THE PLAN SPONSOR'S GUIDE TO

RETIREMENT INCOME

P&I CONTENT SOLUTIONS IN PARTNERSHIP WITH

AllianceBernstein®

CONTENTS

The Plan Sponsor’s Guide to Retirement Income is a resource for defined contribution plan sponsors for assessing and implementing solutions to help plan participants meet their income goals in retirement as well as improve their financial security in their savings and decumulation years. Each section offers practical guidance and industry best practices for setting plan objectives, designing plans, introducing glide paths with embedded income solutions and adding lifetime income solutions, which include insurance or guarantees, within retirement plans.

Participant education — a critical part of successful implementation of these solutions — and fiduciary and compliance issues for plan sponsors are highlighted as well. Each section aims to offer readers a better understanding of decision-making for retirement income solutions, with a primary focus on those that are insured, along with implementation steps, participant uptake, insights from AllianceBernstein’s leading industry research and a case study of a successful in-plan implementation.

SECTION I.
PLAN OBJECTIVES

SECTION II.
PLAN DESIGN

SECTION III.
ASSESSMENT AND IMPLEMENTATION

SECTION IV.
LIFETIME INCOME

SECTION V.
EDUCATION AND COMMUNICATION

SECTION VI.
REGULATION AND COMPLIANCE

SECTION VII.
GLOSSARY

SECTION VIII.
QUIZ

Key Takeaways:

- Providing solutions that deliver adequate income in retirement has become an imperative for plan sponsors as surveys consistently show this is a priority for their plan participants.

- Design and participant accessibility are key considerations in implementing retirement income solutions in DC plans.

- Adopting a well-defined framework of plan goals, participant needs and solution features can help plan sponsors implement these solutions.

- When selecting solutions that provide income for life, there are several features, priorities and trade-offs that plan sponsors need to consider.

I

PLAN OBJECTIVES

In recent years, many DC plans have broadened their focus from simply being savings vehicles to helping their participants generate sustainable income in retirement. The COVID-19 pandemic, with its adverse impact on job security, the sharp increase in inflation, rising interest rates and recent market volatility, has had a dramatic effect on the financial security of millions of workers and retirees. The situation has underscored the urgency of implementing retirement income solutions that can help workers improve their financial resilience in the later years.

Visit: AB Lifetime Income Strategy: Common Sense in a Complicated World

Focus on the outcome

Since DC plans started to replace traditional defined benefit plans as the primary savings vehicle, "U.S. workers have faced an extraordinarily complex problem of first, how to save enough money to last for 20 to 30 years or more in retirement and second, how to draw down their various sources of savings in a way that creates a sustainable income stream," said Jennifer DeLong, senior vice president, managing director and head of defined contribution at AB. These sources could include DC plans, individual retirement accounts, Social Security, traditional pension plans and other after-tax savings and investments.

In fact, AB's annual DC participant research survey conducted over several years, titled *Inside the Minds of Plan Participants*, has shown that each year the most consistent response by participants about their most important goal for retirement is a steady income stream, said DeLong. In a widespread recognition of this need, the industry is at an inflection point and plan sponsors, industry providers and regulators have all come together to introduce and support solutions that can address that need.

"As an industry, we've fixed everything else except for the decumulation phase and providing sustainable income for life. Five years ago, plan sponsors recognized the need and were curious about what was available in the marketplace. But now, we see them making decisions, engaging in searches [for providers] and offering solutions that will help this and future generations of participants in retirement. That's really exciting," said Chris Nikolich, head of U.S. glide path strategies for multi-asset solutions at AB.

> We're now seeing a mindset shift in the industry to thinking about a DC plan as a program that's able to provide income throughout a worker's retirement versus merely managing it as a savings vehicle.

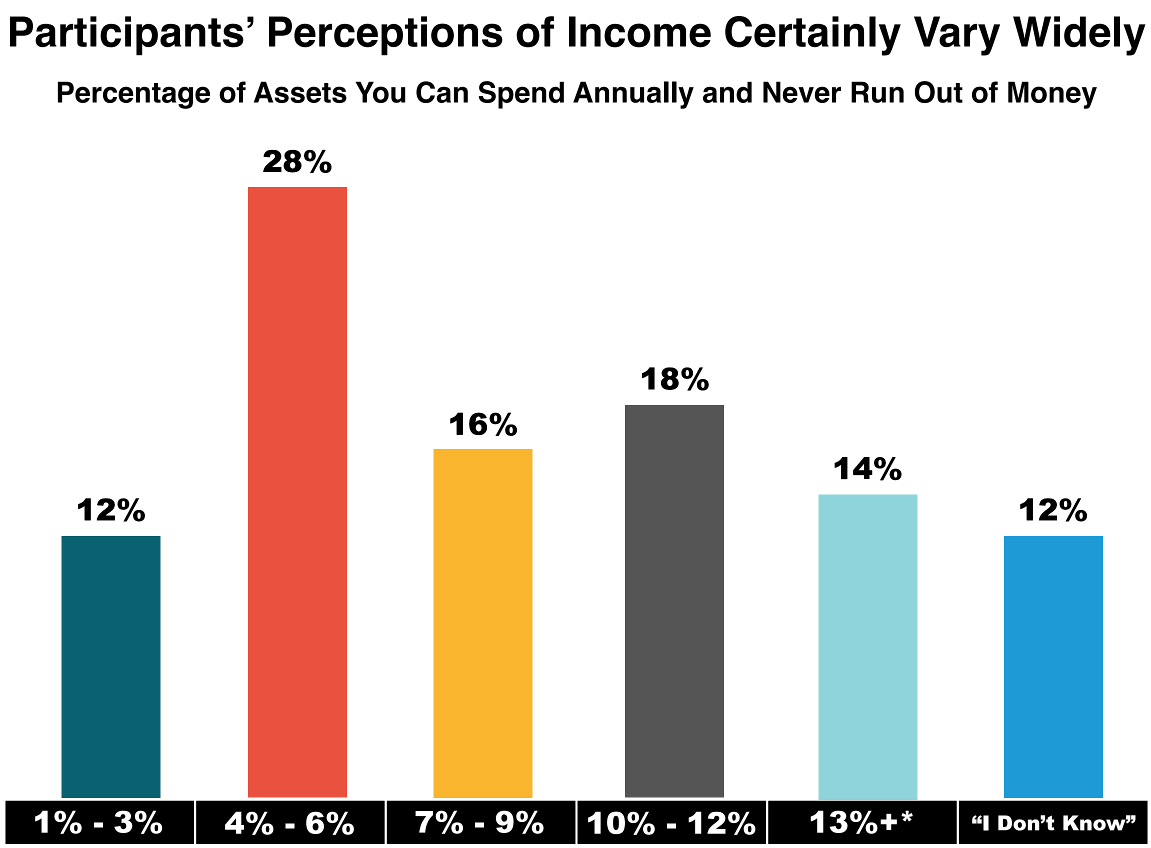
Regulatory support

Jennifer DeLong
SVP, Managing Director and Head of Defined Contribution, AB

Bi-partisan support in Congress for improving retirement security has also continued to gain momentum. The first SECURE Act, the Setting Every Community Up for Retirement Enhancement Act of 2019, included a safe harbor provision for selecting annuity providers. The SECURE 2.0 Act, passed in December 2022 as part of the Consolidated Appropriations Act of 2023, expanded the provisions of the first SECURE Act by providing greater accessibility to retirement savings and income opportunities for U.S. workers. See Section VI.

Understand the retirement imperative

A majority of DC plan participants have unrealistic expectations about the amount of income in retirement that their DC plan can deliver, according to AB's 2021 survey, *Inside the Minds of Plan Participants*.[1] Survey participants were asked to imagine that they retired at age 65 with $500,000 in savings and then, what percentage of their retirement savings they thought they could withdraw each year for the rest of their lives without running out of savings. Nearly half said 7% or more, and about a third said 10% or more, illustrating a lack of understanding of what would constitute a sustainable withdrawal rate.



*Includes five ranges.
Source: *Inside the Minds of Plan Participants*, AB research, 2021

Given lower expected returns for traditional assets, the current recommended sustainable withdrawal rate is much lower for a majority of DC plan participants, according to AB's research.[2] "This [discrepancy] is concerning," said DeLong. "Overall, people greatly overestimate what they can spend, and without help, many may end up running out of money and having a problem in retirement."

Interestingly, on the flip side, there's also the challenge of participants spending too little in retirement. EBRI research[3] showed that underspending and unnecessarily living below one's means is also a risk that can impact retirees' overall wellness. "A guaranteed source of income allows people to feel more comfortable and secure overall, and in some cases, that could mean being able to spend more," said DeLong.

> Participants rely heavily on their employers for support. Plan sponsors are empowered to help participants understand how their savings translates into income.

Jennifer DeLong
SVP, Managing Director and Head of Defined Contribution, AB

Access to nest egg

DC plan participants have demonstrated a strong preference for retirement income vehicles with two features: growth potential and easy access, according to AB's research.[4] When asked to select one of two choices in retirement, either:

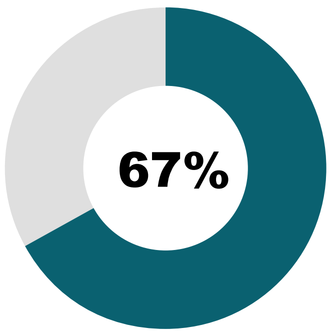
- $40,000 in guaranteed annual income with the ability to capture equity market growth and access to the principal, if needed, or
- $50,000 in guaranteed annual income but without growth prospects and no access to the principal,

two-thirds (67%) of DC plan participants took the first choice and were willing to forgo an additional $10,000 per year in guaranteed income in exchange for potential growth and access.

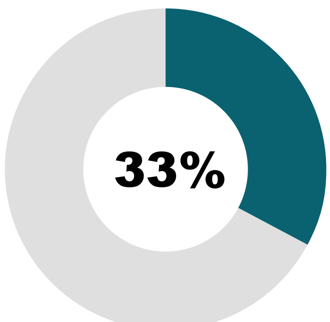
“With participants telling us that growth and liquidity are priorities [in retirement], it helps us design solutions that participants will want to use,” DeLong said.

Participants prefer growth potential and liquidity

WHICH WOULD YOU RATHER HAVE?



$40K in guaranteed annual income and your money **could grow with the stock market,** and you **would be able to access the money in your account**



$50K in guaranteed annual income, but your **money would not grow with the stock market,** and you **would not have access to the principal of your account**

Source: *Inside the Minds of Plan Participants*, AB research, 2021

Specify plan goals

To get started, as a best practice, DC plan sponsors should review the retirement needs of their participants and consider, as an employer, the specific plan objectives to achieve. Providing a retirement income solution can address several objectives, including:

- **Meeting employees' need for retirement security.** This can improve overall financial wellness as well as workers' ability to retire on time by boosting their confidence and preparedness.
- **Supporting workforce management.** In the current tight labor market, a robust DC plan offering can help attract and retain talent, provide a stronger overall benefits package, improve productivity and give workers the confidence to retire on time.
- **Retaining retiree assets in-plan.** This can help maintain and improve economies of scale in overall plan asset management and record-keeping.

Read: As Workforce Sentiments Change, Retirement Income Needs Haven't

Section I footnotes

[1]Withdrawal rates at which participants believe they can spend without running out of money. AB research, 2021: *Inside the Minds of Plan Participants.*

[2]AB research, 2023.

[3]The downside of spending too little in retirement. EBRI Issue Brief, In Data There Is Truth: Understanding How Households Actually Support Spending in Retirement, June 25, 2021.

[4]Participants prefer growth potential and liquidity. AB research, 2021: *Inside the Minds of Plan Participants.*

> More plan sponsors today are engaged in thoughtful discourse on solutions and implementation.

Andrew Stumacher
SVP, Managing Director of Custom Defined Contribution Solutions, AB.

II

PLAN DESIGN

DC plan sponsors can take a methodical, participant data-based approach to determine the appropriateness of lifetime income solutions and how best to introduce them for successful uptake.

Determine suitability

Sponsors first need to determine the overall plan philosophy: Either take a paternalistic approach, solving the retirement income challenge for employees via a default solution or take an approach that presents them with solutions to choose from, Stumacher said. This decision will have a clear impact on usage. That's followed by a suitability assessment that includes several elements:

- **Income adequacy.** Are participants knowledgeable about how to convert savings into adequate income that allows them to retire on time? If not, a retirement income solution could be appropriate. Do employees that also have access to a defined benefit or cash balance plan need income enhancement?
- **Motivation to save.** Are participants motivated to save more when they understand exactly how their savings rate impacts their income in retirement?
- **Efficiency of income solution.** Do participants believe that a company-sponsored solution can deliver, as a result of

institutional scale and oversight, better benefits or better pricing than what they can get out on their own?

"There are many retirement income options available, so sponsors should focus on solutions that provide more benefits at a better cost than what participants can get on their own," said Stumacher. Retail annuities and other retirement income products can be more expensive for employees to purchase versus products they are able to access in-plan. In addition, "as the solution has been vetted by the organization that's the fiduciary of the DC plan, it gives [participants] more confidence they're getting a good deal," he said.

AB offers a practical, step-by-step checklist to help plan sponsors think sequentially through the different aspects of suitability of retirement income solutions for their plan participants.

The Initial Assessment

Is a retirement income solution a fit for your plan? Take the first step by indicating how strongly you agree with each statement

Statement	Score 1 - Strongly disagree, 2 - Disagree, 3 - Neutral, 4 - Agree, 5 - Strongly agree
Our employees would benefit from more education about retirement income, and we can increase their retirement security by adding a retirement income solution to our plan.	
Enhancing the plan with institutional retirement income solutions makes it a better HR tool to attract, retain and manage our human capital.	
We believe staying ahead of benefit trends keeps our workplace competitive.	
Our retirement plan board makes prudent decisions on retirement income, which translates to prudent decisions on which solutions to add to the plan.	
TOTAL	
SCORE (Divide total by four to create score)	

OVERALL SCORE
1 – 2 = Adding retirement income may not work for us at this time.
2 – 3 = Adding retirement income may work but is not a priority for us.
3 – 4 = Adding retirement income solutions would be a good idea to explore now.
4 – 5 = Adding retirement income should be a priority for us today.

Source: AllianceBernstein, Would Your Plan Benefit From a Lifetime Income Solution?

Stages of evaluation

DC plan sponsors can streamline a multi-step process for adopting retirement income solutions. It starts with evaluating participant demographics, preferences and behavior. The results guide the evaluation of available income solutions, with input from experienced consultants and providers on cost and fiduciary considerations.

Understand your participant data

The starting point for plan sponsors is to fully understand their plan participants' financial circumstances and behaviors in order to determine the need for a retirement income solution. It begins with savings patterns and preferences for current DC plan offerings. Record-keeper data can offer insights into risk tolerance, investment choices and whether participants are on the path to a successful retirement.

The next step is a review of the behavior of the near-retirees and retirees. "Track participant behavior leading up to and getting to retirement age," said Stumacher. "Note whether participants withdraw systematically over several years or completely cash out of the plan." In addition, assess how participants are using financial advice, either through a managed-account program or another external source.

Plan sponsors can then segment demographic data of cohorts by age and analyze the income needs for each segment. For example, participants near retirement with a generous DB plan and Social Security may have less need for a lifetime income solution versus those, say in their 40s, without a DB plan and with a greater need for income in retirement. The youngest cohorts of DC plan participants also could not have a DB plan and may not be able to rely on getting their full Social Security benefits in the future, given current projections on the adequacy of Social Security moving forward.

Review industry data and surveys

Industry data on DC participants' needs and preferences can be instructive in evaluating income solutions. Most industry groups, such as the Defined Contribution Institutional Investment Association and the Employee Benefit Research Institute, publish regular participant surveys. Plan sponsors can also survey their own participants. "Get a fuller picture by talking to participants in your plan and the human capital representatives who interact with them. Clear common themes usually emerge around what participants want," Stumacher said.

AB's annual participant research has consistently shown that steady retirement income is the top objective for their own savings plan, followed by growth potential and direct access to their funds. "Participants generally don't want to pay a cost for giving up anything, like growth potential, liquidity, flexibility or inflation protection," said Stumacher. "What they're missing is guaranteed income and the certainty and security that it represents."

Framework for individual outcomes

With all the retirement income solutions in the marketplace, evaluation starts with how they provide income in retirement.

The evaluation should include considerations around certainty, growth opportunity, simplicity, portability, control and flexibility for participants.

- **Certainty:** Some guaranteed solutions, like fixed annuities, can provide stable retirement income, but often do not provide growth, while other guaranteed solutions can.
- **Growth opportunity:** Nonguaranteed solutions have the potential to grow with market performance and improve purchasing power but do not provide certainty.
- **Simplicity:** Retirement income solutions should be easy for participants to understand and to access. Offering the solution as the qualified default investment alternative (QDIA) increases participant uptake since the default doesn't require participants to do anything to generate income.

> The first thing that plan sponsors should do is take off their defined benefit hats and use a framework based on individual outcomes, not the outcome for the average participant.

Chris Nikolich
Head of U.S. Glide Path Strategies for Multi-Asset Solutions, AB

- **Portability:** The ability for participants to move their retirement assets or benefits from one plan or account to another.
- **Control and flexibility:** Features that allow access to principal, should unexpected needs arise, such as healthcare or assisted living.

Unintended risks

In evaluating income solutions, plan sponsors also need to take into account unintended risks for plan participants. Most solutions are designed to alleviate risks, such as market risk and longevity risk. In addressing market risks, for instance, plan sponsors should help employees understand the impacts of different market cycles and investment horizons on retirement assets. For example, while low rates prior to 2022 made annuities relatively unattractive on a comparative basis, "with rates rising, annuities have become very attractive," Stumacher said. "Seeing these different elements play out and how they affect participant behavior helps both plan sponsors and participants understand the importance of income."

Unintended risks could come from trade-offs involved in product choices. For instance, a guaranteed income solution using fixed annuities eliminates longevity risk, but because it reduces exposure to growth-orientated assets, such as equities, it introduces a growth opportunity cost and inflation risk.

Mortality risk can be another unintended side effect if the participant has surrendered assets in exchange for a fixed annuity and dies younger than expected. Beneficiaries may be left with nothing, resulting in an investment loss. Half of plan participants are expected to die before the median life expectancy and are therefore exposed to this mortality risk.

Record-keeper platforms

Record-keeper support is a crucial aspect of delivering income solutions in a DC plan. Advances in middleware technology have enabled the conversion and standardization of data among record keepers, insurers and asset managers, each of whom utilize different platforms, said Stumacher. While the technology piece historically slowed some implementations, "many record keepers are now focused on how to support these solutions, and we're getting much closer to mass adoption of retirement income solutions."

III

ASSESSMENT AND IMPLEMENTATION

In response to industry demand for retirement income solutions, target-date fund construction has become more sophisticated, with customized approaches that can address individual participant needs. To make appropriate changes to the TDF or default vehicle, plan sponsors need to understand the nuances of the participants' journey from the starting point of savings through to the end point of income distribution in retirement.

Assessing lifetime income

As plan sponsors evaluate solutions that provide income for life, several considerations — each with its own trade-off — need to be considered:

- **Timing of payout:** Should income payments start immediately upon retirement or at a later date?
- **Asset ownership:** Should assets transfer to the insurance company or remain with participants so that payouts can shift to beneficiaries upon death?
- **Growth potential:** Should the solution provide potential income growth or should the income remain constant over time?
- **Revocability:** Should the solution be revocable so that the participant has the flexibility to access their savings, or should the solution be irrevocable?
- **Type of cost:** Are there explicit fees for the solution or does the solution have implicit opportunity costs that need to be considered?

> When we embed a guaranteed-income portfolio into a TDF, it allows us to maintain a higher equity allocation throughout retirement while also realizing the benefits of insurance and generating a sustainable income for life.

Howard Li
VP and Senior Research Analyst, Multi-Asset Solutions, AB.

AB's Lifetime Income Strategy utilizes a **guaranteed lifetime withdrawal benefit**, or GLWB. It combines the income certainty of a guaranteed solution with the growth potential, liquidity, and flexibility of a nonguaranteed solution — attributes that have been consistently ranked highest by participants in the firm's annual surveys.

"GLWBs can be used in-plan and in the default option," said Nikolich, which helps plan sponsors move past the considerable challenge of ensuring adequate participant uptake. "Utilization of most other forms of insurance can be used only out of plan and they require a participant to opt-in."

"When we incorporate a GLWB into the glide path, we consider it to be another asset class that is designed specifically to hedge longevity risk without introducing other side effects, such as growth opportunity cost or mortality risk," explained Li. "This enables us to maintain a higher exposure to growth assets than a traditional target-date fund." The increased growth potential can lead to higher expected returns that help to offset the explicit insurance premium, he noted. "Not only is the risk of running out of money eliminated, the participant's assets also have greater growth capacity."

Default versus core

While some DC plans would find a lifetime income solution most appropriate as a default feature, others may pursue adding it to the core menu for participants who tend to make asset allocation decisions on their own. While some 'do-it-yourselfers,' or those who may use a managed account offered by the DC plan, could access this lifetime income solution, take-up would likely be low. Furthermore, "while core-income strategies, including income, balanced or even stable-value funds, provide current income, they do not provide a guarantee of lifetime income," Nikolich said.

"At AB, we believe a default solution is the most efficient way to provide a guaranteed-income stream to participants who are not equipped to do this on their own," said DeLong. "It harnesses participant behavior to take what works — automated features and a predetermined path — and makes it simple. It's also the best way to achieve widespread adoption."

AB's approach to integrate the lifetime income solution in the default follows the proven success of the TDF as a default solution in the savings years. See SURS case study, Section IV.

Packaged versus custom

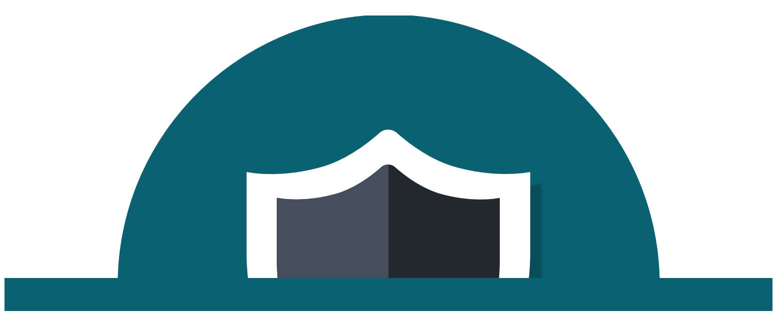
An outcomes-based design approach to the DC plan also needs to evaluate packaged or off-the-shelf versus custom income solutions. Packaged solutions are typically easier to implement for all participants in a plan. They provide economy-of-scale benefits for plan sponsors and can adequately address most employees' savings needs. "However, closer to retirement, the issue of income becomes more personal and participants tend to be on very different paths," said Stumacher.

Customized solutions require more effort and resources from the plan sponsor, consultant and provider, but can be more effective in improving retirement outcomes for individuals within a DC plan. A custom glide path not only accommodates different individual profiles, it also accounts for participants retiring at different times and with different needs for income certainty.

"Different participants need different solutions," said Stumacher, noting that AB's lifetime income approach is designed to be flexible for different situations. For instance, most employers, particularly public organizations, have distinct workforce characteristics in retirement. "Each plan sponsor needs a solution that recognizes the different needs of their participants, and we can customize glide paths to accommodate them," he said.

> A packaged solution can't address everyone's needs [in retirement]. People have their own needs and preferences, and they need to be accommodated.

Andrew Stumacher
SVP, Managing Director, Custom Defined Contribution Solutions, AB



IV

LIFETIME INCOME

The marketplace for lifetime income solutions has expanded significantly in the past five years, with several industry providers introducing new products.

A lifetime income solution provides the option to convert an individual's savings into regular guaranteed income payments over their lifetime. A practical evaluation of these types of solutions starts with understanding their varying characteristics:

- **Fixed versus variable.** A fixed annuity indicates a set income amount, which can start at retirement or a later date, is not tied to market performance and requires an irrevocable asset surrender upfront. Income from a variable annuity is linked to market performance and the amount can vary. Variable annuities are typically paired with living benefit riders, such as a GLWB, that do not require surrender of assets but instead charge an insurance premium. This structure allows for growth potential and has income floor protections.
- **Immediate versus deferred.** Immediate payouts start within six months of purchase, while deferred payouts will start at a future pre-determined date. An example of a solution that has deferred payouts is a qualified longevity annuity contract, or QLAC, which is generally purchased close to retirement age and begins payouts at age 80.
- **In-plan versus out of plan.** An in-plan solution offers the overall plan benefits of scale in cost and efficiency, and it can allow lifetime income to be implemented via the default. Some solutions are described as in-plan up until the point of retirement, after which they become out of plan.
- **Opt-out versus opt-in.** An opt-out means participants must actively choose not to use the default solution. Default solutions lead to higher usage. An opt-in means participants must actively select the option.

These features are interwoven into participant accessibility to the income solution: Is it through the default, built into a target-date structure, or an opt-in menu option? Timing is another consideration: Do participants access the solution before or at retirement? “And is there flexibility to change access to income solutions offered in cases of, say, employee promotions or other transitions,” said Stumacher.

Lessons from the savings phase

Since the Pension Protection Act was passed in 2006, the success of default mechanisms in DC plans, such as auto-enrollment and auto-escalation, has been evident from the growth in participant savings.

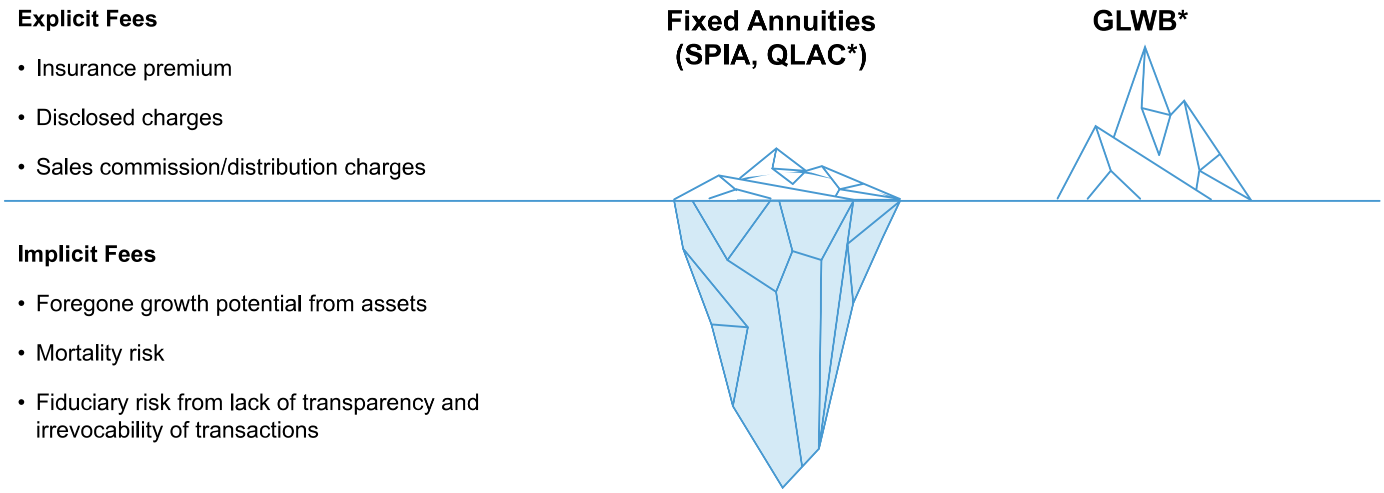
“There’s a reason that SECURE 2.0 went as far as mandating auto-enrollment and auto-escalation” for any new plan starting in 2025, Stumacher said. Having a guaranteed-income solution in the default carries these automated features over to the distribution phase, which can help participants achieve the income security and flexibility they want.

Total cost considerations

Plan sponsors should be aware that total costs for lifetime income solutions include explicit disclosed fees as well as some implicit costs that may not be immediately transparent. “Like the hidden part of an iceberg, these may not be easy to see and can be significant,” said Li.

Total Costs for Lifetime Income Solutions

Critical to take a total-cost approach that looks at all aspects of the “iceberg”



*Single premium immediate annuity; qualified longevity annuity contract; guaranteed lifetime withdrawal benefit
Source: AllianceBernstein

For example, a single-premium fixed annuity does not have a fee because it requires participants to surrender their annuitized assets, so there are no assets to which to charge the fee. However, participants face a significant mortality-risk cost, because those who die younger than expected don't receive the benefits after death, nor do their beneficiaries. While death-benefit riders are available, they are costly and reduce the amount of income paid. They also assume a growth opportunity cost as a result of the reduction in growth assets. "We estimate the annualized total cost of a single-premium fixed annuity contract is significant relative to the target-date fund. However, most people think it's free," said Li.

In contrast, a GLWB, which is an income insurance wrapper of a participant's own portfolio, has an explicit annual premium just like any typical household insurance policy. It has no other hidden costs because the assets stay invested, Li said. "In fact, the total average cost of an integrated solution with a GLWB can potentially be reduced to zero because the higher exposure to growth can offset the premium."

Comparing Key Features of Retirement Income Solutions

	Managed Drawdown Options*	Immediate Annuities	Deferred Fixed Annuities (including QLACs)	Guaranteed Lifetime Withdrawal Benefits (GLWB)
Guaranteed Income	No	✓	✓	✓
Typical Income Level	Variable continually adjusted	Highly sensitive to prevailing rates	Higher due to later start date	Moderate increases with portfolio growth
Asset Control	✓	No	No	✓
Revocable Investment	✓	No	No	✓
Growth Potential	✓	No	No	✓
Death Benefit	✓	No	No	✓
Annuity Cost	N/A	Implicit	Implicit	Explicit
Income Delivered in or out of Plan	Either	Out	Out	In
Default-Eligible	Yes	No	No	Yes

*Refers to managed-payout funds, managed accounts, target maturity funds and systematic withdrawal programs. While each of these functions differently and provides varying levels of success and personalization, the features are essentially the same.
Source: AllianceBernstein, Evaluating Retirement Income Solutions | AB (alliancebernstein.com)

Read: Lifetime Income Fees vs. Costs: Look Beneath the Tip of the Iceberg

AB's Lifetime Income Strategy

AB, an early innovator in retirement income solutions, introduced its Lifetime Income Strategy in 2012, more than a decade ago, as an in-plan, guaranteed-income solution that integrates a GLWB into a target-date fund. It's designed to provide participants with income certainty in retirement, along with growth potential and inflation protection, within a flexible structure. Using individual participant asset-allocation models customized by plan, it can address specific plan demographics and participant needs.

Its inaugural sponsor was United Technologies, now Raytheon Technologies Corporation — following a 2020 merger — which has continued to use the Lifetime Income Strategy. From its inception, the Lifetime Income Strategy has been enhanced to meet a wider range of plan sponsor objectives for a guaranteed-income solution, DeLong said.

Providing flexibility and personalization

While AB's Lifetime Income Strategy is intended to be a default solution, participants can select the level of guaranteed income they want and at what age they will retire. In addition, plan sponsors who prefer not to embed lifetime income in the default solution can provide it to do-it-yourself participants who can select it for themselves.

The GLWB structure of AB's Lifetime Income Strategy permits flexibility, revocability and portability, which allows beneficiaries to keep assets if the participant passes away early. Participants can realize lifetime income without giving up the growth, liquidity or inflation protection of a TDF. Also, it is one of the only in-plan guaranteed-income solutions backed by multiple insurers, providing built-in fiduciary protection for plan sponsors. "We have up to five insurers participating in our solution. They compete quarterly for new inflows and we diversify among them, giving plan sponsors the option for AB to act as the ERISA 3(38) fiduciary," said Stumacher.

The participant engagement experience is key to successful adoption. As plan participants approach retirement, "they get feedback on what their situation may be in retirement with a recommended roadmap, so they can adjust their planning, if necessary, which we have seen leads to saving more," he said. Earlier engagement also helps to protect against unexpected market risks close to retirement. "We want to make sure participants' income is protected when the market doesn't do well or when they live a really long time," he added.

Case study for AB's Lifetime Income Strategy: The State Universities Retirement System of Illinois (SURS)

AB implemented the Lifetime Income Strategy for the State Universities Retirement System of Illinois (SURS) in September 2020. SURS is an organization of 61 colleges and universities, has a DC plan with $3.5 billion in assets and approximately 23,000 members[1] — its preferred term instead of participants — who include retirees and active employees. Its members are diverse, including clerical staff, facilities staff, teachers and professors. SURS members are not eligible for Social Security.

Prior DC plan features

Before SURS embarked on a comprehensive plan to streamline and consolidate, it offered a 401(a) plan and a 457(b) plan, working with two record keepers. These had 29 investment options and three target-date series. At retirement, members could either surrender their assets for an immediate lifetime annuity providing guaranteed income for life, or they could take their money out of the plan.

More than half of members opted to cash out at retirement because they wanted control of their assets, despite the guaranteed income from the annuity. As a result of this decision, these retirees forfeited any earned health-care benefits. However, because the retirees lacked confidence that the immediate annuity could meet their income needs, they were willing to make that trade-off.

Current DC plan with in-plan Lifetime Income Strategy

SURS' objective for a retirement income solution was to provide stable monthly income alongside flexibility and control for its members and transparent fees. In keeping with AB's participant research results, the plan members also prioritized growth potential and liquidity. Following its search and evaluation process, SURS streamlined its investment menu, consolidated with one record keeper and selected AB's Lifetime Income Strategy.

The key selection determinant was the Lifetime Income Strategy's utilization of a GLWB annuity as a default option that could provide members both exposure to growth and liquid access, according to DeLong.

The GLWB annuity structure allows members to remain invested in the market throughout retirement, boosting their potential for asset and income growth. In a rising equity market, the income base rises and is locked in at a high point, protecting members from income fluctuations during market downturns, DeLong said.

In addition, SURS valued the Lifetime Income Strategy's individual customization. It allows members to change their retirement age and modify the percent of their secure income anywhere from 100% down to zero, DeLong said.

Aligning a Retirement Income Solution with Members' Needs

Member Needs

- Focus on income in retirement and wealth accumulation
- Flexibility to take advantage of in-plan benefits
- A default solution for members who don't want to be "hands-on"
- Flexibility and control over account balances at all stages of life

Benefits of the Lifetime Income Strategy

- Hands-off default solution
- Compatible with in-plan benefits
- Keeps asset control with members even at retirement (liquid and portable)
- Beneficiaries receive remaining account balance at death
- Multi-insurer design for better pricing and stability
- Account balance that retains growth potential
- Design flexibility, customization and ongoing enhancements to serve needs today and tomorrow

Source: AllianceBernstein

Member retention

The success of AB's Lifetime Income Strategy can be measured by SURS' high member retention. Six months after the introduction of the new plan, 93% of members had stayed in the Lifetime Income Strategy. More recently, 94% of those who have secured income through the Lifetime Income Strategy for at least a year remain in it. These members are seeing guaranteed income build over time and are deciding to stay in the solution.

In addition, 99% of the members in the Lifetime Income Strategy are set to receive secure income payments at retirement. Only 1% chose to modify their level of guaranteed income to zero. "It's clear that members recognize the solution's value," DeLong said.

Watch video series: Exploring Lifetime Income

Read: AB Lifetime income Strategy Overview: Unlocking Retirement Income

Section IV footnote:

[1] As of March 31, 2021.

V

EDUCATION AND COMMUNICATION

Annuities can be challenging for DC plan participants to understand, which makes education and communication particularly important in order to achieve successful uptake. Plan sponsors need to work closely with their providers to ensure participants receive the appropriate education, followed by regular communication, throughout all the engagement points that participants have with lifetime income solutions.

Use clear language

Best practices in the shift from retirement savings to retirement income include the use of simple, clear descriptions across several different types of communication materials so that participants have several touch points.

Some participants may prefer top-line information that summarizes the product, how it works and key benefits. A short e-mail, video or — for those not on digital platforms — mailing an old-fashioned postcard for an information session may be most effective. Other participants may look for detailed information, with technical details provided in longer brochures.

> We always recommend meeting participants where they are. People learn in different ways, and they like to communicate in different ways.
>
> 
>
> Jennifer DeLong
> SVP, Managing Director and Head of Defined Contribution, AB

For all participants, easy access to live information sessions, either virtual or in person, call centers and personalized planning tools are key aspects of a participant-communication program.

Make it interactive

Currently, as mandated by the SECURE Act, plan participants see an estimated income in retirement number, based on their current savings rate, on their annual DC plan statement.

In addition, via their plan website, participants should also be provided with information on how a guaranteed income solution can build up their retirement income over time and how they can increase that number by saving more. "We've found that people actually save more when they can see the relationship between their savings and projected retirement income," said DeLong.

AB places a strong emphasis on DC participant communication to help ensure that employees understand and adopt investment solutions that help maximize their retirement security. In 2021, AB's client SURS won a

Pensions & Investments' Eddy Award for its innovative, best-in-class investment education communications to DC plan participants.

SURS Wins Award for Communications Excellence: Eddy winners recognized for communications excellence | Pensions & Investments

VI

REGULATION AND COMPLIANCE

Legislators across the political spectrum continue to demonstrate strong support for retirement security for American workers. "Lawmakers have been able to pull off a bipartisan agreement twice within a couple of years, which is impressive. They recognize that this is an issue that needs attention and they want to see the impact," said Stumacher. "Every new regulation and guideline is designed to get more people saving, give more people access and offer more income solutions because they know that's the combination that will help participants" improve retirement security.

The first SECURE Act, the Setting Every Community Up for Retirement Enhancement Act of 2019, had taken a leap forward in its support of lifetime income solutions. It added a safe harbor provision that reduced the fiduciary risks for plan sponsors with an explicit process to assess the financial strength and creditworthiness of an insurance company as an annuity provider. In recent years, a number of lifetime income solutions have been launched by providers that are made available within the DC plan, referred to as "in-plan," or outside it, referred to as "out of plan."

Fiduciary considerations

Under the Pension Protection Act passed in 2006, the requirements for a QDIA in a DC plan include investment diversification and liquidity. If the income solution is part of the QDIA, or default, it needs to meet the requirement for liquidity, which disqualifies some types of annuities.

For example, certain immediate and fixed annuities that provide guaranteed income are illiquid and do not allow participants access to principal. While a path to purchase them can be offered during the accumulation phase, once the participant retires and the annuities begin to provide income, they are transferred out of plan.

"In contrast, a GLWB structure provides growth potential, permits beneficiaries to keep the assets if a participant passes away early, allows participants to change their minds and can be built to provide fiduciary protections," said DeLong, adding that this flexibility and liquidity is a key reason their clients have chosen AB's Lifetime Income Strategy.

Portability

The first SECURE Act specified lifetime income portability for DC plans. Prior to that, the lack of this feature had a big hurdle as plan participants faced the uncertainty of potentially discontinuing the investment if they moved to a new plan that couldn't support these solutions. Prior to the Act, some retirement income products were considered a non-distributable event, and those participants could simply lose the benefits that they paid for or have to roll over their benefits to an individual retirement account.

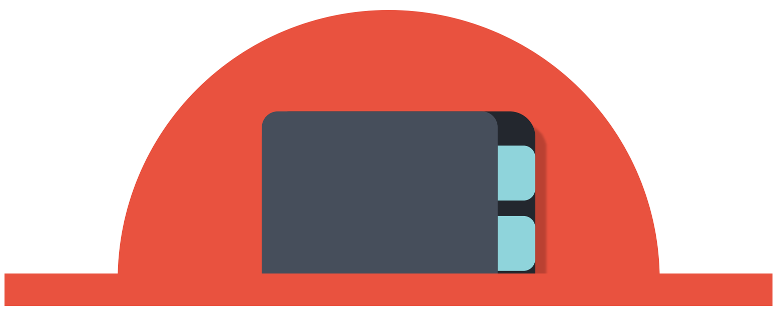
After the SECURE Act's passage, participants can roll over their lifetime income benefits to other eligible plans, including an IRA, or their DC plan can provide an annuity in lieu of the in-plan benefits.

Income estimate disclosure

The SECURE Act of 2019 required DC plans to provide an estimate of guaranteed income on participants' annual statements, in addition to investment performance and expenses. Plans also must include the retirement income solution in the investment policy statement and specify their method used to calculate retirement income and communication guidance.

SECURE 2.0 has provided more access to DC plans via additional incentives to employers, eased their administrative burdens and expanded provisions to more participants — all of which is scheduled to continue rolling out through 2027.

Provisions that increase the availability and attractiveness of retirement income solutions include changes to required minimum distribution (RMD) limits for certain lifetime income features relating to annuities and increases to the amounts that can be allocated to QLACs.



VII

GLOSSARY

Accumulation phase
The period in an individual’s life when he or she is saving for retirement, with the goal of accumulating assets via a retirement plan or other means. See decumulation phase.

Annuitization
The irrevocable process by which an annuitant’s lump-sum or premium payments into an annuity are converted into a series of income payments to the annuitant for a specific period or for the remainder of the annuitant’s life. See annuity, fixed annuity, variable annuity.

Annuity
A financial contract that provides a guaranteed stream of payments to

an individual for a specified period of time by an insurer. When used to provide income in retirement, it helps to address an individual's longevity risk. Payments can be immediate or deferred and can be fixed or variable.

Auto-enrollment

An automatic contribution arrangement that allows employers to enroll employees automatically into a retirement plan unless the employee elects not to participate by opting out. Typically contributions are from employees' pre-tax wages.

Auto-escalation

A DC plan feature that automatically increases participants' contribution amount to the plan, usually annually, by a specified percentage until a predetermined maximum is reached.

Cash balance pension plan

A type of defined benefit plan in which the employer credits a participant's account, usually based on a percentage of salary, and contributions increase with age. Participants may receive a specific benefit at retirement, often a lifetime income annuity.

Core menu

The list of stand-alone investment options offered in a DC plan, designed for participants who elect not to use the default option or QDIA and prefer to select their investments from other plan choices.

Decumulation phase

The distribution period when an individual converts savings into income, usually to support a sustainable lifestyle in retirement. See accumulation phase.

QDIA

A qualified default investment alternative, or QDIA, is the default investment in a DC plan. A participant who contributes but does not specify how the money is to be invested is automatically enrolled in the plan's QDIA, typically a target-date fund.

Deferred annuity

An annuity that starts to pay income benefits at a future date, usually determined at the time of purchase. Payment may be activated when a participant reaches a certain age in retirement.

Defined benefit plan

An employer-sponsored pension plan that provides a guaranteed payout, such as a lump sum or a lifetime annuity, for employees at retirement. Employers follow Employee Retirement Income Security Act of 1974, or ERISA, rules for contributions and payouts, based on salary, age and tenure of employees.

Defined contribution plan

A retirement savings plan to which employees contribute an amount that is intended to fund their retirement. They include 401(k) plans offered by public companies; 403(b) plans by nonprofits and 457 plans by nonprofits and state and local government entities. Typically, plan contributions are tax deferred and the employer makes matching contributions.

Explicit fees

Stated, up-front fees or other costs, like insurance premiums, paid by a plan participant or plan sponsor usually for investment or administrative services. See implicit costs.

Fixed annuity

An annuity that pays a fixed amount of income for a predetermined period of time, often over the participant's lifetime. It may have a lower fee than a variable annuity but significant growth opportunity cost and mortality risk.

Glide path

A strategy that prescribes the asset allocation mix by participants' age or years-to-retirement. It usually sets a greater focus on risk-seeking assets during plan participants' earlier savings years and moves to become more conservative via return-seeking assets as participants' date of retirement, or target date, approaches. See target-date fund.

Guaranteed lifetime withdrawal benefit

An income insurance wrapper of a participant's portfolio that provides retirees with a stream of guaranteed-income payments for life if the participant's portfolio is depleted. A GLWB typically offers income-growth potential, often based on gains from investments in the underlying portfolio, and it typically permits withdrawals or complete liquidation of the underlying portfolio.

Immediate annuity

An annuity that starts to pay income benefits soon after it is purchased, usually within six months of a participant's retirement.

Implicit costs

Hidden or nontransparent costs, often opportunity costs, such as forgoing investment growth opportunity or mortality risk — the investment loss from dying younger than expected. See explicit fees.

In-plan

A retirement benefit or feature that is included within a DC plan for which the plan sponsor is responsible as fiduciary. See out of plan.

Inflation risk

The possibility that the future value of an asset will be reduced by economic inflation, weakening its relative purchasing power.

Lifetime income solution

A decumulation solution that provides an income stream in retirement that is insured for life. Also referred to as a guaranteed income solution. See retirement income solution.

Longevity risk

The probability of an individual running out of money in retirement due to living longer than expected.

Market risk
The probability that an investor will experience losses from factors that affect investment performance in the financial markets.

Mortality risk
The likelihood of an individual passing away at an age that is earlier than expected and before benefits are fully awarded. In addition, some annuities may end at death, precluding the possibility of transferring the benefits to survivors, resulting in investment loss.

Out of plan
A financial product or benefit for which the plan sponsor does not have fiduciary responsibility, but that they make available to participants outside of the retirement plan. See in-plan.

Participant
An employee who contributes to and receives benefits from a DC plan, sometimes referred to as a member.

Pension Protection Act
A law signed in 2006 that expanded the provisions of the Employee Retirement Income Security Act of 1974, relating to accessibility and coverage of DC plans and auto-enrollment features.

Plan sponsor
A corporation, nonprofit organization, government agency or other entity that provides a retirement plan to its employees and acts as the plan's fiduciary.

Portability
The ability of a DC plan participant to transfer a plan benefit or investment vehicle either from one plan to another or between different types of investment accounts.

Qualified default investment alternative
The default investment option in a 401(k) plan under Department of

Labor rules. If a plan participant does not select how their contribution is to be invested, their money goes into the QDIA, typically a target-date fund.

Record keeper

A DC plan administrator that maintains data and provides a platform for participants to access their retirement plan accounts, access investments, make elections and receive notices, planning advice and education.

Retirement income solution

A decumulation solution that generally provides a way to spend in retirement. See lifetime income solution.

Stable value

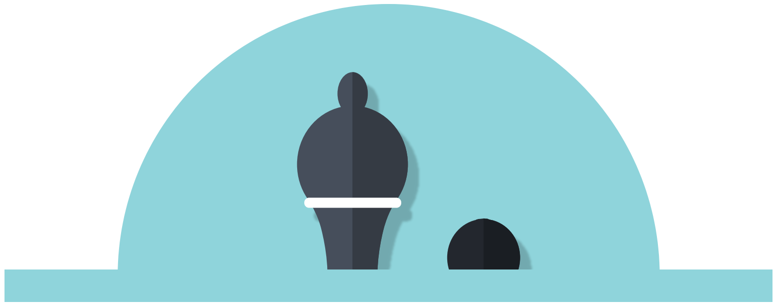
A portfolio, usually made up of fixed-income investments, that is insured to protect against declines in yield and loss of capital and designed to pay a fixed amount.

Target-date fund

A type of mutual fund or exchange-traded fund that periodically rebalances asset allocation to optimize risk and return for plan participants as they move from savings years to retirement. The glide path for many of these funds now sees the participant not just until or 'to' retirement, but also 'through' their retirement years to help them maximize retirement assets. See glide path, QDIA.

Variable income annuity

An annuity whose returns fluctuate with its investment returns. It may allow unlimited annual contributions, offer additional benefits such as access to savings and liquidity and tends to have a higher explicit fee than a fixed annuity.



VIII

Quiz

Test your knowledge of retirement income solutions based on the information provided in this Guide. It offers a brief recap of key topic areas covered.

1 → Fixed annuities provide both guaranteed income for life along with the potential for asset growth.

True

False

Disclosures

The Lifetime Income Strategy's component portfolios, including the Secure Income Portfolio, are not offered for sale

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