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No Silver Bullet

With fewer barriers for plan sponsors considering in-plan annuities thanks to the SECURE Act, many employers are thinking about how to help their workers meet retirement income challenges. In this article, our experts weigh in on the latest income-oriented product options for plan sponsors to explore and a few ideas on implementing and rolling out those solutions to participants.

When the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 became law, it included a long-overdue safe harbor provision for defined contribution plan sponsors interested in offering annuity-based guaranteed retirement income products in their plans.

"The safe harbor makes annuity selection very mechanical, very prescriptive, and very easy to comply with," says Institutional Retirement Income Council (IRIC) Executive Director Robert Melia.

The SECURE Act's safe harbor will protect employers from liability related to their annuity selections if they select a provider that, among other requirements, has been licensed by the state insurance commissioner to offer guaranteed retirement income contracts for the preceding seven years; has filed audited financial statements in accordance with state laws; and has maintained reserves that satisfy all the statutory requirements of all states where the annuity provider does business.

"This provision has the potential to alleviate plan sponsor anxiety about evaluating insurers by extending protections to sponsors who offer guaranteed income products," says CAPTRUST Senior Director of Retirement Services Phyllis Klein. "By reducing barriers for plan sponsors considering in-plan annuities, the SECURE Act makes it easier for fiduciaries to meet the requirements that are imposed."

Asset managers, insurance companies, and many plan sponsors around the U.S. have breathed a collective sigh of relief in response to the SECURE Act's safe harbor. And while early indications suggest that a handful of interesting new guaranteed income-oriented products are in the offing, it's important to remember that adding a new and potentially complicated product or service to a plan investment lineup may not be the solution to participants' retirement income needs.

As with most things, there is no silver bullet.

State of Income-Oriented Products

Over the past 30 years, plan sponsors have shifted their focus from defined benefit plans to defined contribution plans to reduce benefit costs and fiduciary risk. This shift has brought innovation to defined contribution plans, including features like automatic enrollment, default contribution rates, and automatic escalation, to name a few.

However, while many employees see their large account balances as security for life, this shift has posed problems for many—mainly the loss of a reliable source of guaranteed lifetime retirement income, says Glenn Haskell, New Balance benefits director and New England Employee Benefits Council board member.

Today, fewer retirees are walking out the door with a pension check in hand. More likely, the retiree takes a lump sum 401(k) distribution into retirement with little idea how that balance translates into monthly retirement income.

But things could be changing for the better. Many plan sponsors are looking to help workers with retirement income generation and are offering up new options. Some of these options include modeling tools to help participants evaluate and compare withdrawal strategies, additional distribution options, and investment options such as managed payout funds and yield-focused fixed income funds.

In fact, *SHRM.org* reports that, last year, 30 percent of large employers offered one or more retirement income solutions, up from 23 percent in 2016. And the SECURE Act's safe harbor is poised to move the needle even further by clarifying plan sponsor responsibilities around annuity provider selection for guaranteed retirement income solutions.

And while this new legislation is making strides to increase interest around solutions, according to Jeff Eng, managing director at Nuveen, it's still very early.

"As of now, most plan sponsors are still in research mode," says Eng. "Plan sponsors that are in the paternalistic camp are starting to wonder, 'OK, well, how can we incorporate guaranteed lifetime income solutions into our retirement plan?'"

Some might be thinking about rolling out a guaranteed lifetime withdrawal benefit (GLWB). A GLWB is a form of group annuity offered to employers as part of an in-plan option. "It is sort of a cross between systematic withdrawals and the guarantees of a fixed annuity," says Eng.

A GLWB offers the participant the ability to withdraw a fixed percentage of his or her account balance for life, starting at retirement. The guaranteed amount is based upon the amount invested and investment performance over time. Balances are generally invested in target date funds or asset allocation strategies appropriate for the participant, and the guaranteed amount can then increase if investment returns justify it, but it cannot decrease.

GLWB-based retirement income solutions have been around for years but have not achieved the lift-off that many providers had hoped for.

Eng believes that incorporating annuities within the qualified default investment alternative (QDIA) is the innovation needed to drive mass adoption through the simplicity of a target date fund. Further, offering a default investment with a guaranteed retirement income solution eliminates "analysis paralysis," he says.

Automatically placing participants in a default investment with a guaranteed retirement income solution is a good thing, says Eng. It's also going to help plan sponsors make sure participants don't pass up the opportunity for a lifetime income stream simply because they were not aware it's available.

"If you don't make it a choice for them, and you just let them know [they have been placed in the plan default investment option], I think that's the better option," says Eng.

Managed accounts are another innovation that has been receiving a lot of attention lately. "Because they are tailored to the participant's finances, goals, and risk tolerance, these accounts deliver a high level of customization and do not require a high level of participant involvement, if any," says Klein. However, managed accounts traditionally have only offered investment guidance and advice during the accumulation stage for participants—and no income guarantees.

But that is changing. Some of these programs now include managed distribution modules to help participants move seamlessly from the accumulation to the decumulation phase with the assistance of personalized advice.

Some plan sponsors are addressing the need for guarantees by adding stable value vehicles to their asset allocation strategies, says CAPTRUST's Mike Pratico, senior vice president, financial advisor. "The incorporation of stable value vehicles into the asset allocation strategy will give participants an element of guarantee."

"And with the new safe harbor legislation, managed account providers are working on incorporating guaranteed retirement income products like annuities into their services," says Pratico. It's a very exciting area of development."

The SECURE Act's safe harbor has also nudged some plan sponsors like footwear manufacturing company New Balance into considering including access to an annuity purchasing service at retirement. "What we're thinking now is to institutionalize the purchase process," says Haskell. "Folks will be able to buy annuities under the umbrella of say, [an employer like] New Balance."

"The idea is that New Balance makes that available to participants, to say, 'Look, you've got a million dollars in your 401(k), and it might be prudent for you to take $500,000 of that and annuitize it for $2,500 a month for the rest of your life.'"

Among the newer annuity products available to help bridge the gap to sufficient retirement income are qualified longevity annuity contracts (QLACs), which let participants move 25 percent of their plan assets, up to $135,000, into an individual retirement annuity that typically begins making distributions at or before age 85.

While the number of workers interested in purchasing a QLAC is small, the Employee Benefit Research Institute (EBRI) measured the impact of QLACs in its Retirement Security Projection Model and found the product can provide great benefits for improving financial security for older seniors.

Create Context

Of course, adding a complex product or service—guaranteed or not—to a plan investment lineup is not a silver bullet. Without communication and education targeted at the right participant segments, adoption of new features can be destined for a lackluster future. Plan sponsors need to be prepared to communicate clearly and actively with participants about retirement income solutions if they want adoption.

According to Melia, it's probably not worth a plan sponsor's time or effort if they are not committed to a participant launch campaign for the product. "Unless you promote it, unless you really spend the educational capital that you need to educate folks, you're not going to get a return on the effort that you put in," he says.

There is a lot of room for improvement on the education and marketing front, especially for guaranteed retirement income solutions, Eng says. "I think the marketplace has to do a better job in education and marketing these types of distributions and not just call them annuities but call them guaranteed lifetime income solutions."

When properly implemented and communicated, however, lifetime income solutions can make your plan a better human resource management tool that "helps achieve the goals of the organization by managing, protecting, and securing your most precious resource: your human resources," says Melia.

A good example of an effective communication campaign is Yale University in New Haven, Connecticut. With the help of the university's recordkeeper and the plans' investment consultant, Yale's four defined contribution plans now offer a custom target-date series that includes a guaranteed annuity within the QDIA.

Yale's Hugh Penney, senior advisor for benefits planning, told *Pension & Investments* that the university went above and beyond last year to communicate the plan enhancements. Yale officials held dozens of town halls on campus and developed a detailed guide that explained all the moving parts, Penney said.

Yale leaned on its consultant for help selecting the products in its portfolio, and Pratico says that is a good idea. "A consultant might be helping to select the asset allocation strategy within a managed account or helping a plan sponsor select the best possible guaranteed income or lifetime income product," he says.

Don't underestimate how important good-quality advice is, whether it's coming from the consultants or a recordkeeper, says Pratico. He points out that recordkeepers are often able to help with access to educational and promotional materials, solutions like income tools and calculators, and systematic withdrawal programs that address income needs.

"I think a lot of our recordkeepers working with the plan sponsors are now starting to offer different tool sets that will help [participants] do projections in terms of how much they are saving, how they are investing for retirement, and how much money they will have when converting that into an income stream," says Eng.

What's Next?

Not a silver bullet, unfortunately. "I think [the solution] needs to be cheaper, simpler for participants to understand and utilize, and yet still provide them with the ability to not outlive [the benefits] but also to give them access to their assets," says Eng.

For plan sponsors committed to offering retirement income, consider discussing these questions with your retirement committee and financial advisors to determine what strategy works best for your organization:

- Do you understand the costs of offering a solution, and do you understand your fiduciary obligations in making any decision regarding income solutions for your plan?
- How will retirement income information be communicated to participants—at launch and ongoing? How will it appear on participants' statements and online accounts?
- What happens when a participant leaves the plan? How will the retirement income solution be impacted?
- Will the solution provide an in-plan guaranteed retirement income option as the plan's QDIA? Where will it sit in the investment menu?

When it comes to moving the needle on guaranteed retirement income products, Eng says it's twofold. "We got the safe harbor protection, so that's going to help from a plan sponsor fiduciary standpoint. … But the other thing is there's got to be demand. Participants have to see the value in it. And they're going to be the ones who are going to need it."

Now is a good time for plan sponsors interested in guaranteed lifetime income products or services to start looking at what opportunities are available to them. With the help of plan consultants and service providers, plan sponsors can work to build a custom retirement income offering that meets the needs of their plans' participants—whether that's a product or asset allocation service that provides guaranteed income, a financial wellness and advice program, an annuity placement service, or all of the above. There might not be a silver bullet, but plan sponsors still have plenty of ammunition for the cause.

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