

# ERISA Advisory Council 2024 Advisory Council on Employee Welfare and Pension Benefit Plans Qualified Default Investment Alternatives (QDIAs) - Start to Finish, Default to Payout

**Frances Perkins Federal Building  
200 Constitution Avenue NW, Room 6, C5320  
Washington, D.C. 20210**

**Wednesday, September 11, 2024  
3:00 pm – 4:00 pm Eastern Daylight Time**

## **Biography**

**Kevin T. Hanney, CFA**, served as Senior Director of Pension Investments at United Technologies and RTX Corp., where he managed global pension programs with assets exceeding US\$60B for over 17 years. Leading and advising 11 separate pension and employee benefit arrangements in the UK, US, and Canada, Kevin was responsible for the design and implementation of risk-balanced financing and investment strategies that increased funding ratios by over 60% and yielded 10-year annualized net returns of over 9%. He is the recipient of multiple awards for innovation and excellence in pensions management and was appointed by the U.S. Secretary of Labor in 2014 to serve a three-year term on the ERISA Advisory Council. Kevin and his work have been featured in the New York Times, the Wall Street Journal, Bloomberg, Pensions & Investments magazine, Institutional Investor and other publications. He was recognized in 2012 by Pensions & Investments magazine and the Defined Contribution Institutional Investment Association (DCIIA) as a recipient of the inaugural Innovator Awards for the Lifetime Income Strategy, a game-changing retirement savings and retirement income program launched earlier that year which now provides guaranteed lifetime income security to over 100,000 members and their beneficiaries with more than US\$7B of retirement investments.

Kevin holds the Chartered Financial Analyst designation and has been a member of the global institutional investment community since 1993, and recently launched **CapitalArts Global LLC**, a professional pension trustee and consulting services firm.

But if you ask him, he'll probably say he's just a simple kid from Long Island, NY. *Let's Go Mets!*

## Life Is A Highway... I Wanna Ride It All Night Long\*

And to do that, I'm gonna need a retirement vehicle built like a well-designed motor vehicle. (Sorry for the hard turn there, but I had to get your attention somehow and it kind of goes with the metaphor.)

So, how should a retirement vehicle be built like a well-designed motor vehicle?

Well, first and foremost, they should be safe and reliable. Additionally, they should offer features that virtually everyone can afford and be relatively easy to operate. They should be designed by experts and maintained by professionals who not only place the safety and wellbeing of participants and beneficiaries first, but they should also be designed to work well even when driving conditions change so that everyday people can use them effectively and with confidence, both while they are working and in retirement. After all, a well-designed retirement plan is a vehicle that offers features and benefits necessary to take participants and beneficiaries where they want to go and in the manner they want to ride, so that they all get there safe and sound.

I believe the most important benefit a plan can offer is retirement income security. Not everyone agrees with me, but I'm know I'm not alone in this belief. Isn't that what the "RIS" in ERISA stands for anyway?

(Happy 50<sup>th</sup> birthday, ERISA! Bless your soul. You don't look a day over 29.)

When it comes to retirement income security, the importance and value of defaults cannot be overstated. Think of default features in a retirement plan as the base model of a motor vehicle. Very few people in the world are qualified to design their own motor vehicle and I'm not one of them. It's an extraordinarily complicated task, and it would be easy to overlook something that I need. So, it's critical for me and just about everyone else in the market for a motor vehicle to include a package of features that meet the needs we all have (safety, reliability, affordability, ease of use, etc.) without requiring each of us to decide which features are essential and which are not.

Take for example, that fact that we all need the ability to go in "reverse" at one time or another. Can you imagine what might happen if I forgot to include "reverse" when I chose the features for my retirement vehicle? I might drive right off a cliff!

But it's also important to offer options for motor vehicles that adapt to fit the personal needs and preferences of the people who will use them. Even if we're only going for a short drive, every one of us operating a motor vehicle should at least be able to adjust the seat, the mirrors, and the steering wheel column before we get on the road ...and maybe choose a few presets or playlists for tunes if there's time.

Sure, some people may want the Sport package with the off-road tires for their retirement vehicle, while others may prefer the Touring model. Many people might not even know what they want. This is where it's paramount that they can get unbiased guidance and advice on what fits their unique needs. Otherwise, they might find themselves driving off the lot in a Wagon Queen Family Truckster.

The same is true of retirement plans. Giving people the opportunity to add or exclude some features while fairly and clearly communicating the pros and cons of each will go a long way toward helping them get the most benefit from a retirement plan. That's just your basic ERISA standard of care, isn't it?

Not to mention that without those options, they might just get out of the vehicle altogether... and probably while they're still riding down the highway!

\*Cochrane, 1991



Now, if we extend the metaphor to retirement vehicles that meet the definition and requirements of a Qualified Default Investment Alternative (QDIA) under the regulations issued in 2007, we'd find that a typical default option would be a lot like one of those base models: a reasonably reliable, fuel-efficient and affordable vehicle. It works most of the time and doesn't cost a lot.

That might sound boring, but let's face it, some people don't want to pay extra for every feature in the premium package and many of us never figure out how to use all the options anyway. Plus, seeing everyone else driving in the same retirement vehicle reinforces our sense of comfort and reduces our buyer's remorse, right?

Furthermore, most default options in place today satisfy the QDIA requirements, because they are an investment fund product, model portfolio or service "that applies generally accepted investment theories, is diversified so as to minimize the risk of large losses and that is designed to provide varying degrees of long-term appreciation and capital preservation through a mix of equity and fixed income exposures..." and "such products and portfolios change their asset allocations and associated risk levels over time with the objective of becoming more conservative (i.e., decreasing risk of losses) with increasing age."

So, why is it that practically no one raised an alarm when we recently saw the retirement vehicle equivalent of a highway pileup?

Make no mistake about it, traditional investment diversification through a mix of equity and fixed income exposures FAILED in 2022. Default options that managed retirement income security using only generally accepted investment theories suffered huge declines, and many retirees are still trying to recoup their losses.

The fact is, using only generally accepted investment theories and a mix of equity and fixed income exposures with the objective of... well, you get the point. It's not enough to effectively manage the risks that threaten retirement income security in America.

Please keep in mind that I am a CFA Charterholder with over 30 years of professional investment experience. I kneeled at the altar of Benjamin Graham's fundamental investment analysis and drank from his cup. I studied generally accepted investment theories and dined with some of the Nobel laureates who formulated them. I know what I say now will be considered heresy by some in the investment field, but I am bound by a Code of Ethics and my fiduciary standard of care. We cannot solve the issue of retirement income security for Participant-Directed Individual Account Plans in this country with investments alone.

Look, even the most reliable motor vehicles have been improved over time, especially when it comes to safety features. Forget about airbags, crumple zones, and reinforced cabin safety cages. I mean, does anyone else here remember when seatbelts were considered an optional accessory? (In case you're wondering or don't remember, they weren't mandatory for new vehicles in the U.S. until 1968 and I can clearly recall that my parents' old VW Beetle did not have them in the back seat.)

It's not like this problem has been ignored. I have been working on it for nearly two decades and this is the fourth time I have been invited to testify in the Perkins Building over the last 14 years, beginning with the 2010 Joint Hearing on Lifetime Income, followed by the 2012, 2018 and now 2024 ERISA Advisory Councils. And that's not even counting the three years I served on the Council (2014, 2015 & 2016) when we issued formal reports and recommendations to the Secretary of Labor on very similar issues.

The real question is, when are we going to do something about it?

If you're goin' my way... I wanna drive it all night long...  
(Come on, gimme, gimme, gimme, gimme, gimme, gimme, yeah!)\*

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What follows is a brief description of the Lifetime Income Strategy I helped design and implement for participants in the United Technologies Corporation (now RTX Corporation) Savings Plan. It launched on June 1, 2012, and has functioned as the plan's QDIA since then. I had primary responsibility for oversight of the Lifetime Income Strategy and Savings Plan until I left RTX on June 30, 2022. However, I continue to hold virtually all of my RTX Savings Plan assets in the Lifetime Income Strategy and look forward to enjoying the protection it provides me and my wife for our own retirement income security.

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The Lifetime Income Strategy is an award-winning, professionally managed investment option designed to:

1. Build retirement wealth while plan participants work and save.
2. Deliver guaranteed income when they retire.
3. Keep their money invested for long-term growth.
4. Always remain flexible so participants have options if they need them down the road.

Simply put, the Lifetime Income Strategy is designed to protect people from the risk of outliving their money and remain invested for growth, all while preserving their financial flexibility. In other words, it's a pension for the 21<sup>st</sup> Century.

Think of it as a personalized retirement vehicle that adapts to their needs over time and automatically insures their retirement income against the dangers that might be lurking around the next curve. It's professionally managed to keep them on track, but participants always remain in the driver's seat and can change their course at any time.

The Lifetime Income Strategy offers:

- The opportunity for money to grow while people are working AND in retirement.
- Income that's guaranteed to last as long as they do ... and their spouses, too!
- The security and certainty people want now... plus the freedom and flexibility they might one day need.

When people invest in the Lifetime Income Strategy, professional investment managers automatically adjust their investment mix over time. This is similar to target date funds, but the Lifetime Income Strategy is personalized for EACH participant like a managed account, so the investment mix makes sense for their age today and in the future. For example, people who are further away from retirement will see larger allocations to stocks. This emphasizes growth, not only to build wealth over the long term, but also to protect purchasing power and manage short-fall risk.

At some point, most people will need to rely more on their financial capital (their money) than their human capital (their paycheck). And that's where guaranteed income through the Lifetime Income Strategy can make a big difference. We call these income guarantees "Income Benefits", and they are automatically incorporated in the Lifetime Income Strategy as people approach retirement. When the markets do well, so will they, because Income Benefits increase not only when people make contributions, but also when

\*Cochrane, 1991

their balance reaches new highs. We check it every year on their birthday, even after they retire. More often than not, people see their Income Benefits increase well into retirement.

Participants always have full access to their Lifetime Income Strategy account balance. We call this access a “Liquidity Benefit”. It allows people to take “early” or “excess” withdrawals. This can be a valuable feature to meet urgent financial needs, and often encourages people to save more in the Lifetime Income Strategy, because they know they will have access to their money if they really need it. However, early and excess withdrawals from their Lifetime Income Strategy account balance will reduce their future Income Benefits proportionally. So, we urge participants to carefully consider all of their financial resources and plan features (such as a plan loan from other assets) before taking early or excess withdrawals from their Lifetime Income Strategy.

Most people tend to look at benefits of the Lifetime Income Strategy in one of two ways: Some consider these benefits a critical foundation for their retirement security, providing the certainty necessary to step away from day-to-day work with minimal risk to the income they’ll rely on for the rest of their lives. Others take a more relaxed view and treat the Lifetime Income Strategy like a “safety net” that provides the confidence to be financially independent and protection against market declines or unforeseen expenses, while preserving the option to change course if their needs change in the future.

Either way, the Lifetime Income Strategy meets participants where they are and offers the features they need and value most, all at a price virtually anyone can afford.

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## Use of Insurer-Issued Contracts Within Qualified Default Investment Alternatives

Insurer-issued contracts used within a designated investment alternative intended to meet the definition and requirements of a QDIA are presumed to offer one or more features designed to diminish exposure to one or more risks faced by participants in qualified plans. For example, some insurer-issued contracts might guarantee a fixed rate of return for a stated duration and guarantee the minimum fixed rate of return under the contracts will not be less than zero. The issuers of such contracts would then be contractually obligated to repay principal and the fixed rate of return. Other insurer-issued contracts might guarantee a range of features including, but not limited to, participant rights to withdraw stated amounts from assets held in the contracts and to collect payments from the insurer for an equivalent or higher amount should their assets in the contracts be depleted at some point in the future.

- To what degree can a fiduciary allocate assets within a target date fund (TDF) or other professionally managed lifecycle-based investment option that otherwise meets the definition and requirements of a Qualified Default Investment Alternative (QDIA) to one or more insurer-issued contracts, such as fully benefit responsive investment contracts (FBRICs) and individually allocated group variable annuities with guaranteed lifetime withdrawal benefits (Allocated VAs with GLWBs), and remain compliant with QDIA investment diversification requirements?

- If there are limits to such allocations, do those limits vary in relation to any point(s) along a lifecycle-based asset allocation glide path (e.g., before/at/after an expected retirement date or age, and/or at the point of reaching a final fixed allocation)?
- To what extent can a fiduciary that allocates assets to one or more insurer-issued contracts within a professionally managed lifecycle-based investment option that otherwise meets the QDIA definition and requirements consider the degree of investment diversification within an insurance contract (i.e., underlying diversified investment allocations), if any, as contributing to the overall diversification of the lifecycle-based investment option in satisfaction of QDIA investment diversification requirements?
- To the extent insurer-issued contracts held within a professionally managed lifecycle-based investment option meet the definition of “fixed return” investments as described under ERISA section 404a-5, would a fiduciary be entitled or obligated to apply the fixed return investment benchmarking and expense disclosure requirements of section 404a-5 in part or in whole to the benchmarking and expense disclosures related to the professionally managed lifecycle-based investment option?
- Regardless of the nature of features included in insurer-issued contracts used within professionally managed lifecycle-based investment options, would such insurance contracts be required to permit all participant-initiated transactions involving the professionally managed lifecycle-based investment option to be processed with no conditions, limits, or restrictions that do not otherwise apply to participant-initiated transactions within the qualified plan (e.g., withdrawals for benefits, plan loans, transfers to other investment options offered through the plan)?

Some excerpts from the Final QDIA and Participant Disclosure Rules as published in the Federal Register (accessed via [www.federalregister.gov](http://www.federalregister.gov)) which may relate to the utilization of insurer-issued contracts within designated investment alternatives that are intended to meet the definition and requirements of a QDIA are included here for reference, but are not intended to represent an exhaustive or authoritative list. Further guidance from DOL regarding these queries would be beneficial to fiduciaries seeking to enhance QDIAs through the use of insurer-issued contracts.

#### **Default Investment Alternatives Under Participant Directed Individual Account Plans**

<https://www.federalregister.gov/d/07-5147/p-32>

The fifth condition of the proposal required that any participant or beneficiary on whose behalf assets are invested in a qualified default investment alternative be afforded the opportunity, consistent with the terms of the plan (but in no event less frequently than once within any three-month period), to transfer, in whole or in part, such assets to any other investment alternative available under the plan without financial penalty. See proposed regulation § 2550.404c-5(c)(5). This provision was intended to ensure that participants and beneficiaries on whose behalf assets are invested in a qualified default investment alternative have the same opportunity as other plan

participants and beneficiaries to direct the investment of their assets, and that neither the plan nor the qualified default investment alternative impose financial penalties that would restrict the rights of participants and beneficiaries to direct their assets to other investment alternatives available under the plan. This provision was not intended to confer greater rights on participants or beneficiaries whose accounts the plan invests in qualified default investment alternatives than are otherwise available under the plan. Thus, if a plan provides participants and beneficiaries the right to direct investments on a quarterly basis, those participants and beneficiaries with investments in a qualified default investment alternative need only be afforded the opportunity to direct their investments on a quarterly basis. Similarly, if a plan permits daily investment direction, participants and beneficiaries with investments in a qualified default investment alternative must be permitted to direct their investments on a daily basis.

<https://www.federalregister.gov/d/07-5147/p-38>

Paragraph (c)(5)(ii)(B) makes clear that the limitations of paragraph (c)(5)(ii)(A) do not apply to fees and expenses that are charged on an ongoing basis for the operation of the investment itself, such as investment management fees, distribution and/or service fees ("12b-1" fees), and administrative-type fees (legal, accounting, transfer agent expenses, etc.), and are not imposed, or do not vary, based on a participant's or beneficiary's decision to withdraw, sell or transfer assets out of the investment alternative. In response to a request for a clarification, the Department further notes that to the extent that a participant or beneficiary loses the right to elect an annuity as a result of a transfer out of a qualified default investment alternative with an annuity feature, such loss would not constitute an impermissible restriction for purposes of paragraph (c)(5)(ii) inasmuch as the annuity feature is a component of the investment alternative itself.

<https://www.federalregister.gov/d/07-5147/p-72>

As noted above, the three categories of investment alternatives set forth in the proposal are being adopted essentially unchanged from the proposal. One organizational change appearing in the final regulation involves the inclusion of diversification language in each of three categories, rather than as a separate requirement of general applicability as in the proposal (see paragraph (e)(4) of proposed regulation § 2550.404c-5). This change accommodates the addition of the capital preservation investment alternatives mentioned above that may not, given the nature of the investment, satisfy a diversification standard.

<https://www.federalregister.gov/d/07-5147/p-73>

Some commenters expressed concern that the Department's approach to defining qualified default investment alternatives takes into account only products currently available in the marketplace and that the defining of qualified default investment alternatives should be based on more general criteria. These commenters emphasized that the regulation should not stifle creativity in the development of the next generation of retirement products. While the Department does provide examples of products, portfolios and services that would fall within the framework of the various definitions of products, portfolios and services set forth in the

regulation, these examples are provided solely for the purpose of providing the benefits community with guidance as to what might be included within the defined categories and are not intended in any way to limit the application of the definitions to such vehicles. The Department believes that, on the basis of the information it has at this time and the comments on the proposal generally, the approach it is taking to defining qualified default investment alternatives for purposes of the regulation is sufficiently flexible to accommodate future innovations and developments in retirement products.

<https://www.federalregister.gov/d/07-5147/p-74>

A number of commenters requested clarification concerning application of the regulation to possible qualified default investment alternatives that are offered through variable annuity contracts. Commenters explained that variable annuity contracts typically permit participants to invest in a variety of investments through one or more separate accounts (or sub-accounts within the separate account) that would qualify as qualified default investment alternatives under the regulation. Commenters also requested confirmation that the availability of annuity purchase rights, death benefit guarantees, investment guarantees or other features common to variable annuity contracts would not themselves affect the status of a variable annuity contract that otherwise met the requirements for a qualified default investment alternative. Consistent with providing flexibility and encouraging innovation in the development and offering of retirement products, model portfolios or services, the Department intends that the definition of “qualified default investment alternative” be construed to include products and portfolios offered through variable annuity and similar contracts, as well as through common and collective trust funds or other pooled investment funds, where the qualified default investment alternative satisfies all of the conditions of the regulation. For purposes of identifying the entity responsible for the management of the qualified default investment alternative in such arrangements pursuant to paragraph (e)(3) of § 2550.404c-5, it is the view of the Department that such a determination is made by reference to the entity (e.g., separate account, sub-account, or similar entity) that is responsible for carrying out the day-to-day investment management/asset allocation responsibilities. Finally, with regard to such products and portfolios, it is the view of the Department that the availability of annuity purchase rights, death benefit guarantees, investment guarantees or other features common to variable annuity contracts will not themselves affect the status of a fund, product or portfolio as a qualified default investment alternative when the conditions of the regulation are satisfied. A new paragraph (e)(4)(vi) was added to the regulation to clarify these principles.

<https://www.federalregister.gov/d/07-5147/p-76>

The first investment alternative set forth in the regulation, at paragraph (e)(4)(i), is an investment fund, product or model portfolio that applies generally accepted investment theories, is diversified so as to minimize the risk of large losses, and is designed to provide varying degrees of long-term appreciation and capital preservation through a mix of equity and fixed income exposures based on the participant's age, target retirement date (such as normal retirement age

under the plan) or life expectancy. Consistent with the proposal, the description provides that such products and portfolios change their asset allocation and associated risk levels over time with the objective of becoming more conservative (i.e., decreasing risk of losses) with increasing age. Also like the proposal, the description makes clear that asset allocation decisions for eligible products and portfolios are not required to take into account risk tolerances, investments or other preferences of an individual participant. An example of such a fund or portfolio may be a “life-cycle” or “targeted-retirement-date” fund or account.

<https://www.federalregister.gov/d/07-5147/p-77>

The reference to “an investment fund product or model portfolio” is intended to make clear that this alternative might be a “stand alone” product or a “fund of funds” comprised of various investment options otherwise available under the plan for participant investments. As noted in the proposal, the Department believes that, in the context of a fund of funds portfolio, it is likely that money market, stable value and similarly performing capital preservation vehicles will play a role in comprising the mix of equity and fixed-income exposures.

<https://www.federalregister.gov/d/07-5147/p-80>

With respect to the language requiring that the investment fund, product or model portfolio provide varying degrees of long-term appreciation and capital preservation through “a mix of equity and fixed income exposures,” one commenter inquired whether the Department intended to exclude funds that had no fixed income exposure, which, according to the commenter, might be appropriate for young individuals many years away from retirement. While the Department believes that such an investment option may be appropriate for individuals actively electing to direct their own investments, the Department believes that when an investment is a default investment, the investment should provide for some level of capital preservation through fixed income investments. Accordingly, the final regulation, like the proposal, continues to require that the qualified default investment alternatives, defined in paragraph (e)(4)(i), (ii) and (iii), be designed to provide degrees of long-term appreciation and capital preservation through a mix of equity and fixed income exposures.

<https://www.federalregister.gov/d/07-5147/p-81>

The second investment alternative set forth in the regulation, at paragraph (e)(4)(ii), is an investment fund product or model portfolio that applies generally accepted investment theories, is diversified so as to minimize the risk of large losses, and is designed to provide long-term appreciation and capital preservation through a mix of equity and fixed income exposures consistent with a target level of risk appropriate for participants of the plan as a whole. For purposes of this alternative, asset allocation decisions for such products and portfolios are not required to take into account the age of an individual participant, but rather focus on the participant population as a whole. An example of such a fund or portfolio may be a “balanced” fund. As with the preceding alternative, the reference to “an investment fund product or model portfolio” is intended to make clear that this alternative might be a “stand alone” product or a



“fund of funds” comprised of various investment options otherwise available under the plan for participant investments. In the context of a fund of funds portfolio, it is likely that money market, stable value and similarly performing capital preservation vehicles will play a role in comprising the mix of equity and fixed-income exposures for this alternative.

#### **Fiduciary Requirements for Disclosure in Participant-Directed Individual Account Plans**

<https://www.federalregister.gov/d/2010-25725/p-52>

In the case of designated investment alternatives with respect to which the return is fixed for the term of the investment, paragraph (d)(1)(ii) of the proposal required disclosure of both the fixed rate of return and the term of the investment. While no commenters opposed the proposed requirement, some commenters did request a clarification as to how the disclosure requirement applied to contracts with respect to which there is no “term of investment.” The commenters explain that certain contracts, while often having a minimum guaranteed rate for the life of the contract, permit the fixed rate to change upon notice, but never below the minimum guaranteed rate. One commenter suggested that, for such contracts, the pertinent information for participants and beneficiaries is the most recent rate of return, the minimum rate guaranteed under the contract, if any, and an explanation that the insurer may adjust the rate of return prospectively. The Department agrees. The most essential information for participants who choose to invest in fixed investment alternatives is the contractual interest rate paid to their accounts and the term of the investment during which their monies are shielded from market price fluctuations and reinvestment risks. The Department believes that, with respect to such contracts, it is particularly important that participants and beneficiaries be clearly advised of the issuer's ability to modify the rate of return and be able to readily determine the most current rate of return applicable to such investment. In this regard, the Department has modified the proposal, at paragraph (d)(1)(ii)(B) of the final, to require the disclosure of the current rate of return, the minimum rate guaranteed under the contract or agreement, if any, and a statement advising participants and beneficiaries that the issuer may adjust the rate of return prospectively and how to obtain (e.g., telephone or Web site) the most recent rate of return information available.

<https://www.federalregister.gov/d/2010-25725/p-53>

One commenter asked whether designated investment alternatives such as stable value funds and money market mutual funds are to be treated as fixed return or variable return investments for purposes of the regulation. The fixed return provisions of the regulation are limited to designated investment alternatives that provide a fixed or stated rate of return to the participant, for a stated duration, and with respect to which investment risks are borne by an entity other than the participant (e.g., insurance company). Examples of fixed return investments include certificates of deposit, guaranteed insurance contracts, variable annuity fixed accounts, and other similar interest-bearing contracts from banks or insurance companies. While money market mutual funds and stable value funds generally aim to preserve principal, they are not free of

investment risk to the investor. Accordingly, such investments are subject to the variable return provisions of the regulation, even though they routinely hold fixed-return investments.

<https://www.federalregister.gov/d/2010-25725/p-60>

Consistent with the proposal, paragraph (d)(1)(iv)(A)(1) requires disclosure of the amount and a description of each shareholder-type fee (fees charged directly against a participant's or beneficiary's investment, such as commissions, sales loads, sales charges, deferred sales charges, redemption fees, surrender charges, exchange fees, account fees, and purchase fees). No substantive changes were made to this provision from that which was proposed. Clarifying language, however, was added to the existing parenthetical language in order to distinguish shareholder-type fees from other investment-related fees and expenses. The new language provides that a fee or expense is a shareholder-type fee to the extent it is "not included in the total annual operating expenses of any designated investment alternative." Thus, the key distinction is how the fee is ultimately being paid by the participant or beneficiary. If the fee or expense is charged directly against participant's or beneficiary's individual investment or account, as is typically the case with sales loads, account fees, and the other items delineated in the parenthetical, then the fee or expense is to be disclosed as a shareholder-type fee. If, on the other hand, the fee or expense is paid from the operating expenses of a designated investment alternative, then the fee or expense is to be included in the total annual operating expenses of a designated investment alternative. The requirement to disclose the total annual operating expenses of each designated investment alternative is discussed below.

<https://www.federalregister.gov/d/2010-25725/p-65>

Paragraph (d)(1)(iv)(A)(4) of the final rule requires a statement indicating that fees and expenses are only one of several factors that participants and beneficiaries should consider when making investment decisions. The Department did not receive any comments opposing this requirement; in fact, this required statement is consistent with the concern raised by commenters that participants and beneficiaries should not be encouraged to focus "only" on fees and expenses, since fee and expense information must be considered in context with other information about a plan's designated investment alternatives. This required statement has been retained, unchanged from the proposal.

<https://www.federalregister.gov/d/2010-25725/p-67>

Finally, paragraph (d)(1)(iv)(B) of the final rule provides the fee and expense information that must be disclosed for designated investment alternatives with respect to which the return is fixed for the term of the investment. Consistent with the proposal, plan administrators must disclose the amount and a description of any shareholder-type fees, and a description of any restrictions or limitations that may be applicable to a purchase, transfer or withdrawal of the investment in whole or in part. For examples of fixed-return investments, See the discussion above in this preamble under the heading "c. Performance data."



# PSI FOCUS

## How To Transform Retirement “Savings” Plans Into Retirement “Spending” Plans (Part One)

Kevin T. Hanney, CFA  
September 19, 2023  
2:00pm ET / 11:00 PT

# EXECUTIVE SUMMARY

## Why Are We Here Today?

Modern DC plans are highly effective retirement “savings” vehicles

Regrettably, many DC participants still struggle with retirement spending

The most vulnerable often overspend when facing financial distress

The most secure tend to curb spending until they are forced

***It doesn't have to be this way. Plan sponsors can help... but how?***

Let's look at some tools, tips and plan design features that can transform retirement “savings” plans into retirement “spending” plans

*(...and get a head start on a due diligence file that will make your ERISA legal counsel proud!)*

# DCIIA RETIREMENT RESEARCH CENTER

## *Retirees in Profile*, Journal of Retirement 2022

GUEST COLUMN

### Retirees in Profile: What We Can Learn from Four Distinct Spending Segments

Warren Cormier, Pamela Hess, and Dominika Türkcan

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During the pandemic, the pace of retirement in the US accelerated. By the third quarter of 2021, 50.3% of adults age 55 and older were out of the workforce and in retirement, compared to 48.1% the previous year, according to the Pew Research Center. As this wave of Boomer retirements builds—and with Generation X not far behind—we see an increasing responsibility of defined contribution (DC) plans to help workers through accumulation and decumulation. With an eye on this future, the Defined Contribution Institutional Investment Association (DCIIA) is immersed in ongoing research and discussions with industry thought leaders about the financial challenges, lifestyle decisions, and spending and savings patterns of retirees and soon-to-be-retirees.

On March 1–2, we hosted our annual DCIIA Innovation Forum and the semi-annual Retirement Research Center (RRC) Summit in Charlotte, North Carolina. Insightful sessions during those two days included many on the role and need for retirement income solutions and helping retirees manage and spend down their nest eggs. The RRC is working on our latest research piece: analysis pointing to four distinct retiree profiles that the industry and plan sponsors should consider when designing holistic retirement programs for today's and tomorrow's retirees. We provide an overview of the study below, and we expect this topic to be a continued focus of research in the coming year.

RESEARCH STUDY

The DCIIA RRC surveyed more than 2,000 retired workers in late 2021 about their savings, spending, financial wellness and behavioral health. The RRC will publish this series in Summer 2022. The following is a preview of our findings.

Cluster/factor analysis was performed on attitudinal statements related to each respondent's current financial situation, confidence in spending, clarity of a financial plan, health, and spending in retirement. This type of analysis looks at responses simultaneously and identifies individuals with similar patterns of responses.

The analysis found four distinct retiree profiles emerge, each similar in size and roughly one-fourth of the population. These groups are consistent internally but significantly different from other groups. The four segments are:

1. Confident Retirees
2. Optimistic Thrifty Retirees
3. Nervous Retirees
4. Struggling Retirees

The illustration below shows how the four segments differ and where they intersect in attitudes about financial planning, spending (relative to ability) and overall confidence.

You can see in this intersection graph that the Confident Retiree and Optimistic Thrifty Retiree segments share the most similarities; they both underspend relative to their ability and have financial plans. The largest differences between the two groups are that Confident Retirees are better financially situated and want to leave an inheritance to their heirs, while Optimistic Thrifty Retirees do not. Optimistic Thrifty Retirees are the happiest to be spending down their savings and are optimistic about their longevity and health.

Nervous and Struggling Retiree groups are similar in their worry about balances dropping. However, Nervous Retirees are better financially situated, by comparison. Nervous Retirees also have or expect to have large medical expenses in retirement yet have a strong desire to leave an inheritance. The Struggling Retirees are clearly stressed and feeling forced to spend down their savings, beyond their capacity, with-

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Summer 2022

- Steady income.
- Safety of my money (I cannot lose it all).
- Lifetime income (assurance that my partner and I will receive income as long as we live).
- Control and access to my money.
- Reversibility (I am not locked into a financial product).
- A high investment return.

The analysis identified three clear tiers of retiree priorities. In the top tier of relative importance are steady income, safety, and lifetime income. The second tier, which is nearly as important to retirees, is control and access to savings and balances. In the third tier, retirees give significantly less weight to reversibility and high return. These results do not indicate that reversibility and high return are entirely unimportant to retirees, just that they are relatively less important.

While each retiree segment evaluated appeared quite different in the overall analysis, the relative utility of these factors remained across all groups. Confident Retirees, Optimistic Thrifty Retirees, Nervous Retirees, and Struggling Retirees all value steady income, safety, and lifetime income as the highest importance, although the relative order varied slightly.

IMPLICATIONS

The dynamic topic of retirement income garners much attention in the industry. Our analysis illustrates the diverse nature of retirees based on their spending ability, comfort level, and financial means. We also can see how retirees' saving and spending behaviors are strongly influenced by their health, marital status, general optimism, and goals to leave an inheritance for heirs.

Additionally, our analysis shows that without a distribution plan or structure, many retirees are spending down until they are under financial stress or forced to. When they do spend, they typically take only the Required Minimum Distribution (RMD). The only segment that scores more than the RMD is Struggling Retirees, and this is out of necessity not choice. A decumulation tool (e.g., a decumulation tool) could be greatly influencing retirees' distribution spending. They might be following the common (and outdated) advice to "spend down your savings."

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Moving forward, future retirees will require a larger portion of their assets to come from the defined contribution plans as defined benefit coverage continues to decline. Yet, we know many retirees do not know how to manage that pool. Support is needed. The good news is that while many retirees have unique challenges, we found a remarkable consistency of preferences across six characteristics regarding what they want from an income solution. All four segments valued steady income, safety and lifetime income and, to a lesser degree, control and access above all other financial planning factors. This implies that solutions and innovations in the industry will likely address the preferences and concerns of the majority of retirees. However, we know historically there has been a mismatch between what retirees say they want and the reality of low annuity usage. More needs to be done to understand the barriers, be they structural or behavioral, to bridge this gap between retiree wants and actions.

See DCIIA's online Resource Library for white papers and other thought leadership on topics including Lifetime Income (<https://dciia.org/page/LifetimeIncome>) and Plan Design (<https://dciia.org/page/PlanDesignMatters>).

**“...our analysis shows that without a distribution plan or structure, *many retirees are not spending down until they are under financial stress or forced to...*”**

Full article available at: [https://dciia.org/resource/resmgr/jor/Summer-22-Guest-Column\\_jor.pdf](https://dciia.org/resource/resmgr/jor/Summer-22-Guest-Column_jor.pdf)



# STEADY + SAFE + LIFETIME INCOME

## Everybody Wants Some (...I Want Some, Too!)

### RETIREE PROFILING STUDY

#### • DCIA RRC's research: Profiling Retirees

#### • Data Set:

- A survey of 2,009 retirees aged 50-75. Conducted in September 2021.
- Retirees were asked questions related to their savings, spending, and financial and behavioral health.

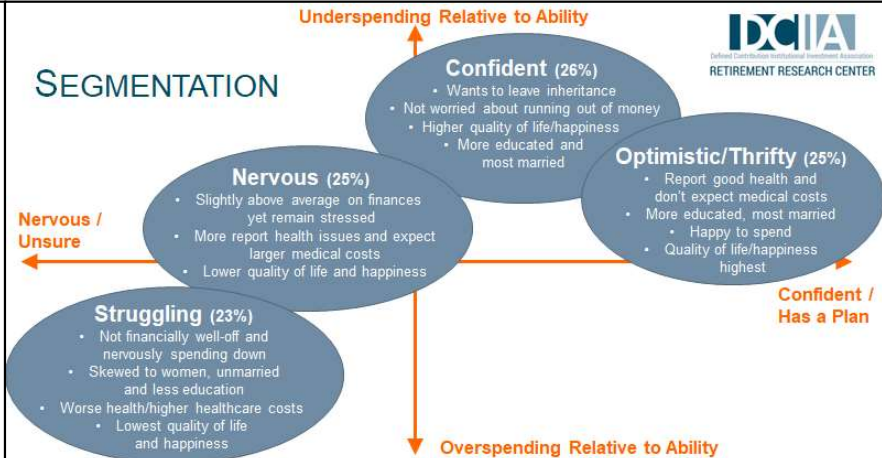
#### • Methodology:

- Cluster/Factor Analysis was used to create segments; each was statistically different but internally consistent. Four distinct segments emerged.
- MaxDiff Conjoint Analysis was used to gauge prioritization of preferences for retirement spending.

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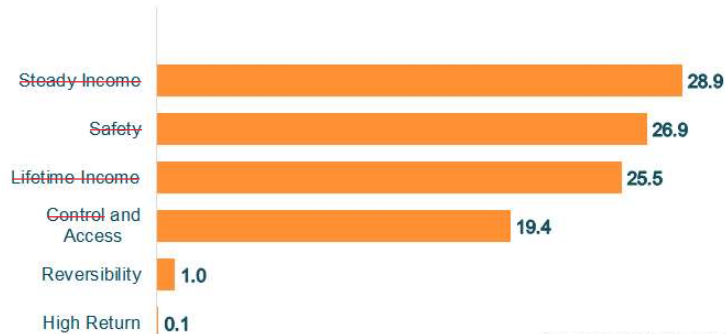
### SEGMENTATION



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3

### MEDIAN UTILITY WEIGHTS



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### MEDIAN UTILITY BY SEGMENT

	Confident	Optimistic / Thrifty	Nervous	Struggling	All
A Steady Income	26.8	26.8	29.5	30.2	28.9
Safety of My Money	27.2	26.8	26.6	28.0	26.9
Lifetime Income	28.7	25.3	25.4	25.6	25.5
Control and Access	19.6	20.2	19.8	12.0	19.4
Reversibility	1.0	1.1	1.1	0.9	1.0
High Investment Return	0.1	0.2	0.1	0.1	0.1

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# 2015 ERISA ADVISORY COUNCIL REPORT

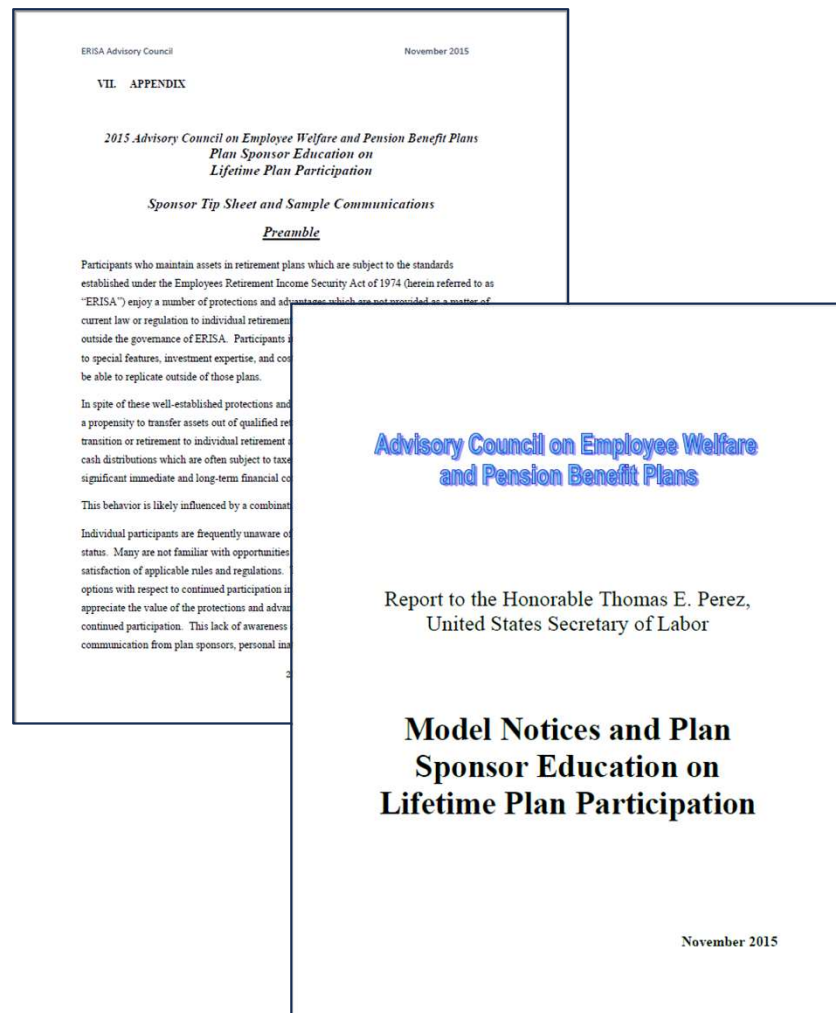
## Participant Communications & Sponsor Education

Much of this presentation is based on the work of the 2015 ERISA Advisory Council, which undertook a request from DOL to develop sample participant communications (model notices) and educational material for Plan Sponsors encouraging participants to remain in employer-sponsored retirement plans as a means to fund retirement after leaving active service.

In doing so, the Council identified several plan features and effective practices that facilitate continuing plan participation and responsible retirement spending.

A complete copy of the Council's report and its appendices is currently available at:

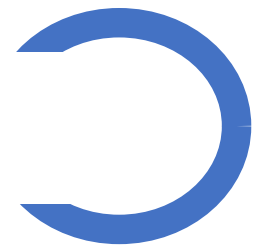
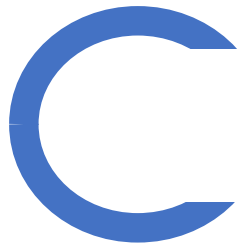
[https://www.dol.gov/sites/dolgov/files/EB  
SA/about-ebsa/about-us/erisa-advisory-  
council/2015-model-notices-and-plan-  
sponsor-education-on-lifetime-plan-  
participation.pdf](https://www.dol.gov/sites/dolgov/files/EB%20SA/about-ebsa/about-us/erisa-advisory-council/2015-model-notices-and-plan-sponsor-education-on-lifetime-plan-participation.pdf)





# THE LABOR “POOL”

## Different Strokes for Different Folks



### Participant Profile Analysis

How do your plan participants compare to U.S. averages? How about to each other?

How many are: Financially Fragile, Sole Earners, Single Parents, Care Givers, etc.?

What proportion of net take-home pay do your active participants spend? (All of it?)

How large are the unfunded “liabilities” of your plan participants?

How does your “savings” plan facilitate the spending required to fund those liabilities?

# TOOLS FOR PLAN DESIGN

## *The Retirement Policy Statement*

Define settlor (not fiduciary) objectives for offering retirement benefits

Outline basic principles used in the design & delivery of employee benefits

Describe how the key features of benefits are expected to meet objectives

Identify internal/external constituents who have authority, influence and accountability for design, implementation & oversight

### Examples of Retirement Policy Statement objectives

Address needs of all plan participants regardless of their persona type

Emphasize defaults with automatic enrollment & automatic escalation

Encourage continuing plan participation after leaving active service

Simplify choice architecture across a broad range of key options

Designate low-cost investment options with institutional fees

Offer guidance and tools that address saving & spending

Support participant access to secure retirement income

# FIRST THINGS FIRST

## Allow Partial & Periodic Withdrawals

Review plan documents

Consult with administrator/RK'er

Identify eligible withdrawal types

Determine sequences by source

Adjust by age, plan status, etc.

Sample Withdrawal Hierarchy Tables

In Service		Terminated Vested and/or Retirees	
Sequence of Withdrawal by Source	Tax and Suspension Consequences	Sequence of Withdrawal by Source	Tax and Suspension Consequences
Pre-1967 after tax contributions amount listed on statement.	No tax liability. No suspension.	Pre-1967 after tax contributions amount listed on statement.	No tax liability.
Post-1986 after tax contributions (IRS requires prorated earnings to be distributed.)	Income tax on earnings, plus 10% penalty tax if before Age 59 1/2. No suspension.	Post-1986 after tax contributions (IRS requires prorated earnings to be distributed.)	Income tax plus 10% penalty tax on earnings if terminated before the beginning of the calendar year in which the 55th birthday occurs.
Rollover contributions, if any (excluding after tax amounts rolled over to the Plan, but including investment earnings on such amounts).	Income tax on entire amount (excluding after tax amounts rolled over to the Plan, but including investment earnings on such amounts), plus 10% penalty tax if before Age 59 1/2.	Rollover Contributions (if any, excluding after tax amounts rolled over to the Plan, but including investment earnings on such amounts).	Income tax on entire amount (excluding after tax amounts rolled over to the Plan, but including investment earnings on such amounts) plus 10% penalty tax if terminated before the beginning of the calendar year in which the 55th birthday occurs.
Vested Automatic Company Contributions plus earnings.	Income tax on entire amount. No suspension. Not eligible for in-service withdrawals before Age 59 1/2.	Vested Automatic Company Contributions plus earnings.	Income tax on entire amount plus 10% penalty tax if terminated before the beginning of the calendar year in which the 55th birthday occurs.
Vested Company Matching Contributions plus earnings (after five years of Plan participation).	Income tax on entire amount, plus 10% penalty tax if before Age 59 1/2. No suspension.	Vested Company Matching Contributions plus earnings.	Income tax on entire amount plus 10% penalty tax if terminated before the beginning of the calendar year in which the 55th birthday occurs.
Before tax contributions plus earnings before December 31, 1988 (earnings after December 31, 1988 are not eligible for in-service withdrawals).	Income tax on entire amount, plus 10% penalty tax and must apply for hardship withdrawal if before Age 59 1/2.	Before Tax Contributions plus earnings.	Income tax on entire amount plus 10% penalty tax if terminated before the beginning of the calendar year in which the 55th birthday occurs.
Roth 401(k) contributions plus earnings.	Income tax on earnings unless it has been at least five years since first Roth 401(k) contribution. The investment earnings portion of the withdrawal is subject to income tax and, if applicable, the 10% early withdrawal penalty.	Roth 401(k) Contributions plus earnings.	Income tax on earnings plus 10% penalty tax unless it has been at least five years since first Roth 401(k) contribution and you have reached age 59 1/2, become totally and permanently disabled, or died.
Profit sharing contributions plus earnings, if applicable.	Income tax on entire amount. No suspension.	Profit sharing contributions plus earnings, if applicable.	Income tax on entire amount. No suspension.

(See Appendix for Full-Sized Sample)

Consider retirement income options & plan features when defining withdrawals

*Many retirement “savings” plans only allow terminated vested participants and retirees to take full distributions!*

# OFFER PLAN LOANS FOR TV/RETIREEES

## Repayment of Existing & Initiation of New Loans

Loan Type	Maximum Available Amount	Maximum Number of Loans	Fee	Interest Rate	Repayment Frequency
General Purpose	\$50,000.00	2	\$30.00	9.25%	Monthly
Primary Residence	\$50,000.00	1	\$30.00	9.25%	Monthly

### Choose Loan Type

(General Purpose or Primary Residence)

### Repayment Frequency

Monthly

### Interest Rate

9.25%

### Requested Loan Amount\$

(\$1,000.00–\$50,000.00)

### Loan Duration

(1–60 months)

### Modeling Results

Loan Type	General Purpose	Primary Residence
Loan Amount	\$10,000.00	\$50,000.00
Interest Rate	9.25%	9.25%
Loan Fee	\$30.00	\$30.00
Repayment Frequency	Monthly	Monthly
Number of Repayments	60	180
Repayment Amount	\$208.81 (monthly)	\$514.60 (monthly)
First Repayment Date	1/15/2024	1/15/2024
Total Repayment Amount	\$12,528.60	\$92,628.00

Prevent unwanted leakage at time of separation from service

Reduce or eliminate incentive to leave plan in times of financial distress

Enable access to funds needed for urgent and/or unexpected expenses

Facilitate loan repayment via EFT/ACH and/or coupon books

# SHOULD I STAY (...OR SHOULD I ROLL?)

## Accept Rollover Contributions from Eligible Sources

<a href="https://www.irs.gov/pub/irs-tege/rollover_chart.pdf">https://www.irs.gov/pub/irs-tege/rollover_chart.pdf</a>		Roll To							
		Roth IRA	Traditional IRA	SIMPLE IRA	SEP-IRA	Governmental 457(b)	Qualified Plan (Pre-Tax)	403(b) (Pre-Tax)	Designated Roth Account (401k, 403b or 457b)
Roll From	Roth IRA	Yes	No	No	No	No	No	No	No
	Traditional IRA	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
	SIMPLE IRA	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
	SEP-IRA	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
	Governmental 457(b)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	In Plan Conversion
	Qualified Plan (Pre-Tax)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	In Plan Conversion
	403(b) (Pre-Tax)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	In Plan Conversion
	Designated Roth Account (401k, 403b or 457b)	Yes	No	No	No	No	No	No	Yes

(See Appendix for full chart with footnotes and [www.irs.gov](http://www.irs.gov) for latest updates)

*Enhance web-based workflow and emphasize training for all call center reps!*



# COMMUNICATE!

## Do It Early. Do It Often. Don't Wait.

### ***Congratulations, Lily!***

"Congratulations? For what?" you might ask.

Well, for starters, you might not know it Lily, but you are one of a very exclusive group. You are a participant in YYZ Inc.'s **Financial Independence Plan**, and that's something not everyone can say. You're in a plan. (And let's face it, you're in a plan.)

And what's more, once you stay in it for just about just any lifetime: YOU have something to say about it. You have some ideas about it.

For now, though, you have some valuable privileges.

Here are some of them:

- ☐ The award-winning plan, a 21st Century plan
- ☐ Our highly-rated, professional advice
- ☐ Your choice of the plan
- ☐ Including the highly competitive crediting rate and principal security of our stable value fund
- ☐ Virtually unlimited access to listed securities through our brokerage window
- ☐ Our new EZ-consolidation service which makes it a breeze to combine your other retirement assets like IRAs, old 401(k) balances, qualified retirement plan payouts, and other eligible accounts all under one roof. We can even consolidate spousal accounts, too!

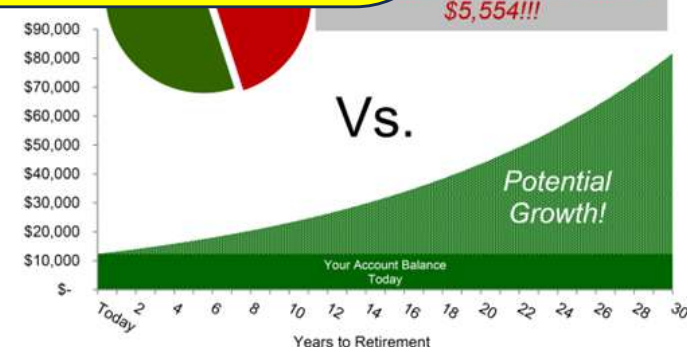
And these are just a few of the benefits that come with participation in the **Financial Independence Plan**. Contact one of our live representatives today and ask how you can take advantage of these valuable features and more!

### **Impact of Taking Your Money Out Now...**

Your Account Balance as of July 24, 2015	\$12,345
Minus Federal Income Tax	-\$2,469
	-\$617
	-\$1,234
	-\$1,234
Only	\$6,791
Plan...	
plan or	\$81,654

*Promote the advantages of remaining "In-Plan"*  
*It's never too early to share success stories*  
*Use simple, concise language & examples*  
*A picture is worth a thousand words*  
*Illustrate the value of lower fees*  
*Membership has its privileges*

**Additional Taxes & Penalties:**  
**\$5,554!!!**



# COMMUNICATIONS

## Give Me One Reason To Stay Here

### It Pays to Keep Your Money in the Financial Independence Plan!

Where can you enjoy great investment choices, lower fees and control your own financial security? [Learn More Inside.](#)

[Inside]

When your employment at PrudentCo ends, you have decisions to make about some of your benefits, including what to do with the money in your Financial Independence Plan account.

Generally, **you have four choices.**

1. Keep Your Money Right Where It Is
2. Roll It Over To Another Employer Plan
3. Roll It Over To an Individual Retirement Arrangement (IRA)
4. Withdraw Your Money (a 10% federal early withdrawal tax penalty will apply before age 55)

There are pros and cons to each option. In fact, speaking to a qualified financial advisor before you decide is a good idea.

Fortunately, you don't have to decide right now. You can keep all of your money in the Financial Independence Plan until you reach age 73 or later, and even then, you can take it out a little bit at a time.

### 3 Smart Reasons to Keep Your Money In the Financial Independence Plan

"I Like My Plan Features And Funds" - We can see why. The Financial Independence Plan offers a unique mix of choices – all of which are available to you for as long as your money stays in the Plan.

"I Want Control Over My Money" - With Flexible Loans, Rollover Contributions and Distributions, the Financial Independence Plan offers a range of options to meet unexpected expenses, consolidate retirement savings and maintain your income, now and in the future. Your financial needs today might be very different from your future needs. Who knows what tomorrow may bring?

"I Need A Steady Retirement Income" – Well, we pioneered modern Lifetime Income features offered through the Plan. You won't find many of these anywhere else and they're designed to pay you a secure and steady income throughout retirement, while giving you the freedom to change your mind.

### And Here's One That's a No Brainer

"I Want Lower Fees" – Does anyone really want to throw away their hard-earned money? We sure don't and we're pretty sure you don't either. So, the Financial Independence Plan offers savings and investment features with some of the lowest fees in the world. We use the scale and buying power of the Plan to negotiate on behalf of everyone in it, including you.



# COMMUNICATIONS

## 20 Principles for Plan Sponsors

1. Plan sponsors are encouraged to develop a philosophy on lifetime plan participation.
2. Communications should aim to be simple, concise, engaging and easily understood, while making sure participants have enough information and tools to make informed decisions. Consider the use of graphics and charts to make communications visually appealing.
3. Plan sponsors are strongly encouraged to communicate the benefits of the plan through various channels at all stages of employment, upon separation and thereafter.
4. Sponsors should look at various forms of written and electronically disseminated information, tailored to their population.
5. Sponsors are encouraged to remind participants of the features of the plan so they can make informed decisions when comparing them to alternatives outside of the plan.
6. Sponsors may consider using stories that describe the consequences of actions.
7. Communications can be developed directly by the plan sponsor, acquired from one or more service providers associated with the plan, or other sources deemed to be credible and accurate.
8. Messages can be general and/or specific, but should be factual to the best knowledge of the plan sponsor and/or service provider responsible for the development of the communications
9. The completeness and accuracy of communications should be based on the facts and circumstances prevailing at the time of development. However, plan sponsors have a duty to periodically review, revise, and/or replace communications which are deemed to be outdated, inaccurate, inapplicable, or inappropriate at the time of the subsequent review.
10. Communications may include accurate numerical values and other factual content which is subject to change so long as the date on which the values or other facts were collected is clearly disclosed.
11. Communications may include estimates / projections / forecasts so long as they are clearly identified as such and all material assumptions are clearly disclosed.
12. Communications may include text, tables, charts, and graphs depicting current factual values and estimates / projections / forecasts as well as comparisons of any of the forgoing so long as each is clearly delineated as such and material assumptions are clearly disclosed.
13. Communications may be in static, variable, and/or interactive formats so long as all disclosure requirements are met.
14. Language, illustrations, and images used in communications may be of a persuasive nature, but should fairly represent comparisons, avoid glaring omissions of pertinent information and avoid derogatory, defamatory, or exploitive content.
15. Communications should frame decisions in terms that reflect the wider context of benefits derived from lifetime plan participation. To the extent that a decision may preclude further participation in the plan, that should be clearly stated.
16. When various choices are presented to participants, sponsors should consider the order in which they are provided and the impact that may have on participant decision making.
17. Communications should be culturally competent to the extent possible with respect to the intended audience and consider specific socio-economic characteristics of a given plan population.
18. It is recommended that communications be tailored to segments or a subset of a broader audience
19. The contents of any communications tailored under this guidance should be segmented into standalone elements which may be used in whole or in part.
20. Plan sponsors are also encouraged to stress that participants stay in touch with the plan sponsor to confirm or update contact and beneficiary information.

# Appendices

FAQs, Sample Materials, Additional References

## **Allow partial withdrawals for participants who have separated from service**

Q: How does this facilitate retirement spending?

A: Participants who are permitted to access their retirement savings through partial or periodic withdrawals are more inclined to hold most of their assets in their retirement plan over the long term and use it as a source of periodic retirement income and/or emergency funds. Research shows that limiting eligible withdrawals for former employees to only full distributions encourages active employees to curtail their savings and to leave the plan entirely after separation from service.

Q: How would the plan allow for this?

A: Sponsors are encouraged to check and, if necessary, amend their plan documents to allow for partial or periodic withdrawals. Many sponsors adopt prototype documents which only allow for full account distributions, particularly for terminated or retired participants. Such changes are considered “settlor” functions and do not constitute a “fiduciary” decision under ERISA. Plan sponsors are also encouraged to check with their plan record keeper around withdrawal capabilities and costs to administer such forms of distributions. It is common for plans to establish a withdrawal hierarchy for partial distributions. In other words, it may be necessary to establish the order in which money will be withdrawn from the plan based on how the money was originally contributed, and this order may vary based on the age and employment status of a participant. Additionally, plan sponsors may need to re-negotiate fees charged for participant distributions, including those associated with the generation of Form 1099-R, check-writing and electronic fund transfers.

Q: I’m concerned about the costs of periodic distributions, either incurred by the participant, or to the plan.

A: Sponsors should negotiate distribution costs with their plan administrator and ensure they are fair and reasonable. In many cases, plan sponsors can obtain waivers or volume discounts for recurring distributions, such as monthly or quarterly payments under a systematic withdrawal feature. Fees for recurring payments can sometimes be as low as or lower than the cost of taking a withdrawal from a bank ATM. Plans can pass this expense through to participants if it is deemed reasonable in relation to the benefits of the feature.



# PARTIAL & PERIODIC WITHDRAWALS

## Sample Withdrawal Hierarchy Tables

In Service		Terminated Vested and/or Retirees	
Sequence of Withdrawal by Source	Tax and Suspension Consequences	Sequence of Withdrawal by Source	Tax and Suspension Consequences
Pre-1987 after tax contributions amount listed on statement.	No tax liability. No suspension.	Pre-1987 after tax contributions amount listed on statement.	No tax liability.
Post-1986 after tax contributions (IRS requires prorated earnings to be distributed.)	Income tax on earnings, plus 10% penalty tax if before Age 59 1/2. No suspension.	Post-1986 after tax contributions (IRS requires prorated earnings to be distributed.)	Income tax plus 10% penalty tax on earnings if terminated before the beginning of the calendar year in which the 55th birthday occurs.
Rollover contributions, if any (excluding after tax amounts rolled into the Plan, but including investment earnings on such amounts).	Income tax on entire amount (excluding after tax amounts rolled over to the Plan, but including investment earnings on such amounts), plus 10% penalty tax if before Age 59 1/2.	Rollover Contributions (if any, excluding after tax amounts rolled over to the Plan, but including investment earnings on such amounts).	Income tax on entire amount (excluding after tax amounts rolled over to the Plan, but including investment earnings on such amounts) plus 10% penalty tax if terminated before the beginning of the calendar year in which the 55th birthday occurs.
Vested Automatic Company Contributions plus earnings.	Income tax on entire amount. No suspension. Not eligible for in-service withdrawals before Age 59 1/2.	Vested Automatic Company Contributions plus earnings.	Income tax on entire amount plus 10% penalty tax if terminated before the beginning of the calendar year in which the 55th birthday occurs.
Vested Company Matching Contributions plus earnings (after five years of Plan participation).	Income tax on entire amount, plus 10% penalty tax if before Age 59 1/2. No suspension.	Vested Company Matching Contributions plus earnings.	Income tax on entire amount plus 10% penalty tax if terminated before the beginning of the calendar year in which the 55th birthday occurs.
Before tax contributions plus earnings before December 31, 1988 (earnings after December 31, 1988 are not eligible for in-service withdrawals).	Income tax on entire amount, plus 10% penalty tax and must apply for hardship withdrawal if before Age 59 1/2.	Before Tax Contributions plus earnings.	Income tax on entire amount plus 10% penalty tax if terminated before the beginning of the calendar year in which the 55th birthday occurs.
Roth 401(k) contributions plus earnings.	Income tax on earnings unless it has been at least five years since first Roth 401(k) contribution. The investment earnings portion of the withdrawal is subject to income tax and, if applicable, the 10% early withdrawal penalty.	Roth 401(k) Contributions plus earnings.	Income tax on earnings plus 10% penalty tax unless it has been at least five years since first Roth 401(k) contribution and you have reached age 59 1/2, become totally and permanently disabled, or died.
Profit sharing contributions plus earnings, if applicable.	Income tax on entire amount. No suspension.	Profit sharing contributions plus earnings, if applicable.	Income tax on entire amount. No suspension.

## **Allow continuation of existing loan repayment schedules for participants with outstanding loans at time of separation as well as initiation of new loans**

Q: How does this promote retirement spending?

A: Allowing loan payments to continue after separation from active employment facilitates repayment of the funds into the retirement account and avoids leakage. Participants are often forced to pay off outstanding plan loans or, more commonly, take an unwanted distribution from an employer-sponsored plan at the time they separate from active employment with a plan sponsor. Unwanted distributions represent a form of leakage which may potentially erode an individual's retirement security, as well as create a financial hardship for most participants who are required to pay resulting taxes and penalties.

Allowing participants to initiate loans post termination eliminates an incentive for participants to leave the plan when facing financial difficulty. Offering continued access to their savings in an emergency will permit participants to address urgent needs, while facilitating loan repayment may avoid penalties and taxes associated with early and/or excess withdrawals.

Q: How are loan repayments processed for terminated participants since they are no longer on the payroll system?

A: Automated electronic payments via ACH payment are now offered by the vast majority of record keepers. Coupon books are often still available for those who wish to pay via check.

Q: Are there any costs associated with loans and loan payments post-employment?

A: There may be costs associated with initiating a loan as well as loan payments. These costs can also be negotiated with the plan record keeper and could be passed on to the individual taking the loan, if appropriate.

## **Allow inactive participants to “roll-in” assets from all eligible sources, including DB plans, and simplify the process for doing so**

Q: How does this promote retirement spending?

A: Most participants change jobs several times during their working lives, and typically establish more than one retirement account. Qualified plans, IRAs and taxable savings accounts are just a few of the financial resources they must manage in retirement when many are often faced with declining cognitive ability and diminished capacity. Consolidating accounts within a single well-designed retirement plan, where permitted, can greatly simplify this onerous task and maximize purchasing power by minimizing fees and complexity, not to mention provide the added benefit of professional fiduciary oversight. This also reduces unintentional leakage by keeping the participant in the retirement plan system when low account balances spread across multiple plans might otherwise result in forced distributions.

Q. I have been told that allowing rollovers into the plan exposes the plan to risks


A. IRS Rev. Rul. 2014–9 ([https://www.irs.gov/irb/2014-17\\_IRB/ar05.html](https://www.irs.gov/irb/2014-17_IRB/ar05.html)) describes simplified due diligence procedures for safe harbor protection. These procedures are generally sufficient: 1) employee certification of the source of the funds, 2) verification of the payment source (on the incoming rollover check or wire transfer) as the participant’s IRA or former plan, 3) if the funds are from a plan, looking up that plan’s Form 5500 filing, if any, in the Department of Labor’s EFAST2 database for assurance that the plan is intended to be a qualified plan. It’s not necessary to obtain a letter from the distributing plan when its qualified status can be checked using the online Department of Labor filing search.

Q: What are some ways to support low balance participants upon termination?

A: There are a few things to consider. For one, communication and education can help reinforce the benefits of preserving retirement assets for these individuals. Additionally, plan sponsors can consider reducing the automatic force out limits as allowed by regulations. Finally, sponsors can work with their providers on ways to support simple, efficient and plan-to-plan transfers to encourage account consolidation.

# IRS Eligible Rollover Chart

## ROLLOVER CHART

		Roll To							
		Roth IRA	Traditional IRA	SIMPLE IRA	SEP-IRA	Governmental 457(b)	Qualified Plan <sup>1</sup> (pre-tax)	403(b) (pre-tax)	Designated Roth Account (401(k), 403(b) or 457(b))
Roll From	<a href="#">Roth IRA</a>	Yes <sup>2</sup>	No	No	No	No	No	No	No
	<a href="#">Traditional IRA</a>	Yes <sup>3</sup>	Yes <sup>2</sup>	Yes <sup>2, 7</sup> , after two years	Yes <sup>2</sup>	Yes <sup>4</sup>	Yes	Yes	No
	<a href="#">SIMPLE IRA</a>	Yes <sup>3</sup> , after two years	Yes <sup>2</sup> , after two years	Yes <sup>2</sup>	Yes <sup>2</sup> , after two years	Yes <sup>4</sup> , after two years	Yes, after two years	Yes, after two years	No
	<a href="#">SEP-IRA</a>	Yes <sup>3</sup>	Yes <sup>2</sup>	Yes <sup>2, 7</sup> , after two years	Yes <sup>2</sup>	Yes <sup>4</sup>	Yes	Yes	No
	<a href="#">Governmental 457(b)</a>	Yes <sup>3</sup>	Yes	Yes <sup>7</sup> , after two years	Yes	Yes	Yes	Yes	Yes <sup>3, 5</sup>
	<a href="#">Qualified Plan<sup>1</sup> (pre-tax)</a>	Yes <sup>3</sup>	Yes	Yes <sup>7</sup> , after two years	Yes	Yes <sup>4</sup>	Yes	Yes	Yes <sup>3, 5</sup>
	<a href="#">403(b) (pre-tax)</a>	Yes <sup>3</sup>	Yes	Yes <sup>7</sup> , after two years	Yes	Yes <sup>4</sup>	Yes	Yes	Yes <sup>3, 5</sup>
	<a href="#">Designated Roth Account (401(k), 403(b) or 457(b))</a>	Yes	No	No	No	No	No	No	Yes <sup>6</sup>

<sup>1</sup>Qualified plans include, for example, profit-sharing, 401(k), money purchase, and defined benefit plans.

<sup>2</sup> [Only one rollover](#) in any 12-month period.

<sup>3</sup>Must include in income.

<sup>4</sup>Must have separate accounts.

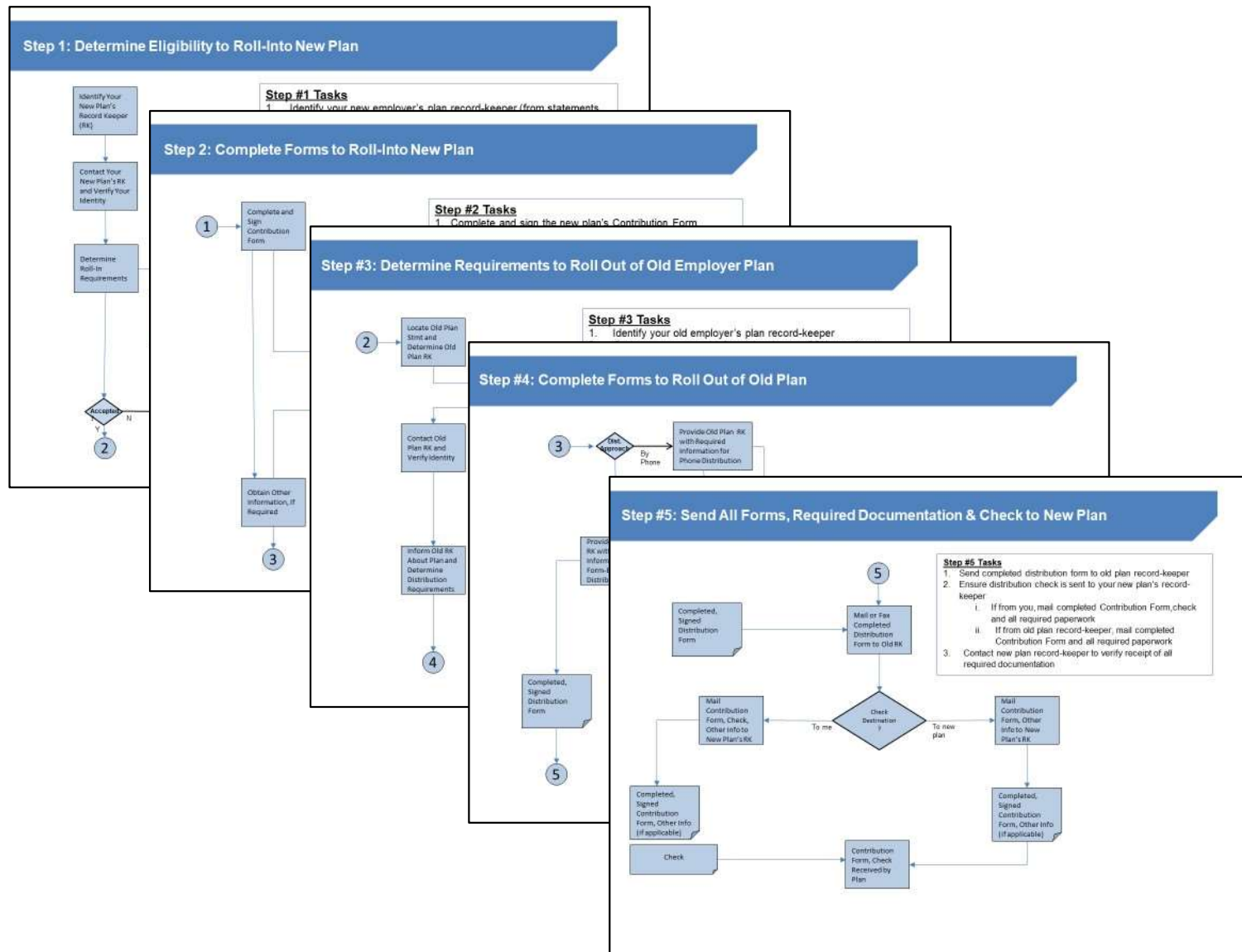
<sup>5</sup>Must be an in-plan rollover.

<sup>6</sup>Any nontaxable amounts distributed must be rolled over by direct trustee-to-trustee transfer.

<sup>7</sup>Applies to rollover contributions after December 18, 2015. For more information regarding retirement plans and [rollovers](#), visit [Tax Information for Retirement Plans](#).



# Current Rollover Process for Qualified Plans is Complex, Opaque and Poorly Understood



## **Make available investment guidance, advice, managed account services, financial planning services, and other helpful tools and calculators**

Q: How does this promote retirement spending?

A: Whether the plan participant is accumulating or in the retirement years, these services can provide tools and services needed to help manage retirement assets. Many such tools and services are integrated with the plan record keeper, making use of them relatively easy for participants.

Q: What should I consider from a fiduciary perspective if I add these services?

A: The Pension Protection Act of 2006 expanded the availability of fiduciary investment advice to participants in defined contribution plans, subject to safeguards and conditions. The DOL took additional action in 2011 and broaden the availability of investment advice when it published its “Final Rule to Increase Workers’ Access to High Quality Investment Advice.” Fiduciaries should also consider that, while most advisory service providers will take fiduciary responsibility for their advisory services rendered, plan fiduciaries are still obligated to prudently select, monitor and, if necessary, replace such providers.

Q: How can I find out who offers such services in the marketplace?

A: Many plan record keepers have made available one or more advisory services providers. DC Plan consultants and advisors are good sources, as are industry publications that publish advisory services provider guides.

## **Continue access to educational information, including ongoing seminars, webinars, and workshops for terminated and retired participants**

Q: Do I increase my administrative costs by doing this?

A: Many providers will make such existing services available to terminated participants for no additional charge. Additionally, webinars, which can be recorded and available on an ongoing basis, are an excellent way to reach participants who no longer work for the company.



# PSI FOCUS

## A Closer Look At Building Retirement "Spending" Plans (Part Two)

Kevin T. Hanney, CFA  
October 17, 2023  
2:00pm ET / 11:00 PT

# EXECUTIVE SUMMARY

## Why Are We Here Today?

Modern DC plans are highly effective retirement “savings” vehicles, and ERISA requires fiduciaries to minimize the risk of large losses with diversified investment options like target date funds, but...

***How do we protect people when diversification fails?***

Let's look at how capital preservation and lifetime income features can help transform retirement “savings” plans into retirement “spending” plans and protect those who are the most sensitive to losses

*(...and add more to that due diligence file that will make your ERISA legal counsel proud!)*



# FUNDAMENTAL CONCEPTS

## Questions for employers & fiduciaries

*Which choice best describes most people in a 401(k) plan?*

- a) Today's Valued Employees & Tomorrow's Esteemed Retirees*
- b) Risk Tolerant & Savvy Investors*
- c) Disciplined & Frugal Savers*

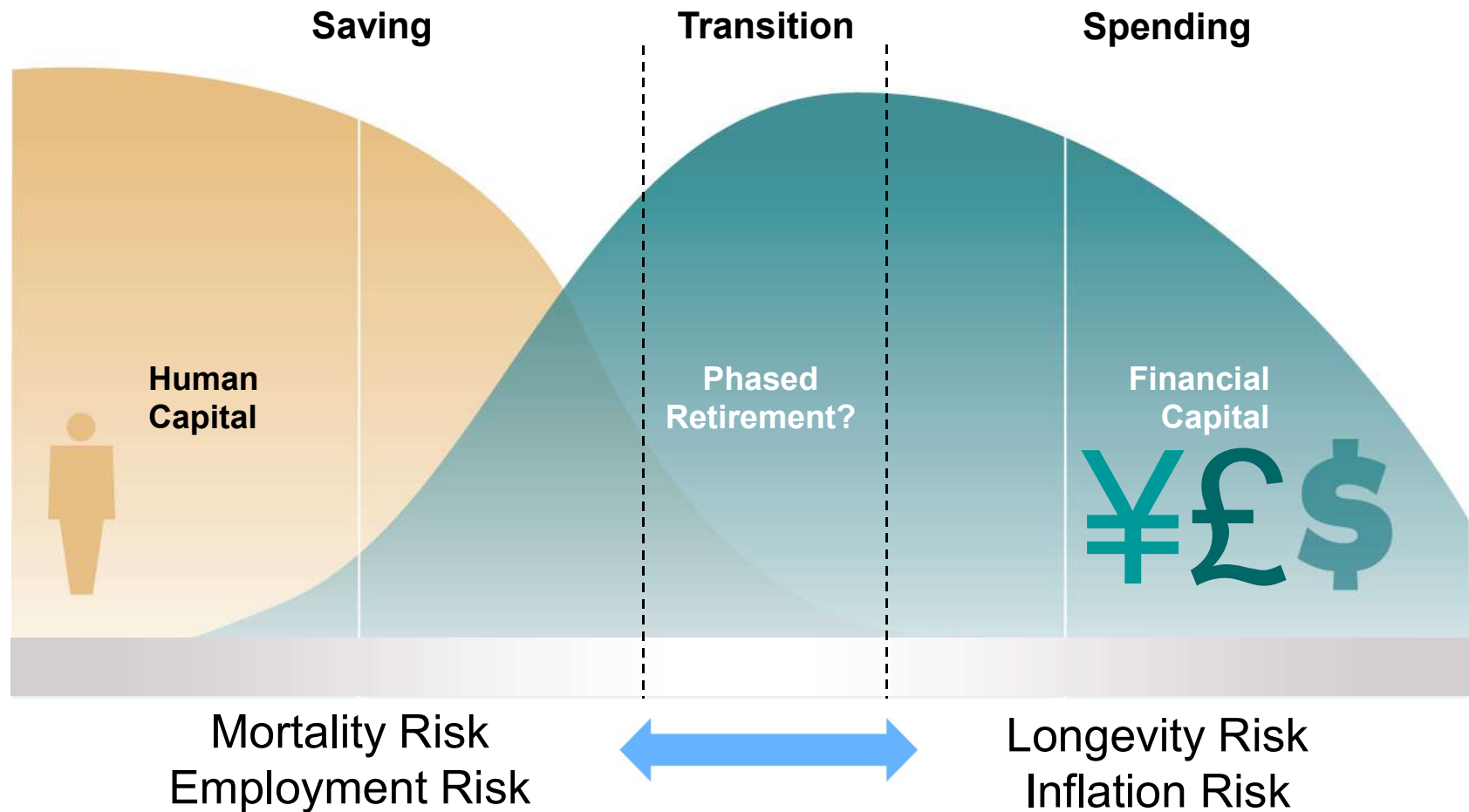
*Which choice best describes the typical 401(k) plan?*

- a) A Secure Retirement Benefit That Can Pay People For Life*
- b) An Investment Portfolio That They Manage On Their Own*
- c) A Savings Account They Draw From Sparingly In Retirement*

*Are the answers to these questions in sync?*

# FINANCIAL SECURITY OVER A LIFETIME

## Needs & Risks Change Over Time



# RETIREMENT INCOME ALTERNATIVES

## A Balance Between Control & Certainty



Most retirement income alternatives fall along a spectrum of control and certainty

Periodic Withdrawals	Income Alternatives	Traditional Income Annuity
Complete Control	Degrees Of Control	No Control
Many Options No Guarantees	Blend Flexible Features & Options	Guaranteed Income*

\* And nothing else

*Security & Certainty combined with Freedom & Flexibility  
We Can Offer the Best of Both Worlds*

Source: Hanney 2009

# FEATURES OF EFFECTIVE SOLUTIONS

## Multiple Perspectives

	<u>Participants &amp; Beneficiaries</u>	<u>Plan Sponsors &amp; Fiduciaries</u>
Principal / Income Protection	✓	
Growth / Upside Potential	✓	
Emergency Access	✓	
Portability	✓	✓
Competitive Pricing	✓	✓
Fiduciary Oversight	✓	✓
QDIA Compliant		✓

*Service providers need to invest time & resources to make this successful!  
Consider implementation costs and constraints. Negotiate accordingly!*

Source: Hanney 2006

# ENHANCE QDIA & CORE LINEUPS

## Capital Preservation & Lifetime Income Features

QDIAs can incorporate fixed return investments & income annuities to:

- ✓ Reduce day-to-day volatility
- ✓ Increase compound returns
- ✓ Expand spending capacity
- ✓ Reduce expense ratios
- ✓ Improve success rates

Sponsors should consider including a guaranteed investment contract, stable value fund or money market fund as a designated investment alternative in the core fund menu

3(38) fiduciaries should utilize insurance instruments in combination with investments to deliver professionally managed solutions

Financial planning and online advice tools must incorporate the benefits of insurance in a comprehensive retirement spending plan

Source: EAC 2015, Hanney 2023



# FIXED RETURN INVESTMENTS

## Fully Benefit Responsive Investment Contracts

**APPENDIX A: Fully Benefit-Responsive Investment Contracts and Contract Value Definitions From the Master Glossary of the Codification**

**Fully Benefit-Responsive Investment Contract:**

An investment contract is considered fully benefit-responsive if all of the following criteria are met for that contract, analyzed on an individual basis:

a. The investment contract is effected directly between the plan and the issuer and prohibits the plan from assigning or selling the contract or its proceeds to another party without the consent of the issuer.

b. Either of the following conditions exists:

1. The repayment of principal and interest credited to participants in the plan is a financial obligation of the issuer of the investment contract.

2. Prospective interest crediting rate adjustments are provided to participants in the plan on a designated pool of investments held by the plan or the contract issuer, whereby a financially responsible third party, through a contract generally referred to as a wrapper, must provide assurance that the adjustments to the interest crediting rate will not result in a future interest crediting rate that is less than zero.

If an event has occurred such that realization of investment contract is no longer probable (for creditworthiness of the contract issuer or wrapper) shall no longer be considered fully benefit-responsive.

c. The terms of the investment contract require all permitted transactions with the plan to occur at contract value with no conditions. Participant-initiated transactions are those transactions allowed by the plan, such as any of the following:

1. Withdrawals for benefits

2. Loans

3. Transfers to other funds within the plan.

d. An event that limits the ability of the plan to transact at contract value with the issuer and that also limits the ability of the plan to transact at contract value with the participants in the plan, such as any of the following, must be probable of not occurring:

1. Premature termination of the contracts by the plan

2. Plant closings

3. Layoffs

4. Plan termination

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**Appendix — Example Illustrating Disclosures About Fully Benefit-Responsive Investment Contracts**

The example below, which has been adapted from ASC 962-325-55-17 (added by ASU 2015-12), illustrates the ASU's presentation and disclosure requirements for investments in FBRICs.

**XYZ Company 401(k) Plan  
Statements of Net Assets Available for Investments**

December 31,	
20A1	20A0
397,000	\$ 7,014,000
500,000	650,000
14,000	10,000
52,000	50,000
300,000	350,000
366,000	410,000
363,000	8,074,000
10,000	20,000
15,000	—
25,000	20,000
418,000	\$ 8,054,000

reasonable access to their funds.

Investment contracts held by the plan are fully benefit-responsive. For example, if plan participants in all or a portion of their account balances only considered reasonable access to their funds, they would not be deemed to be fully benefit-responsive. For example, if plan participants consistent with the welfare benefits will not be deemed to be fully benefit-responsive.

Investment contracts held by the plan are fully benefit-responsive. For example, if plan participants in all or a portion of their account balances only considered reasonable access to their funds, they would not be deemed to be fully benefit-responsive.

**Investment Contract:**

An investment contract held by a defined contribution plan is a fully benefit-responsive investment contract if the amount a participant would receive if he or she terminates the plan is based on the contract value.

**Disclosures:**

The plan shall disclose the following in connection with its investments in the aggregate:

a. The investment contracts, including both of the

b. The interest crediting rate, including all of

the following:

1. The key factors that could influence future average interest crediting rates
2. The basis for and frequency of determining interest crediting rate resets

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<https://dart.deloitte.com/USDART/home/publications/archive/deloitte-publications/heads-up/2015/fasb-issues-asu-employee-benefit-plan>

Source: FASB 2015, Deloitte 2015

# TARGET DATE FUND VOLATILITY

## FBRICs Reduce Risk & Increase Return

Fully Benefit Responsive Investment Contracts (FBRICs) are GICs used in place of money markets, short and intermediate bonds. Traditional FBRICs eliminate the day-to-day volatility of traditional fixed income portfolios by applying book value accounting and guaranteed crediting rates to the calculation of daily unit prices (NAVs). However, **FBRICs that allocate a prudent portion of assets to equity and other diversifiers go further to utilize principles of modern portfolio theory and improve investment efficiency, reducing risk and increasing compound returns.** Incorporating diversified FBRICs into traditional TDFs can create more secure retirement outcomes for plan participants, *especially when combined with systematic withdrawals.*

Target Date Funds can utilize FBRICs & Systematic Withdrawals to:

- Reduce risk and increase return

- Incorporate guaranteed crediting rates

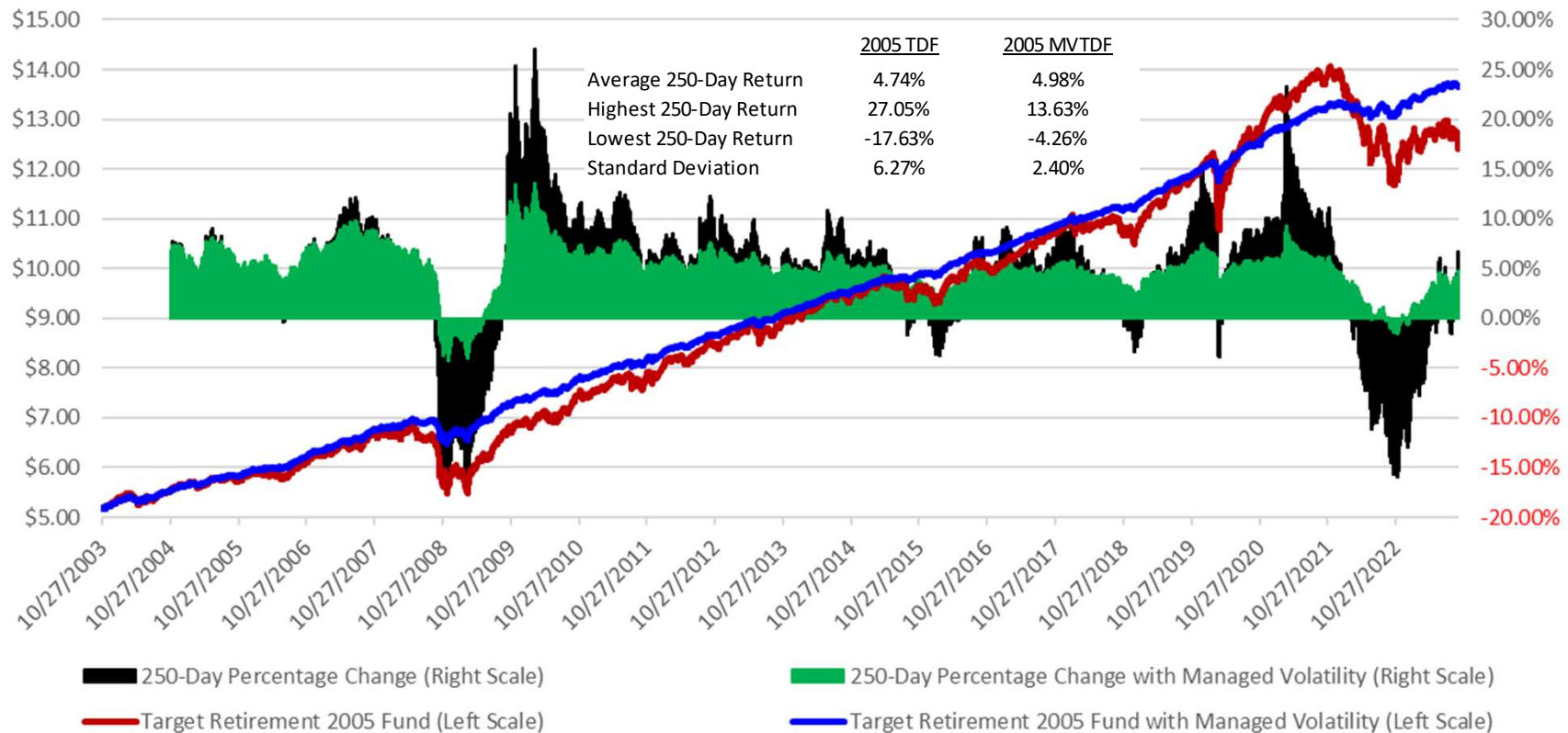
- Combine book value & market value accounting

- Include a floor that guarantees principal invested in FBRICs

- Introduce a low-cost retirement income alternative

# TARGET DATE 2005 FUNDS

## 20 Years of Volatility in Rolling Yearly Returns



67% Growth / 33% Fixed Income

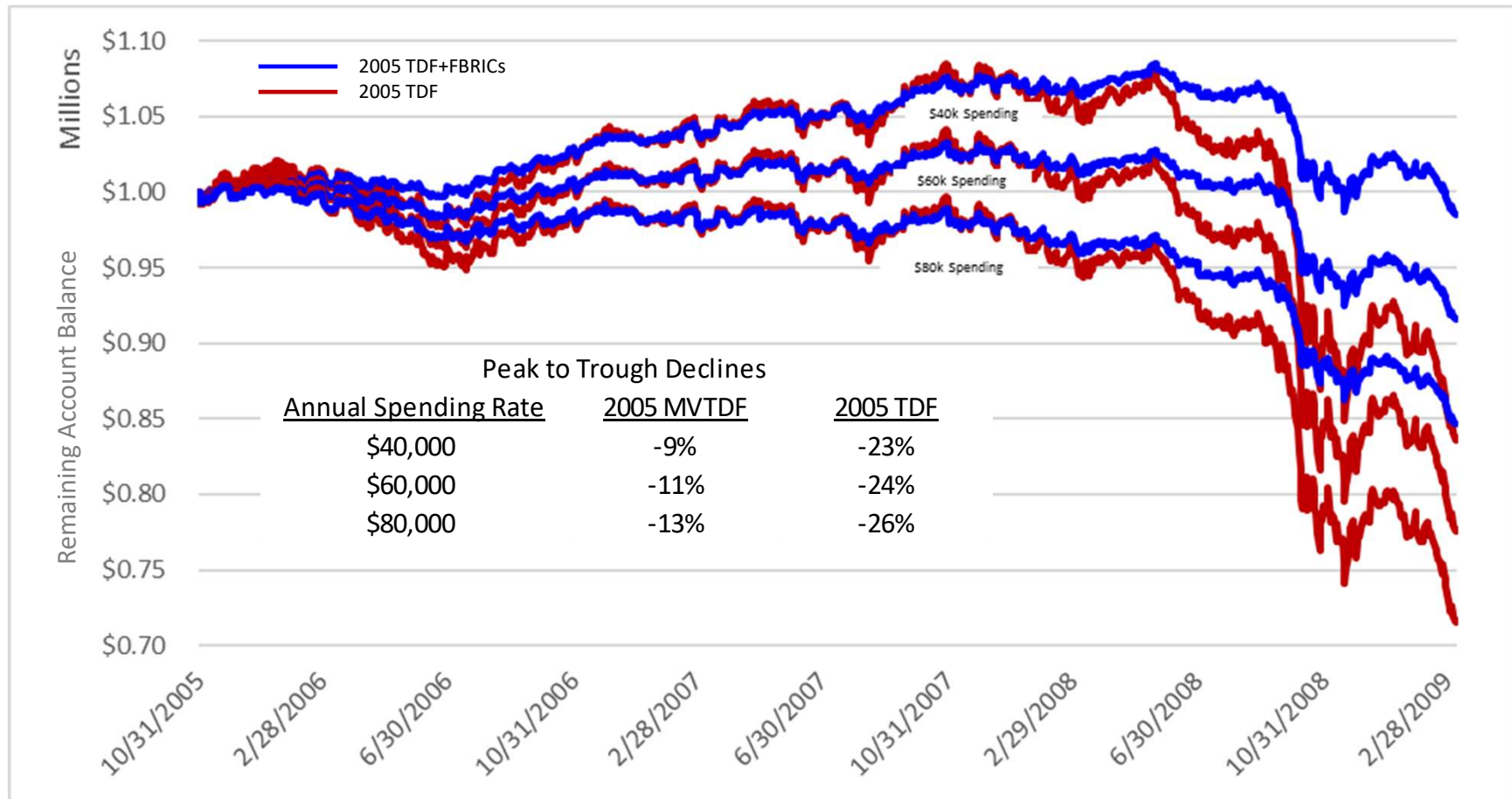


27% Growth / 73% FBRICs

Source: Hanney 2023

# TARGET DATE 2005 FUNDS

## Retirement Spending During the Financial Crisis



Source: Hanney 2023

# LIFETIME INCOME STRATEGY v1.0

## Design objectives

Design an investment portfolio glide path:

Consistent with needs of all participants

Consistent with Qualified Investment Default Alternative (QDIA) status

Seek 100% replacement rate in combination with

Social Security

DB / DC Company Contributions



# SOURCING RETIREMENT INCOME

Fiduciary / sponsor preferences

Ongoing price discovery

Insurer competition

Capacity & constraints

Leading indications of solvency risk

Adaptable to changing conditions

Integrate new insurers / enhanced benefits

Conform to new regulatory requirements

Diversification of issuer risk

State guaranty association “Safety Net”

Source: Hanney 2023

# INSURER SELECTION & OVERSIGHT

## Selection criteria and ongoing due diligence

### Firm-Level Characteristics

Industry position

Diversification of business lines

Familiarity with income products

### Reserves / Capital Strength

Risk-Based Capital Statistic (RBCS)

Financial strength ratings

Credit ratings

### Hedging Practices / Risk Management

Frequency of guarantee valuation & mark-to-market

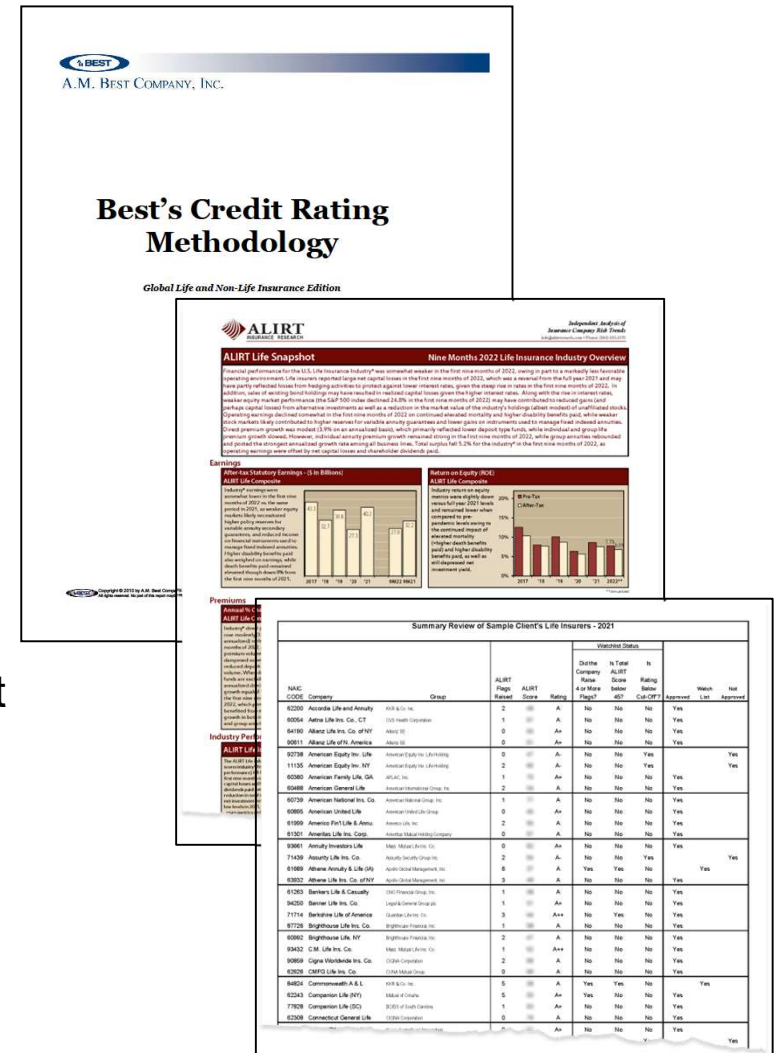
Static / dynamic hedging mix

Hedging instruments / counterparties

### Legal / Contract Language

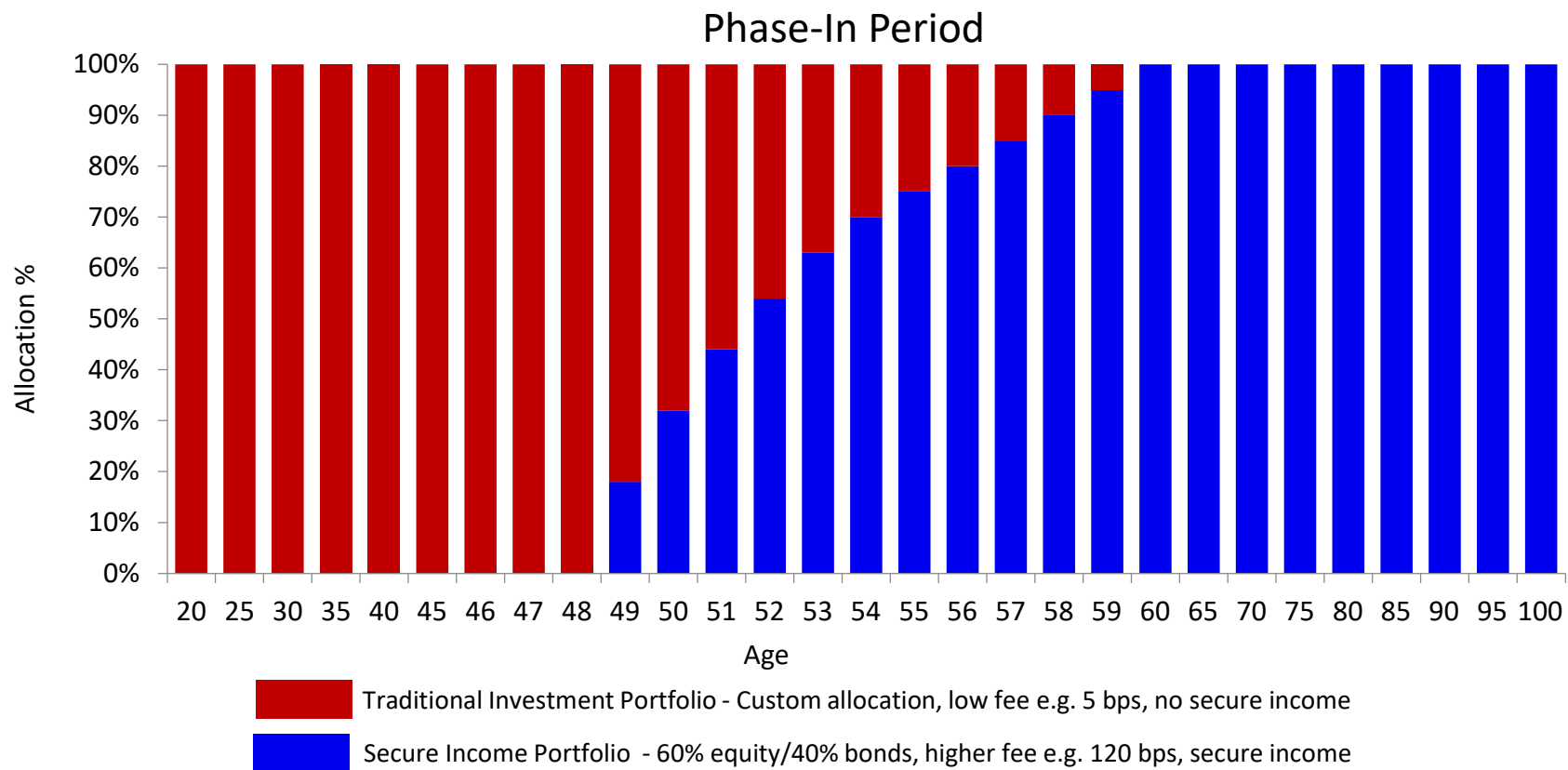
Structure of guarantee

Entity backing guarantee



# LIFETIME INCOME STRATEGY v1.0

## Investment & Insurance Allocation



### Complete solution over lifecycle

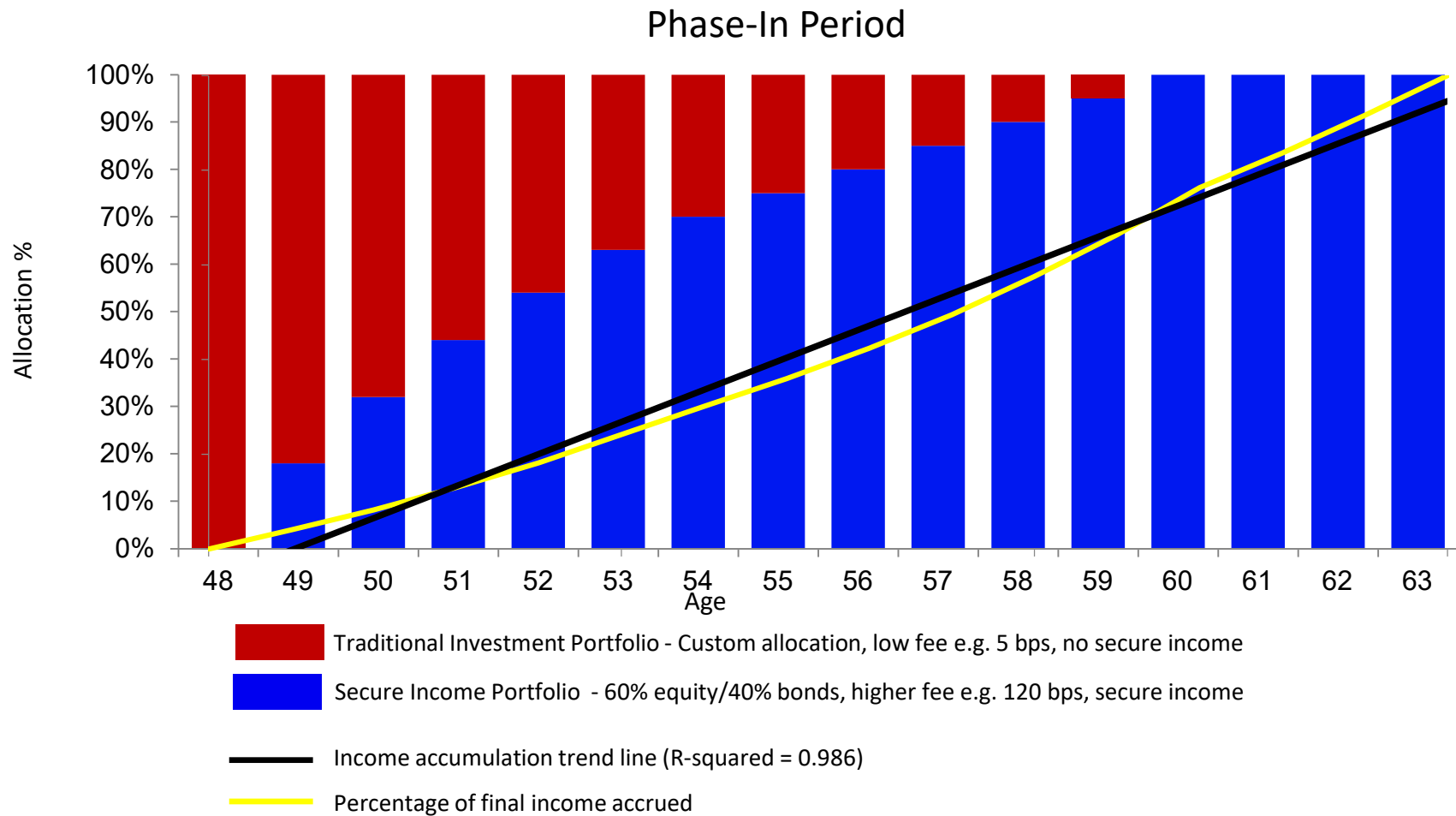
As a young saver, invest in low cost, traditional global portfolio

As a pre-retiree, acquire & build secure income, maintain investment portfolio

As a retiree, collect lifetime income with confidence, maintain investment portfolio

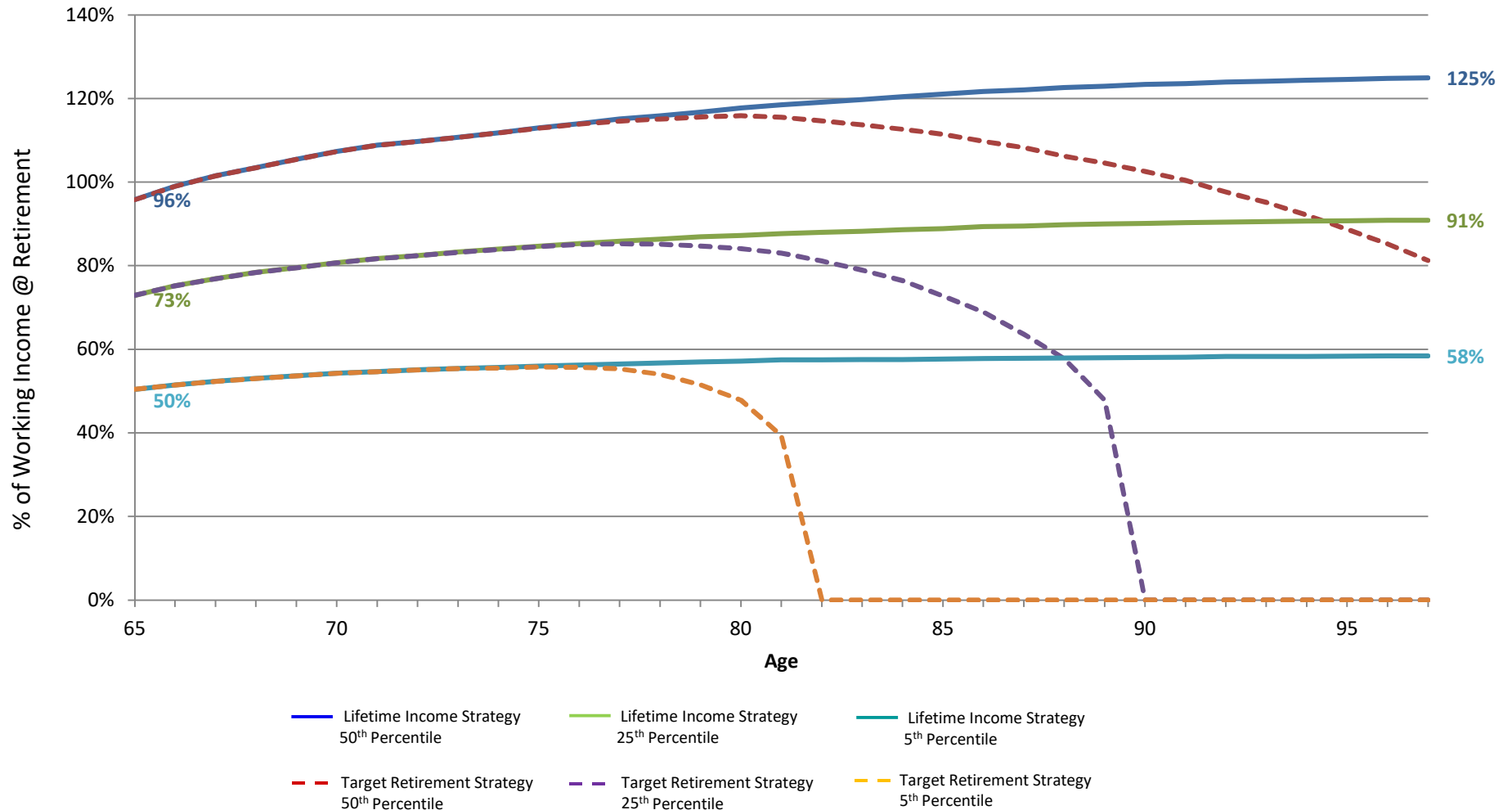
# LIFETIME INCOME STRATEGY v1.0

## Procuring Guaranteed Income



# LIFETIME INCOME STRATEGY v1.0

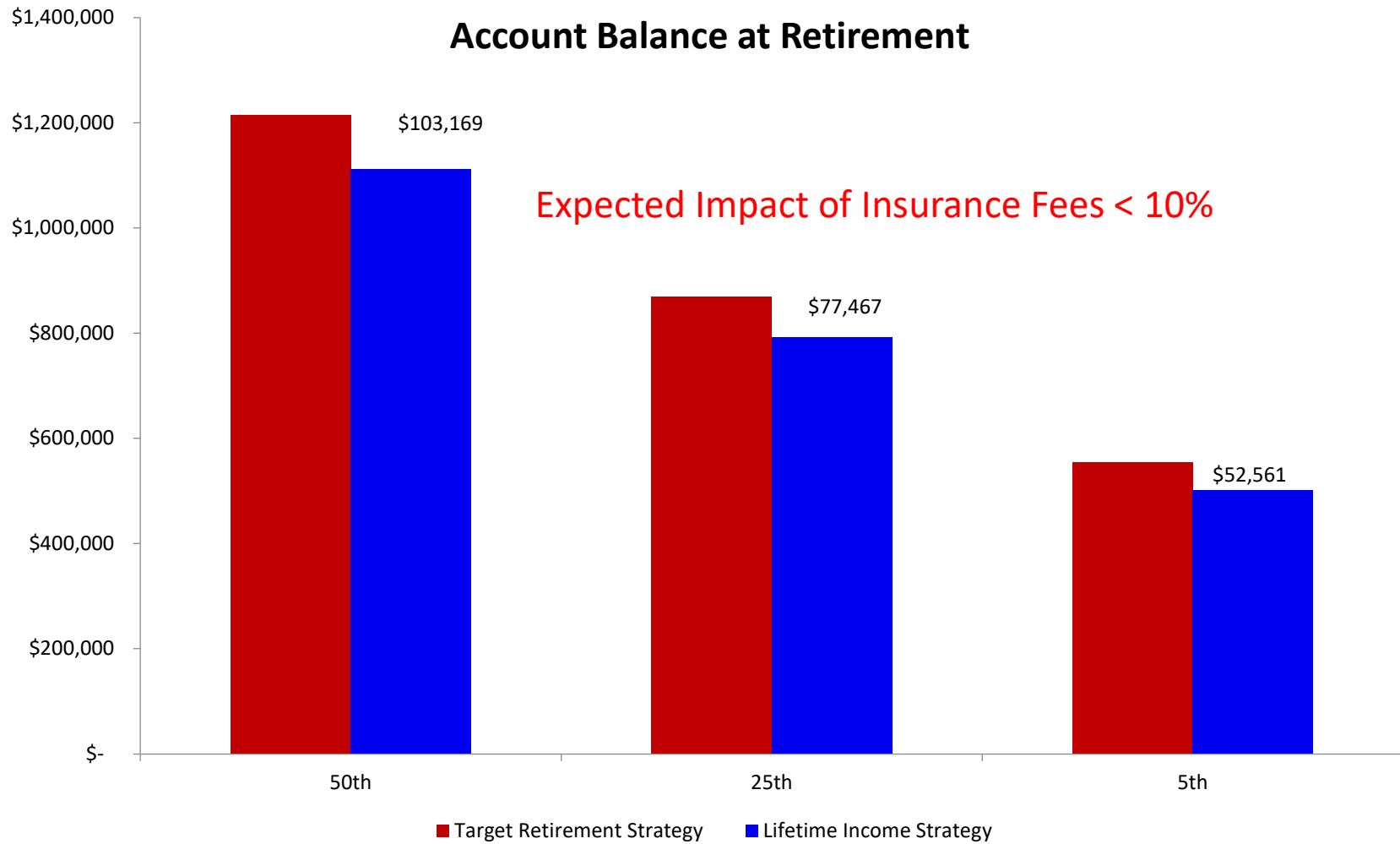
## Projected Income Levels





# LIFETIME INCOME STRATEGY v1.0

## Projected Account Balance @ Retirement



# VALUATION METRICS

## Money's Worth Ratio & Annuity Equivalent Wealth

Extensive academic literature

Complex calculations, but intuitive

Facilitate product comparisons

One part of a multi-faceted analysis

	<u>MWR</u>	<u>AEW</u>
Investment Only (126 bps)	1.00	\$ 100,000
SPIA, 7.95% Payout	0.93	\$ 165,129
SPIA, 6.95% Payout	0.81	\$ 134,745
Plain VA/GLWB, 5% Rate		
High fee (280 + 75 bps)	0.90	\$ 109,071
Base case (237 + 75bps)	0.92	\$ 111,064
Low fee (129 + 75 bps)	0.99	\$ 117,007
Very Low Fee (126 bps)*	1.03	\$ 120,678
Very Low Fee + Ratchet*	1.06	\$ 124,298

\* Estimates by Hanney, 2023

Valuing Variable Annuities with Guaranteed Minimum Lifetime Withdrawal Benefits		
Abstract		
Variable annuities with guaranteed minimum lifetime withdrawal benefits (VA/GLWB) offer retirees longevity protection, investment exposure to equity markets, and access to flexible withdrawals in case of need. This paper models how risk-averse retirees optimally withdraw from the products balancing returns and the embedded longevity protection. The resulting cash flow generates a Money's Worth value of around 90 cents for our stylized VA/GLWB. We show that the utility value of this VA/GLWB exceeds that of a similar mutual fund but it is less than for a fixed annuity. Interestingly, maximum withdrawal rates from a VA/GLWB are exceeded frequently during early retirement, even when this reduces future withdrawal guarantees.		
Keywords: annuity, guarantee, lifetime income, life cycle model, portfolio allocation, longevity protection		
Petra Steinorth School of Risk Management, Insurance, and Actuarial Science St. John's University <a href="mailto:steinorp@stjohns.edu">steinorp@stjohns.edu</a>		
Olivia S. Mitchell Professor of Insurance/Risk Management & Business Economics/Policy University of Pennsylvania - The Wharton School <a href="mailto:mitchelo@wharton.upenn.edu">mitchelo@wharton.upenn.edu</a>		

Equivalent Wealth Values for Alternative	
Term	Annuity Equivalent Wealth
0	\$100,000
2	\$111,064
4	\$112,101
6	\$134,745
8	\$165,129

Equivalent Wealth Values for Alternative	
Term	Annuity Equivalent Wealth
0	\$109,071
2	\$111,064
4	\$117,007
6	\$118,039
8	\$111,744
10	\$103,656

Annuity Equivalent Wealth Values (AEW)	
Ratchet VA/GLWB MWR AEW	
0.79	\$98,373
0.83	\$104,898
0.87	\$109,915
0.85	\$105,983
0.89	\$112,100
0.93	\$116,870
0.90	\$120,424
0.94	\$122,658
0.99	\$125,666

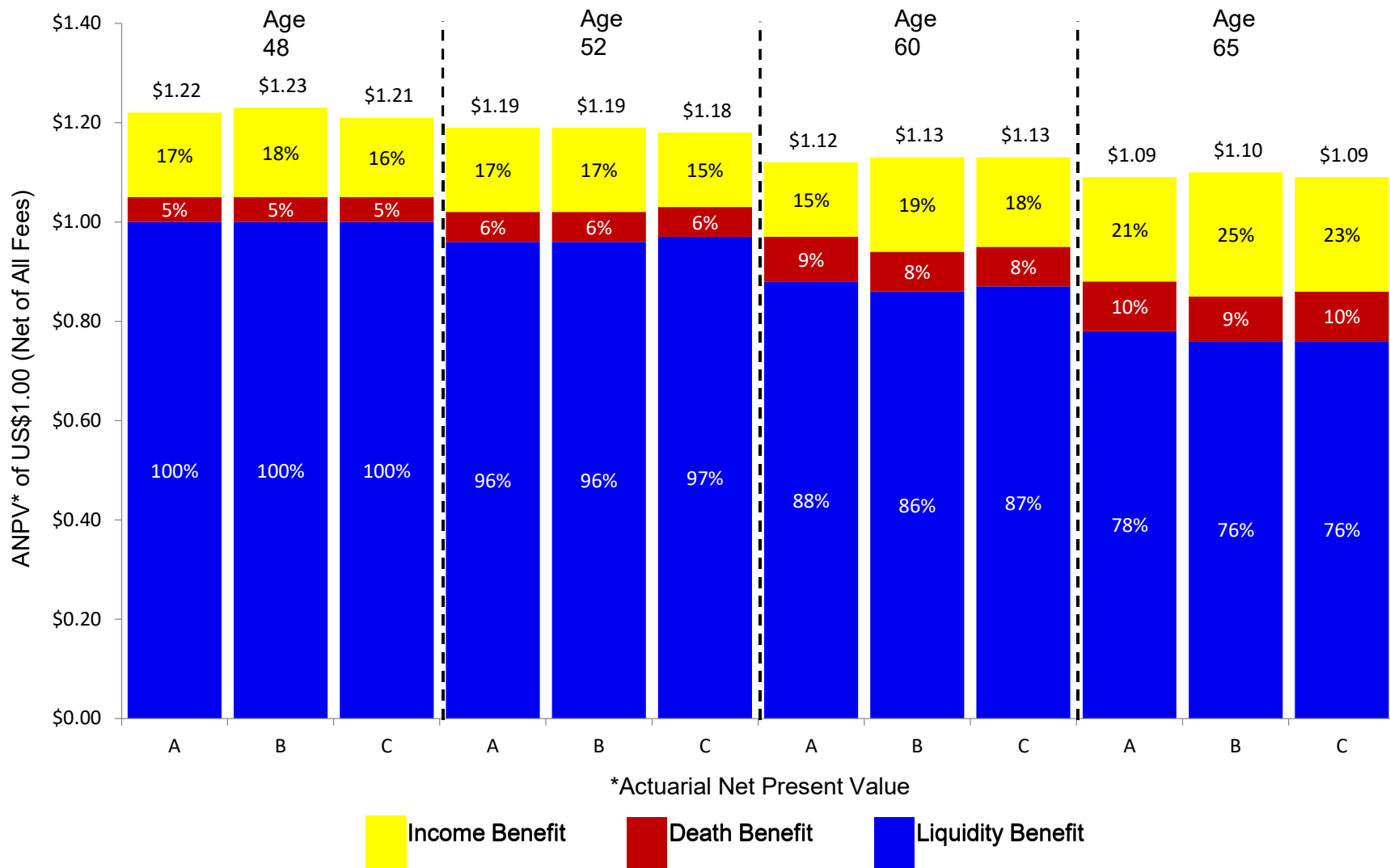
  

Equivalent Wealth Values for Alternative	
Term	Annuity Equivalent Wealth
0	\$100,000
2	\$107,484
4	\$108,762
6	\$130,365
8	\$151,365

Source: Steinorth & Mitchell 2014

# ANALYZING INCOME ALTERNATIVES

## Compare Features Using NPV Analysis



Source: UTC 2018

# DOL LIFETIME INCOME CALCULATOR

## Safe Harbor Illustrations

An official website of the United States government. [View's how you know](#)

U.S. DEPARTMENT OF LABOR

Employee Benefits Security Administration

ESPAÑOL | 1-800-755-4773

TOPICS WORKERS EMPLOYERS AND ADVISERS RESEARCHERS RESOURCES LAWS AND REGULATIONS ABOUT

EBSA > Laws & Regulations > Rules & Regulations > Lifetime Income Calculator

## Lifetime Income Calculator

### Overview

Workers participating in defined contribution plans, like 401(k) plans or similar savings plans, are responsible for managing their retirement savings while employed and during their retirement years.

Showing participants their retirement plan account balance as level monthly payments for their lifetime will help them assess their retirement readiness and plan for their retirement. As described in an advance notice of proposed rulemaking (ANPRM), the Department of Labor is considering proposing a rule that pension benefit statements include the participant's account balance as a single sum as well as an estimated lifetime income stream of level payments using both the participant's current account balance and the projected account balance at retirement. For married participants, the statement also must include joint and survivor lifetime income payments.

Using assumptions described in the ANPRM (noted below), this [calculator](#) illustrates an annuitization approach to estimate the monthly lifetime income streams based on both the participant's current account balance and on the projected value of the account balance at retirement. For both balances, the calculator develops two level lifetime payments: one for the life of the participant (with no benefits to any survivors) and the second for the joint lives of the participant and the spouse with a fifty percent survivor's benefit for the spouse's lifetime.

This calculator uses a simplified computation (e.g., annual contributions, mid-year retirement). Depending on the comments received in response to the ANPRM, the next version of the calculator may provide a more precise computation (e.g., monthly contributions, retirement in a specified month).

### How the Calculator Works

The calculator uses the safe harbor assumptions described in the ANPRM for estimating future contributions, investment earnings, and inflation:

- Contributions continue to Retirement Age at the Current Annual Contribution amount increased by 3 percent per year.
- Investment returns are 7 percent per year (nominal).
- An inflation rate of 3 percent per year is used for discounting the projected account balance to today's dollars.

In converting the account balances into lifetime income streams, the calculator uses the safe harbor annuity conversion assumptions described in the ANPRM.

## Lifetime Income Calculator

[View Instructions](#)

\*All fields are required

Retirement Age

Current Account Balance \$

Current Annual Contribution \$

Years to Retirement

Statement Date (MM/DD/YYYY)

[Calculate](#) [Clear](#)

### Calculation Results

	Value at Retirement Age	Lifetime Income/Month for Participant With No Survivor Benefit	Lifetime Income/Month with Joint & Survivor Annuity	
			Participant	Spouse with 50%
Current Account Balance	\$100,000	\$610	\$564	\$282
Projected Account Balance	\$101,923	\$622	\$575	\$288

All of the results shown are estimates, not guarantees, of the level of the account balance or of the lifetime income streams of payments. The U.S. Department of Labor does not monitor or save data you enter online, and you cannot save calculations online. You may save your results by printing a copy or copying/pasting a copy into a text document on your computer before terminating your session.

<https://www.dol.gov/agencies/ebsa/laws-and-regulations/rules-and-regulations/advanced-notices-of-proposed-rulemaking/lifetime-income-calculator>

# THE ALPHABET SOUP OF ANNUITIES

## How Many Can You Name?

DIA	Deferred Income Annuity
FIA	Fixed Indexed Annuity
GLWB	Guaranteed Lifetime Withdrawal Benefit
GMAB	Guaranteed Minimum Account Benefit
GMDB	Guaranteed Minimum Death Benefit
GMIB	Guaranteed Minimum Income Benefit
GMWB	Guaranteed Minimum Withdrawal Benefit
MYGA	Multi-Year Guaranteed Annuity
QLAC	Qualified Longevity Annuity Contract
RILA	Registered Index Linked Annuity
SPIA	Single Premium Immediate Annuity
VA	Variable Annuity



Sources: Hanney, Education.com, Bing AI 2023

# ANNUITY ACRONYM WORD SEARCH

## How Many Can You Find?



Source: Hanney 2023




# ANNUITY ACRONYM WORD SEARCH

## How Many Can You Find?

Word Search

E	G	K	R	V	C	S	Z	P	R
G	I	J	I	A	Q	I	N	P	K
D	L	I	L	W	W	Q	D	G	F
I	C	W	A	I	K	L	C	M	X
A	F	T	B	T	U	A	V	I	S
G	H	I	X	H	G	C	J	B	P
R	M	L	A	G	G	M	G	A	I
G	Y	A	K	L	H	M	D	C	A
N	G	G	B	W	P	Y	W	B	P
W	A	H	Z	B	W	C	N	B	M

VAWITHGLWB	GLWB	GMAB	RILA
GMDB	GMIB	GMWB	DIA
MYGA	FIA	QLAC	SPIA

 Build your own custom worksheet at [education.com/worksheets-generator](https://www.education.com/worksheets-generator)  
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Answer Key

E	G	K	R	V	C	S	Z	P	R
G	I	J	I	A	Q	I	N	P	K
D	L	I	L	W	W	Q	D	G	F
I	C	W	A	I	K	L	C	M	X
A	F	T	B	T	U	A	V	I	S
G	H	I	X	H	G	C	J	B	P
R	M	L	A	G	G	M	G	A	I
G	Y	A	K	L	H	M	D	C	A
N	G	G	B	W	P	Y	W	B	P
W	A	H	Z	B	W	C	N	B	M

VAWITHGLWB	GLWB	GMAB	RILA
GMDB	GMIB	GMWB	DIA
MYGA	FIA	QLAC	SPIA

 Build your own custom worksheet at [education.com/worksheets-generator](https://www.education.com/worksheets-generator)  
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Source: Hanney 2023

# NAIC ANNUITY GUIDES

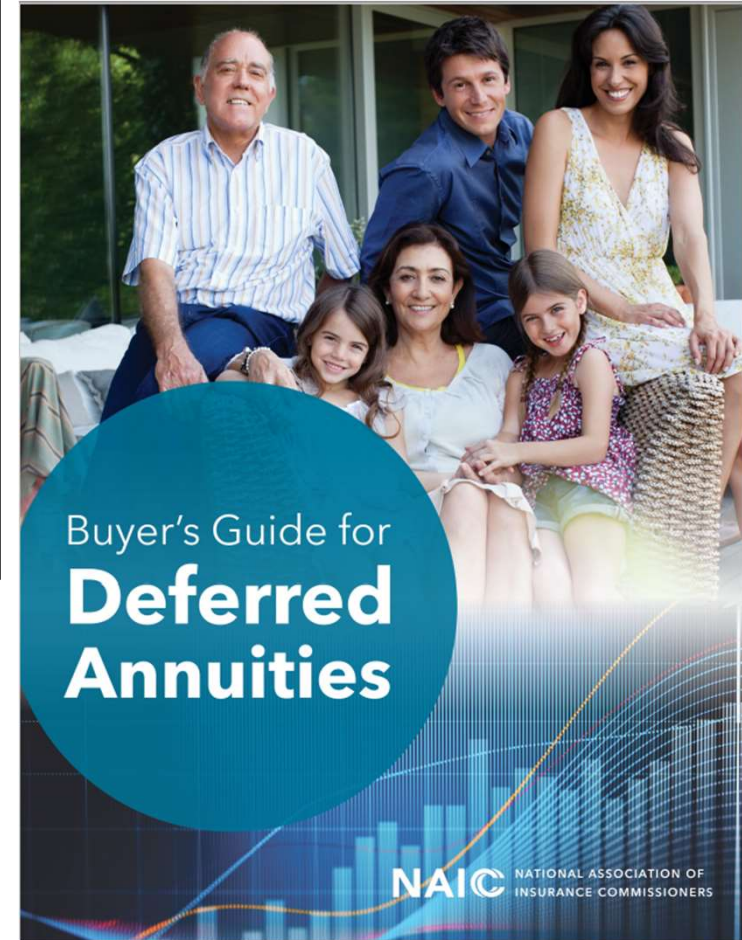
## Publicly Available Reference Material

BUYER'S GUIDE FOR DEFERRED ANNUITIES

**TABLE OF CONTENTS**

<b>WHAT IS AN ANNUITY?</b>	<b>1</b>
When Annuities Start to Make Income Payments	1
How Deferred Annuities Are Alike	1
How Deferred Annuities Are Different	2
<b>HOW DOES THE VALUE OF A DEFERRED ANNUITY CHANGE?</b>	<b>4</b>
Fixed Annuities	4
Fixed Indexed Annuities	4
Variable Annuities	5
<b>WHAT OTHER INFORMATION SHOULD YOU CONSIDER?</b>	<b>6</b>
Fees, Charges, and Adjustments	6
How Annuities Make Payments	7
How Annuities Are Taxed	8
Finding an Annuity That's Right for You	9
Questions You Should Ask	9
When You Receive Your Annuity Contract	10

<https://content.naic.org/sites/default/files/publication-anb-lp-consumer-annuities.pdf>



Source: [www.naic.org](http://www.naic.org)

# GROUP ANNUITY CONTRACTS

## Common insurance terminology

**Guaranteed investment contract** - a type of annuity contract issued by a life insurer: a. that is a funding vehicle typically issued to a retirement plan; and b. under which the life insurer accepts a deposit or series of deposits from the purchaser and guarantees to pay a specified interest rate of return on the funds deposited a specified period.

**Synthetic guaranteed investment contract** - a group annuity contract or other agreement issued by a life insurer that establishes the life insurer's obligations by reference to a segregated portfolio of assets that the life insurer does not own.

**Allocated** - A group annuity contract or certificate under which the company establishes and maintains individual account records or investment account balances for the participants.

**Unallocated** - A group annuity contract in which the funds are held as a whole and not allocated to specific participants.

**Book Value** - Book value is used to realize and stabilize the market value of the portfolio by setting a fixed rate of return over regular periods within the term of the contract. The fixed rate of return is a function of past differences between market values and book values.

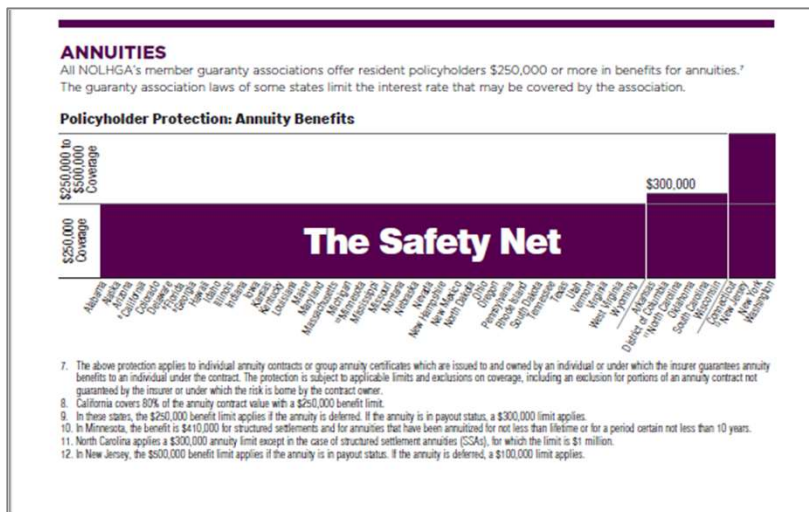
**Market Value** - What the assets in the portfolio are worth in the market.

# A WORD ABOUT NOLHGA

## National Organization of Life and Health Insurance Guaranty Associations

A voluntary association made up of the life and health insurance guaranty associations of all 50 states and the District of Columbia.

Founded in 1983 as a mechanism to help provide protection to policyholders when an insurance company insolvency affects people in many states



**The Life & Health Insurance Guaranty Association System**  
**The Nation's Safety Net**

**A Foundation of Protection**

America's life and health insurance and annuity policyholders have a powerful friend—one whose presence is felt only in times of trouble. If their insurer is placed in liquidation (similar to a company going bankrupt), residents of every state, the District of Columbia, and Puerto Rico<sup>1</sup> can count on their life and health insurance guaranty association to provide protection for both local and national liquidations. These guaranty associations provide a safety net for American consumers, ensuring that eligible residents continue to receive insurance coverage without interruption.

In the face of an insurer liquidation that affects policyholders in many states, one of the guaranty system's greatest strengths becomes evident—the seamless cooperation of state guaranty associations working together to provide protection to policyholders across the country. Even in such a multi-state company failure, the guaranty association system stands ready—the safety net is secure.

Each state's guaranty association law is based on a version of the National Association of Insurance Commissioners' Life and Health Insurance Guaranty Association Model Act, which has been updated several times since its creation in 1971. Because of this, the core protections offered by the guaranty system safety net are similar no matter where policyholders live.<sup>2</sup> Some states provide additional benefit levels to their residents, but as the charts in this brochure illustrate, the foundation of coverage provided by the guaranty association system stretches across the nation.

It's important to note that guaranty association protection serves as a "floor" and not a "ceiling." In other words, policyholders will always receive 100% of their covered policy benefits up to the guaranty association's coverage level. Policies with benefits higher than the guaranty association's coverage level have a claim to receive a share of their benefits from the remaining assets in the liquidated company. Also, guaranty association coverage levels are applied on a "per person, per company" basis. Policyholders who have received guaranty association protection are eligible to receive the same protection again in the unlikely event that they have a policy with another insurer that is liquidated.

With nearly 40 years of experience, the guaranty system safety net has grown stronger through the years, and it stands ready—as always—to protect policyholders if their company fails.

**GUARANTY SYSTEM AT A GLANCE**

- Guaranty associations in all 50 states, the District of Columbia, and Puerto Rico
- Each state's law based on a Model Law developed by the National Association of Insurance Commissioners
- Minimum benefit levels in every state—some states offer more protection
- Foundation of coverage stretches across the nation

**nolhga**

1. The Puerto Rico Life & Disability Guaranty Association is not a member of NOLHGA. For more information on the Puerto Rico association, call 787-775-1864.

2. The NAIC Model Act and the state laws provide certain limitations and exclusions on coverage, including an aggregate coverage limit that may apply in certain instances. Anyone with specific coverage questions should contact the guaranty association of the state where they reside. Contact information for all guaranty associations can be found at [www.nolhga.com](http://www.nolhga.com).

Source: [www.nolhga.com](http://www.nolhga.com) 2023



## **Add capital preservation & fixed return investments to QDIAs / core menus**

Q: How does this promote retirement spending?

A: Participants moving into retirement are often concerned about stability and capital preservation. While almost everyone would like to see the value of their assets continue to grow, near retirees and retirees are most sensitive to the risk of loss. The availability of investment options with the primary objective of capital preservation, and that have been selected and made available in the qualified plan environment by a plan sponsor after thoughtful consideration/due diligence, should be attractive to such participants. Pairing partial withdrawals in the form of periodic payments (aka “systematic withdrawals”) with a capital preservation option can provide secure and steady retirement income for many years.

Q: What are some types investment options focused on capital preservation?

A: Stable value funds, guaranteed investment contracts, and money market funds are a few such examples, generally available to plan participants. Many forms of insurance contracts are also available within and outside of plans. Fixed annuities with guarantees for principal preservation are available in some retirement plans and variable annuities with guaranteed lifetime income are available in others. Guaranteed investment contracts have been utilized within target date funds for many years and additional development is currently underway.

Q: But we auto-enroll into a QDIA. Aren't capital preservation options ineligible for Safe Harbor protection?

A: QDIA regulations explicitly allow for the inclusion of annuities and insurance features within TDFs: “The availability of annuity purchase rights, death benefit guarantees, investment guarantees or other features common to variable annuity contracts will not themselves affect the status of a fund, product or portfolio as a qualified default investment alternative when the conditions of the regulation are satisfied.” See paragraph (e)(4)(vi) of Default Investment Alternatives Under Participant Directed Individual Account Plans, aka the “Final QDIA Rule”, published October 24, 2007. <https://www.federalregister.gov/documents/2007/10/24/07-5147/default-investment-alternatives-under-participant-directed-individual-account-plans>

## **If not already available, consider adding an option for lifetime income**

Q: How does this promote retirement spending?

A: Lifetime income options (as described here) are designed to generate income in retirement through a service or product that has been evaluated by the plan sponsor. Plan sponsors may choose among a broad range of options for producing steady retirement income. However, it is important for plan sponsors interested in lifetime plan participation to understand the differences between them and which lifetime income options allow participants to keep some or all of their retirement savings in the plan.

Q: How can I find out more about lifetime income options?

A: There are several sources of information for plan sponsors to learn more about lifetime income options and how to distinguish one from another.

One source is the Department of Labor's Employee Benefits Security Administration (EBSA) web site. Its extensive collection of helpful information includes the Joint Request for Information (RFI) on Lifetime Income issued by DOL and the Treasury Department in 2010, along with the broad range of submissions the agencies received in response. It's an excellent place to start.

More useful background and observations may be found in the reports issued by the 2012 and 2018 ERISA Advisory Councils on the topic of Lifetime Income, as well as the reports on Lifetime Plan Participation issued by the 2014, 2015 and 2016 Councils.

In addition to information posted on the EBSA web site, the GAO issued several relevant reports, including in 2016 with its report "401(K) PLANS: DOL Could Take Steps to Improve Retirement Income Options for Plan Participants" (GAO-16-433). Several of the recommendations in this report were subsequently implemented via the 2018 ERISA Advisory Council's report on Lifetime Income Solutions as a QDIA and the passage of the SECURE Act in 2019 with its a fiduciary safe harbor for the selection of a "guaranteed retirement income contract" provider.

Source: ERISA Advisory Council 2015



## **If not already available, consider adding an option for lifetime income (cont'd)**

Q. What should I consider as a fiduciary in regard to lifetime income options?

A: While debate over fiduciary concerns and regulatory guidance get a lot of attention in the media, this area is widely misunderstood. In fact, DOL and Treasury have published a lot of guidance on this subject over the years in an effort to clear up misconceptions. What's more, Section 204 of the SECURE Act went a long way to clarify and simplify the required standard of care for fiduciaries selecting lifetime income options and facilitates satisfying the standard of care by defining a fiduciary safe harbor for the selection of a "guaranteed retirement income contract" provider. A fiduciary is deemed to have satisfied conditions of the safe harbor regarding the adequacy of the insurer's financial capabilities upon receipt of a specified set of written representations from the insurer, barring any disclosure of a change in the insurer's condition or other information to that affect.

As a general matter, the selection of a lifetime income option should be performed in the same manner as the selection of other plan service providers. Here, the Department of Labor has indicated that a fiduciary should engage in an objective process that is designed to elicit information necessary to assess the provider's qualifications, quality of services offered, and reasonableness of fees charged for the service. The process also must avoid self-dealing, conflicts of interest, or other improper influence. While not exhaustive, a plan fiduciary would also want to consider the fiduciary status of the lifetime income option provider, and how that might extend to some or all aspects of the offering.

In addition, plan fiduciaries would also want to consult any specific DOL guidance that applies to the assessment of any specific kind of service provider or product.

For example, DOL Field Assistance Bulletin No. 2015-02 (Selection and Monitoring under the Annuity Selection Safe Harbor Regulation for Defined Contribution Plans) addressed some uncertainty related to the 2008 rule for selection of annuities in participant-directed plans by providing guidance to sponsors on the scope of their fiduciary obligations.

Source: ERISA Advisory Council 2015

## **If not already available, consider adding an option for lifetime income (cont'd)**

Q: What other guidance from DOL or other agencies is available?

A: The U.S. Department of the Treasury (Treasury) and the Internal Revenue Service (IRS) issued regulations regarding longevity insurance in the form of qualifying longevity annuity contracts in Internal Revenue Bulletin 2014-30, making them accessible to the defined contribution (DC) and individual retirement account (IRA) markets for the first time. Those regulations were reinforced with the passage of the SECURE Act in 2019. However, Congress expanded the limits for QLACs with the passage of SECURE 2.0 in 2022 by repealing the previous 25% limit on retirement plan balances for the tax-free transfer of assets on the purchase of a QLAC and increasing the previous \$125,000 limit on premiums that may be applied to the purchase of a QLAC up to \$200,000 (adjusted for inflation each year). Since a QLAC is a deferred income annuity, which is not subject to RMDs until age 85, this change expanded the value of assets that can be shielded from RMDs.

Separately, in November 2014, the IRS issued guidance that enables qualified defined contribution plans to provide lifetime income by offering, as investment options, a series of target-date funds that include deferred annuities among their assets, even if some of the TDF vintages within the series are only available to older participants. IRS Notice 2014-66 (<https://www.irs.gov/pub/irs-drop/n-14-66.pdf>) provides that if certain conditions are satisfied, a series of TDFs in a defined contribution plan will be treated as a single right or feature under the Internal Revenue Code non-discrimination rules.

In addition, the DOL sent a letter to the IRS confirming that TDFs serving as QDIAs may include annuities among their fixed income investments. The letter also describes how fiduciary requirements can be satisfied when a plan sponsor appoints an investment manager that selects the annuity contracts and issuer (<http://www.dol.gov/ebsa/regs/ILs/il102314.html>).

## **If not already available, consider adding an option for lifetime income (cont'd)**

Q: Where can I find out more about what might be available in the marketplace now or in the future?

A: A good place to start would be with other members of the DCIIA Plan Sponsor Institute who have spent years working with lifetime income solution providers and whose work has been recognized by DCIIA and Pensions & Investments Magazine through their annual Innovator awards. The PSI is an excellent forum for the exchange of ideas and benchmarking that so many plan sponsors find crucial in their due diligence processes.

Additionally, this topic has been a focus of DOL for a long time and remains a high priority on its regulatory agenda. Consequently, it is a developing area in the world of defined contribution pensions. While a number of innovative solutions are currently available, such as non-guaranteed options like systematic withdrawal services and managed accounts, and guaranteed options like annuity-based solutions, others are currently under development, and we expect to see even more in the future.

Keep in touch with your record keeper and your plan advisor or consultant (if you work with one) as they may be aware of new lifetime income options coming to the market. There are also several trade organizations with web sites which may offer helpful information as well.