

### Introduction

In considering the parts of the institutional retirement market that would be best positioned to take advantage of a lifetime income solution offering, IRIC determined it would be helpful to first inventory all the relevant constituents. The following parties were identified as the key stakeholders: plan sponsors, recordkeepers, and advisors / RIA's.

The following summary will detail what we believe to be the key attributes of record keepers (RK) that may be best positioned to record keep, add, promote and discuss RI solutions to their plan sponsor and participant clients. Included are barriers that a RK would need to review and address to effectively promote and administer Institutional income solutions.

## **Recordkeeper Business Model**

### **Barriers:**

- Recordkeeper plan sales are dependent on advisor sold plans with advisor interest entrenched with wealth management(rollovers). Plans/Advisors may not want to offer or promote in-plan income solutions causing the RK to avoid or deemphasize in-plan retirement income solutions.
- Recordkeeper has affiliated company with advisors selling rollover solutions to plans and participants. Recordkeeper has no incentive to disrupt current profitable rollover sales enjoyed by their affiliate
- Recordkeeper has affiliated company providing individual rollover products/investments. Recordkeeper has no incentive to disrupt current profitable rollover product.
- Recordkeeper has affiliated company providing in-plan investments which do NOT include an in-plan retirement income product

### **Supports:**

- Recordkeeper profitability based only on in-plan activity fees, participant count or AUM without respect to investment type selected. The recordkeeper receives no direct or indirect revenue from a participant who leaves the plan
- Recordkeeper does NOT have reduced or limited revenue for terminated participants based on expectation of diminished relationship or support (e.g., discounted per participant fees)
- Recordkeeper has active plan or in-plan asset retention programs preferable with financial incentives including demonstrated success of "rollover in" process to consolidate retirement assets making RI solutions more effective
- Recordkeeper has affiliated company providing in-plan retirement income product
- RK focuses on markets (i.e. 457 plans) that may still have a DB / Frozen DB with culture and appreciation of guaranteed RI.

## **Culture/Approach/Behavioural Framing**

### **Barriers:**

- RK has field force educators or telephone educators / consultants that are compensated or incentivized to direct participants to proprietary RO solutions or proprietary wealth planning solutions associated with the RK.

- Development dollars are not used for Institutional income solutions
- Plan design / plan documents do not encourage RI (instalment, periodic payments, annuities, etc.) when plan is set up or amended.

**Supports:**

- Overall participant experience of retirement success is framed and measured by retirement income.
  - Illustrated income values are displayed ahead of or in lieu of accumulation values via web experience
  - Income is framework for delivering participant education on savings and investment selection
  - Income is one of the lead themes on participant communications on retirement readiness and financial wellness
  - Has holistic / comprehensive education effort (similar to wellness and comprehensive view where non-retirement assets are considered) for participants where RI is specifically addressed
- In-plan income products/solutions play prominent role in achieving retirement success. In-plan solutions presented as the preferred solution but NOT the only solution.
- In-plan income product included as part of QDIA offering
- Developed a proprietary RI product or solution (for example, insurance company that developed an in-plan annuity product, or has high utilization of managed account where the managed account provider and RK have commitment to RI solution)
- Has well developed financial wellness offering or partnership and views a RI solution in the greater context of overall wellness
- Has well developed effort to consolidate assets for their participants. High 'rollover in' success rate and asset consolidation
- RK or affiliate is member of IRIC. Or, has culture and belief consistent with IRIC's mission and vision

**RK Capabilities**

**Barriers:**

- Recordkeeper does NOT offer or support in-plan income products access to the same set of transaction choices or flexibility common to other in-plan investments. For example, a drawdown sequencing capability that would not debit the guaranteed product; or the guaranteed income investment would be the last investment to be debited.
- Recordkeeper support of in-plan product is NOT available through most common or preferred paths but through alternate and more difficult paths like paper form, call center VS Web access, or a unique more complex process.
- Recordkeeper "supported" capabilities for in-plan income conflict with other core services that may be a must-have for a plan. The recordkeeper may claim support but plan will lose access to one or more other services. For example, a RK will usually not want to auto rebalance an account with an income product due to adverse consequences of transferring out of an insured product. A proactive RK will be able to turn off this functionality at the participant level while some RKs that are less proactive will turn off functionality at the plan level thereby

eliminating this feature for all participants. Other examples include draw down sequence / capability, lienable but not loanable, other capabilities.

- Recordkeeper charges additional incremental fees for transactions integral to in-plan income product operations. For example, applying a \$50 per check fee for participant that chooses monthly instalment payments.

**Supports:**

- Recordkeeper has sustainable connections and processes for the calculation of participant level income values
- Recordkeeper has sustainable connection and processes for supporting portability of participant level income to another recordkeeper or IRA
- Recordkeeper is able to accommodate plan document changes (prototype and individually designed plans) to support systematic payments or an in-plan annuity
- Recordkeeper supports systematic payments from an individual investment versus pro-rata across investments
- Recordkeeper supports distribution in support of a purchase of an annuity (e.g., 1099 reporting)
- RK has capabilities that support RMDs below age 70.5, the 4% rule and the 4% rule with COLA (or other variants of the 4% rule or similar rule)
- Have demonstrated capabilities to incorporate RI solutions into QDIA. For example, GMWB that is part of a TDF solution, Deferred annuity that is part of Asset allocation that is a QDIA / managed account or managed pay out solutions – connectivity to managed account provider.
- Has RK capabilities (for example, instalment payments / periodic payments) that are in-line and coordinated with education materials on RI

The following general RFP questions are developed to profile RKs to determine the overall aptitude regarding RI solutions and products:

- Do you have clients that use an in-plan RI annuity solution? If so, Number of plan sponsor clients, participants that invest in solution, number of participants that are in pay-out phase, Describe the various in-plan RI annuity solutions, both proprietary and non-proprietary, offered to clients and break out statistics (plans and participants) if more than one solution is offered. Describe the process to install the offering and describe the participant experience when electing investing in and taking income from the solution(s) offered
- Do you have clients that use an in-plan instalment payment solution (both periodic and systematic)? If so, Number of plan sponsor clients, number of participants that are in pay-out phase of the solution, Describe your capabilities for systematic instalment payments. For example, do you support, 4% rule, 4% rule with COLA, RMDs for participants where the RMD can begin at ages below age 70.5, other life expectancies systematic payment processes. Describe the process to install the offering and describe the participant experience when electing investing in and taking income from the solution(s) offered
- Do you have clients that use a managed pay-out solution? If so, Number of plan sponsor clients, number of participants that are in pay-out phase of the solution, Describe the process to install the offering and describe the participant experience when electing or investing in and taking income from the solution(s) offered

- Do you have clients that use a RI platform (for example Hueler) upon retirement where participants have access to RI solutions? If so, Number of plan sponsor clients, number of participants that are in pay-out phase of the solution, Describe the process to install the offering and describe the participant experience when electing or investing in and taking income from the solution(s) offered

Then we would develop some drill down questions regarding the three areas noted above (RK capabilities, Culture / Approach and Business Model). See examples below:

#### Business Model

- Is the preponderance of your DC business model and revenue based on AUM, where keeping assets in the DC plan is a significant profitability goal for your DC organization?
- Do you have a RO business within your control group where any affiliated company tries to rollover assets out of your DC practice and into a rollover product or investment; and if so does your RO business have same profitability as the DC business?
- In the last 12 months, approximately what amount in dollars left your DC business practice and was rolled over to an affiliated company?
- In the last 12 months, approximately what amount in dollars left your DC business practice and was rolled over where an employee or an affiliated representative received any type of incentive compensation?
- Describe your “rollover in” education to participants. In the last 12 months, approximately what amount in dollars rolled into your DC practice plans?
- Does your fee change / reduce for participants that are terminated, but leave assets in the plan?
- Describe your education effort that promotes periodic payments, systematic payments and other RI products and solutions where participants receive income directly from the DC plan.
- What percentage of your participants are currently receiving systematic payments (instalment payments, annuity payments, managed account payments, etc.)?
- For participants currently receiving systematic withdrawals, is there any per check fee or distribution fee associated with the process of receiving income from the plan?

#### Culture / Approach

- Describe any financial wellness offering or partnership you have and describe how RI solution you may offer in the greater context of the overall wellness program
- Describe your effort to consolidate assets for participants. Do you have a high ‘rollover in’ success rate? Describe how (or if?) you integrate your RO in solution to your overall wellness and RI solutions offered. This question is being asked to ascertain your overall belief in the need for consolidation of retirement assets and if RI solutions need a comprehensive view of the participants overall financial picture.
- Describe your education effort offered to participants in light of effort to consolidation of assets, get a comprehensive view of participants overall financial picture and wellness and how your RI solutions offered fit into these education efforts
- Describe any development efforts you made in the last 3 years that promotes receiving retirement income directly from the DC plan.
- Does your prototype plan allow for Retirement Income directly from the plan? Can the prototype plan support: periodic payments, instalment payments, other systematic payments, annuity payments (GMWBs, GLWBs, fixed income annuities, deferred income annuities including QLACs), managed pay out accounts, RMD payments, and any other type of institutional retirement income payment? Does your system and processes support the types of RI mentioned above?
- How prominent is Retirement Income in your education efforts to plan participants? Is retirement readiness or retirement success displayed in an accumulated asset figure or is retirement success communicated in terms of a projected retirement income amount?
- Is projected RI prominently displayed on your web site?
- Is projected RI displayed on statements?
- Describe how you approach RI education in light of a comprehensive approach for participants – especially with respect to assets participants have – but are not part of their retirement plan assets.
- Describe how overall financial wellness of participants is incorporated into your educational approach
- Describe how RI, especially income taken directly from the DC plan, is a solution or partial solution to participant’s overall financial wellness
- Describe any retirement income product or solution that you or an affiliate developed that provides to you a competitive advantage over other recordkeepers.
- Do you believe that participants receive additional retirement security when income is received through and from a DC plan or do you believe that participants are better prepared for retirement if they rollover their assets out of the plan and into an IRA in order to generate retirement income?

#### RK capabilities

- Describe how your system calculates the amount of monthly or quarterly income for each of your solutions.
- Is there a “per check” fee for any participant that elects Retirement Income from the plan on a monthly or quarterly basis?

- For any guaranteed income product; do you subscribe to the SPARK data feeds or other data feed between you and other insurers or recordkeepers? If so, how many non-proprietary guaranteed income products do you currently support and the number of plans and participants that utilize such non-proprietary guaranteed income products?
- Can your system support certain functionality at the participant level to accommodate RI products? For example, can your system allow for auto-rebalance but not allow auto-rebalance at the individual level (individuals with the RI investment option) so that the participant does not inadvertently sell / liquidate the guaranteed income investment option?
- Can instalment payments be process both pro-rata across all investments or can it be process all from one investment option?
- Do you offer an IRA version of all the guaranteed investment options available on your RK system so that participants can 'port' their guaranteed income option in the event the employer / sponsor no longer desires to offer the option on an ongoing basis?
- If a client wanted to use the "4% rule" as their retirement income option – can your system support it? Describe how the process would work
- If a client wanted to use the RMD tables before age 70.5 as one of their retirement income options – can your system support it? Describe how the process would work.
- Can you incorporate an income product (both guaranteed and non-guaranteed) into your QDIA offerings? Are your disclosures, liquidity requirements, diversification requirements, other requirements able to be met by your system and processes? Can RI be incorporated into any of the three options noted under the QDIA regs (lifecycle or target-retirement date fund or model, balanced fund or model, and managed account.)

This memo is a comprehensive review of the RK capabilities needed in the marketplace that demonstrates a strong commitment to Institutional retirement income solutions. It includes attributes of the RK based on business model, culture / approach and core RK capabilities. This memo is intended for consultants, advisors, RK and sophisticated plan sponsors that are interested in a deeper review of capabilities and RK attributes that will allow all constituents to review the capabilities, approach and possible conflicts of the RK in offering comprehensive RI solutions in their DC practice. Finally, the intent of the memo is to begin to develop industry practices around RI and consolidate the forward-thinking best approach to the topic of RI within the DC plans.

The questions can be used in an RFI or RFP by consultants / advisors while the below 'one pager' can be used to quickly build an understanding of RK capabilities regarding RI solutions

## Summary questions regarding RK capabilities of RI products and services.

- Do you have clients that use an in-plan RI annuity solution? If so, Number of plan sponsor clients, participants that invest in solution, number of participants that are in pay-out phase, Describe the various in-plan RI annuity solutions, both proprietary and non-proprietary, offered to clients and break out statistics (plans and participants) if more than one solution is offered. Describe the process to install the offering and describe the participant experience when electing investing in and taking income from the solution(s) offered
- Do you have clients that use an in-plan instalment payment solution (both periodic and systematic)? If so, Number of plan sponsor clients, number of participants that are in pay-out phase of the solution, Describe your capabilities for systematic instalment payments. For example, do you support, 4% rule, 4% rule with COLA, RMDs for participants where the RMD can begin at ages below age 70.5, other life expectancies systematic payment processes. Describe the process to install the offering and describe the participant experience when electing investing in and taking income from the solution(s) offered
- Do you have clients that use a managed pay-out solution? If so, Number of plan sponsor clients, number of participants that are in pay-out phase of the solution, Describe the process to install the offering and describe the participant experience when electing or investing in and taking income from the solution(s) offered
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### Business model

- Are there any conflicts within your business model that prevent you from supporting Institutional Income Products and solutions? For example, affiliated agents or company that attempts to rollover assets from your DC practice.

### Culture Approach

- Does your DC RK practice embrace institutional retirement income solutions? For example, describe your beliefs in RI as it relates to retirement readiness, education, financial wellness, efforts to get a comprehensive view of a participant's overall wealth and your efforts to roll money into the plan in order to have all assets together for the RI solutions you support

### Core RK capabilities

- Describe the RK capabilities that you have and the processes you have developed in order to full support your institutional retirement income solutions on your platform