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Helping Participants Retire with Confidence: A Fiduciary Guide to Income Solutions (Webinar Recording)

Lori Dillingham: Good afternoon, everyone. Thank you for joining today's fiduciary training webinar on retirement income. I'm Lori Dillingham, senior director of vendor analysis and plan consulting here at CAPTRUST. In today's session, we will focus on helping plan fiduciaries meet their ERISA obligations of evaluating, selecting, and monitoring retirement income solutions.

Today we have with us Angel Shah and James Hobson. Angel's a senior team leader in CAPTRUST Defined Contribution Practice, specializing in retirement plan investment oversight and advisor support. Over the past several years, Angel has helped lead the firm's retirement income research efforts, including evaluating lifetime income solutions, developing due diligence frameworks and scorecards, and creating educational resources for advisors, plan sponsors, and participants.

James Hobson is a manager in CAPTRUST Defined Contribution operations team. James leads retirement income due diligence and strategy for DC plans. With more than 20 years of experience in retirement planning and investment strategy, James specializes in evaluating plan design features, investment structures, and income-oriented solutions with ERISA-governed plans.

Thank you both for being here. With that, Angel, I'll hand it over to you. Appreciate it, Lori Here's an overview of what we'll be covering today. First, we'll cover the scope of what a fiduciary is when evaluating retirement income solutions. Secondly, we'll share more about our view as a plan design strategy, not just a one-size-fit-all solution that considers participant needs, fiduciary oversight, cost, flexibility, and participant outcomes.

Angel Shah: Then James will dive into education about retirement income solutions, where he will then cover an evaluation framework that we've developed at CAPTRUST, as well as other key considerations before pursuing these options

So first we'll kick things off with what the fiduciary's role is in retirement income. As a plan sponsor, I will underscore that the selection and monitoring of these solutions are considered a fiduciary role. With that in mind, the oversight involvement of fiduciaries does vary depending on whether the solution is an in-plan or out-of-plan solution, but we will come back to that framework in just a little while.

But yes, under ERISA four four A, as plan sponsors, your fiduciary duties must be conducted solely in the interest, best interest of participants with skill, care, prudence, and diligence of prudent expert. That breaks into four core duties. Firstly, the exclusive purpose rule, the prudent expert rule, diversification, and compliance with plan documents, all things that we see from time to time in our reviews and as you conduct your fiduciary oversight duties.

As we think of it related to retirement income, that means evaluating and selecting appropriate solutions, monitoring investments and providers, confirming fees are reasonable for the services that are delivered. It also means educating your participants and documenting your process and keeping your investment policy statement current.

Here's the part I would like to underscore as well, is that as you potentially explore retirement income solutions, fiduciaries are now expected to proactively evaluate how plan design helps participants convert savings into sustainable income. And documenting this process can potentially save you from a breach later down the road, which we all know we wanna avoid as much as possible, but documentation is certainly key and something to keep in mind as we go through our evaluation framework.

So why are we addressing this now? It's really because the trends that we're seeing explain the urgency of participants needing and wanting to have better retirement outcomes. First trend that we're seeing is that defined plans have largely dis-disappeared. So 401has really become the primary accumulation vehicle for employees, and that raises your responsibility as a plan sponsor.

An average of twelve thousand baby boomers retire every day. That's anticipated through twenty-thirty, and the stats are always changing, but it's only increasing. And twenty-five percent of participants will live to age eight--ninety-two or beyond, which put-which puts longevity risk on the table as a risk to consider.

And it really means that people are not only living longer, but they are working longer. Forty-five-- forty percent of defined contribution assets are held by participants age fifty-five and older as of today, and only forty percent of participants have ever attempted a retirement income calculation, which is a staggering number.

So that's really a cry for an education gap that we in the retirement industry as well as retirement plan sponsors try to fill with financial wellness and education tools. And lastly, on leakage participants who roll to IRAs often pay higher fees is what we're seeing in the retail space.

So keeping assets in plan is certainly not only a goal for plan sponsors, but really in the best interest of participants in many cases.

Moving on one thing we always like to mention should you onboard a guaranteed solution like an annuity retirement income selection is something that the Section 204 of the SECURE Act gives a safe harbor for in terms of insurer selection. To do that, you must obtain written representations from the insurer confirming, one, they're licensed to offer guaranteed retirement income contracts.

Two, for each of the preceding seven plan years, they've operated under a certificate of authority. Three, they'd like to see filed audited financial statements and maintained res- re- required statutory reserves and proof that their authority hasn't been revoked or suspended or that they're not under supervision, rehabilitation, or liquidation.

And they do go through a financial exam every five years by their the state that they're domiciled in. So we do like to provide these safe harbor letters at CAPTRUST to the plan sponsors who have adopted these types of guaranteed insurance products, but they are available for request by these insurance companies.

And this is certainly not an exhaustive list of the safe harbor requirements, but it does encompass some of the core fiduciary exercises that plan sponsors undergo when selecting these solutions. Maybe check into the mic Okay, now moving on, we'll, we'll-- we'd like to take a deeper dive into really what makes the building blocks of a retire-- of a holistic retirement income strategy.

We view these building blocks that's in categories. Firstly, starting with guaranteed income solutions. Think of these like annuities that provide insurance pro-protection against outliving savings. You'll evaluate in-plan annuity offerings versus out-of-plan annuity offerings. You document the cost, portability, and safe harbor compliance as well with these.

The next one and we'll be looking at the, the top right quadrant, are withdrawal options and features. So systematic and periodic withdrawals fall under this category where you would verify the record keeper's capability as well as plan document alignment. And then when we look at the bottom of left contra-- quadrant at non-guaranteed solutions, we consider this building block to be made up of very much of the investments that exist within the within the investment menu currently, including social se-- in-including target date funds, managed accounts, and managed payout funds.

And these are all assessed for investment merit first, as well as fee reasonableness and a demographic fit. And when we think about participant education in the bottom right quadrant, we think of Social Security timing, withdrawal strategies, allocation, and the case for retaining assets in the plan.

So overall, we review selection as a prudent approach that goes beyond adding one investment option. To provide a true off-ramp or a sound accumulation strategy for participants, a mix of these four building blocks really would be the most optimal way to meet the varying needs of participants nearing in retirement

Just as plan sponsors, when you're considering retirement income solutions, you may think, "What are we really solving for?" So we ask plan sponsors before they begin their evaluation process to really understand their participant demographics and take into consideration the goals of the plan. This grid maps out organizational goals against available services and investments.

So for example, if the goal is retirement readiness and workforce management, participant advice, managed accounts, and target date funds are really your levers in terms of solutions that you can onboard to address those organizational goals. Another example is if you're looking to hedge market or longevity risks, or you're looking at out-of-plan annuity placement or in-plan annuities those are the solutions or the annuity types that you could really lever to assist with those types of goals.

Now, if you wanna keep the assets in plan after retirement, a-almost every option on this top bar really addresses those needs. Decumulation assistance and paying income to retirees have their own combinations as well. And these aren't mutually exclusive. Pairing a target date fund or managed account with an in-plan annuity can improve retirement readiness and hedge longevity risks at the same time

So there are three lenses of consideration that we'll take a peek at. We'll start from the top right. First what may limit your options? Record keeper availability and portability are significantly a, a factor in determining what your plan is eligible to access, as well as the plan type.

Some solutions only exist in a CIT form, so 403s would not be able to access certain types of managed account or a target date fund hybrid solutions. And plan size, since more customized options are reserved for larger plans. Second, the reasons to evaluate retirement income include hedging longevity, market inflation and sequence of return risk, keeping assets in plan after retirement, better workforce management, meaning people are actually ready to retire on time offering a competitive benefits program, and helping participants with accumulation.

And third, the fiduciary considerations that come with it. Costs, both implicit and explicit, as well as ongoing monitoring and documentation, participant communications obligations, measuring and documenting effectiveness, and amending your plan document and IPS. Now, that's a lot to consider however there are solutions and tools and tips and tricks that we have encountered as we assist our clients with onboarding these solutions that we'd be happy to share.

But now keeping these considers... these considerations in mind, we'd like to provide education on these various solution types which we like to share through a decision tree framework. So with that, I'd like to pass off to my colleague James Hobson, who will provide education on these solution types

James Hobson: Great. Thank you so much, Angel. I appreciate that So what we're gonna walk through is really the evaluation framework that we've developed here internally at CAPTRUST. And if you think about one of the things that Angel had mentioned were the different solution types, the solution and services and what you're solving for it's really important to note that when you're thinking about the solution framework to understand that we're walking you through what hopefully you will determine to be a more of a, a comprehensive framework.

Historically when the topic of retirement income has been developed, commented upon, and really the way that it's portrayed even in the industry today there tends to be a really heavy focus on insurance products or annuities, like something that prepares or that provides some type of a lifetime or guaranteed income.

But we really try to take a step up from that, and we start with first and foremost guaranteed versus non-guaranteed solutions. When we're talking about retirement income planning, every one of your participants is gonna have a slightly different objective. They're gonna have a different time horizon.

They're gonna have different needs from an income planning perspective. And w- we d- we do not jump directly into the evaluation framework of guaranteed specifically because we need to look at it more comprehensively. All of these components, whether it's guaranteed or non-guaranteed, really should be utilized in cohort with one another, and that will...

that is what will successfully, allow a participant to leverage multiple solutions that complement one another. And so we do-- we start that with the guaranteed versus non-guaranteed. Now, in your current li- in, in many of the current lineups that you would have here at CAPTRUST, there are several investment options that, that will suffice things like target date funds or managed accounts or a combination of multi-asset strategies and fixed income.

Again, with the intention of providing some stable income for your retirees, that can be achieved by a proper asset allocation utilizing a target date fund, and then leveraging a systematic withdrawal strategy that would be incorporated at the plan level through the record keeper. And that's why distribution options is important component of that four-legged stool that we talked about to support a participant's objective.

So the question really is when we're evaluating solutions and when you put that hat on is to determine the objective for your participants, is do we need to evaluate a guaranteed solution, or do we have enough non-guaranteed solutions that we can really satisfy our participants' needs?

through a combination of the current investment solutions with distribution options that are available through the record keeper So then if the determination is made that a supplemental guaranteed income solution is something worth evaluating for your participants, the next question that we walk through in our evaluation framework is whether that's going to be offered in plan or out of plan.

And there is quite a distinctional difference between those two. I think what I would focus on from your perspective is the difference in the oversight requirement associated with an in-plan solution. And I'll differentiate. For an in-plan solution that is considered to be a guarantee that in- incorporates some type of an annuity, it is a fiduciary decision to implement and offer that particular solution.

And then there is ongoing really evaluation that needs to be considered and also a part of your quarterly or annual review process to continue monitoring that particular solution once it's been made available in plan. Now, if you take that and you evaluate it versus an out-of-plan solution, it is a fiduciary decision to offer an out-of-plan decision.

Being out of plan means that those assets are something that transfer immediately out of plan once a contract is issued and the insurance company has engaged in that contractual obligation with your participant. Which means that after the assets transfer out of plan, the participant is in contract with the insurance provider.

However, the plan no longer has a responsibility. So there is quite a distinctional difference between in plan versus out of plan and what your fiduciary requirement would be from a monitoring perspective. And then the last layer of that's really important to understand, and it will tie it back to understanding what your demographic need is and how the participants typically invest within your DC plan.

So the last piece of the framework is whether it's integrated or it's standalone. Once we've made that decision that it would be in plan is when we would move down to the integrated or standalone. If we choose to do an off-- an out-of-plan selection, then we evaluate and review those particular options with you as a sponsor and help determine which one will best suit your needs.

Once we make the determination that an in plan is gonna be the preference, we would then speak to you about the different types there are. So integrated would refer to things like target date funds or managed accounts that have integrated an annuity into the allocation at the participant level So think of something like a traditional target date fund has a 40/60 equity split.

Now it's gonna have a 40/40 equity to fixed income split with 20% allocated to an annuity. And then a managed account is a similar situation. It just gives more personalization at the participant level. So the question is integrated or standalone. Integrated target date fund managed account tend to be much more attractive and have a higher application for plans that have high usage in their target date fund suite.

It's also when it integrates with a managed account, it makes it more of an option for a participant to choose to engage with professional asset management to make their investment underlying more personalized for them, and it gives them the option to choose to get into an annuity. So there's definitely...

it's a different way to approach retirement income that would apply to those investors that have more of an approach where they like to set an investment, not necessarily heavily engaged with understanding and selecting the investments or doing the research behind it. But they are very effective and traditionally tend to get the most uptake in usage when we see these particular solutions offered in plans Now standalone annuity, a standalone annuity is something that is a singular investment option traditionally in, within the core lineup in the menu.

These particular solutions have been historically available actually in DC plans since around 2009 or 2010. They started to be a little more widely utilized at that point in time because of the 2008 market crash that we had. These particular solutions do not see a lot of uptake. They are standalone in that the independent participant would actually have to select to invest in them.

They're typically tied to an underlying an underlying fund that is usually some type of a moderate allocation fund. Those particular strategies, again, they have been around much longer than the target date funds have been, but they have not historically received a lot of usage, and it's due to a couple of reasons.

They tend to be more expensive, so they have higher fees. They're a little more complex for participants to understand. And historically annuities, they were the primary annuities that were available prior to the introduction of the Safe Harbor Provision. And the Safe Harbor Provision is what really created this interest in the marketplace with investment managers and insurance companies and record keepers that have developed an onslaught of target date funds that have integrated some type of annuity into the allocation.

Now, it's still early in the process. I would say, this is a sort of an evolution of the marketplaces I think we're in the early stages of. But what we do when you walk through the framework is to get a really good understanding of, first and foremost, is there an interest and a need for a lifetime income solution?

What is the age of you or your demographic age look like? Where are the assets sitting? How can we best deliver that? Is it gonna be in plan or out of plan? Are you comfortable doing the ongoing monitoring of those solutions if they're going to be in plan? And is there an added benefit or value of offering that as an integrated solution given maybe the target date fund usage and/or offering a managed account as an optional opt-in for participants to have access to lifetime income?

So this particular slide, what we put together for you, is just how we categorize the retirement income space. So again, on the left, on-- what you're gonna see under the maroon color is again the non-guaranteed items. So target date funds, managed accounts, multi-asset funds, allocation models, and managed payout funds.

Most of our clients today offer at least one of these solutions to their participants On the right-hand side, where it's segregated by guaranteed. So again, we'll use the term guaranteed and annuity and it's referring to the same type of solution. So part of your fiduciary responsibility and we help you with that, is to walk through and educate you on the differences between the different types of annuities in this space.

So single premium immediate annuities are annuities that pay income immediately upon entering into that contract. Deferred income annuities, just like the name says, purchase the annuity today with the intention of starting that income sometime in the future. Could be at five years, 10 years, 15 years. A qualified longevity annuity contract, may also hear the term in the future QLAC, is a specific type of deferred income annuity.

So these are designed to provide guaranteed income for individuals that really have longevity concerns. If they have longevity within their family historically, maybe they've been lucky enough to live to the age 100 on average, but they tend to be more specifically to provide a very high level of income starting after age 80.

So what makes these interesting in comparison to a deferred income annuity is that they are... I would consider them to be qualified from a t- from a tax perspective, in meaning that if these are purchased at age 65 with the intention of starting income at age 80 or up to 85 whatever RMDs are taken out of the account starting at age 72, I think that's moving to 75 if it hasn't already that value that was utilized to purchase that qualified longevity annuity contract is not included in the value that's utilized to calculate annual RMDs.

So because of this, I would say probably a, a bonus that you're receiving from the tax collector to delay that tax and not have to pay taxes on that value. There's a requirement that the income must begin by age 85, and there's a maximum purchase of value that can be utilized to purchase one of these particular types of contracts, which is $210,000 A guaranteed lifetime withdrawal benefit.

You will also hear terminology such as GLWB. A guaranteed lifetime withdrawal benefit is just a type of annuity in which a participant or investor would maintain control over that asset. They pay a fee for this annually, and they are guaranteed a certain annual amount that they can withdraw from their annuity for as long as they live.

Very typical, you'll see that sort of peer group average around five percent. There are several solutions that vary from that, but they have different reasonings for doing so. But that particular annuity type is different in that it la- it allows the participant to maintain control and access to their asset even though it's invested in the annuity.

The previous that we talked about, single premium immediate, deferred income, and qualified longevity annuity contract, those are what referred to as annuitized. They're annuitized solutions, meaning a participant purchases that annuity, their asset's transferred to the insurance company, and they receive an income that replaces that asset.

They no longer have ownership, control, or access to that asset And then down at the bottom the non-guaranteed and guaranteed, guaranteed non-guaranteed. So these are really where we talk about with the integrated solutions. So managed accounts with an annuity, target date funds, and allocation funds with an annuity.

These are the integrated, meaning that a portion of that investment is invested into traditional equities or fixed income, and then a portion of that allocation is invested into an annuity. And this, again, seemingly is probably the simplest way to approach implementing an annuity or lifetime income for participants because it's an investment that they click into.

It's an appropriate target date fund with their retirement age. They don't have to worry about picking the underlying investments. The annuity allocates based on the philosophy and underlying investment manager that has structured those particular solutions and/or if it's a managed account it's at a personalized level which offers participants the ability to invest, not be involved, and have that set it and forget it approach, which is the most widely utilized, I would say, across participants

All right, so we're gonna spend a few minutes now just reviewing some of the advantages and disadvantages of the different structures and how you would access an annuity or lifetime income So an annuity marketplace is considered an out-of-plan solution. So an out-of-plan solution. What that does is it gives participants access, typically through a digital platform, to obtain quotes and get an idea of what rates are on annuities.

If I wanted to go in, I could say, "I want to invest $100,000." I enter the information into their website. It will tell me how much income that will produce per year, and then they could have assistance fulfilling and and launching and purchasing that actual annuity for themselves. So advantages of that particular approach are that they're institutionally priced options.

So again, we talked about assets rolling out of the IRAs, which historically has been the gold standard of retirement income planning. Individuals retire, they get that proverbial gold watch. I like to say that look at it from that perspective anyway. They roll their assets to work with a, an independent, maybe trusted financial advisor, and then...

and many times those assets are utilized to purchase an annuity. So we talk about institutionally priced because they're lower cost, meaning there's better rates, a higher payoup, payout rate, more annual income for the participant per dollar or a lower annual fee for these solutions that are utilized inside of the DC or defined contribution structure.

So they have multiple payout options, which is obviously a benefit as well, meaning one of these types of annuities can cover your participant's life, they can cover their spouse's life as well. They offer protection from market downturns. If you buy an annuity, it's no longer invested in the market. In a deferred income annuity, you're just accumulating deferral credit so you get more income later.

There's no market exposure. So it really does a great job of hedging against longevity. And we model this quite frequently with different types of annuities in different structures, but it does improve retirement readiness for a majority of participants whose scenarios we run this through. Again, the annuity can provide a higher level of income than a traditional fixed income can, a typical bond strategy would.

So some disadvantages, there is a higher cost than a non-guaranteed option. Depending on the type of annuity that is purchased, there's limited portability, limited liquidity. Again, we talked about if it's an annuitized solution, the participant is engaging in that contract for income, they're sending their asset, whatever that value is, to the insurance company, and they're engaged in that contract An in-plan annuity.

So really again, I think some of the advantages with this are that it remains in plan for the participant. They maintain control over their asset, probably from a participant perspective is number one, maintaining control over their asset. They're receiving that oversight that we provide as we partner with you to provide the fiduciary oversight of that.

They also can benefit during the accumulation phase. So when it's utilized in conjunction with a target date fund or a managed account, the introduction of an annuity as an asset class as part of the allocation, it actually shows improved outcomes because they do not lose value. Even if you look at it and compare it to something like a, a bond portfolio or strategy, fixed income or bonds can lose value, right?

In different interest rate environments, the underlying value fluctuates. Fixed fixed annuities just have a fixed crediting rate, so they're not gonna- you're not gonna see a loss or they're not gonna lose value due to market fluctuations in the in the fixed income marketplace. And then they, again, they offer a lot of protection against longevity risk.

Longevity risk, sequence of returns risk, and market risk, any annuity is gonna do a, a pretty decent job at hedging any of those type of risks. Disadvantages, so they are... Because they're in plan, they're charged an annual fee at the participant level. Instead of a target date fund, it's all incorporated into the underlying investment management fee, but they're gonna be a little more costly than an out-of-plan solution.

There's a bit of a administrative burden, I think, speaking to you all, is that it's something that we would have to go through, educate you on, evaluate, select, and then monitor on an ongoing basis. I would say one of the things that's a, maybe a disadvantage to annuities in general is education is needed at the participant level.

So we talked about that, again, when we showed you our four-stool approach to comprehensive retirement income planning, and it is important that participants receive education around how to utilize these particular solutions appropriately and successfully for their individual plan.

So integrated versus standalone. Again, this is talking about maybe utilizing one of these particular solutions as the qualified default investment alternative. So if we walk through this again, further education in the future, if this is something that you're interested in for your plan, this is gonna be part of that additional conversation, is understanding the differences between integrated with the QDIA versus standalone and what those benefits versus trade-offs will be.

If something is integrated with the QDIA they can benefit much more, again, during the accumulation phase. We talked about better outcomes with less risk profile. It adds a little bit of cost to the QDIA in a lot of cases. There are some cases in which it does not. And it adds a little bit of complexity, I think, to future planning.

And what I would say is that there are still quite a lot of restrictions in the marketplace around product availability at record keeper level. So if you could imagine if a plan decided to leave their current record keeper and they had one of these solutions that they offered in plan, there might be some concerns around the new selected record keeper taking that on and agreeing to record keep one of those particular solutions.

We're starting to see that space evolve a little bit, but at this point in time, because a lot of these new integrated solutions are-- they're very new most of them have been developed over the last two to three years. There are-- There's still a lot of development that needs to be done to allow these to have freedom of portability across record-keeping platforms If we look at integrated again versus standalone, we talked about this a little bit previously there's generally low uptake on them.

Again, these have been around for the better part of 20 years but they're much higher cost. They're the most expensive annuity options. It's one of the reasons they haven't received a very good uptake historically. They're also a bit more confusing. Participants are selecting their own investments for themselves, and I would say that something that is a standalone investment option inside of a defined contribution plan is gonna be the most complex investment for the participant to understand fully and how to utilize it properly, and how do you implement that into their plan and make sure that they're making the right decisions.

They don't add... One of the benefits is they don't add cost to the QDIA, right? So if it's a standalone option, you keep your target date fund or whatever your current default is, and you're giving participants the option to choose those, albeit education would be required. And another thing that's nice, I think, is as a standalone is they are easier to remove.

If it's integrated with a target date fund it's gonna be much more difficult, a little more complex when it's integrated to if you ever needed to replace a target date fund and decided to move strategies, there are some considerations around that process. It can be done, it's just, it's...

I would say it's a bit of an administrative burden for record keepers and it will take time

So on this particular slide, just wanna spend a few minutes talking about our evaluation framework for guaranteed products. Everything that has an underlying investment, which would be those particular solutions like a target date fund or a managed account or a standalone option, we evaluate all of those based on the merits of the underlying investment portfolio first and foremost.

So in a very similar way that we evaluate for our current target date funds, we're benchmarking returns, we're evaluating the risk-adjusted performance we do qualitative and quantitative assessment as well. We include the investment fees in there obviously as well, and benchmark those against the peer group Once we have evaluated those, we feel like they're in good standing, then we move into evaluating the actual underlying insurance component or the annuity.

And what we do is we look at the fees, we look at the rates, whether that's a guaranteed withdrawal rate or a guaranteed annuitization rate or floors or or maybe cap rates or participation rates. These are all terminology that if we... if you're interested in digging into further from an education standpoint and want to evaluate these solutions, we're happy to do that.

There are step-up provisions associated with different annuities. Some of them step up annually, some of them step up quarterly. There's obviously a benefit in doing that quarterly versus annually for participants. And then participant liquidity restrictions. Within the annuity space, again, many annuities that were designed 10, 15 years ago had severe restrictions on liquidity.

If a participant wanted to completely liquidate that position or a portion of that position many times they would be restricted from doing so or be required to pay some type of a contingent deferred sales charge. That still exists in the retail space. Most of the annuity options in the institutional space have much more flexibility from a liquidity standpoint.

So we're evaluating all of these particular items in addition to monitoring the insurer. We monitor several components from an insurer standpoint. We track rates on a quarterly basis. But once we've done the investment, we do the insurance component of that, and then the insurer selection, again, we monitor those rates, the scores, and the rankings of those insurance providers on an ongoing basis.

And then we also leverage, obviously, the, There's a letter that is required from insurance providers. They would send that to not only our firm, but they would also send you a copy. It would tell the, us that they have met the minimum requirements to adhere to everything that the safe harbor provision requires to leverage for the safe harbor, because it has some of those bullet points that Angel had shared with you.

The insurance company is required to provide us with an annual letter that says they're meeting all of those minimum requirements

So the evaluation for re-retirement income, this is just real quickly. If there's if there's interest from you what we do is we really walk you through a three-step process. The first one, we've touched on some of this today, which is understanding your fiduciary duties and what we would do is probably dig more into the retirement income landscape in step one.

Step two is to assess retirement income solutions that are available on your particular record-keeping platform, compare, contrast those, discuss what's gonna meet the client... your particular participant's needs, excuse me, and discuss any concerns that you would have about leveraging any types of those solutions.

And then we get to a point where we feel like we can execute and implement those solutions for your participants and their use. And what I will say is that it's really important to understand there's a lot of solutions that are available in the marketplace today. None of them I would consider to be a one-size-fits-all solution.

Again, when I started talking earlier, we talked about individuals all having a different goal. They have a different plan. They have different needs. They have a different timing of when they wanna retire. It might be that an in-plan integrated solution will meet the needs of some of your participants, whereas the out-of-plan annuity marketplace could also be offered for those that don't wanna use a target date fund, for those that don't wanna use a managed account, but they still would like to have access to a lifetime income solution.

So again, no one-size-fits-all solution

And then so fiduciary actions for retirement income. So we would do all of this and really evaluate your plan demographics, right? We talked about this a little bit previously. It's important to understand the assets in your plan if they're diversified amongst a large demographic age group to get an understanding of what type of solution might be the most beneficial for their use.

So we would evaluate the retirement income solutions on your record-keeping platform, which we're already doing currently. I think we track somewhere in the neighborhood and evaluate and monitor somewhere in the neighborhood of 30 different solutions. And then for the Secure Harbor Act compliance, we would obtain that particular letter from your insurance company, make sure that's...

that you have that and that we have that, and we're keeping those on an annual basis as well. We conduct a fee reasonableness analysis that compares the peer group of retirement income solutions document. Very important. Ensure participant education and communication materials.

So what I will tell you is I've been doing retirement income planning in my career for over 20 years. Education and advice are the most important components for your participants when it comes to implementing these types of solutions and ensuring that they're successfully utilized.

There is a large need for improving outcomes for participants. We know that through surveys. There's a large need to assist p- participants with their retirement income plan. 50% of retirees that are retired today do not have a retirement income plan in place, meaning they just take money from their retirement accounts when they need it.

So strategically, communication education. Education is really the, the I think the most important cornerstone of the successful use of these types of solutions. So establishing an ongoing monitoring schedule, again, we do that. We're doing it constantly ongoing for you. Review the plan documents.

It's good next steps. I think that's just... it's just a, a good idea, is to request and review from your record keeper what are the distribution options that all of your participants have access to. I was doing a review for a client a few years ago and they did not know that they had not allowed more than m- more distribution options available to their participants.

Their document still had only allowed for full 100% rollovers to IRAs, which was very interesting. So it's important to understand from your record keeper what distribution options are available. We would also need to probably update your IPS. The IPS that we run on our IPS has been updated recently to include language around the selection and monitoring of the annuity.

It may not be something that was included in yours depending on how at what point it was completed. And then never a bad idea, but if there's any internal legal counsel, is to consult any plan amendment requirements and confirm compliance with the DOL guideline and ERISA requirements

Trends. So I like to end with this slide so you understand, right? We've talked about probably some new language, annuities, the different types, talked to you about some fiduciary requirements. Really this is where we land why we're here. It's really important to understand the evolution of the marketplace.

We talked a little bit about, Angel did early on, the sunsetting of DB plans or pension plans. We talked about obviously the demographic of baby boomers that are retiring every single day. The sec- the Safe Harbor provision was launched through the SECURE Act I believe in twenty twenty. That was really the first piece of legislation that has given a level of comfort for selection and monitoring of lifetime income solutions in the institutional space.

So that piece of legislation is what started this trend. A lot of the information that you're looking at here is the reason why the Safe Harbor provision was implemented. There has been a, a, a need for this type of solution in the institutional space for a very long time. And all of these numbers that I'm gonna go through here briefly are done through surveys and I read through similar types of surveys consistently, and they all are speaking to the same the same context which is there's a need from a participant base to implement and offer these types of solutions.

In fact, a lot of participants, especially the younger ones, believe that lifetime income solutions are already incorporated into target date funds. So it's important to understand 85% of participants want retirement income options in their defined contribution plan. If you were to poll your particip- your employees, you would likely receive similar numbers.

So I read surveys all the time, and again, it's usually between sixty-five and ninety depending on the survey that's being done but it's pretty consistently in the 80% range so there has been, important one, there has been 150% growth rate in target date funds that incorporate a lifetime income option over the last two years.

So that's really important. If... This is something where we're starting to see implementation happen upmarket with a very large, what we call mega size or mega market. So very large plans, $5 billion and over, we've seen a lot of movement in this space to offer lifetime income solutions to the participants.

Starting to see that trickle down to the, to, the other market levels. Participants are demanding personalized features aligned with their personal goals. I think those that engage, participants that select and choose to engage understand they need help and they're asking for more. And 60...

I'm sorry, 76% would pay for personalized advice to assist in meeting personal retirement objectives. And I think that what that speaks to is historically defined contribution plans have been really a savings account. Participants invest in them. They're not always engaged to the extent that we would like to see them.

But they want help and they need help, right? Because of all of the, the new legislation, the new solutions that are available, the sunsetting of the defined benefit or pension plans, I like to refer this that we're in an evolution of the marketplace, and a focus on participant outcomes, assisting with retirement or, retirement spending plans is really the next frontier in, in the defined contribution marketplace

Okay With that, we're gonna go ahead. I don't know if we have any questions that were submitted, but we can go ahead and jump into any questions at this point in time.

Angel Shah: Sure, James. Thank you for that, that deep dive, and especially sharing some trends that you're seeing in the marketplace. We do have a couple questions that came in around kind of adoption.

And you mentioned that large market plans are seeing the largest amount really of adoption in terms of solutions. What other trends in terms of adoption are you seeing in the marketplace?

James Hobson: I think what I would point out specifically is, and this is... i'm gonna point this out because it's been as of really the beginning of this year, where I'm seeing, starting to see more plans adopt multiple solutions.

Part of the educational process that we go through to our clients is to help them understand that, again, there's not a one-size-fits-all solution, and I feel like that's starting to really resonate with plan sponsors to understand they really wanna do the most they can to help the participants through- throughout their retirement, is that it really is beneficial to offer something that's in plan and it's beneficial to offer something that's out of plan because the uptake is more, or s- is, it can be more widely applicable to a greater base of demographics that have varying not just varying goals or objectives, but maybe they have a different way that they approach their own personal retirement income plan as well.

Because there are benefits of doing something that's in plan, and there are benefits of doing something that's out of plan. And depending on that individual, one of those will be more attractive to their personal approach.

Angel Shah: Yeah. Yeah. No, that, that's totally true. And I'll also add in our evaluations, we're constantly reviewing new solutions and new product types that are available.

Most recently we're seeing a lot of traction in the target date with a guaranteed solution reaching the participants who are really interested in maintaining that accumulation vehicle that they're accustomed to, and then pairing that with an insurance or annuity solution to guarantee that income for life.

So yeah, those are definitely some trends that we are seeing in terms of adoption. And again, we are continuously evaluating the marketplace to see what new solutions insurance providers as well as asset managers are presenting to the marketplace. Another question we've received is around fees implicit and explicit.

What are some of the ranges that we're looking at when we look at I guess starting from, your SPIAs or your fixed type of, guaranteed insurance products to, your target date funds

James Hobson: or managed account solutions? Yeah, I think that's a great question. So implicit fees are very similar to something that you would experience through the use of a stable value fund.

It's also known as a spread, and those are not transparent. The way that we would evaluate implicit fees is a peer group of similar solutions that... and those particular solutions either offer an income rate or they offer a crediting rate. So it's really understanding the net value benefit at the participant level because just like a stable value fund or I guess typically a stable value fund that's considered a guaranteed interest contract, those particular rates are not transparent.

So from an explicit, ex- explicit fee perspective, integrated solutions that are things like target date funds, as an example a, a standard historical target date fund might be somewhere between the, that's a passive fund. It might be between eight basis points and 12 basis points.

We're seeing some of these in the same range. So something that integrates a lifetime income solution generally in the same range. So there's not really an additional fee. And overall, because there's no explicit fee on the annuity that's being embedded into the allocation, the overall fee that the participant would see typically goes down.

So it's heavily dependent on the annuity structure, right? If you move to something that is a, a fixed interest rate contract over to the guaranteed lifetime withdrawal benefit, and again, I had mentioned the guaranteed lifetime withdrawal benefits were the most expensive. Those can be up to one, one and a quarter, so 1 to 1.25% for the insurance component that would provide the lifetime withdrawal benefit.

Target date fund integrated low end, five to six basis points. A standalone on the high end up to 1.25%. An interesting note to that is that regardless of which fee, which product really resonates, what's gonna be the best for the participants, all of those fees are lower in the institutional space inside of their defined contribution plan than the alternative option of rolling those assets to an IRA and purchasing any of those solutions in the retail space

Angel Shah: Awesome. Awesome. Thank you for the explanation and definitely the transparency into what institutional fees look like for guaranteed solutions versus retail. So appreciate that, James. We are just almost at the 5:00 mark. Appreciate all of the questions that are coming in. We'll definitely do our best to respond back to to all of you who have asked those questions in the Q&A.

And with that, I will pass off to Lori to close us out. Appreciate everyone's time today.

Lori Dillingham: Thank you so much. That concludes today's webinar. Thank you Angel and James for sharing your expertise and insights with us. We really appreciate it, and thanks to everyone for t- who joined us today. Hope you found this session very valuable.

We look forward to having you again, and have a wonderful day.