



TESTIMONY OF ALLISON R. KLAUSNER

ON BEHALF OF

HONEYWELL INTERNATIONAL INC.

BEFORE THE

**UNITED STATES SENATE
SPECIAL COMMITTEE ON AGING**

FOR THE HEARING

ON THE

PRACTICE OF SECURITIES LENDING

BY EMPLOYER RETIREMENT PLANS

WEDNESDAY, MARCH 16, 2011

Introduction

My name is Allison Klausner and I am the Assistant General Counsel – Benefits for Honeywell International Inc. (“Honeywell”). Honeywell is a Fortune 50 company, with approximately 140,000 employees worldwide, of which 70,000 are located in the United States.

On behalf of Honeywell, I want to express Honeywell’s appreciation of Senator Kohl’s and Senator Corker’s desire to understand the practice of securities lending in the context of employer sponsored defined contribution plans. I understand that my testimony today has been requested to provide the Senate Special Committee on Aging with insight into how one plan sponsor’s fiduciary committee has addressed securities lending issues which will in turn provide the Senate Committee with insight into how fiduciaries on a broad scale may do the same.

Over the years, securities lending has provided tremendous value to participants and beneficiaries of employer sponsored defined contribution plans, including those with employee deferrals and contributions. I encourage the Senate Special Committee on Aging to recognize that, if actions are taken to prohibit fiduciaries from offering securities lending funds in defined contribution plans, plan participants and retirees may lose valuable opportunities, now and in the future, as they strive to achieve retirement security.

Honeywell Plan Background

Honeywell’s primary defined contribution plan is a fairly typical 401(k) plan whereby participants are permitted to direct the investments of their deferrals and contributions, as well as vested employer matching contributions. The plan provides participants with the opportunity to select from a robust range of asset classes with varying potential risks and rewards. These funds include a short term fixed income fund, a bond fund, equity based funds, specialty funds, target date funds and the Honeywell common stock fund.

Selecting and Evaluating Funds

The Honeywell Savings Plan Investment Committee is a fiduciary committee consisting of five professionals at Honeywell. Two of the current committee members dedicate significantly all of their time addressing issues relating to the investment of ERISA plan assets, one of whom does so exclusively for the company’s defined contribution plans. Of the remaining three current committee members, two hold positions at Honeywell in the corporate human resources group and one holds a position in the tax department. All five Committee members have received fiduciary education and are counseled on an ongoing basis with regard to their fiduciary responsibilities, duties and obligations, including those relating to the selection of investment managers and/or funds.

The Honeywell Committee members understand that satisfaction of their fiduciary duties is critical to supporting the long-term retirement security of the plan's participants and the company's retirees. The Committee members recognize that they must engage in a prudent process, which considers many factors when selecting and evaluating investment funds. Specifically, the process should be designed to identify whether a particular fund, with all its features, including, but not limited to, whether it has a securities lending component, is an appropriate fund for defined contribution plan assets to be invested, either by an affirmative election or, alternatively, by default. And, just as the procedure for selecting a particular fund is where the fiduciaries' focus should be, I encourage the Senate Special Committee on Aging to consider that the matter of whether defined contribution plan assets are invested in securities lending funds or non-securities lending funds is one that should be evaluated in the context of the fiduciary process.

A fiduciary's process in selecting a fund will be based on consideration of many diverse factors. In addition to giving consideration to the unique constitution of the relevant plan participant body, these factors may include (1) the amount of fees to be charged by the investment manager, (2) the type of fund (for example, active vs. passive), (3) the asset class, (4) the past performance of the fund and its current leadership, and (5) the plan's complete fund line-up. All these factors, and others, are important when evaluating whether plan fiduciaries have provided a diverse and robust array of investment choices which in turn may help defined contribution plan participants achieve their personal, unique investment and retirement goals.

Indeed, securities lending funds in Honeywell's defined contribution plan's fund line up has supported many participants' retirement goals as those investment funds (1) typically charged lower fees than comparable non-securities lending funds and (2) historically had investment gains that contributed to the investment returns for the assets invested in such funds. The take-away is that, depending upon facts and circumstances, offering defined contribution plan participants the opportunity to invest in securities lending funds can indeed be a prudent decision.

Notwithstanding the potential benefits and prudence of offering defined contribution plan participants the opportunity to invest in securities lending funds, Honeywell's savings investment committee determined, starting in October 2008, to transition from securities lending funds to non-securities lending funds. Among other things, the Committee's then current thinking was that, on a go-forward basis, this change was prudent. The Committee recognized that (1) the then economic climate and that which was anticipated in the then near future and (2) the gate-keeping measures which were being implemented, weighed against continuing to offer securities lending funds for investment of defined contribution plan assets. Although the plan's fiduciaries understood that the gate-keeping measures were purportedly designed to stem the possibility that there would be a "run on the bank" within the securities lending programs, and that the gate-keeping measures did achieve such goal, the gate-keeping measures did handcuff plan fiduciaries and restricted fiduciaries'

ability to make decisions which could have impacted plan participants' opportunity to achieve retirement security.

I note that, although participant level activity wasn't directly restricted, plan fiduciaries were restricted from making wholesale plan level changes that potentially could have benefitted or been in the best interest of the plan's participants. For example, the gate-keeping measures changed the rules that would apply in the event the plan fiduciaries chose to implement a new, competing, non-securities lending fund.

Flexibility to Offer Securities Lending Funds

Today's legislative and regulatory framework permits fiduciaries to offer defined contribution plan participants with access to investment funds with a securities lending feature. As I mentioned at the start of my testimony, I encourage the Senate Special Committee on Aging to recognize the importance of maintaining the flexibility currently available. Fiduciaries should not be required to operate in a rigid environment which prohibits them from providing plan participants and retirees with valuable opportunities to achieve retirement security.

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In closing, although the matter of securities lending funds in employer sponsored defined contribution plans is a topic that is worthy of your attention, I suggest that we take care not to study the issue in a vacuum or elevate the matter of securities lending over other issues of equal or greater importance to defined contribution plan participants. In addition, since plan administrators and fiduciaries, as well as third party providers, are in the process of implementing new legislation and regulation designed to protect participants -- with regard to plan fees and expenses, specifically, and encourage and protect their retirement security, generally -- and since there does not appear to be an urgent need to address the issue of employer sponsored defined contribution plans and securities lending funds, perhaps this is a time to rest and allow the new rules to take hold before we consider any new rules or requirements.

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Thank you for asking me to be a witness at today's hearing. If you have any questions, I would be happy to address them.