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Chairman Neal, Ranking Member Brady, and members of the Committee on Ways and Means, it is a privilege to be here to testify on the need for financial security in retirement. I am here as the chief investment officer of an established American manufacturing firm that knows we succeed when our employees succeed. And we would be hard pressed to find a better definition of success for a working career than to enjoy a safe and secure retirement.

BACKGROUND ON UTC

United Technologies Corporation (UTC) is an American company with headquarters in Farmington, Connecticut. We have 87,000 employees in the United States and 240,000 globally.

A leader in the building and aerospace industries, United Technologies invents new and better ways to keep people safe, comfortable, productive and on the move. By combining a passion for science with precision engineering, we create the smart, sustainable solutions the world needs.

Our aerospace businesses include Pratt & Whitney aircraft engines and Collins Aerospace. Our commercial businesses include Otis elevators and escalators and Carrier, a leading provider of heating, ventilation, air conditioning, fire and security systems, and building automation and controls. UTC also operates a central research organization – United Technologies Research Center – that pursues technologies for improving the performance, energy efficiency and cost of its products and processes.

INTRODUCTION & OVERVIEW

As the Chief Investment officer at UTC, I oversee $60B in retirement assets, including $25B in our U.S. Defined Contribution (DC) plans. We have 141,000 participants in these DC plans with a participation rate of over 90%.

While not perfect, the U.S. retirement savings system has been stable and successful. It enables employers to help employees accumulate private savings that have and will serve as the cornerstone for their successful retirements. We are pleased to be recognized for our efforts in this area.

If the private sector is known for anything, it is innovation. This innovation, which propels economic growth and technological progress, can and should also be harnessed to materially improve outcomes for savings plan participants. Often, incorporating innovative approaches in defined contribution plans comes with legal risk. Congress and regulators could create a pathway toward plan sponsor and fiduciary innovation, using clear and specific guidance and reducing legal impediments.[1] One of the most important potential innovations for retirement savings would be to encourage lifetime income and other drawdown solutions from defined contribution plans, as UTC has done and as has been proposed in recent Retirement Enhancement and Savings Act (RESA) legislation.

HISTORY OF UTC'S RETIREMENT PROGRAMS

UTC offers a broad menu of employee benefit choices to address the needs and aspirations of our diverse and talented workforce. Historically, we provided several forms of retirement benefits, including a defined benefit plan with both a traditional final average earnings pension formula and a cash balance formula and an extremely low cost and flexible defined contribution (a "401k") plan, known as the Savings Plan.

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[1] That approach has been very successful in the past. For example, the Pension Protection Act of 2006 eliminated real and perceived barriers to automatic enrollment, and that led to a massive expansion of overall retirement savings. Similarly, the Department of Labor recently issued guidance that will help employers implement systems that allow for automatic portability, which allows participants with small balances to have their savings automatically transferred to a new plan when they change jobs, decreasing leakage and reducing the number of missing participants.

For many years, these retirement benefits offered to our U.S. employees were fairly static. Our defined benefit plan served as the primary source of financial security for our employees in retirement, while the Savings Plan functioned mostly as a supplemental vehicle.

Over time, the cost and financial risk of offering DB pensions caused most US companies, including UTC, to terminate such plans. But UTC remained committed to providing employees with opportunities to achieve financially secure retirements, and we chose to view the demise of DB pensions as an opportunity to fully reevaluate UTC retirement benefits. Effective on January 1, 2010, our defined benefit plan for non-union employees closed to new entrants. New hires enrolled in the Savings Plan since then have received an "automatic" company contribution in lieu of a defined benefit formula, in addition to the employee-directed deferrals and the Company's matching contributions that historically funded the plan.

This change meant that future generations of our employees would need to rely on the Savings Plan as their primary source of retirement security. In making this shift, we were determined to enhance our savings plan design so that it would function as a pension for the 21st Century. To do so, UTC added features and functionality to our savings plan, relying heavily on the provisions of the Pension Protection Act of 2006 ("PPA") and the opportunities PPA offered for plan fiduciaries who wished to modernize their traditional defined contribution plans.[2]

We also believed it was critical to offer our participants an effective and affordable solution for managing retirement income security in a "DC-only" world. Ultimately, we developed and launched a new option for participants

[2] Specifically, in our Savings Plan, UTC adopted automatic employee enrollment and automatic escalation of both employee and automatic employer contributions. We developed and launched a customized qualified default investment alternative ("QDIA"), streamlined our core investment lineup, and offered access to a nearly unlimited universe of mutual funds through a self-directed brokerage window. We codified our plan design so that former employees who chose to keep their money in the Savings Plan after leaving service with UTC could enjoy virtually all of the features and benefits available to active employees, such as the opportunity to consolidate their other retirement savings within the Savings Plan through eligible rollovers ("roll-ins"). We also made sure that former employees in the plan could continue to repay existing plan loans through installments so they were not forced to default and take an early distribution with tax penalties. We even allowed former employees to initiate and repay new loans if necessary to avoid hardship withdrawals or other unplanned distributions that we so often see as "leakage" from the retirement system.

in the Savings Plan that was designed specifically to guarantee their retirement income security, while preserving prospective investment growth and maintaining all of the freedom and flexibility necessary to respond to unexpected challenges in retirement. We call our approach the "Lifetime Income Strategy."[3] We designed and implemented this option confidently and determinedly, but without the benefit of a safe harbor.

ACHIEVING RETIREMENT SECURITY IN A DC-ONLY WORLD

The challenge for those who wish to prepare for retirement with security and confidence in a defined contribution setting is formidable. Most people do not possess the knowledge and resources necessary to construct and implement a savings and investment program during their working years, then adhere to a disciplined spending program in retirement that is sufficient to reliably sustain a lifetime of income comparable to what they enjoyed while working. Left to do this independently, many individuals underestimate their retirement needs and the level of savings necessary to fund those needs. A failure to accumulate and convert retirement savings into a flexible and robust stream of income can itself lead to decisions in retirement which have dire outcomes.

Education is thus an essential element of our effort to help employees prepare for their retirement. But the stakes are too high to rely on education alone. Education efforts must be underpinned with plan features designed to address key employee challenges and ensure adequate savings.

UTC'S LIFETIME INCOME STRATEGY

This is where a plan feature such as UTC's Lifetime Income Strategy can provide a solution. UTC's Lifetime Income Strategy can be described as follows:

- New employees eligible for automatic enrollment in the Savings Plan start saving at a default rate of 6% of pay through pre-tax contributions

[3] The Lifetime Income Strategy was launched June 1, 2012, and currently covers $1.2 billion of assets invested on behalf of over 35,000 plan participants.

- Contributions automatically escalate by 1% per year until they reach 10%.[4]
- The plan accepts contributions from active employees on a pre-tax, traditional after-tax, and Roth basis, and permits age 50 and over catch-up contributions on both a pre-tax and Roth basis as well.[5]
- Most active participants receive matching contributions that equate to 3.6% of pay.
- Employees who are not covered by UTC's legacy defined benefit plan automatically receive additional contributions from UTC that are independent of their own savings rate. These "company automatic" contributions automatically escalate as people age, starting at 3% for those below age 30, and increase up to 5.5% for people age 50 and over.[6]
- Our automatic default plan features mean that combined annual contributions for UTC's active employees will typically range from 16.6% to 19.1% of pay after four years of employment, even if they take no action at all; virtually all contributions go into the Lifetime Income Strategy by default.[7]
- Participants are free to transfer out of the Lifetime Income Strategy at any time.

UTC's Lifetime Income Strategy provides a carefully constructed transition from wealth accumulation to income generation. When a participant is under age 48, the Lifetime Income Strategy is like a personalized target retirement date fund. Starting at age 48, assets begin to shift into a component that

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[4]Employees have the option of setting higher automatic escalation limits up to plan maximums. Non-highly compensated employees may contribute up to 40% of pay, while highly compensated employees are limited to contributing 22% of pay to the plan.

[5] Employee contributions automatically switch to traditional after-tax contributions when they reach annual pre-tax/Roth contribution limits, ensuring that impacted employees not only continue to make their own contributions, but also continue to receive UTC's matching contributions.

[6] A participant's non-forfeitable ownership of UTC's employer contributions typically vests after two years of participation in the Savings Plan

[7] Active employees nearing retirement can save even more if they elect to make "Catch Up Contributions". Furthermore, the Savings Plan accepts eligible rollovers from all participants, including former employees, making it an effective medium for consolidating retirement savings within an exceptionally low-cost plan and preserving access to the Lifetime Income Strategy for those former employees who wish to augment their savings and increase the income benefits they acquired while working here.

provides several key features plan participants typically look for in a retirement income solution – guaranteed cash flows, growth potential, flexibility, and continuing access to savings. This part of the portfolio is called the "Secure Income Sub-Fund". By age 60, the entire balance and all subsequent contributions to the Lifetime Income Strategy are allocated to the Secure Income Sub-Fund where it remains invested and secures a guaranteed lifetime income benefit. [8]

Participants in the Lifetime Income Strategy may activate and collect their income benefits any time after they reach age 60 and separate from service with UTC. Income benefits are adjusted up or down if activation occurs at an age other than 65 or if the participant chooses a joint life option. Once activation occurs, a participant may take plan distributions each year totaling as much as their annual income benefit, and the income benefit amount will continue for life (with payments continuing to the joint life recipient if applicable). If their account balance is exhausted, the insurance companies that guarantee the income benefits take over and make payments to the participant for the rest of their life. Liquidity is preserved so that participants may respond and adapt when they are faced with unexpected circumstances that inevitably arise during retirement. The value of this freedom and flexibility should not be ignored when making decisions regarding fundamental elements of a retirement income design. In fact, one of the most valuable features of the Lifetime Income Strategy is that it preserves the right to take some or all of the remaining balance out of the account without any surrender charges.[9]

In our design, assets in the Lifetime Income Strategy remain invested in a diversified portfolio of stocks and bonds for life. This maintains a growth-oriented investment strategy with upside potential throughout retirement and

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[8] Within the Secure Income Sub-Fund, a guaranteed minimum income benefit is established at inception. This income benefit increases whenever new money is added and when investment growth leads to new high market values, but it will not decline unless the participant takes an early or excess withdrawal, even if investment growth falls short of expectations.

[9] This allows participants to take distributions from the Lifetime Income Strategy according to their needs and preferences. This can be done systematically or on a provisional basis as income is needed. If a participant has an urgent need for cash and requires access to their entire balance, that option is available as well.

supports a high likelihood that retirement income benefits will increase in the future due to investment performance.

ISSUES FOR EMPLOYERS, PLAN FIDUCIARIES AND SERVICE PROVIDERS SEEKING TO PROVIDE LIFETIME INCOME PROTECTION

<u>Complexity</u>

Although the components required to build effective income replacement solutions exist in the market today, and current regulations provide a framework within which they may be applied, employers face many obstacles to offering solutions which establish and maintain a reliable stream of income throughout retirement. It typically requires a cross functional team of professionals versed in numerous disciplines (actuarial science, behavioral finance, investment theory, benefits administration, information technology, insurance and options pricing) to evaluate an income replacement solution and determine whether or not it is appropriate for the population of participants in a particular retirement plan. This alone is a significant obstacle for many plan sponsors, especially smaller companies.

<u>Regulatory Obstacles</u>

Moreover, agency guidance can pose obstacles if it lacks clarity or sufficient flexibility. Government agencies have taken steps over the last several years to improve guidance with respect to retirement income alternatives. This is needed because overly prescriptive standards will stymie innovation, reduce competition and almost certainly fail to meet the needs of a broad range of plans and participants, each with their own unique set of circumstances. We believe continued dialogue with the many stakeholders that play a role in the design, development and implementation of effective solutions will be critical.

<u>Lack of Safe Harbor</u>

UTC developed our Lifetime Income Strategy without the benefit of a legal safe harbor because we believed it was important to act urgently for our participants, and we believed we had the in-house financial, legal, and human resources expertise to appropriately manage risk under existing law. But many employers have an extremely low risk tolerance when it comes to offering new retirement benefits. They may also lack the internal expertise and resources necessary to navigate the current regulatory environment with confidence. These factors explain why UTC stands virtually alone among large employers in offering Lifetime Income. To remedy this, private employers need a clear, reliable safe harbor protecting them from opportunistic class action litigation and other legal risks before adopting their own lifetime income solutions.

SAFE HARBOR RECOMMENDATION

We suggest adherence to the following guiding principles in crafting a safe harbor:

- Process Focused. Congress should articulate a specifically defined, process (not outcome) focused standard of care that plan sponsors and fiduciaries seeking safe harbor protection must adhere to when implementing a lifetime income option. If plan sponsors and fiduciaries meet the standard of care, the safe harbor should shield fiduciaries from costly lawsuits and other potential liability. [10]

- Objective Criteria. Any safe harbor should be based on objective and uniformly applicable criteria. [11]

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[10] While many in this field will endeavor to develop best-in-class practices as it relates to the design, evaluation, selection and oversight of secure retirement income solutions, few will devote their valuable resources to the effort in the absence of a clear and reasonable standard of care. There exists a very real risk of being criticized and second-guessed in the event that unforeseen, unfortunate and unavoidable conditions arise. Congress and the regulatory agencies are in the position to provide the necessary level of confidence to well-intentioned and procedurally prudent fiduciaries by issuing, and then clearly and consistently communicating a process-focused standard of care for the evaluation, selection and monitoring of retirement income solutions and service providers.

[11] Sufficiently descriptive language supports plan fiduciaries charged with determining whether or not competing solutions adhere to reasonable standards of care, how they might be covered by protections afforded under safe harbors as well as how to effectively convey the benefits of such features and options to the participants. Regulation focused on functional descriptions will also facilitate ongoing industry investment in research and development, whereas product-centric language will stifle innovation and stall progress. UTC has contemplated an example in the form of the Qualified Retirement Income Alternative (“QRIA”). A QRIA might fall within a number of product labels, but its principal function would be the provision of income to the plan participant and/or their beneficiaries in order to receive coverage under a safe harbor or other form of regulatory endorsement. The definition of a QRIA would deliberately allow for the income mechanism and/or the nature of the resulting income to be open-ended and that the language of the regulation should state this explicitly. A properly defined QRIA would unmistakably encompass plan features and options that might integrate any number of solutions. For example, annuity contracts, systematic withdrawal methods, and services to help participants determine the order, timing and magnitude to draw upon different sources of retirement income would fall within a robust definition of a QRIA. To be clear, a QRIA safe harbor would cover retirement income features which: (a) may or may not last for a lifetime; (b) may be acquired in exchange for explicit or embedded fees; (c) might otherwise

- Functional, Non-Product Focus. We believe a safe harbor should emphasize functional descriptions of specific plan features and options and avoid references to (or implicit endorsements of) specific products, product categories or industry jargon. Plan sponsors need flexibility to create and adopt solutions to meet their employees' needs. [12]

We hope UTC's process for developing our Lifetime Income Strategy might serve as an example of how a plan fiduciary could proceed and be fully protected by the safe harbor.

OTHER ISSUES IN RETIREMENT POLICY

Although our focus today is largely on how to expand the offering of lifetime income protection, we also offer our experience and views on the following retirement security issues. We respectfully suggest:

- Anyone advising participants about their 401(k) assets should be held to the same high fiduciary standards as plan sponsors and investment fiduciaries, particularly when employees decide to roll their assets out of a plan where they have clear fiduciary protection into an IRA, where that protection is less than clear.
- Plan fiduciaries have been concerned about including alternative asset classes, like private equity, in their 401(k) plans because of the risk of litigation. Congress and the agencies could help remove such barriers and clarify existing parameters that would help plan sponsors innovate in the area of defined contribution investment.
- We encourage Congress to continue offering tax incentives with proven track records to encourage American workers to participate in their employer-sponsored plans.
- Regarding defined benefit plans, premiums on single employer plans collected by the Pension Benefit Guaranty Corporation have skyrocketed in recent years, making it harder for employers to

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occur as the consequence of some conversion of qualified assets into one or more plan distributions, either in isolation or in combination with assets held outside of a qualified plan or other sources of income such as Social Security benefits or traditional pension benefits; and (d) may accommodate "opt-in" and/or "opt-out" choice architecture.

[12] Plan fiduciaries should also be entitled to communicate the benefits of retirement plan participation through a variety of media and at all stages of employment or plan participation.

continue to maintain their DB plans. Based on the latest 2018 PBGC Annual Report, the PBGC Single Employer Program's funded status has significantly improved, so there is no reason why PBGC premiums should need to be increased in the foreseeable future. We would also discourage counting PBGC premium increases as general revenue available to "pay for" other expenditures, since the premiums themselves can only be used to strengthen the PBGC Single Employer Program.

- Although there are no simple solutions to multiemployer funding issues, using assets from the single-employer trust fund to satisfy the obligations of the multiemployer program would have profoundly negative implications. We encourage Congress to ensure that the PBGC Single Employer and Multiemployer Programs remain separate and distinct.
- We are very supportive of technical nondiscrimination testing relief for partially frozen defined benefit plans and relief from nondiscrimination rules for soft-frozen pension plans, so long as the plan is not amended in any otherwise discriminatory manner. The relief from nondiscrimination testing would allow employers in this situation to continue to accrue benefits for older, longer-service employees.

CONCLUSION

Now is a moment in time where economic circumstances, the demographics of our population and market participant interests are all aligned toward enhancing retirement security. We at United Technologies Corporation have moved forward with lifetime income protection for our plan participants. We believe Congress should pass legislation to help other employers feel sufficiently comfortable to do so as well. Thank you.