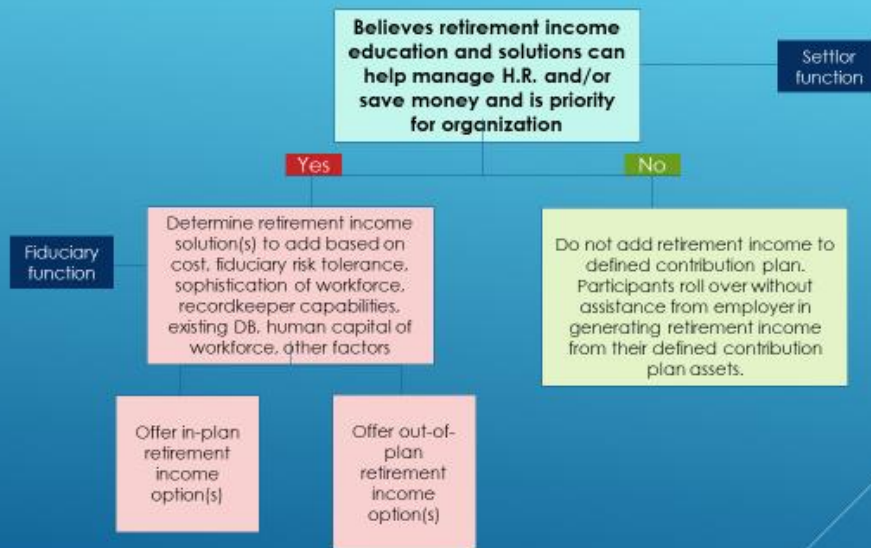


Many plan sponsors would increase the effectiveness of their plan by adding a retirement income solution(s) to their plan. Plans that offer an institutionally priced income option(s) provide additional security to their plan participants and offer a higher state of retirement readiness as institutionally priced solutions offer more income than their retail counterparts. HR representatives and financial representatives are analyzing this issue to determine if their plan is enhanced as a human resource management tool in attracting, retaining and managing their most precious resource – their human resources.



This document can be used as a working tool for consultants, advisors, attorneys and sponsors that seek guidance in making the plan design decision regarding income options and the fiduciary decision when selecting the actual option to install as part of the plan. This document is a companion piece to presentations provided by IRIC that can be accessed at <http://iricouncil.org/evaluation-tools/>

HOW TO MOVE FORWARD



The first step is a simple yes or no question: After educating yourself on the basic retirement income solutions available in the marketplace and understanding why some sponsors have added retirement income to their plan, do you believe retirement income education and solutions can help manage H.R. and/or save money and is priority for organization? If the answer to that question is yes, then you proceed with the analysis regarding retirement income. If you conclude that retirement income does not enhance the effectiveness of your plan, then you and your plan should not add a retirement income solution.

The initial analysis is simply a test of alignment of beliefs. Based on an organization's beliefs, culture, and objectives, your retirement plan design and draw down options may or may not align with corporate values and vision. Once this foundational alignment is determined, a more detailed analysis can occur. So let's get started – how do your beliefs as an organization affect the decision around retirement income and your DC plan?

CHECK LIST - Summary

HR tool to evaluate adding retirement income (RI) based on nine criteria

1. DC RI solutions provide more income / security
2. RI solutions can cause productivity gains or lower cost gained through better retirement readiness
3. Retirement Readiness at Normal Retirement Age (NRA) is a win / win for most employees
4. Retirement Income would be valuable to our employees
5. Retirement Income can increase our workforce productivity and make our management training / development program more effective.
6. Retirement Income enhances our plan to help us better attract, retain and manage our human resources
7. We are an innovator and market leader. Our benefit plans should reflect our culture
8. Retirement Income education is an important need. We can provide education and solutions.
9. Our Retirement board is sophisticated and can make a good decision for our employees regarding retirement income.

For plan sponsors that have added retirement income, they would agree with most or all of the above statements both before and after the decision to add income solutions to their plan. Do the above statements and retirement income attributes resonate with you and your organization? Let's get into the specifics and compare your beliefs to sponsors that hold retirement income in high regard.

CHECKLIST ON INITIAL DECISION –

Believes retirement income education and solutions can help manage H.R. and/or save money and is priority for organization

Scale from 1 to 5

1 – strongly disagree with statement; 2 – disagree; 3 – neither agree nor disagree; 4 - agree; 5 – strongly agree with statement

| Belief Statement | Score (1 to 5) |
|--|----------------|
| I believe that by enhancing my retirement plan with institutional retirement income solutions, my plan will become a better human resource management tool by attracting, retaining and managing our most precious resource – our human resources. | |
| I believe that my organization has a desired culture of innovative thinking, leadership in our market space, nimble in reacting to consumer demands / market changes, and at or near the top of effective product / service enhancements in reacting to our customer's desires ... AND to promote this culture, benefit plan changes need to likewise be either a <i>first to market</i> or a <i>fast follower</i> to remaining competitive and maintain the desired leadership culture. | |
| I believe that my employees need additional help and education regarding retirement income and security in retirement and believe that we can effectively increase their retirement income by adding, promoting and adopting retirement income solution(s) to our plan. | |
| I believe that our retirement plan board / fiduciaries are highly functioning and can make a good settlor/function decision around retirement income and can then make a prudent / expert decision on the solutions to add to our plan. | |

Average **1.0 to 2.5** = Adding retirement income will not meet the desires / goals of the organization. Average **2.5 to 3.5** = Adding retirement income may not help the organization meet its desired objectives and should not be a high priority for the organization

Average **3.5 to 4.0** = Adding retirement income solutions would assist in meeting the objectives of the organization. Average **4.0 to 5.0** = Adding retirement income will align the plan with organizational goals and should be a priority for the plan's board.

Pencil in your level of agreement to these statements and see if your beliefs around retirement income align your organizational goals. If so, keep going. We can drill down a little further. You will find similar charts on the subsequent pages – so have your HR reps and others on the plan’s board of directors pencil in their level of agreement on these belief statements to see if you are consistent across the board members and if your plan can be a better HR management tool for your organization.

MOVING FORWARD WITH THE "NO" DECISION

Do not add retirement income to defined contribution plan. Participants roll over without assistance from employer in generating retirement income from their defined contribution plan assets.

Clients that come to the decision to NOT add a retirement income product or solution can validate that decision by agreeing with all or most of the statements below.

| Belief Statement | I concur with this statement |
|--|------------------------------|
| I believe that retirement income is the participant's responsibility. There is little or no advantage for employers to assist in this process. We agree that upon termination or retirement, the employer – employee relationship ends. | ✓ |
| I believe that each participant has unique needs with unique retirement income solutions. As a DC plan, we cannot possibly add all the various types of retirement income solutions and we look to wealth advisors and the retail market to assist our plan participants as they retire or terminate from service to meet their unique circumstances | ✓ |
| I believe that any increase in income or retirement security offered by institutionally priced products and solutions is not significant with little commensurate benefit to the employer adding the solution or product | ✓ |
| We want to minimize complication of our plan. We do not seek innovation within our benefit plans and we are not a "fast follower" of plan design changes being accepted in the marketplace. We begin to consider benefit changes when more than 50% of our competitors have adopted the change. | ✓ |
| We have relationships with retail financial advisors that solicit business from our departing employees for a commission. These financial advisors offer help, financial products and wealth management services to our participants. We are happy with the wealth management services and products they offer. | ✓ |

Retirement income is not for all plans. Currently, according to a Willis Towers Watson survey, 30% of all plans have added a retirement income solution, while another 60% will consider adding a solution in next couple of years. Some plans that have gone through the analysis have decided against adding Retirement Income while others have determined that it simply is not a priority. If you are leaning towards a no decision or a delayed decision, see if you agree with the above belief statements. However, if you are leaning toward a 'YES' decision, you should concur with the beliefs below.

MOVING FORWARD WITH THE "YES" DECISION

Determine retirement income solution(s) to add based on cost, fiduciary risk tolerance, sophistication of workforce, recordkeeper capabilities, existing DB, human capital of workforce, other factors

Clients that come to the decision to add a retirement income product or solution can validate that decision by agreeing with all or most of the statements below.

| Belief Statement | I concur with this statement |
|---|------------------------------|
| I believe the primary goal of a defined contribution plan is to help participants convert their savings into an income stream that combined with other sources of income at retirement will enable them to retire <u>on time</u> . | ✓ |
| I believe that participants are motivated to save more when they can see the impact that additional savings will have on their retirement income. | ✓ |
| I believe employers can leverage their scale to secure advantageous pricing for a company-sponsored solution. While each participant's needs are unique, the 80/20 rule generally holds true, and a well-designed default solution can be an effective solution for the majority of the population. | ✓ |
| I believe that complexity can be managed with the right combination of staff and third party partners who have successfully implemented, communicated and operationalized solutions. | ✓ |
| I believe employees tend to trust their employers more so than financial salespeople and are more likely to save more when the solution is espoused by their employer. | ✓ |

CHECKLIST ON IN-PLAN VS OUT-PLAN

Believes retirement income education and solutions can help manage H.R. and/or save money and is priority for organization

Scale from 1 to 5

1 – strongly disagree with statement; 2 – disagree; 3 – neither agree nor disagree; 4 - agree; 5 – strongly agree with statement

| Belief Statement | Score (1 to 5) |
|--|----------------|
| Scale by keeping assets in plan outweighs the additional oversight / fiduciary costs | |
| Believe plan sponsor has the power to influence their RK to support an in-plan solution | |
| Willing to consider changing RK in the future if a specific in-plan solution or solutions are not offered by current RK | |
| Communication positioned from the employer / plan will be more effective at increasing adoption than access to communication by financial advisors associated with an out of plan solution | |
| Usage of in-plan institutional retirement income options are better than lump sum distributions and / or rollovers into annuity platforms or other out of plan solutions facilitated by the employer. Adoption of in-plan solutions can be increased through educational efforts or by defaulting participants into the in-plan solution | |
| Not concerned with increased fiduciary risk provided retirement income option meets QDIA terms | |

Average **1.0 to 2.0** = Strong indicator that an out-of-plan solution would be best for the goals of the organization.
Average **2.0 to 2.5** = Likely that an out-of-plan solution is best

Average **3.5 to 4.0** = An In-plan solution may meet most of the needs / beliefs of the employer
Average **4.0 to 5.0** = Strong indicator that an in-plan solution would be best for the goals of the organization.

Some sponsors will facilitate the income decision for their employees by negotiating with an insurer, annuity platform or other service that facilitates the distribution of the participant’s assets out of the plan and rollover into the platform for income distribution to participants. These are all considered employer-driven solutions, but sponsors need to determine if “in-plan” solutions are preferred to “out of plan” solutions. The above belief statements can help bring some clarity to that decision.

CHECKLIST ON AUTO OR AFFIRMATIVE ELECTION

Believes retirement income education and solutions can help manage H.R. and/or save money and is priority for organization

Scale from 1 to 5

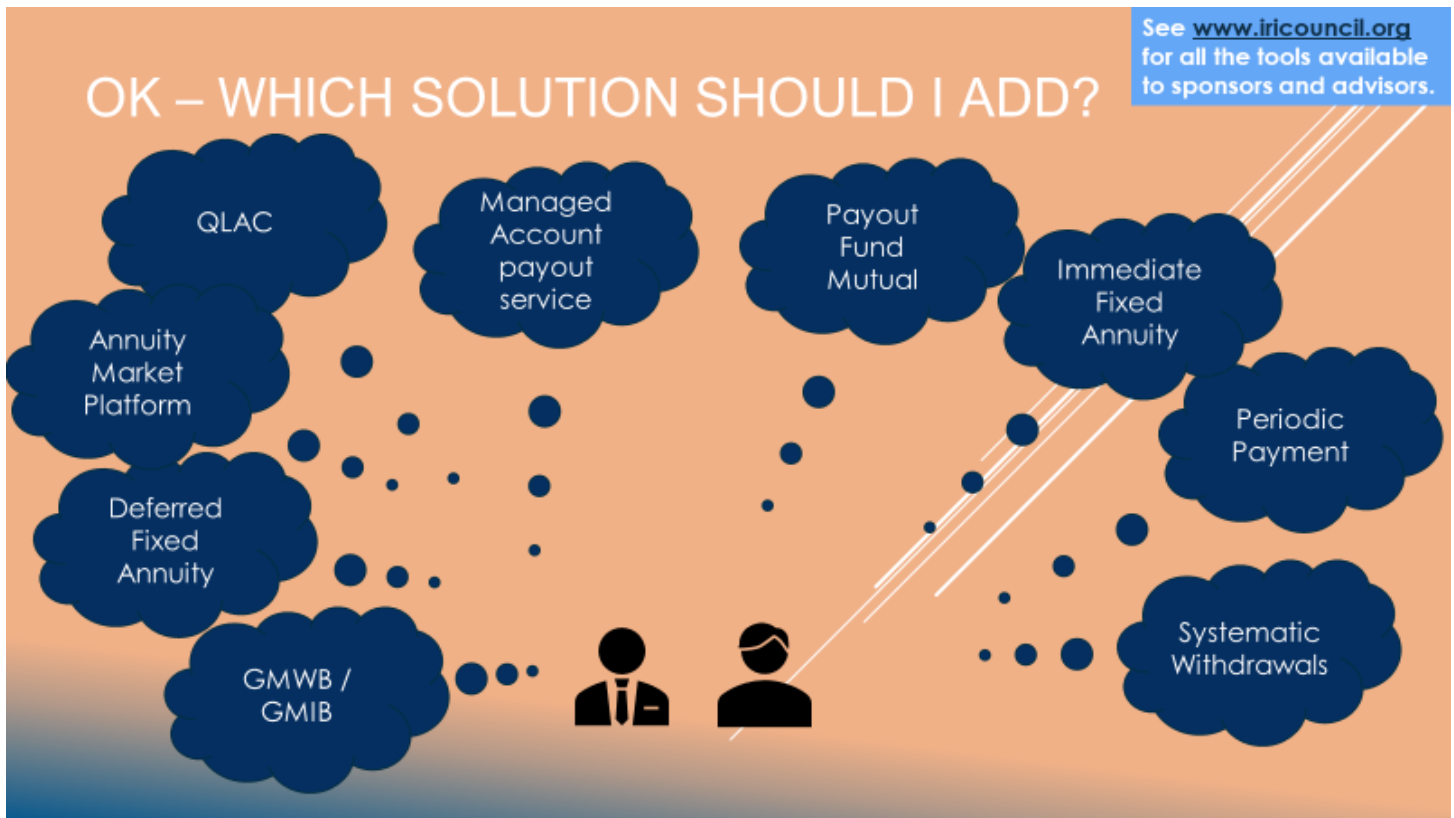
1 – strongly disagree with statement; 2 – disagree; 3 – neither agree nor disagree; 4 - agree; 5 – strongly agree with statement

| Belief Statement | Score (1 to 5) |
|---|----------------|
| Proponent of Auto features including auto enroll, auto escalate and auto invest | |
| Plan Committee along with plan advisor / consultant can effectively work with provider to integrate solution into the plan's TDF glidepath or other QDIA / investment options. | |
| Belief that "auto income" (including ability to opt out) with Institutional solutions will better prepare most participants for retirement security than retail alternatives | |
| Belief that retirement plan is both an accumulation and decumulation vehicle and believes participants that default part of their balance to an auto retirement income feature can be more productive and more retirement ready with less financial stress in the workplace | |
| Formerly offered a defined benefit plan and / or believes that DC plans can become a "pension-like" plan for their employees | |
| Belief that employers ought to automate / default to income solutions (with option to opt out) since automation has proven to substantially increase savings and security. Defaulting to institutional income solutions will likewise increase my participants overall retirement security. | |

Average **1.0 to 2.0** = Strong indicator that affirmative election would be best for the goals and beliefs of the organization. Average **2.0 to 2.5** = Likely that affirmative election would meet sponsors needs and would be consistent with sponsor's culture and goals for the plan

Average **3.5 to 4.0** = An Auto Solution that is part of the plan's QDIA / glidepath may meet most of the needs / beliefs of the employer
 Average **4.0 to 5.0** = Strong indicator that an auto solution would be best for the goals of the organization.

There are several solutions in the DC market that can integrate retirement income into the plan's QDIA. This slide is intended to help you think through the issues related to "auto income." In essence, the decision is around affirmative election of retirement income or a default approach to retirement income. Some believe that most participants should make this decision on their own, while others believe that automating retirement security (auto enroll, auto invest, auto escalate and auto income) is in the best interest of most participants. What do you think?



If you went through the analysis, and you concluded that adding an income solution to your plan makes sense, you will need to better understand the available solutions in the DC market today. And, you will need to understand what solutions your RK can accommodate on their system. To better understand the solutions available, IRIC sponsored a presentation in October of 2019 by Steve Vernon that outlines all of the available options with the pros and cons for each of them. You can find a replay of that presentation at <http://ircouncil.org/evaluation-tools/>. Also, IRIC has developed a RK questionnaire that will enable you to better understand your RK’s capability around retirement income. Find that document at <http://ircouncil.org/reference-library/#1520352029004-a5bd14a5-5d25>

More about IRIC

The mission of the Institutional Retirement Income Council (IRIC) is to facilitate the culture shift of defined contribution plans from supplemental savings programs to programs that provide retirement security through institutional income strategies and solutions within our defined contribution system. By providing a forum for insightful, solutions-oriented thought leadership on institutional retirement income, the IRIC is promoting the need for retirement income adequacy for defined contribution plan participants.

A membership-based organization, IRIC is supported by sponsors, and a panel of industry advisors, who are dedicated to sharing best practices, informing about legislative and regulatory issues and facilitating solutions for plan sponsors and their participants.

IRIC is a product agnostic and provider agnostic organization. IRIC supports guaranteed products, non-guaranteed products, and other drawdown income strategies. Through best practices development, IRIC creates an environment that fosters adoption and utilization of retirement income directly from DC plans that best meets the needs of both sponsors and participants.