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Introduction:

Good afternoon and thank you for inviting me to speak to all of you today on Retirement Income. My name is Eileen Leahy and I have been a plan sponsor for the past 33 years. Currently, I am Vice President and Chief Investment Officer of Siemens North America. I am responsible for $4 billion in US DB assets, $12 billion in US DC assets, $800 million of Canadian DB & DC assets and $ 20 million Plan in Mexico.

Siemens Corporation is a U.S. subsidiary of Siemens AG, a global powerhouse focusing on the areas of electrification, automation and digitalization. One of the world's largest producers of energy-efficient, resource-saving technologies, Siemens is a leading supplier of systems for power generation and transmission as well as medical diagnosis. In infrastructure and industry solutions, the company plays a pioneering role.

With approximately 372,000 employees in 190 countries, Siemens reported worldwide revenue of $92.0 billion in fiscal 2017. Siemens in the USA reported revenue of $23.3 billion, including $5.0 billion in exports. Siemens employs approximately 50,000 people throughout all 50 states and Puerto Rico.

Siemens sponsors a $12 billion US Defined Contribution Plan, at year end 2017 there were more than 65,000 plan participants. The Plan has a 95% participation rate, with the average contribution rate at 8.8%; and, the average participant balance is $195.000. Siemens has auto enrollment and auto escalation, with an 'opt out' rate by auto enrolled participants of 2.6%. 74% of plan participants remain in the plan after termination/retirement.

Siemens uses a custom target date fund as the QDIA in the DC Plan. The Plan offers managed accounts, so participants have the ability to pay to have their assets professionally managed. Each year, Plan members receive a statement with an annual income calculator which displays their annual savings and what it would translate into for retirement income. In addition, to meet each participant's individual needs Siemens offers the ability to structure installment payments over months, quarters, or years.

Executive Summary

Determining how one's Defined Contribution benefits should be distributed at retirement can be one of the most important decisions that a plan participant makes regarding their retirement security. The decision around how participants will spend their accumulated wealth introduces a new set of challenges to both the plan sponsor and plan participant. Plan sponsors need to provide tax effective decumulation options for those who will start to rely heavily on their DC Plans. There are many deterrents to why sponsors have yet to add retirement income vehicles to their line ups. The first issue is the need for the safe harbor language to be clarified for those Plans that would add a guaranteed annuity product as their QDIA. The annuity safe harbor language should be restated to give sponsors the confidence to include a guaranteed product as a QDIA in their Plan. Costs, communications to participants, benchmarking, monitoring performance, operational and product complexities, portability, adding choice and including multiple products are just a few of the additional areas of concern when dealing with Retirement Income Products. Until there is clarity around all of these issues, plan sponsors may be unwilling to consider including retirement income products as part of their investment lineup.

Background

I have spent the past five years evaluating many of the products and tools that would allow participants some form of income in retirement. The overall goal was to determine if an 'in' plan or 'out' of plan solution would be best. I was assessing the range and complexity of investment and drawdown options and whether each income option was reasonable and appropriate. Finally, I was reviewing the various product offerings understanding fees, communication strategies, educational plans, and the stability of the offering firm. In addition, my focus turned to developing a complete understanding of the product and how easily I could describe it, not only to the Investment Committee, but more importantly, to plan participants. The overall mission was to create retirement income security for our plan participant's.

Available Products

A comprehensive review resulted in evaluating a separate guaranteed income component through an annuity both 'in' and 'out' of the Plan. A target date fund series adding a guaranteed annuity plus those that included assets classes such as high yield bond funds, unconstrained bond funds, high dividend equity funds to help generate income. Managed account programs offered through the recordkeepers and payout funds. Consideration was also given to deferred annuities products that would provide an income stream commencing later on in life. The 'guaranteed' products were the most appealing since they would 'guarantee' that the participant did not outlive his assets.

Although the DOL and IRS have encouraged plan sponsors to include annuities in retirement plans as a way to address the need for sufficient funds to last through retirement; sponsors are not fully on board. Because of the number of investment related lawsuits, fiduciaries tend to tread slowly in this area to avoid all potential legal conflicts. While the annuity safe harbor language in the past has not given many plan sponsors the confidence to include a guaranteed product as a QDIA, restating this language in a more focused context may encourage action. The latest notice falls short of providing sponsors a clear safe harbor for selection of an annuity provider which is still a major fiduciary concern.

Deterrents

The reality is that there is likely not a single one size fits all solution for a retirement income strategy. As a retiree ages, he will need access to a variety of products and services that will meet his specific objective and situation. There are many solutions that must be examined before a product or service is selected, each comes with its list of deterrents. Below is a list of potential barriers to incorporating Retirement Income products into a DC Plan today.

- Adding more choice to the DC lineup
- Benchmarking the product
- Communication
- Costs
- Education
- Fiduciary risk
- Legal responsibility
- Low participant demand
- Mobility of workforce
- Monitoring performance
- Multiple products would be needed
- Product & Operational complexity

Participants can be better informed about their retirement readiness and more empowered to make decisions that can improve their retirement outcomes if plans sponsors provide the adequate tools.

Other Issues to consider:

- Plan sponsors have the ability to help with retirement income strategies. One of the easiest solutions would be allowing plan participants to take **multiple distributions** If a

DC plan were to implement installment payments for retired participants, which are on a fixed schedule it would instantly facilitate access to regular income in retirement.

- Sponsors should consider **communicating** to participants in terms of **projected future retirement income**, versus the focus on account balances.
- While many Plans are already providing the information, consider mandating lifetime income **disclosure on plan statements**. This would show participants how much their lump sum balance (along with social security) translates to in terms of guaranteed monthly income. In retirement, DC plan participants will need help in managing to a unique variety of risks, notably market, inflation and longevity
- Employers rely heavily on current statutory and regulatory **guidance in defining the educational information** that can be provided by employers without fear of liability.
- Policymakers and regulators must foster a regulatory environment that removes legal barriers and instead encourages innovation and flexibility**.** Employers need a solution that is easy to implement and recordkeep, and easy for the participant to understand and utilize
- Research shows that over 75% of large plans offer a company match. Consideration should be given to auto enrolling at the rate required for participants to receive 100% of the company match the day they are hired.
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Conclusion:

Many products have been developed to address the retirement income challenge inside and outside of DC plans, each with its own set of pros and cons. The goal is to secure a lifetime income stream sufficient to sustain the retiree's standard of living and continue it for life. Market acceptance to any product has been limited given that each participant is unique and present individual challenges. Barriers to adopt these solutions include: cost, portability, irrevocability, inflexibility, participant education and communication requirements, regulatory uncertainty, and questions regarding insurance risk capacity. Unless there is US legislation/ regulation to compel adoption, it is difficult to see payout annuities becoming a general solution.

Regulations have not been adequately reflecting the number of changes in the economy where a greater number of individuals will need to rely on social security and their DC plan because they have no accumulated DB benefit. Lawmakers should approach decumulation issues in a product neutral manner to encourage continued innovation and growth of financial products. Such an environment will allow employers to offer plans that meet their participant's financial needs and asset building objectives.