

Institutional Investment Advisors and Consultants Forum: *Developing Expertise and Insights*

ENCOURAGING UTILIZATION

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Innovation, Communication, Evaluation



- Utilization of In-Plan Retirement Income Solutions
- In-Plan Retirement Income Availability
- Recordkeeper Considerations
- Plan Sponsor Considerations
 - Determine your Strategy
 - Decision Making Process
- Encouraging Participant Utilization

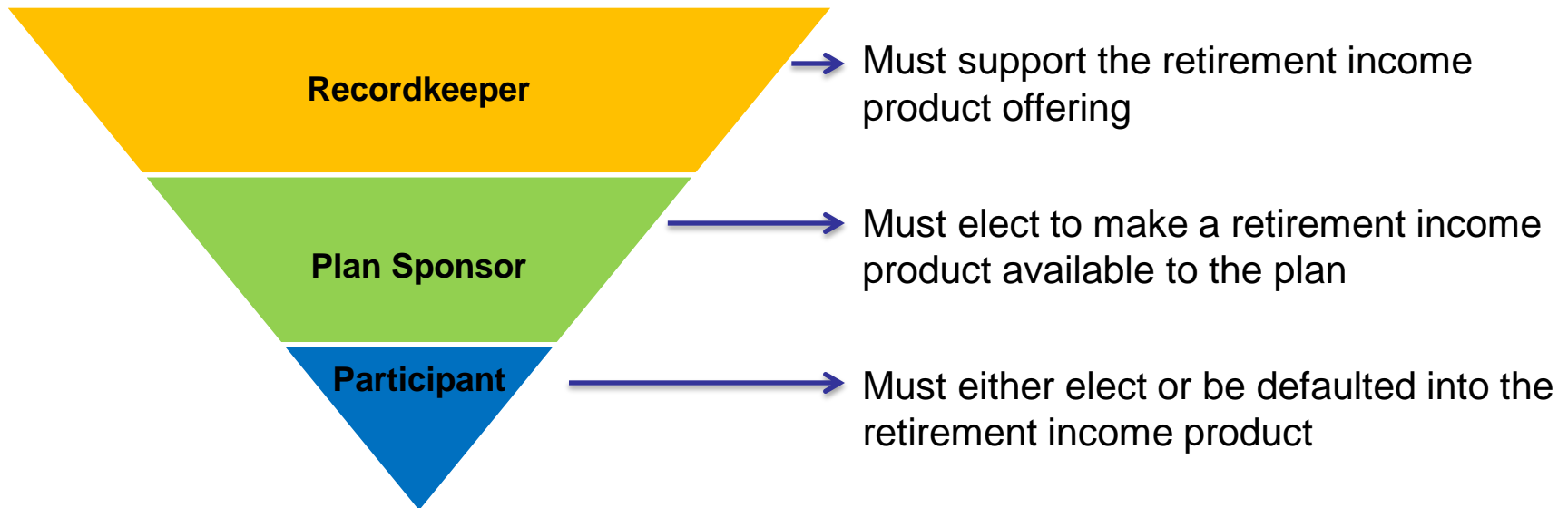
Utilization of In-Plan Retirement Income Solutions



- **Guaranteed Solutions**
 - Number of plans with an in-plan guaranteed solution:
 - Less than \$10 million: 31,000 plans
 - From \$10 million to \$199 million: 1,900 plans
 - Greater than \$200 million: 80 plans
 - Assets in plans offering a guaranteed solution: \$132 billion
 - Number of participants in plans: 3 million participants
 - Plans with a least one person electing an in-plan guarantee: 6,600 plans
 - Total participants electing an in-plan guarantee: 71,300 participants
 - Total assets invested in a guaranteed solution: \$3.6 billion
- **Nonguaranteed Solutions – Financial Engines Income+**
 - Number of plans that have added Income+: 113 plans
 - Assets in plans offering Income+: \$254 billion
 - Number of participants in plans: 2.6 million

Source: LIMRA Research Briefing “In-Plan Guarantee Availability and Election Tracking Survey” April 2015 and Financial Engines Earnings Call March 2015

- Availability of retirement income is a three tiered sale:



- Unlike most investment funds, in-plan retirement income products are not open architecture

Recordkeeper Considerations Factors Impacting Availability



- Impact on the recordkeeping business: Is the recordkeeper winning or losing opportunities based on the support or lack of support of a retirement income solution?
- Focus on the IRA business: Is the recordkeeper's business model more focused on capturing participant rollovers?
- Economics to the recordkeeper: How does the retirement income product compensate the recordkeeper?
- Provider relationships
 - Is the recordkeeper aligned with a certain provider or solution?
 - Is the retirement income product only available as a proprietary offering?
- Administrative issues
 - What level of integration and ongoing support is required?
 - What is the cost to the recordkeeper?

Plan Sponsor Considerations

Determine your Strategy



Should a retirement income solution be added to the plan?

- What is the role of the plan sponsor for their employees?
 - Getting participants to retirement
 - Ensuring participants have adequate income while in retirement
- What problem(s) is the plan sponsor trying to solve?
 - Transitioning from a DB plan (enhancing the value of the DC plan)
 - Retaining assets in the plan
 - Offering more competitive retirement benefits
 - Improving employees' financial security
- What level of commitment does the plan sponsor have?
 - Simply make it available
 - Actively encourage
 - Achieve meaningful results (high utilization)

Plan Sponsor Considerations

Determine your Strategy (continued)



- Demographics – What percent of the plan’s population is retirement eligible in the next 5, 10 or 15 years?
- Number of options – Will more than one retirement income product be offered to participants?
- Recordkeeper support – Can the recordkeeper support the retirement income product?
- Portability
 - At the plan level
 - At the participant level
- Fiduciary liability
 - Product selection, evaluation, and monitoring
 - Special considerations for guaranteed solutions (e.g. complexity, level of guarantee, single insurer risk, etc.)

Plan Sponsor Considerations

Determine your Strategy (continued)

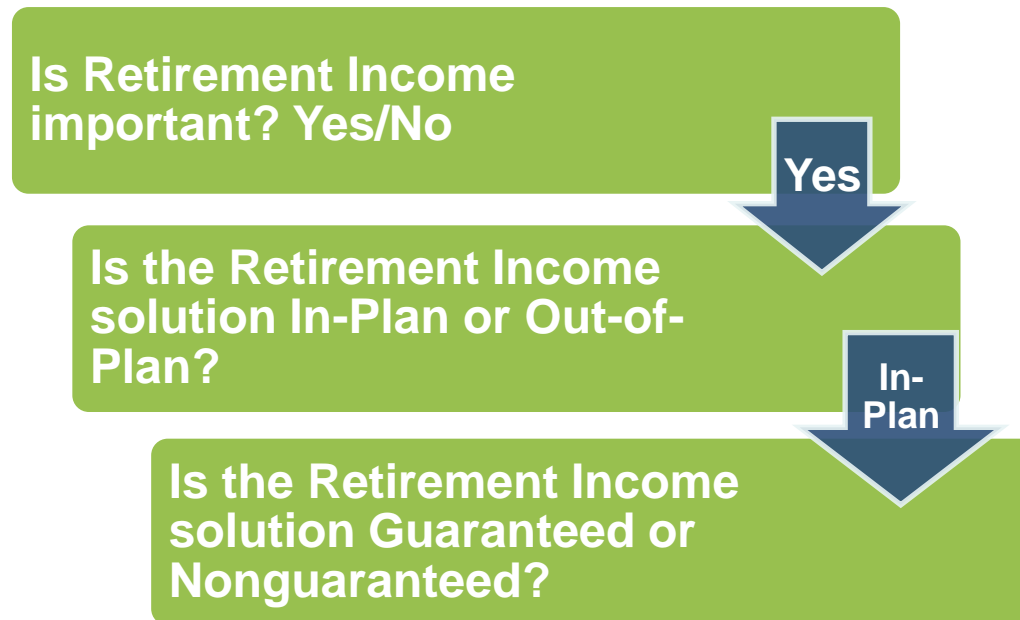


- Fees/Costs
 - What is reasonable?
 - How are they structured?
 - When are they paid?
 - Who pays them?

Plan Sponsor Considerations Decision Making Process



- The plan sponsor decision tree in evaluating retirement income is a three step process:



- Out-of-plan solutions minimize impact on:
 - Plan design
 - Administration
 - Communications
 - Fiduciary risk
 - Recordkeeping

Plan Sponsor Considerations Decision Making Process (continued)



- Out-of-plan solutions do not offer protection for the participant during their accumulation years
- In-plan guaranteed solutions offer income certainty for the participant
 - Fixed annuities offer a higher payout stream but with limited flexibility
 - GMWBs offer a lower payout stream but with increased flexibility
- In-plan nonguaranteed solutions offer investment flexibility, but do not guarantee income certainty
- No single solution or product will meet the needs of all participants

Plan Sponsor Considerations Decision Making Process (continued)



- Should the retirement income product be the QDIA for participants?
 - Factors to consider:
 - Turnover rate of the employee population
 - Average age of the employee population
 - Average participant balance in the plan
 - How are fees structured?
 - Nonguaranteed solutions - participant is paying for a current benefit
 - Guaranteed solutions - participant is paying for a future benefit
- Communication strategy
 - Basic plan communications can be challenging
 - Repeated communications will require a commitment of time and money

Plan Sponsor Considerations Decision Making Process (continued)



- Monitoring process
 - How is success defined by a plan sponsor?
 - How is it measured?
 - Ongoing due diligence of retirement income provider will be required

- Retirement income products are typically sold, not bought
- Utilization can increase through:
 - Advisor counseling
 - Enhanced communication
 - Influencing participant behavior through framing and signals
- Factors to consider for a participant before investing:
 - Balance in Plan – How much retirement income will be generated from the current balance?
 - Outside Assets – Are assets available outside of the DC Plan? How are the assets being used?
 - Fixed Expenses in Retirement – What are your estimated fixed monthly or quarterly expenses?
 - Projected Healthcare Expenses in Retirement – What are your estimated healthcare and long-term care expenses in retirement?

Encouraging Participant Utilization

Future Direction



- Simplification of the product offerings:
 - Enhanced communication to participants
 - Consistency of terminology in describing product offerings
- Open architecture of retirement income products to allow choice by plan sponsors and participants:
 - Use of middleware can help with the guaranteed products
 - Business issues need to be addressed
- Inclusion of advisor counseling to assist the participant in the proper use of the retirement income options available and provide a more holistic view of the participant's needs:
 - Impact of outside assets
 - Projected healthcare expenses
 - Fixed expenses in retirement