

POST-CONFERENCE BRIEF



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Evaluate The Spectrum of Retirement Income Options

PRACTICAL TAKEAWAYS

- ◇ Retirement income solutions span from maximum income flexibility to maximum income guarantees
- ◇ Guaranteed income annuities can be tailored to participant needs with income now and income later
- ◇ Offering partial annuitization with an income solution will drive greater participant utilization
- ◇ Choose a solution that's simple for participants to understand and easy for plan sponsors to implement

"While defined contribution plan sponsors have had to shift their focus to managing the impact of the COVID-19 pandemic on their workforce, they continue to explore and learn about retirement income solutions for their plan participants," said Roberta Rafaloff, Vice President, Institutional Income Annuities at MetLife. The SECURE Act, which lifted fiduciary barriers to guaranteed lifetime income options, has provided impetus for private-sector DC plans, while public-sector plans have long been on board with these solutions.¹ "When we surveyed employers who were waiting for clarification of the annuity selection safe harbor, 82% indicated that they were likely to offer a guaranteed income option within 5 years of the clarification being issued," said Rafaloff, speaking at Pensions & Investments' Virtual Series on Retirement Income.²

"We knew this was going to take time to gain traction. Even if plan sponsors are more focused on COVID now, we believe the conversations around guaranteed income will continue and lead to action," she added.¹ "We need to educate plan sponsors on the available options so they can perform their due diligence and decide what is the right solution for their plan, their participants, and which provider they want to select," said Rafaloff, speaking on the session 'Demystifying Annuities.'

IT'S A WIDE SPECTRUM

"It's helpful to think about the wide range of retirement income options that are available today as part of a spectrum," Rafaloff said. "That spectrum ranges from maximum income flexibility to maximum income guarantees. Systematic withdrawal, which offers flexibility but nothing in terms of guarantees, would be at one end of the spectrum. An immediate or deferred fixed income annuity, which may offer limited flexibility but guaranteed income for life, would be at the other end," she said, laying out a primer on options:

Systematic Withdrawal Plan (SWiP): Assets are invested while the retiree withdraws a scheduled amount, which may be a fixed percentage or a calculated dollar amount. There are no guarantees, and once the assets are depleted, there can be no additional withdrawals, Rafaloff said, noting that while SWiPs are very prevalent today, too few participants understand this approach which leaves

them extremely vulnerable to longevity risk as they cannot ensure that a draw-down strategy will make their money last for 20, 30 years or longer in retirement.

Guaranteed Lifetime Withdrawal Benefit (GLWB): An investment choice that guarantees a fixed withdrawal amount regardless of the actual account balance, but excess withdrawal may affect the guarantee amount. "Many participants and sponsors may find the concept of these guarantees attractive, but these products may be difficult for the average participant to understand, and they are complicated for sponsors to successfully communicate and implement," Rafaloff cautioned.

Fixed Income Annuity: A deferred- or an immediate-fixed income annuity provides individuals with an income stream that can't be outlived. "An income annuity is an insurance product, not an investment product. It should be a complement to other sources of retirement income, such as social security," Rafaloff said. Most plan sponsors find an income annuity to be a constructive and simple strategy, she pointed out.

NOW VS. LATER

"When evaluating income annuities, plan sponsors may want to consider participants' needs in terms of 'income now' and 'income later,'" Rafaloff said. Income now is when a participant plans to retire and needs income within 12 months, and they would likely consider an immediate income annuity. Income later is when a participant doesn't need the income to start for some time. They could consider a deferred income annuity like a Qualifying Longevity Annuity Contract (QLAC). "A QLAC is specifically designed to address longevity risk, where the individual uses a portion of the retirement savings now, for example 10% or 15%, to purchase a deferred income annuity that will generate a guaranteed income in later years, at age 80 or 85. It also allows them

to manage their other retirement assets to a specific and limited time horizon," she said.

FOCUS ON KEY AREAS

When considering any retirement income feature, plan sponsors should also account for participants' interest in these options, which will be based on their individual needs in retirement, including living expenses and health expenses, and the amount of income they need to replace in retirement, Rafaloff said. Another best practice is allowing for partial annuitization. "An annuity is not an all-or-nothing proposition, and participants should use only a portion of their retirement savings. In our experience, when plan sponsors clearly articulate the partial annuitizations available, there is greater utilization."

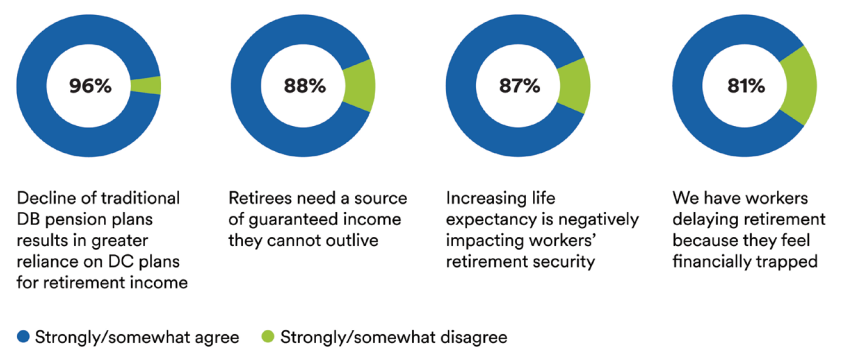
SIMPLE AND EASY

Strong education and communication programs dramatically impact participant behavior, Rafaloff noted, adding they are key to successful implementation of any guaranteed income program. Plan sponsors should work with their consultants to understand the retirement income solutions available in the market, and deliver simple, clear solutions to their participants," she said. "We've seen, over and over again in participant behavior, that complexity, such as offering too many choices and features, often leads to participant inertia," she noted.

SILVER LINING

"From a participant perspective, I believe that the pandemic actually shines even a brighter light on how important guaranteed income is," Rafaloff said, noting the worries about market volatility, job insecurity and delays around retirement. "Those are the things that annuities and guaranteed solutions actually help address." ■

Employers beliefs about retirement income security



Source: MetLife's Evolving Retirement Model Study, March 2020.

www.pionline.com/RI2020_MetLifebrief

¹All guarantees are subject to the financial strength and claims-paying ability of the issuing MetLife company.

²MetLife's Evolving Retirement Model Study, March 2020.