

DCIIA Snapshot

Retirement Income: Plan Sponsor Implications and Considerations

This paper is part of a series of short papers designed to provide an overview of key issues that may be a helpful starting point when plan sponsors and others are discussing retirement income in defined contribution plans. Please be sure to search the [DCIIA Resource Library](#) using keyword “retirement income” for other papers in the series and additional resources and updates.

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Plan sponsors have a number of responsibilities in helping their participants prepare for retirement. In the context of retirement income, one key philosophical question that each plan sponsor must answer for themselves is, “Are we offering a savings plan or a retirement plan?”

In light of the transition from defined benefit (DB) to defined contribution (DC) plans, plan sponsors are now tasked with considering the decumulation side of retirement planning for participants. Some form of systematic withdrawals is an important component of many retirement plans that enables participants to sustainably use their savings to fuel income in retirement.

In the current environment, the focus for many plan sponsors is on the considerations and implications related to guaranteed lifetime income because this is still new territory for them, and many also will want to consider at least one other non-guaranteed option for their plan lineups. At a high level, the following steps, explained in greater detail below, can help identify the plan’s specific goals and needs and guide the design of an effective program:

- analyzing and evaluating different income solutions for alignment with desired expectations,
- ensuring plan fiduciaries and participants are adequately informed to make appropriate decisions about retirement income strategies, and
- keeping current as the retirement income landscape evolves.

An Evolving Landscape

While the landscape may appear somewhat difficult to navigate, lifetime income options are not new. We continue to receive further guidance from the DOL, IRS, and other regulatory authorities, and the retirement income ecosystem will likewise evolve to comply with and take advantage of the opportunities provided by regulatory updates.

While some plan sponsors might find a current solution (or combination of multiple solutions) that will suffice, others might continue to survey and evaluate the space as products develop. In either case, it is crucial for plan sponsors to be aware of the retirement income landscape and the various structures that exist. And — if they choose a product — it is important that they continue to monitor its performance and appropriateness and adjust as necessary to stay current with the changing environment and plan and participant needs.

Key Considerations

As with many plan-related decisions, balancing retirement income product and service expectations with participant demands and needs is a key objective. Plan sponsors should approach these construction decisions --whether to make one or more retirement income options available in a plan’s investment lineup and/or suite of benefit payment options, and which product(s) and provider(s) to choose—from a fiduciary perspective.

Consistent with requirements under the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), plan sponsors should have in place and follow a prudent and repeatable process for evaluating the various options and factors that go into this decision and properly document the decision-making process as part of their governance procedures.

An important first step is determining whether including retirement income solutions is appropriate for the plan based on its objectives and demographic profile (e.g., age, tenure, turnover, etc.) of the plan and participants, and the needs and demands of the participant base.

For example:

- A plan with a mature, tenured workforce may find solutions that combine investment and insurance particularly beneficial, given the greater likelihood that participants will remain with the employer until retirement.
- Conversely, a plan supporting mostly younger, short-service participants may prefer to offer planning and referral services to ensure access to quality guidance and solutions.
- All plans, regardless of demographics, may benefit from a mix of guaranteed solutions, such as insurance-backed products or annuities, and non-guaranteed solutions, such as managed accounts, managed payout funds, or target date funds designed to meet participants’ varying needs, or even simple systematic payment programs.

After deciding to include one or more retirement income solutions, the plan sponsor next can evaluate the range of potential options. Given the wide variety and complexity of retirement income solutions, there are a number of practical considerations for plan sponsors in approaching the issue:

- Is there an appropriate process in place to evaluate and monitor different solutions and providers?
- What resources and support partnerships are available to inform and assist in the analysis?
 - Plan sponsors may wish to consider engaging consultants or advisors, such as a 3(21) advice provider, to assist with the evaluation, or a 3(38) investment manager to conduct the evaluation and select specific providers and products for the plan.
 - In either scenario, the plan sponsor will remain responsible for selecting and monitoring the advisor or manager and for ensuring that the option remains appropriate for its plan and participants.
- What happens if the plan terminates the provider or solution?
 - Provisions in the SECURE Act allow distributions of retirement income investments to participants even if they are still working for the plan sponsor.
 - The plan sponsor and participant have up to 90 days prior to the date the investment is discontinued to transfer the solution through either or both of the following options:
 - o a trustee-to-trustee transfer of the participant’s interest in the lifetime income product to other another eligible plan, such as a 401(k) plan or IRA; or
 - o distribution of the participant’s accumulated lifetime income benefit in a qualified plan distribution annuity contract.

- What is the impact on overall plan level decisions, and does it influence who is selected as the recordkeeper or other vendor?
 - It is important to evaluate factors such as a recordkeeper’s ability to facilitate these regulatory solutions, otherwise integrate an income product, portability (between recordkeepers), and implications to plan design or administration as well as how to develop an education program focusing on retirement income considerations.

In recent proposed regulations, the DOL has also identified the following non-exhaustive list of factors for plan sponsors and other fiduciaries to consider when selecting investment options, including lifetime income options, for their plans:

- Performance – Does the option’s expected risk-adjusted return over an appropriate time horizon and net of anticipated fees and expenses enable participants to maximize risk-adjusted return on investment as compared to similar investment alternatives?
- Fees – Are the comparative fees and expenses appropriate taking into account expected risk-adjusted returns and any other value the investment option provides?
 - In other words, plan sponsors should consider the relative value: do the fees make sense given what is being provided?
- Liquidity – Will the investment option have sufficient liquidity to meet the anticipated needs at both the plan and participant levels?
 - Plans need not offer only fully liquid options, but plan sponsors should seek to ensure that providers can deliver on any promises of liquidity.
 - Plan sponsors also may consider whether participants may benefit from an illiquidity premium.
- Valuation – Are adequate measures in place to ensure the option can be timely and accurately valued in accordance with the needs of the plan?
- Benchmarking – Is there a meaningful benchmark against which to compare the investment option’s performance?
- Complexity – Plan sponsors must appropriately consider the option’s complexity and determine whether they have the skills, knowledge, experience and capacity to understand it, or whether to seek assistance from a 3(21) or 3(38) investment advice fiduciary or investment manager.

The proposed regulation provides safe harbor relief for a plan sponsor’s investment selection where a plan sponsor or other fiduciary objectively, thoroughly, and analytically considers any or all six of the factors, as relevant to a particular investment option, in making its determination.

Education

Regardless of the type of income solution, education is vital --for plan sponsors as fiduciaries tasked with prudent selection and monitoring as well as for participants as they seek to make sound decisions at and through retirement. A strong partnership with vendors to provide communication and education

at both the committee and participant level is a key component to success; educational capabilities can be a key differentiator.

- For plan sponsors, some retirement income solutions provide ongoing communications or a dashboard for committees to evaluate utilization rates, and which demographics of their participant base might be using or not using the available solutions. The focus on committee education in the accumulation phase should continue through decumulation.
- For participants, it is important to provide education on the potential benefits, as well as the specific terms and potential risks, associated with different retirement income solutions.

Visit the [DCIIA Resource Library](#) to access the full series of short papers, which includes:

- *Retirement income: Introduction and policy background*
- *Retirement income: Reasons why plan sponsors are considering*
- *Retirement income: Participant risks in retirement*
- *Retirement income: Plan sponsor implications/considerations*

A plan sponsor checklist and a discussion of retirement income solutions are in development for part two of the series.