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Hueler Companies

Written Statement for the Record

for

Lifetime Income Solutions as a Qualified Default Investment Alternative (QDIA) Focus on Decumulation and Rollovers

Before the

2018 ERISA Advisory Council

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Executive Summary

Hueler Companies has witnessed the dramatic shift from defined benefit to defined contribution plans over the last 30+ years. Hueler has had extensive experience working directly with plan sponsors and other defined contribution service providers to improve fiduciary oversight and delivery of stable value and guaranteed lifetime income alternatives to plan participants.

Hueler has observed and learned from collaborative partners across all market segments during this time. What is most notable is that while the plan sponsor community sees the need for providing broader range of lifetime income alternatives to their participants, they often feel hamstrung by existing regulation and lack of clarity about what they can and cannot do, specifically with respect to participant communications and product offerings surrounding lifetime income alternatives.

It is important to note that lifetime income is not a "one size fits all" nor is it an "either or" proposition. We recommend that the ERISA Advisory Council consider that a broad range of guaranteed and non-guaranteed lifetime income alternatives, both in and out of the plan, with supportive communications and tools, will help plan participants personalize their income streams as they face the daunting challenge of converting their defined contribution life savings into personal pension-like income streams. Specifically, plan sponsors should be encouraged to offer flexible distribution options, such as partial withdrawals.

About Hueler

By way of background, Hueler Companies and its affiliates (together, Hueler Companies) located in Minneapolis, Minnesota, was founded in 1987 as a consulting/data research firm. The firm is now recognized as a leading technology and research firm offering key resources for the analysis, selection, and implementation of stable value and lifetime income annuity products. We provide two primary services to the defined contribution market: the Hueler Analytics Stable Value Fund Comparative Universe and the Hueler Income Solutions® Lifetime Income Annuity Platform.

Hueler's Income Solutions® lifetime income annuity platform was launched in 2004 as a multi-issuer platform for immediate annuities. Through continued technology enhancements and product expansion, the platform now offers choice across, immediate income annuities, fixed deferred annuities, deferred income annuities, longevity insurance and qualifying longevity annuity contracts (QLAC's). Income Solutions® is the only automated lifetime income platform that is institutionally structured, fee and feature leveled, fully transparent, and conflict free. Individuals quickly and easily research and request executable annuity quotes from multiple well known insurance companies receiving standardized responses within seconds. (https://incomesolutions.com/)

The Income Solutions® platform has been widely adopted by a wide variety of plan sponsors nationwide and offered through non-exclusive partnership arrangements with multiple organizations. Plan sponsors and advisors have embraced the platform for three main reasons: 1) the foundational fiduciary principles, 2) the improved participant income levels, and 3) the flexible technology. The fiduciary principles include meaningful competition, low-cost delivery, pre-screened insurers, no "pay to play", transparency, standardization, objective guidance, suitability standards, and ease of portability. The platform offers two programs: the IRA rollover program and the Qualified Plan Distributed Annuity (QPDA) service.

Using the Hueler Income Solutions® platform, individuals have purchased more than $1 billion in customized personal pension instruments; the bulk of which has occurred over the last several years. This correlates with a continued decline in pension coverage, our rapidly aging population and concerns over market volatility and longevity. Across the spectrum of our business, 66% of income purchases are from qualified assets, 29% are from non-qualified assets and 5% are 1035 exchanges. These personal pensions are purchased in many income forms across the platform. When purchasing immediate income annuities, individuals have consistently improved their monthly income benefits, typically between 3-7%. The differential when deferred income annuities are purchased is even greater and is often well into the double digits. This creates a meaningful difference in monthly income for retirees over their lifetime.

Testimony

I would like to express my sincere thanks to the ERISA Advisory Council for inviting Hueler to provide testimony on this critically important topic: decumulation for defined contribution plan participants. We applaud the Council's goal to provide recommendations to the Department of Labor that would encourage both further development of lifetime income solutions and greater inclusion in defined contributions plans and we hope you find our testimony helpful.

Hueler has a unique role in the defined contribution industry; our experience informs our perspective. We collaborate with plan sponsors, fiduciary advisors, consultants, insurers, financial services firms, recordkeepers, and investment managers to serve plan participants. Hueler is not a product manufacturer, asset gatherer, or investment manager. We are an independent technology services firm with more than three decades of experience partnering with plan fiduciaries and service providers across the industry to enhance delivery of prudent stable value and lifetime income alternatives to participants. Our mission is to expand access to lifetime income across the defined contribution ("DC") system by providing plan participants and individuals nearing, at, or in retirement with institutionally structured, low cost lifetime income alternatives through easy to use, flexible technology that allows for personalization. Hueler's long standing mission and extensive experience frames our recommendations.

Hueler defines lifetime income as the combination of guaranteed and non-guaranteed investment programs that address the risks of longevity and market volatility, ultimately ensuring that plan participants can create a 'personal pension' to provide income throughout their lifetimes.

Hueler is supportive of changes to the QDIA language and the inclusion of lifetime income alternatives in the QDIA. We note, however, that there are additional important actions that need to be taken. Hueler Companies believes that one of the single most important actions the Department of Labor ("the Department") can take would be to encourage plan sponsors to promote a range of lifetime income options and programs as part of the overall structure of their plans and employee benefits delivery. As we continue to move towards a primarily DC system, it is very important to include the principles of the defined benefit system in terms of providing plan participants with the opportunity to purchase a personal pension. In the DC market, we need to shift our focus from purely accumulation to also encompass decumulation. Plan sponsors must be encouraged to provide objective tools and programs that easily incorporate personal pension concepts and guidance to help participants easily access and utilize lifetime income as a foundational component of their pay-down strategy.

Lifetime income is not an either-or proposition. No single program, product, or service is the answer. The system needs to encourage an inclusive approach to decumulation offerings in the same manner choice architecture has become fundamental to the products and services offered during the accumulation phase. Choice architecture will best serve participants, encourage greater adoption by plan sponsors, and foster, rather than stifle, continued innovation. Plan sponsors need to be encouraged to offer programs with complementary investment and guaranteed income options. Guidance on how to communicate about incorporating these lifetime income alternatives with market-based solutions is necessary in order to help participants manage the key risks of market volatility and longevity in the paydown phase. Furthermore, it is important to recognize that plan sponsors need to be given the latitude to offer programs that best address their specific employee population and plan demographics.

Barriers and Recommendations

1. One of the biggest barriers to greater inclusion of lifetime income benefits for DC plan participants is the concern plan sponsors have relative to educating and communicating to their participants about lifetime income alternatives. ERISA counsel typically advises against any meaningful participant communication. Commonly, counsel recommends limiting communication to only simple announcements and discourages communications designed to encourage action in order to avoid any appearance of promoting products and/or advising participants.

By way of comparison, non-ERISA plan sponsors are more willing to promote the benefits of incorporating lifetime income into participant paydown strategies through the use of videos, promotional materials, targeted outbound messaging campaigns, awareness campaigns, and one-on-one counseling sessions integrated into participant advice services and wellness programs. In those instances where corporate plan sponsors were able to target their communications, the results were dramatic. In one example, we reviewed data after the first quarter of implementation of the Income Solutions® platform prior to plan sponsor communications occurring. Very few purchases occurred during this quarter. One year later, after communication efforts about the benefits of lifetime income, over four times the amount of purchases occurred within the same time period. This clearly demonstrates that plan sponsor communication is vital; it is critical that they are able to encourage and promote lifetime income alternatives to participants if we expect to see utilization.

<u>Hueler recommends that the Department revise the language about advice and education in the Interpretative Bulletin 96-1 ("IB 96-1") to specifically address the decumulation phase</u>; this action by the Department would break down a significant impediment to lifetime income utilization by providing plan sponsors with much needed clarity about communicating the benefits of and encouraging consideration of lifetime income alternatives by participants.

We request that the revisions to IB 96-1 should be broadly supportive of lifetime income, whether these alternatives are offered in or out of the plan, and clarifies that plan sponsors can prudently promote, encourage and offer lifetime income alternatives that are based on reasonably sound and generally accepted distribution principles, and are selected through a standard due diligence process. Plan sponsors are in the unique position of not having a conflict of interest in the selection of products or in educating or encouraging their participants about decumulation strategies (i.e., there is no compensation to plan sponsors). Plan sponsors want and need the flexibility to offer programs, products, and services that best serve their participant populations, which is why the guidance should be broadly supportive of all lifetime income alternatives, regardless of whether they reside in or out of the plan.

2. Our experience tells us that the phrasing "in-plan" or "out of plan" polarizes the discussion about lifetime income and feeds into the "either-or' mentality that has stymied plan sponsor decision making. If the Department focuses solely on the QDIA issues, we will lose an important opportunity to address a range of ways to offer lifetime income and discourage further innovation efforts. Plan sponsors should be encouraged to offer a choice menu that can encompass a QDIA with an income component, a QPDA (Qualified Plan Distributed Annuity), as well as an IRA rollover that allows participants to personalize their income streams. Promoting a range of lifetime income alternatives in the accumulation phase as well as in the decumulation phase will serve the best interests of the full demographic range of plan participants.

In-plan versus out of plan framing also encourages product manufacturers and service providers to focus on a single alternative as the "best" option, resulting in little innovation or efforts on anything other than their proprietary product. By issuing clear guidance that is inclusive of lifetime income alternatives, the Department can do much to neutralize this corrosive pattern. By encouraging an inclusive system that is robust enough to deliver more than one type of prudent solution, important innovation in the market will likely continue and flourish. Hueler recommends that IB 96-1 should be framed to recognize the importance of both guaranteed and non-guaranteed lifetime income alternatives, both in and out of the plan.

3. A key structural barrier in defined contribution plan design also exists. Plans commonly only allow single lump-sum distribution options, which often causes participants to take their entire account balance and roll their savings into the retail market. IB 96-1 should highlight the attributes of partial withdrawals in order to encourage plans to offer partial distributions, so participants may retain a portion of their savings in the plan as well as take advantage of institutionally structured and priced lifetime income alternatives and purchasing strategies. As described in DCIIA's recent white paper "Design Matters: Plan Distribution Options", plan design matters and the framing of distribution options is critically important. DCIIA cites Vanguard's report that indicates that in the 13% of plans that permitted partial distributions, simply offering them produced notably different participant behavior: about 30% more participants and 50% more assets remained in the employer plan when partial distributions were allowed.[1]

If the Department encouraged plans to allow partial distributions, participants would have greater flexibility to withdraw their retirement plan savings in amounts that match their changing spending needs over time, as well as purchase supplemental lifetime income in increments rather than a single lump sum. Partial distributions allow participants nearing, at, or in retirement to gradually build a portfolio of income over time and allocate savings across a range of income options such as immediate and deferred fixed income annuities, structured bond ladders, and

[1] Design Matters: Plan Distribution Options, Taking Money Out for Retirement. DCIIA. May 2018.

other capital market solutions. It is important to acknowledge that partial distribution options allow participants to remain invested in the plan with the bulk of their assets continuing to reap the benefits of the plan's fiduciary framework, institutional pricing, and ongoing monitoring of investment options.

In doing careful analysis of lump sum withdrawal reports, we have learned that it is very important to "follow the money" when it leaves the plan. We work with our plan sponsors to review and understand their money out reports; the analysis of withdrawal transactions (excluding loans and hardships) demonstrates that hundreds of millions of dollars are moving to variable annuity providers well known for expensive retail products. It is also interesting to note the demographics of these participants. Quite often they are terminated but a surprising amount of transactions are from active participants that qualify for age 59½ in-service withdrawals. These two demographic groups are vulnerable and are increasingly targeted by aggressive sales tactics (e.g., the 'free steak and lobster dinner'). These external sales forces exert more influence than the current, often limited, plan sponsor communications. <u>The revisions to IB 96-1 should emphasize the importance of education about decumulation strategies and the benefits and advantages to participants of remaining in the plan structure.</u>

Innovation and Ideas to Encourage Participants' Use of LTI Products

As stated earlier, Hueler supports the integration of lifetime income alternatives within QDIAs and we applaud those plan sponsors who have already taken this step. We also recognize that a full default into the lifetime income component may not be right for all plan sponsors and their participants. We believe that a collaborative process, working closely with plan sponsors, advisors, investment managers and service providers, will facilitate the design of a voluntary default-like path to seamlessly incorporate lifetime income alternatives. This default-like path would dovetail target date or other investment funds with a variety of guaranteed income alternatives. The goal is to create a seamless participant experience that fosters a personal pension or income-centric mindset and facilitates personalized use of lifetime income by participants in the spend down phase.

If the Department implements our recommendations and takes action to encourage lifetime income alternatives, both in and out of the plan, the DC system could be transformed to become a personal pension alternative for those many Americans who have never had or are no longer covered under a traditional pension. This would change the current state of ad-hoc piecemeal participant decision-making that occurs out of the purview of the plan sponsor and often not in the best interest of the participant.

A truly transformative process encourages robust communications, beginning at the point of entry into the plan up to and through retirement. Targeted messaging about how to combine investments and guarantees into a lifetime income stream would occur throughout the participants tenure in the plan. Participants would be guided to understand that the primary goal of their retirement plan savings is to create a personal pension. By using flexible and collaborative technology, DC plans can mirror the benefits of the default and create a voluntary and effective default-like pathway.

Recommendations

In summary, Hueler recommends that the Department revise the language about advice and education in the Interpretative Bulletin 96-1 ("IB 96-1") to specifically address the decumulation phase and incorporate the following:

- Framing that recognizes the importance of both guaranteed and non-guaranteed lifetime income alternatives, both in and out of the plan.

- Highlighting the attributes of partial withdrawals in order to encourage plans to offer partial distributions, so participants may retain a portion of their savings in the plan as well as take advantage of institutionally structured and priced lifetime income alternatives and purchasing strategies.

- Emphasizing the importance of education about decumulation strategies and the benefits and advantages for participants of remaining in the plan structure.

Hueler believes that by taking action on the recommendations that we have outlined, the Department will be providing plan sponsors with the tools necessary to more positively influence the participant experience and improve participant outcomes. These changes will strengthen the DC system and help reduce the issues of conflict inherent in the system.