Name of Firm: Stanford Center on Longevity

Name of Service: Spend safely in retirement

Category – Non-Insured / Non-guaranteed service (Installment payment or periodic payment) available in plans as plan design feature.

Category Defined – These types of payout services encompass non-guaranteed installment payments or periodic payments that are available in a qualified retirement plan.

- Installment payment – A service derived by a plan design provision that enables a participant to withdrawal their accumulated balance over a period of years in retirement through regular periodic payments. The systematic payments are calculated based on a percentage of assets, a life expectancy table, or some other formula that specifies the amount to be distributed. (For example, a periodic quarterly payment of 1% of the participants balance at the end of the quarter would be a systematic installment payment.)

Service summary

Equity Participation	Yes	Is payout election revocable?	Yes
Equity participation managed by participant or by fund / service offering.	Participant	Can additional amounts be taken beyond the payment strategy?	Yes
Range of equity exposure offered	0 – 100% based on risk tolerance	Is there an additional fee for the service?	Generally no
Is there a strategy to hedge longevity risk?	Yes	What are the fees / range of fees?	Plan by Plan determination. May be a “per check”
Is there a built-in increase (COLA or other) in the payout amount?	Yes	participants educated on option / product provided?	No. Plan or RK would need to develop
Are the payments guaranteed?	No	Are same options available with RO IRA with provider? Restrictions?	Yes. No restrictions

Product Description

This strategy delays Social Security until age 70 for the primary wage-earner and uses the IRS required minimum distributions (RMD) to calculate income from the defined contribution plan. The strategy is implemented through an amendment to the plan document (if needed) to allow for installment payments and then an educational effort by the plan to effectively implement a delayed social security election while effectuating installment payments from the plan based on table III of IRS publication 590 regarding Required Minimum Distributions (RMD). The plan can be customized based on other assets the participant may have and the desired spending pattern the participant may want before social security is effectuated.

Since the calculation of the amount to be paid is based on recalculated life expectancy, and since life expectency is always greater than one (1), the payment stream will last for the participants life, regardless of how long the participant may live. The amount paid is an increasing percentage of the remaining assets since live expectancy is recalculated each year.

Availability

This strategy is available for any plan that offers installment payments as a distribution option for its retirees and terminated participants. However, it is best utilized when a plan sponsor actively educates its employees on the service and strategy

Current record keeping availability

Most record keepers (RK) would have this capability within its system. RK would need to develop effective education programs for participants.

Investment Structure

Any investment structure could be used. Since this service is intended for the masses ($100 k to $1 million in retirement savings), many participants that use this strategy could have a significant portion of their income received from the social security system. Thus, this strategy can be used with participants that have 100% equity exposure (since their social security income will be insulated from market volatility) in their retirement years, or for participants with a more traditional portfolio (for example 50% stock and the rest split between stable value products and bonds).

Income amount determination

Spend safely in retirement requires a participant to use a portion of savings to enable delaying Social Security benefits as long as possible but no later than age 70. They would then invest their remaining savings (both qualified retirement assets and non-retirement savings) and use the RMD table to calculate their lifetime retirement income that's generated by their savings. Participants would be encouraged to consolidate their 'qualified' money into the current DC plan and then to use their non-qualified savings and distribute the non-qualified assets the same percentage as their qualified assets. All assets would effectively be pooled together to determine the RMD amount that would be used as their retirement income beginning at their retirement date (not at age 70.5).

The RMD life expectancy tables can be translated into a series of withdrawal percentages. At age 70 (when RMDs become mandatory), the initial withdrawal percentage is 3.65%, and it increases each year thereafter based on an individual's re-calculated life expectancy. A participant could assume a withdrawal percentage of 3.5% from ages 65 (or whenever the participant retired) to 70, although a more precise method could also be used (by dividing the account balances by the life expectancies in the RMD tables). Additionally, a participant could spend more than 3.5% between the years he / she retires and age 70.5 if needed in order to optimize social security (age 70) for the primary wage owner.

It should be noted that the strategy is intended to be flexible to allow for refinements based on personal consumption choices. For example, some retirees express a desire to spend more money in their early years of their retirement while they're active and healthy, often for travel or leisure expenses. In this case, they could dedicate a portion of their retirement savings to a special bucket for these purposes. This approach would reduce their income available later in life that the spend safely in retirement would otherwise produce.

Fees and Expenses

Most plans do not charge for distributions. Thus, there is not additional or marginal cost for this strategy / service for most plans and participants.

Portability

Since this is not a guaranteed solution tied to a specific insurer, a participant could theoretically rollover to an IRA and continue with the same strategy and serviced as most IRA platforms offer installment payments and RMDs from the IRA.

Participant Experience / Education

This would need to be developed by the RK, plan other provider.

Miscellaneous

The Spend Safely in Retirement Strategy can be characterized as a navigational guide to help older workers decide when to retire and how to deploy their retirement savings. Although prescriptive in its calculated income, participants have the flexibility to create “buckets” for specific spending needs that would be outside the strategy to accommodate the individual needs of each participant.

The RMD, combined with the plan’s qualified default investment alternative (QDIA), might be a viable default retirement solution that offers fiduciary protection to the plan sponsor. Using the RMD as a payout strategy complies with IRS regulations; the retiree will incur substantial penalties if the minimum amounts aren’t withdrawn from the plan. As a result, both retirees and plan sponsors have a significant incentive to comply with the RMD. In addition, analyses show that the RMD helps maximize expected retirement income and is a viable straight forward approach to the retirement income dilemma many participants face.