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Executive summary

Madam Chair, Cindy Levering, Issue Chair and members of the ERISA Advisory Council, thank you for the opportunity to submit these comments for the record. Alight is pleased to share our thoughts and research with the ERISA Advisory Council on the important topic of lifetime income (LTI) as it relates to defined contribution (DC) plans.

Alight Solutions is a leading provider of benefits administration and cloud-based HR and financial solutions. We are the largest independent recordkeeper of employer-provided defined benefit and defined contribution plans, serving millions of retirement plan participants in the U.S. Alight's purpose is to reimagine how people and organizations thrive. Central to this mission is ensuring U.S. workers save enough to meet their needs throughout their retirement. The thoughtful decumulation of retirement assets plays an important role in achieving this goal.

Improving the availability and utilization of LTI options within DC plans has the potential to be enormously beneficial to participants. Currently, DC plans are limited in the ways they can assist participants who want to convert balances into lifetime income and, as a result, many participants cash out their accounts or roll their balances into Individual Retirement Accounts (IRAs). Unfortunately, these participants lose ERISA protections and may sacrifice the benefits of institutional purchasing power in exchange for payment flexibility. Encouraging additional LTI options in DC plans would provide workers with a more measured alternative and allow them to maintain their accounts for life.

Grounded in our research of both large employers and their participants, our testimony will focus on recommending an industry-wide definition of lifetime income; the importance of making lifetime income more accessible; and sharing our research on plan sponsor perspectives on lifetime income options. In addition, we will recommend three broad goals and corresponding actions that we believe will help the Department of Labor (DOL) promote LTI adoption by employers:

1. **Goal:** Make it clear that EBSA defines lifetime income (LTI) broadly and views all forms favorably.

   Action: Modify the QDIA regulation to encourage LTI features within investment alternatives.

2. **Goal:** Level the playing field on which different forms of LTI compete.

   Action: Create an annuity selection safe harbor.

3. **Goal:** Promote highly relevant communication of LTI benefits to participants.

   Action: Modify Interpretive Bulletin 96-1 to encourage sponsors to deliver participant-specific and forward-looking illustrations of future income.

Testimony

I. Defining Lifetime Income (LTI)

Because there is no common definition of the term Lifetime Income (LTI), we suggest the industry adopt a shared definition. Broadly speaking, we believe LTI should be defined to encompass the varied ways that plans help their participants draw income from their accounts over an extended period of time. Specifically, this could be any tool, product, solution or service that facilitates the decumulation of a participant's account and includes, but is not limited to:

- A drawdown strategy, such as extended installment payments
- An asset-only solution such as an income–focused investment portfolio
- A service or product that incorporates advice, such as a managed account option, **or**
- Insured solutions that provide a lifetime guarantee, such as annuities or guaranteed minimum withdrawal benefits

Combinations of the solutions listed above are also possible.

II. The importance of LTI in DC plans

Improving the availability and utilization of LTI options within DC plans has the potential to be enormously beneficial to participants. The prevalence of defined benefit plans, and the lifetime income that goes with them, has been declining for years. The DC plans that replaced them have historically offered limited availability for participants to convert their balance into income. Systematic distribution options were not common, and according to our most recent data on large employer plans, 18 percent of plans have an annuity option and among these plans, only 2 percent of participants have selected the annuity.[1]

Given the lack of LTI options or guidance historically offered within DC plans, we shouldn't be surprised that participants looked outside of the plan for help. According to published IRS information, rollovers to IRAs are approximately $430 billion annually.[2] When participants move from an employer-based plan to an individual plan, they no longer have fiduciaries that are charged with overseeing plan assets and participants also risk losing other protections that are built into ERISA. Further, these former participants lose the benefit of institutional pricing that large employers can command – a benefit that typically increases in value to the employees in relation to the size of their employer. Thus, people who roll out of their employers' plans into IRAs often pay higher fees, reducing both growth and future income potential.

There is a far better alternative: build LTI features into DC plans such that employees choose to make their 401(k) account their plan for life. Just as an annuity recipient in a DB plan remains a

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[1] Alight Solutions, *Trends & Experience in Defined Contribution Plans* (Lincolnshire, Il: Alight Solutions, 2017).
[2] Internal Revenue Service, Statistics of Income Division. 2016. "IRA Data for 2014", www.irs.gov/pub/irs-soi/14in01ira.xls

participant in the DB plan during employment into retirement and until death, a participant in a DC plan can do the same. If the employee benefits community is successful in building LTI options that are a compelling match to participant needs, we can make DC plan participation for life the *normal* behavior rather than the exception to the rule. In addition, adding LTI into plan default options would nudge people toward this option. The eventual promise of this approach is that as more participants employ LTI strategies to draw from their nest eggs, fewer people will need to live through sharp declines in their standard of living during their senior years.

III. Plan sponsor perspectives on lifetime income

Our data show that the number of plan sponsors that have adopted lifetime income options is clearly growing. In particular, sponsors are increasingly offering more flexible distribution options that make it easier for participants to periodically draw down their plan balance through their retirement years. In 2013, 37 percent of employers included a distribution option that allowed participants to receive an automatic payment from the plan over an extended period of time. At the beginning of 2018, the percentage jumped to 56 percent, and of the employers that did not already offer this feature, nearly one-quarter said they were very likely to add it this year.[3]

Plan sponsors are also offering more tools to help participants better anticipate and manage their expenses in retirement. Currently, 66 percent of plan sponsors offer online modeling tools or mobile apps to help participants determine how much they can spend each year. Further, the number of plans that include an in-plan managed account with a draw-down feature jumped to 39 percent in 2018, up 10 percentage points from 2017.[4] That sharp single-year increase is a significant and positive development.

IV. Insurance-based LTI options are facing headwinds

While our data show that the availability of LTI options in plans is growing, that growth is not evenly distributed among all types of LTI options. Availability of insurance-based guaranteed options are lagging. In 2017, only 10 percent of plans offered in-plan insurance products such as a guaranteed minimum withdrawal benefit (GMWB) option, and very few sponsors are actively considering adding the capability.[5] Additionally, just 15 percent of plans offered an out-of-plan annuity distribution option and that percentage hasn't changed meaningfully in over a decade.[6]

So, if sponsors are rapidly adopting non-guaranteed lifetime income solutions but not adding guaranteed options, the obvious question is why? Plan sponsors cite the following barriers to adding more in-plan retirement income solutions:[7]

1. **Fiduciary concerns.** Plan sponsors know that selecting and monitoring investment options is important. However, selecting an insurance company can be difficult.

2. **Operational or administrative concerns.** Plan sponsors find that it is more complicated to change an in-plan annuity option than it is to change an investment fund.

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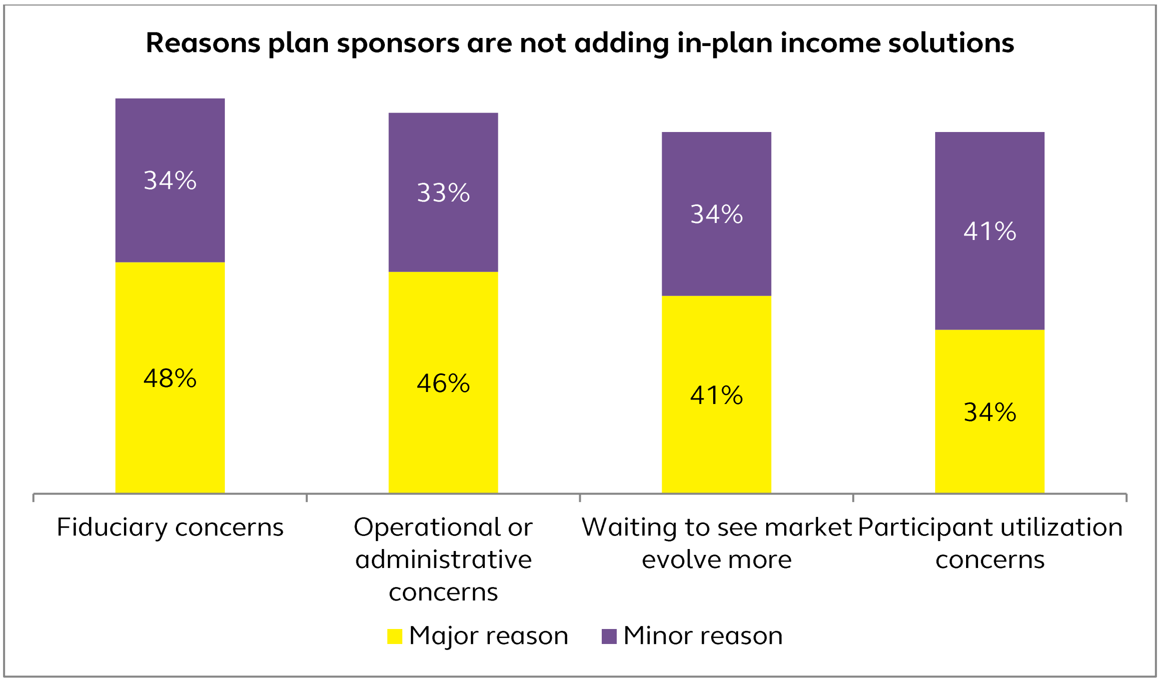
[3] Alight Solutions, *2018 Hot Topics in Retirement and Financial Wellbeing* (Lincolnshire, Il: Alight Solutions, 2018).
[4] Ibid
[5] Ibid
[6] Ibid.
[7] Ibid.

3. **Waiting to see the market evolve more.** While there are many varieties of insurance products, only a few DC plans have in-plan annuity options, making benchmarking difficult.

4. **Participant utilization concerns.** When participants are offered an annuity the utilization rate is very low. Our recent data shows that only 2 percent of distributions were used to purchase an annuity. [8]



The key take-away from this data is that plan sponsors that want to provide a guaranteed version of LTI must overcome additional hurdles than a sponsor that selects a non-guaranteed form of LTI delivery. The most significant of these hurdles is the fiduciary's concern of liability associated with selecting and monitoring an insurance company. For example, when a sponsor/fiduciary selects an annuity product it must weigh many factors that are typical for any investment choice, including fees and performance – but the analysis needs to also consider the financial viability of the insurance company and its ability to pay benefits decades into the future. This often creates additional concern when selecting an insurance provider and it makes it harder for a fiduciary to justify offering a guaranteed LTI feature.

While fiduciary concern is not the only factor limiting adoption of guaranteed options, it is the most prominent and the DOL should address this issue. Our view is that all plan options have pros and cons, and guaranteed options won't always be the right choice, but the DOL should level the playing field by reducing the additional fiduciary concerns that currently come with making this choice.

V. Industry innovation

One of the inspiring facets of our industry is constant innovation. Roadblocks to progress always arise, and sometimes those roadblocks require regulatory or legislative relief, but often it simply takes time for the industry to adjust and innovate. From our perspective, the defined contribution

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[8] Alight Solutions, *Trends & Experience in Defined Contribution Plans* (Lincolnshire, Il: Alight Solutions, 2017).

community (sponsors, investment product creators, and service providers) is innovating to promote lifetime income.

For example, one of our large clients launched a solution in 2012 that provides for both guaranteed lifetime income and daily transferability to other plan options. This liquidity also ensures that the benefits are portable. Importantly, this design fits within current QDIA rules. Further, the design allows full transparency into the fees that participants pay. In our view, this is an ideal outcome when considering lifetime income solutions. As the plan recordkeeper, we are able to provide participants with both the current market value of their account, and the value of their accrued minimum guaranteed income.

Further, the insurance industry is also innovating. Multiple insurance providers have built (or are building) annuity-based options that are designed for inclusion within DC plans that provide for daily transferability and will satisfy current QDIA rules. As always, there are trade-offs between cost and liquidity.

VI. Recommendations for DOL

Promoting plan sponsor adoption of LTI options is good public policy. Greater utilization of LTI options would insulate retirees from the impact of negative market fluctuations. However, greater utilization cannot happen unless and until plan sponsor adoption increases. To encourage plan sponsor adoption, the DOL can establish and act on three high-level goals:

1. Make it clear that EBSA defines LTI broadly and views all forms of LTI favorably

2. Level the playing field on which different forms of LTI compete

3. Promote utilization through highly relevant communication of LTI benefits to participants.

These goals can be accomplished through the adoption of the following changes:

1. Modify QDIA regulation to encourage LTI features within investment alternatives.

   It has been 12 years since The Pension Protection Act of 2006 created QDIAs, and 11 years (effective December 24, 2007) since plan sponsors have had the option to designate a default fund. During that time plan sponsors have embraced adding the feature to their DC plans, and QDIAs have accumulated substantial assets. Our data show that, in aggregate across our recordkeeping platform, target date funds (TDFs) are the largest asset class in DC plans.[9]

   ERISA section 404(c) and the corresponding DOL regulations define how a plan sponsor can establish protective relief from liability as a fiduciary for investment decisions made by employees in participant-directed DC plans. In order for an investment product or service to qualify as a QDIA under the current rules, it must be an investment alternative available to participants that is managed by a fiduciary (3(38) investment manager) and it must fall into one of three investment products or services categories: balanced or risk-based funds, TDFs, or managed accounts.

   We recommend language that makes clear that the inclusion of LTI features within any of these investment alternatives does not invalidate that alternative from being considered a

[9] Alight Solutions, *2018 Universe Benchmarks* (Lincolnshire, IL: Alight Solutions, 2018)

QDIA. Such modification of the QDIA regulation could reduce the fiduciary risk that plan sponsors have in adopting an investment alternative with LTI features as their plan's default option. This change would be a logical next step to expand this regulation based upon the concerns of employers, employees and government and promote the creation of options that help participants draw down their retirement assets in a way designed to last throughout their retirement years.

2. Establish a safe harbor for selecting an annuity provider.

   According to our research, plan sponsors cite fiduciary concerns as the top barrier to adding in-plan retirement income. We believe DOL should create a safer space for plan sponsors to add in-plan guaranteed lifetime income solutions. We believe that a safe harbor provision will help alleviate that concern. The Retirement Enhancement and Savings Act (RESA) contains a provision that provides a fiduciary safe harbor for selecting an annuity provider. Under the bill, fiduciaries are afforded an optional safe harbor to satisfy the prudence requirement with respect to the selection of insurers for a guaranteed retirement income contract. Removing ambiguity about the applicable fiduciary standard eliminates a roadblock to offering lifetime income benefit options under a DC plan. We view this provision as beneficial and support regulatory efforts to achieve a similar outcome.

3. Revise Interpretive Bulletin 96-1 to promote LTI utilization through highly relevant lifetime income education to participants.

   The DOL should revise its Interpretive Bulletin 96-1 (which provided critical guidance on the differences between investment advice and investment education) to encourage sponsors to communicate forward-looking and participant-specific illustrations of the LTI option(s) that the sponsor offers. Importantly, this guidance should incorporate generally accepted investment principles and reasonable assumptions, but it does not need to be specific to annuities or any product. Such a revision—if it encompasses a modeling format/approach similar to the allowable asset allocation models under the current DOL Interpretive Bulletin 96-1—would not be investment advice, but could remain on the side of investment education.

VII. Conclusion

For most U.S. workers, saving for retirement is a responsibility that has been placed almost entirely on their shoulders. Achieving this goal alone is challenge enough for most, but ensuring their assets last throughout retirement deserves equal attention. Today, the limited availability of lifetime income options within DC plans means workers may need to leave the security and benefits of the employer-provided system in order to access these products. DOL can encourage plan sponsors to add lifetime income options by modifying the QDIA regulation to encourage LTI features within investment alternatives; creating an annuity selection safe harbor; and modifying Interpretive Bulletin 96-1 to encourage sponsors to deliver participant-specific and forward-looking illustrations of future income.

We appreciate the opportunity to share our data, expertise and recommendations with the Council as you continue to the important discussion of lifetime income options and the role it plays in providing U.S. worker with a more secure retirement. Thank you.

About Alight Solutions

As the leading provider of benefits administration and cloud-based HR and financial solutions, we enhance work and life through our service, technology and data. Our dedicated colleagues across 14 global centers deliver an unrivaled consumer experience for our clients and their people. **We are Alight. Reimagining how people and organizations thrive.**

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