

**2018 Advisory Council on Employee Welfare and Pension Benefit Plans
Lifetime Income Solutions as a Qualified Default Investment Alternative (QDIA) –
Focus on Decumulation and Rollovers**
(revised June 29,2018)

Issue Chair: Pat Haverland
Issue Vice-Chair: Stacy Scapino
Drafting Team: Tazewell Hurst, David Blanchett, Jason Bortz, Bridget O'Connor,
David Kritz

The US retirement system continues to move toward individual savings via defined contribution plans (DC plans) and individual retirement accounts (IRAs). This trend has largely focused attention on individuals' asset accumulation, with more limited attention on understanding and/or educating people on the decumulation phase of retirement savings. This shift poses several challenges for individual savers including:

- ensuring they accumulate sufficient assets,
- managing investment and inflation risks in line with expected longevity
- aligning spending with income to ensure their retirement savings lasts throughout their lifetime.

The 2012 Council examined the topic of income replacement in a retirement system predominantly underpinned by DC plans with a focus on understanding: (1) participant challenges, (2) alternative options available to create lifetime income, (3) plan sponsors' considerations and challenges in making lifetime solutions available, and (4) plan sponsors' considerations and challenges in educating participants about lifetime income.

The 2014 and 2016 Councils' focused on lifetime plan participation, trying to understand the following: 1.) problems associated with keeping assets in employer-sponsored DC plans during retirement, 2.) portability challenges preventing assets from moving between plans, and 3.) why solution sets were limited and inconsistent across the retirement system.

In 2016, the US Government Accountability Office ('GAO') issued a report entitled 'DOL Could Take Steps to Improve Retirement Income Options for Plan Participants,' which made several recommendations to the Department of Labor ('DOL') including: (1) clarify for plan sponsors criteria for selecting an annuity provider, (2) provide limited liability relief for offering an appropriate mix of lifetime income options, (3) issue guidance to encourage plan sponsors to select a record keeper offering annuities from other providers, and (4) consider providing required minimum distribution ('RMD') -based default lifetime income to retirees.

The 2018 Council's objective is to focus recommendations on promoting lifetime income within DC plans through providing further guidance on an annuity selection safe harbor and modifying the Qualified Default Investment Alternative (QDIA) rule to focus on asset accumulation and decumulation issues in the context of lifetime income needs and solutions. The 2018 Council intends to complement the previous efforts and not duplicate them. The 2018 Council will seek witness testimony that includes recommendations on the definition of the QDIA, portability of lifetime income solutions, opportunities and challenges with target date funds (TDFs) as they apply in accumulating and decumulating assets, and new or innovative solutions and approaches to addressing lifetime income.

Our study will include the following:

- Definition of Lifetime Income ('LTI') within a DC plan
- Rationale for including LTI features in a DC plan option
- Lifetime Income products and innovations in the DC market place or elsewhere
- Observations on the usage of Lifetime Income products in DC plans
- Analysis of QDIA Issues:
 - Current QDIA language and safe harbors
 - Definition of defaulted participants and notice requirements
 - Selection of annuity providers embedded in QDIA such as a Target Date Fund: who (e.g. plan sponsor, 3(38) managers) and how
- Assessment of Deterrents to incorporating LTI products in DC plans
- Review of Portability of LTI options including plan-to-plan rollovers
- Ideas to encourage' use of LTI products by plan sponsors and participants