

Plan Sponsor Perspectives

Retirement Income Products

Plan sponsors share their thoughts on the inclusion of annuities in retirement plans.

By Tobi Davis

This issue's topic is retirement income, and we asked plan sponsors the following: *The retirement industry has been talking about retirement income for a long time. More recently the conversation has turned to annuities both in-plan and outside of a defined contribution plan. Do you offer an annuity product upon distribution from your DC plan? Or, do you have an annuity accumulation product within the investment fund lineup? If you don't have an annuity option either in or outside of your plan, have you considered it? Why or why not? With the lifetime income disclosure mandate for participant statements going into effect on 9/18/2021, how do you think your participants will react to seeing a monthly income number on their statement and will this make you rethink your decision about annuities?*

Annuity Products

None of the respondents offer any annuity products. As one explained, "We do not currently offer an annuity product, however we are very seriously considering it and are in the process of having providers propose products and options, though we have not yet done a full RFP for services. We recognize this is a significant gap for our employees who do not have access to a pension plan."

The reasons for not offering an annuity product vary from "not ever being considered" to "lack of need



based on participant behaviors when employment ends." "Simply, it has not been considered, yet is something to consider. I think annuities via DC Plan is a good option and I would think most employees would like this option. Yes, annuities is a topic that should be discussed." Another plan sponsor shared, "We do not have an annuity option related to our DC plan, either in the plan or upon distribution. My hope is that the disclosure mandate will give participants a realistic picture of what they can anticipate from those funds and then that will cause at least some of them to increase their savings, if that is appropriate."

One plan sponsor stated their committee has had conversations about annuities in the past and evaluated many factors:

1. Participant needs/wants: we have an open DB plan with an annuity option and only 2 percent of participants choose that option.
2. Product complexity: in the past, the product options were minimal and came with much complexity and fiduciary oversight. This is changing.
3. Participant behaviors in our plan: 80 percent of participants in our plan take a total distribution from the plan within two years of leaving the company. Participants don't seem to be using the plan through a retirement period.
4. We are a financial planning firm and many of our employees work with a financial advisor who provides them personalized comprehensive advice and can do a much better job creating

an income stream in retirement that is specific to each individual than we can create within the plan with a single product/design solution.

Finally, a plan sponsor at a non-profit organization noted, “We already have the ability to offer our employees annuity income options [in the 403(b) plan] because the investments are variable annuities; employees have the option to withdraw their retirement as lump sums, or as annuities, or as periodic payments. However...two-thirds of our retirement plan balances are currently invested in mutual funds instead of annuities. Depending on who you talk to, this can be considered a good thing or a bad thing, because the prevailing opinion about annuities has been very negative for a long time. For those with less investing acumen, it might be better to move some or all of their funds into an annuity upon retirement, but this piece of the puzzle has somehow been left out. While there are no easy answers, one way to address this is to make one-on-one financial education and coaching available to everyone, in the hopes that employees will take advantage of the free guidance to make a plan for their future that really fits with their personal retirement goals. We have done this by adding financial coaching.”

Lifetime Income Disclosures

When asked about the impending lifetime income disclosure, plan sponsors are concerned about participants’ lack of understanding and subsequent questions. As a plan sponsor noted, “Our concern with the lifetime income disclosure is that it only reflects one piece of information, and may cause more questions than answers with our population, so I anticipate quite a need for additional communications as we roll out lifetime income disclosures.” Someone else commented, “I think participants will be confused and misunderstand. The disclosure in its raw form does not provide enough information to truly project or portray the likely scenario. We feel we are going to need to wrap that message with other explanations or additional illustrations that do a better job of telling the story...We will spend some time evaluating it over this year and have started to review some of the same data we have in the past. The committee wants to evaluate more details and keep talking about it but is not convinced there is a need.”

Another plan sponsor shared, “I am not sure our employees will even notice the lifetime income disclosure on partici-

part statements; a large majority choose to receive their retirement communications via email, which I think makes it easier to ignore when their time is limited. I am concerned that those who do notice it will think that they are automatically required to choose a lifetime income as their payout option and be confused by it. I think it will be necessary to introduce them to the concept ahead of time through institution-wide communications.”

Conclusion

PSCA and its plan sponsor members recognize that annuities and lifetime income in general are complicated topics and need more analysis and scrutiny before offering annuities either in plans or outside of plans. The added layer to communications may be one of many obstacles that plan sponsors face if/when they consider annuities for their retirement plans. The upcoming statement disclosure will need to be carefully addressed and communicated to ensure that participants understand what it means to them.

Tobi Davis is PSCA's Director of Operations.

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