A Potential Alternative to the Rollover IRA

By Mark Shemtob *Tue, Apr 2, 2024*

Our guest columnist, an actuary and certified financial planner, suggests new vehicles, which he calls Qualified Retirement Income Providers (QRIPs), to help 401(k) plan participants convert part of their plan balances to safe retirement income.

Many employers may hesitate to add retirement income options and applicable education to their 401(k) plans. This is especially true for smaller employers where cost, administration and liability are of great concern. Many retirement plan participants are therefore left to use rollover IRAs (Individual Retirement Accounts) to fund their retirement income streams..

Rollover IRAs may not be the best solution to this income challenge for many retirees. IRA products and investments often have higher expenses than employer-sponsored 401(k) plans do. The IRA advisor may not be an expert on retirement income strategies, may not be a fiduciary (as a 401(k) plan adviser would be), and may offer only limited distribution options.

Congress should create a new type of institutional entity that could help retirees while releasing many employers from the responsibilities of providing retirement income options and education to plan participants. Employers would continue to focus on helping employees accumulate a retirement nest egg without the income payout burden.

These proposed entities might be called Qualified Retirement Income Providers (QRIPs). Here are some questions about them, with my answers.

1. Q. Who could sponsor a QRIP?

A. Any organization, subject to regulations and an approval process through the Department of Labor (DOL), could sponsor a QRIP. The sponsor would have ongoing annual reporting and disclosure requirements.

2. Q. What would be required of a QRIP sponsor?

A. The QRIP would need to serve as a fiduciary consistent with the rules of ERISA. A QRIP must be able to offer both insured and investment-based institutional retirement income solutions. Fees for investors would be subject to limits and would be fully transparent. Inclusion of products or investments not institutionally-priced could cause the QRIP to be fined.

3. Q. Who could have their money held in a QRIP?

A. Any individual with an IRA (including prior employer plan rollovers) or a qualified retirement plan account balance with a prior employer.

4. Q. Would a QRIP add another layer of custodianship to a 401(k) or IRA?

A. No, a QRIP is a totally new and separate entity designed to provide retirement income. It would be another retirement income option for those not comfortable with options that their employer 401(k) plan or individual IRA make available.

5. Q. Could a QRIP accept direct employee contributions like an IRA or qualified plan?

A. No. QRIPs could only hold rollovers from IRAs or prior employer plans. The accumulation process would remain with the employer plan or IRA.

6. Q. How would funds be invested in a QRIP?

A. Amounts would be held in target date funds, balanced funds, or other options as permitted by the DOL. Retirees could elect to purchase an annuity with a portion of their accounts that provides some guaranteed lifetime income.

Q. What types of annuities would be permitted?

A. QRIPs should offer single premium immediate annuities as well as Qualifying Longevity Annuity Contracts. Annuities could be provided through an exchange like Hueler Income or directly from insurers as long as priced institutionally. Other options such as variable annuities or fixed index annuities would also be permitted if they include a guaranteed lifetime minimum benefit rider and satisfy regulations to be proposed by the DOL.

8. Q. How would amounts not used to purchase an insured annuity be paid out to the retiree?

A. A monthly amount would be paid based upon the retiree's account balance, a hypothetical investment rate of return, and life expectancy. This will be recalculated annually. The retiree can elect to withdraw more or less than this calculated amount provided that the minimum required distribution rules are not violated commencing at age 73.

Q. What other services would the QRIP provide?

A. The QRIP would offer broad-based education on various retirement income strategies and products and implement the actual elections. Modeling tools could also be available. For an additional hourly fee, the retiree could use the services of a fiduciary advisor. The QRIP would be responsible for processing payments and tax withholding and reporting. The QRIP would assist individuals in initiating the transfer of funds to the QRIP.

10. Q. Would using a QRIP be required?

A. No, this would be voluntary on the part of the individual. Many retirees may prefer using their own IRA account. Others may be able to secure retirement income solutions directly from their employer plan.

11. Q. How would individuals learn about available QRIPs?

A. The Department of Labor would post them on its website with all relevant information regarding fees, investment options, retirement income alternatives, and other available services.

12. Q. How is a QRIP different from an IRA rollover?

A. A QRIP would be required to offer both insured and non-insured institutionally priced products and investments. The QRIP sponsor would be required to serve as an ERISA fiduciary and report to the DOL.

13. Q. Can one change his or her QRIP?

A. Yes. In addition, an individual could have more than one QRIP.

14. Q. Can a QRIP be set up today?

A. No. There is no provision in the law that would allow for this type of program. The closest thing would be a Pooled Employer Plan (PEP). Different from a PEP, a QRIP would be joined by individuals and not employers, would not allow new contributions (only rollovers), and would be subject to limitations on fees. Legislative action would be required to allow for QRIPs.

There are many reasons why retirees from employer-sponsored defined contribution plans shouldn't expect their former employers for help with retirement income planning. In addition, a few individuals spend their entire career with one employer. Their retirement nest eggs are often scattered about.

Providing secure and cost-efficient retirement income is a challenging responsibility that many employers can't handle well or don't wish to spend resources on. QRIPs could specialize in providing retirement income and would be required to serve the best interest of the retirees.

Though workers would use QRIPs primarily during retirement, they could also use them during the accumulation years as tax-deferred vehicles for consolidating rollovers from prior employer plans or transfers from other IRAs. This might reduce "leakage" from tax-deferred savings vehicles and encourage portability of savings.