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Lessons learned from United Technologies' lifetime income strategy initiative

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It's been more than five years since **United Technologies Corp.** (UTC) adopted its Lifetime Income Strategy (LIS) for a Defined Contribution (DC) plan. When first introduced, LIS was touted as an innovative plan, designed to provide UTC plan participants with various risk mitigation features that would help them ensure a timely and secure retirement. LIS became UTC's default investment option and provided guaranteed lifetime retirement income backed by three insurance companies' income "step-ups" and account growth in response to contributions, and investment gains, and daily account liquidity, free of surrender charges, even after payouts begin.

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LIS employs three identical, institutionally-priced and competitive bid variable annuity contracts that offer guaranteed lifetime withdrawal benefits designed to protect retirement income from market declines, longevity risk and sequence of return risk. In essence, UTC's LIS replicates some of the most effective features of a defined benefit plan within its 401(k), while preserving the freedom and flexibility that participants and plan sponsors expect from today's DC plans.

As innovative as LIS is, when looked at retrospectively, we see that UTC basically applied some "good old fashion" detailed analysis to the objectives of their DC plan in light of new de-accumulation strategies that continue to emerge today. For plan sponsors, the primary lesson is to ensure their DC plan meets its objectives and goals, especially in light of new innovations that can enhance their plan. In short, plan sponsor should ask themselves these questions: Why did they adopt the plan? Is the plan meeting its intended goals or should the goals be updated? Will new marketplace developments provide an opportunity to improve their plan and better meet objectives?

Based on UTC's highly successful initiative, plan sponsors thinking about lifetime income strategies for their DC plan, should consider these steps:

Review corporate and organization goals for the retirement plan offered:

Organizations offer retirement plans to mutually benefit themselves and plan participants. Their hope is that the retirement plan enables them to offer competitive benefits, attract and retain top talent, and manage their human resources by enabling people to retire when it's best for them and the organization. They also want a retirement plan that will allow them to maintain a vibrant and challenging environment for its high potential rising workforce and to manage overall costs—especially the cost to continue to employ older workers in light of escalating and higher wages, health benefit cost, disability cost and other cost for older employees.

Key questions for plan sponsors: *Do the above objectives represent the key reasons the plan committee adopted a retirement plan? Are they prioritized correctly? Do they need to be changed? Are there de-accumulation strategies available to better meet plan goals?*

Evaluate in-plan versus out-of-plan products:

Plan sponsors have a myriad of in-plan retirement products available in the marketplace. At the same time, plan participants can purchase out-of-plan income products. When reviewing these products, plan sponsors should consider the availability of institutional pricing sponsors can command versus retail products with similar features that participants might purchase on their own. They should evaluate the additional income and security that can be achieved through institutional pricing and the amelioration of various risks (longevity, cognitive, equity market, inflation, and other risks) that most participants face. Plan sponsors should also review whether to maintain accounts for retirees so that payments can be made from the plan, and evaluate the advantages and disadvantages to the employer and employee in maintaining an account for retirees.

Key questions for plan sponsors: *Has the plan committee reviewed the plan's de-accumulation options? Are there strategic considerations? Should additional strategies be considered? Which option (in-plan or out of plan solutions) enables the plan to meet its objective?*

Conduct a thorough fiduciary review:

If an in-plan retirement income strategy is pursued, sponsors should consider guaranteed and non-guaranteed options to determine which drawdown strategies best meet their needs and those of their employees. This review should include such issues as competitive features of drawdown strategies, the financial strength of the insurance company using Department of Labor safe harbor guidance and other guidance provided (if guaranteed alternative is included) and the amount of income and security offered. Additionally, organizations should evaluate the ease of communicating the benefit to plan participants and the administrative capabilities of the service provider to implement and execute the desired retirement income product and strategy.

Key questions for plan sponsors: *Sponsors that determine in-plan option(s) best meet their needs will need to determine which option(s) provide the greatest benefit for the majority of participants. This review will recognize that in the retail market, participants will have additional flexibility – but for an additional cost. Is the employer willing to adopt a drawdown strategy or strategies that meet the needs of the majority of its workforce? Does the additional effort to offer de-accumulation strategies enable the plan to meet its stated objectives and goals?*

Weigh default or elected benefit:

Plan sponsors that have conviction around best-in-class retirement income offerings and a desire to have their workforce optimize benefits will need to determine if integrating the retirement readiness efforts and if the retirement income strategy should be part of the default offering in the plan design, or if plan participants should pro-actively elect the income strategy.

Key considerations for plan sponsors: their beliefs and conviction around auto enrollment, auto escalation and the QDIA will be influential in the determination on how to best use the retirement income strategy within the plan.

As sponsors seek to continuously evaluate and improve their benefit plans, evaluating retirement income strategies within their DC plans will grow in importance in the coming years. Enlighted intermediaries and sponsors will seek best in class strategies and offerings that provide the most security so that their DC plans, provide retirement readiness and security for participants and be an effective HR management tool for organizations.

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