specific situation. To us, the success of retirewise also demonstrates that employers are seen as a trusted source of information on retirement.

Topic 2: Alternative Designs of In-Plan and Distribution Lifetime Income Options

MetLife recommends that the Agencies provide enhanced education to plan sponsors about their ability to offer partial annuitization to participants and the benefits that it can provide. We further recommend exploration of proposals to encourage such plan designs.

Offering partial annuitization is critical to the success of creating guaranteed income in retirement. From the individual's perspective, purchasing an annuity with a portion of their assets to cover a specific need is more palatable and helps to minimize the negative aspects of a large one-time purchase. Partial annuitization directly addresses the "all-or-nothing" concern. Our experience indicates that, when participants have the opportunity to partially annuitize their account balances, they do so in greater numbers than when total annuitization is their only option.

For example, MetLife has been the exclusive annuity provider for the Federal Thrift Savings Plan ("TSP") since the plan's inception more than 20 years ago. When the plan first began, the annuity was an "all or nothing" offer – the participant had to either annuitize their entire TSP balance at retirement or none of it. In 2004, the TSP amended the plan to include partial annuitization. The TSP has seen immediate, dramatic and sustainable results. In 2003, there were 784 purchases. In the five years following (2004-2008) the number of purchases increased to 1,645 on average, a 110% increase in the number of participants annuitizing a portion of their account balances. In addition, there was a significant increase (60%) in the average purchase amount of the annuities from \$66,000 to \$106,000.

MetLife also requests the DOL consider revising the Qualified Default Investment Alternatives (QDIA) regulations to require that QDIA's contain an in-plan accumulation annuity component which is designed for workers while they are actively saving for retirement. The theory underlying target date funds and managed accounts is that they are aimed at preparing an individual for retirement. The deficiency is that most target date funds focus exclusively on the accumulation phase and do not prepare individuals for the equally challenging distribution phase. The DOL has an opportunity to remedy this deficiency. This change alone would have a dramatic effect on participants' readiness for the distribution phase of retirement.

Deferred fixed income annuities are already beginning to be added to some target date funds as their fixed income component and MetLife is pleased to be working with an investment management firm who introduced this concept to the market. In this situation, the annuity allocation automatically increases as the plan participant gets closer to retirement. The annuity allocation within the target date fund, for example, might start at 5% at age 25 and grow to more than 50% at the point when the participant plans to retire.

In-plan accumulation annuity products allow employees to create their own "personal pension." Offered as a complement to, or as an option within, a defined contribution plan, this type of product is unique in that each contribution an individual makes is immediately converted to a specific future income benefit that is guaranteed to last a

lifetime. These annuities have clear advantages, such as providing participants with a means to spread purchase payments over time at different interest rates, thus avoiding the risk of purchasing a large annuity at retirement when interest rates may be low.

Another strategy that can create lifetime income is to allocate a portion of one's assets to longevity insurance – a deferred income annuity – that would be purchased at the point of retirement but would not begin payments until the individual reaches average life expectancy (generally age 80 or 85). This product is specifically designed to allow individuals to address their longevity risk. They set aside a portion of their retirement savings now in order to generate a steady stream of guaranteed income in the later years when it may be needed most. It also allows them to manage their other retirement assets to a limited time horizon.

The advanced age when longevity insurance payments commence generally exceeds the age 70½ required beginning date for the required minimum distribution (“RMD”) rules. Therefore, to comply with RMD requirements, longevity insurance offered under a retirement plan or IRA must currently address the possibility of being required to distribute RMD amounts prematurely. In the event that non-longevity insurance assets are depleted, either the RMD rules would be violated or the annuity contract will have to permit distributions (in which case there would be an adverse impact on future income payments and the contract would no longer be longevity insurance). Accordingly, longevity insurance generally is not offered to plans and IRAs today.

The offering and use of longevity insurance would increase significantly by changing the RMD rules to exempt longevity insurance acquired within qualified retirement plans or IRAs from the RMD requirement, until distributions from the longevity insurance product begin (which could be required by a certain age, such as 85). This proposal, which could be adopted either legislatively or administratively, has been introduced in several legislative bills, including the Retirement Security Needs Lifetime Pay Act of 2009 (H.R. 2748) originally introduced by Representatives Earl Pomeroy and Ginny Brown-Waite.

Topic 3: Disclosure of Account Balances as Monthly Income Streams

MetLife believes that defined contribution plan account balances should be communicated in terms of the lifetime income they represent, in addition to the total account balance, on an annual benefit statement. Participants have little understanding of how much to save or how to invest those savings to achieve an adequate retirement income. They also have little to no understanding of how to ensure that their defined contribution savings will last throughout their retirement years. Educational tools like benefit statement disclosure of annuity equivalents, which seek to shift the focus from assets to retirement income, can help individuals begin to understand how to turn that lump sum into an income to last a lifetime.

MetLife believes that communicating account balances as an annual income stream will serve a twofold educational purpose: not only will it show what income amounts are possible from the current account balance (thereby reorienting participants' views of their defined contribution plans as a retirement plan), it could also prompt them to increase their savings level within the plan in order to achieve greater income levels at retirement. MetLife believes that this conversion amount will ultimately educate participants of all ages to increase their savings to more appropriate levels. A T. Rowe Price study in 2007 found that when participants are shown their account balances as a monthly annuity amount, individuals were motivated to increase their savings levels.

This income amount should be based on conversion factors published by the DOL unless the plan includes an annuity, in which case the annuity factors in the plan may be used to convert the account balance.

The Pension Benefit Guaranty Corporation annually surveys commercial annuity providers and aggregates those rates to determine an average rate that is then used to calculate the annuity values that they use to pay plan participants under their control. Those rates are an accurate reflection of current annuity rates in the market. MetLife recommends that the DOL use those rates (or a similar market survey) in developing their conversion tables.

The annuity amount should be shown as both a single life and a QJSA; QJSA disclosures would need to be based on one or more assumptions regarding the age of the spouse. The DOL should also issue model notices that plan sponsors could use to communicate this information to plan participants.

Plan sponsors that rely on the DOL's tables and notices should be relieved of fiduciary liability for the income amounts displayed on the benefit statements.

MetLife does not recommend that projections be made regarding future contributions in this calculation. Since these conversions are educational in nature and not intended to imply any guarantees of future employment, a static number at a point in time should be sufficient to meet the educational intent. The calculation should be made based on projecting the current account balance to age sixty-five (or whatever the normal retirement age is under the plan), so that participants are able to see what their current account balance would translate into on a monthly income basis.

Topic 4: Fiduciary Safe Harbor for Selection of Lifetime Income Issuer or Product

With increasing litigation surrounding the administration of defined contribution plans, plan sponsors are reluctant to engage in activities that may expose them to additional litigation. Congress and the DOL have been sensitive to the changing nature of the retirement plan system and the need to provide clarity regarding a fiduciary's duties. As a result of a provision included in the PPA, the DOL issued new regulations in 2008 on the fiduciary standard to be applied by defined contribution plan sponsors when selecting

an annuity provider. The new standard, incorporated in DOL's regulation 29 CFR § 2550.404a-4, contains a fiduciary safe harbor for the selection of annuity providers for the purpose of benefit distributions from defined contribution plans.

The new standard has addressed some of the concerns raised by plan sponsors with the "safest available annuity" standard promulgated by the DOL for defined benefit plans, including the statement that the fiduciary does not have to choose the "safest" annuity available. However, plan sponsors continue to express concerns regarding any plan decisions that may expose them to future lawsuits. Thus, even with the simplification of the fiduciary standard that the DOL promulgated, plan sponsors are still expressing reservations about their ability to implement the standard without exposure to undue risk.

Plan sponsors have indicated to us that their decisions to allow annuitization in their plans will turn on this issue. MetLife stands ready to assist the Department of Labor in any way possible as it evaluates potential solutions to this concern.

Conclusion

MetLife thanks you for the opportunity to share our thoughts and experiences with the Agencies on this significant topic. As a society, we – including the government, employers, and the financial services industry – collectively have a role in providing the education and tools to American workers so that their efforts to save for their retirement are rewarded with retirement security. The financial services industry has developed new, innovative products to address the concerns raised by employers and individuals about income products. While it may be possible to manage lifetime income in the retail market, employers are expressing interest in helping their employees achieve lifetime income security and employees are increasingly asking for this to be available in the workplace. Without appropriate legislative and regulatory guidance in this area, we believe that plan sponsors will not act in sufficient numbers to give their employees an opportunity to create guaranteed lifetime security from their defined contribution plan assets.

On behalf of MetLife, I would like to thank the Agencies for holding these important hearings and for inviting me to testify today. I would be happy to answer any questions you may have.