Exploring the Process of Adding an Income Solution to Your Retirement Plan

A plan sponsor's guide to retirement income; settlor functions and fiduciary considerations when adding income solutions to your plan

IRIC

INSTITUTIONAL RETIREMENT INCOME COUNCIL

Executive Summary

As organizations attempt to return to a semblance of normal business activities, a focus on retirement planning has emerged as a priority for many firms. Specifically, organizations are considering the adoption of retirement income solutions within their defined contribution (DC) plans. The pandemic certainly overshadowed the policy objective regarding retirement income as presented in the SECURE Act that was signed into law December of 2019. As executives turn their attention to their long-term planning activities, they are analyzing the SECURE Act and making determinations on how to best use the provisions of the law to help them create a more effective retirement plan for both their organization and their employees.

We present this paper to plan sponsor executives, retirement plan fiduciaries, plan attorneys and service providers to better understand the decision-making process regarding the selection and addition of one or more of the retirement income solutions now available within the DC industry.

This paper first asks plan sponsors to determine if adding a retirement income solution makes their plan a better human resource management tool and helps the organization meet its goals regarding workforce productivity. It then offers a way to approach these decisions purely from a business point of view before considering the fiduciary aspects, including a review of the available solutions on the market today. Once a plan determines that retirement income is important for the organization, we then turn to the fiduciary decision-making criteria. The safe harbor provisions from the SECURE Act are then interjected into the fiduciary decision-making process regarding guaranteed options that are considered or adopted by an organization.

Finally, this paper compares several types of annuity products that are available in DC plans on the market today. Some of these products are designed to be accessed for annuitization at the time of retirement and may be considered "out of plan" options, but many other annuity products are in-plan vehicles designed to be included in a plan's investment menu so that participants can accumulate assets and guaranteed income benefits while they save for retirement. Part of the fiduciary review process is a requirement to review and understand the benefits, features and costs of the annuity contract being considered. By comparing the relative features of the various product(s)/solutions under consideration, the fiduciary can show due diligence and use the comparison charts as part of the fiduciary process. When added together with the fiduciary safe harbor in the SECURE Act, the charts and the information in this paper will provide plan sponsors with a solid foundation from which to approach the fulfillment of their fiduciary duties and be confident in their selection of an appropriate product to add as a retirement income solution to their plans.

In conclusion, most (if not all) of the various guaranteed products that have entered the market are comparable based on the competitive environment that exists among insurers and recordkeepers. Most sponsors that engage in this process will find several products that are viable and can easily be justified as appropriate and prudent for the DC plans and the plan participants for which they are being considered. The transparency of the charts shows similar benefits, features and costs among the products being compared, and we encourage readers to reach out to the selected companies for more information if they are interested.

Introduction

Deciding whether to offer a retirement income solution (RIS) to participants in a plan (including those solutions that can be used to accumulate assets over a significant period of time while participants save for retirement) can be complicated by a possible concern that offering such a solution in the absence of any sort of legal requirement to do so qualifies as a fiduciary decision

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that requires significant study and rationalization. This possible concern can be easily dispelled by some careful yet relatively simple planning.

Before considering the fiduciary review processes involved in implementing a plan's investment alternatives, a sponsor should first make certain plan design and other settlor function decisions. If handled properly, this initial set of decisions can establish the requirement that the plan offer one or more retirement income products within the portfolio of investment options as part of a settlor mandate rather than as a fiduciary decision. This will have great significance for the subset of decisions that will remain within the discretionary authority of the plan's fiduciary.

If handled properly, this initial set of decisions can establish the requirement that the plan offer one or more retirement income products within the portfolio of investment options as part of a settlor mandate rather than as a fiduciary decision.

For example, a plan could be drafted in a manner that provides that the plan's investment committee will make all decisions regarding the classes of investment options to offer as well as all decisions regarding the selection of specific investments to fill each designated class. Here, a decision to select a RIS as one of the alternative classes of investment options would indeed be a fiduciary decision. However, if the sponsor provided in the plan document that, while the investment committee has the responsibility to establish the classes of investment options, it must establish a class that involves one or more RISs, then the plan fiduciary would not be making a fiduciary decision in establishing the class. The fiduciary would instead only be making a fiduciary decision as to the selection of a reasonable product or solution to offer with respect to such class.

The level of residual fiduciary discretion would be a function of how specific the plan mandate was in describing an RIS. The most general mandate, reserving to the fiduciaries the greatest level of residual discretion (and responsibility), might read something like this: "One or more retirement income solutions that provide for a product or series of services designed to assist the participant in managing the participant's accumulated account balance into a stream of retirement income."

Depending on the range of products and services reasonably available to the plan, a more specific directive that was intended to cause the fiduciary to choose a product with some level of institutional guarantee might read something like this: "One or more retirement income solutions, at least one of which should involve an insured or otherwise guaranteed option to receive payments over the life of the participant."

Before we dive into the fiduciary process, let's describe the settlor function decision and when the fiduciary review starts as it relates to decisions to implement a program within a defined contribution (DC) plan to systematically provide for retirement income.

Settlor Functions — Legal Definition, Examples and Application

ERISA establishes legal and operational guidelines for defined contribution plans and is the primary source of information to determine what actions and decisions are settlor functions versus fiduciary decisions. One important note is that some decisions directly involving a plan, even when made by a person who would otherwise be considered a fiduciary, are actually *not* subject to ERISA's fiduciary rules. These decisions are business judgments and are commonly called settlor functions. Under this construct, an employer (that would otherwise be a fiduciary) is not acting in a fiduciary capacity *when creating, amending or terminating a plan.*

For example, decisions that are settlor functions include: (1) the type of plan being adopted; (2) the various design features that are "built into" the plan, such as the vesting schedule, the distribution options (including lump sum distributions, installment and other periodic withdrawals and the ability to add guaranteed distribution options), and the types of contributions (including required or preset employer contributions); (3) any decision to amend the plan; and (4) the decision to terminate the plan.

Although these decisions can influence the benefits available to participants and employees, ERISA's fiduciary requirements would not apply to settlor functions and those that make such decisions. **Thus, an employer can decide to amend its plan and add a guaranteed**

distribution option as a settlor function, and that decision would *not* be subject to ERISA's fiduciary procedural process. We must add that while a decision that is structured as a settlor action should avoid the issues otherwise inherent in a fiduciary decision, caution must be exercised to ensure that even a settlor decision does not involve an outright prohibited transaction.

For example, assume that a plan provision mandates that the applicable committee acquire an investment product through a relative of the employer's controlling stockholder. The fact that plan assets are being used in a manner that provides a benefit to a party in interest in lieu of being used for the exclusive benefit of plan participants creates a problem with the implementation of the directive even though it can be legitimately characterized as a settlor decision. Again, care should be taken that a settlor decision does not mandate a transaction that involves a clear conflict of interest.

Going one step further, let's review another example. Employer A froze its defined benefit (DB) plan 10 years ago. During the interim 10 years, the plan sponsor has noticed a higher level of turnover among those plan participants who did not qualify for the DB plan. Additionally, the plan sponsor noticed that its plan participants who were 60 years of age or older and who did not qualify for the DB plan were an exception to this trend: Such plan participants did *not* turnover or leave their employer. Instead, this group continued with their careers, even those plan participants at or beyond the plan's normal retirement date. The plan sponsor, in evaluating its plan, determined that by adding a guaranteed RIS, it would increase the plan's effectiveness in helping it to attract, retain and manage its most precious resource – its human talent. This decision is a **settlor** function decision. Further, the plan sponsor — in considering how to proceed — decided that adding a variable annuity with an income rider would be an appropriate solution to improve the plan's effectiveness and amended its plan accordingly. Again, the plan sponsor made a **settlor** function business decision.

As a next step, the plan sponsor asked the plan committee to study this issue further, to create an evaluation criteria to determine what product/investment to install, to create a way to evaluate the financial strength of the insurer offering the product, and to review the cost of the product and the value of the product when evaluating the cost.

Finally, the employer — when passing down these directives to the plan committee — reminded the plan committee that as fiduciaries, in deciding what variable annuity income product to install, they should act in the best interest of the organization's plan participants. So even though the decision to add a guaranteed option and the decision to add a variable annuity income product specifically have been structured as a part of the plan's design, those two decisions reflect the exercise of the **settlor's** functions. Once the employer/plan committee receives these directives as to the changes in the plan design and begins to make specific decisions regarding what insurer to use and what specific contract or investment to use, it is now making **fiduciary** decisions.

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The next section of this paper is dedicated to describing the various RISs and how the sponsor who wishes to incorporate a specific type of RIS into the core plan design as a settlor function should approach the process of reviewing the relative advantages and disadvantages presented within the different categories of such products.

Considerations for Designing Retirement Income Programs (aka Settlor Decisions)

Listed below are the categories of the available retirement income solutions currently offered in the defined contribution marketplace. This review is a high-level summary and intended to introduce the products with a very brief description along with the pros and cons of each alternative.

This section describes considerations for making settlor decisions when implementing RISs in defined contribution plans.

Employers and plan sponsors offer DC plans to their employees and plan participants to meet organization and human resources needs. Typical goals include:

- Offer an attractive compensation and benefits program that enables the employer or plan sponsor to hire and retain the people it needs.
- Manage succession in the workforce by enabling older employees to retire.
- Boost morale by demonstrating to employees and plan participants that the employer or plan sponsor is sensitive to their important financial security needs.
- Contribute to society by helping to maintain/increase financial security during retirement while reducing poverty in old age.

A program of retirement income in a DC plan can help employers and plan sponsors meet these goals. Such a program enables plan participants to convert their DC balances into a stream of retirement income, to supplement Social Security benefits and other sources of retirement income. If older workers are unsure if they have enough income to afford retirement, they might delay retiring indefinitely. A robust retirement income program can help pre-retirees and retirees make important retirement decisions and build a diversified portfolio of retirement income.

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There are many different strategies and products that can be included in a program of retirement income. This section calls these products and services “retirement income solutions” or RIS.

Various RISs have different features and pros and cons. Although there is no one perfect RIS that can meet the goals and objectives of all pre-retirees and retirees, sponsors can start by first offering at least one option in their plans that would benefit many of their participants. Once acclimated to the idea that the DC plan has decumulation features, an additional distribution option/guaranteed option can be offered to further meet the variety of needs that their pre-retirees and retirees may have.

No DC plan would offer just one investment option that meets all the investment goals and circumstances of its plan participants. Similarly, plan sponsors are likewise considering offering multiple ways to draw down retirement assets to meet the different needs of their plan participants. For example, some sponsors offer installment payments as well as a guaranteed option for their participants.

Plan sponsors will need to make decisions about the specific RIS that will best meet the needs and circumstances of their employees and plan participants, and in the process meet the needs of the plan sponsor. These decisions are settlor decisions.

Ideally plan sponsors would conduct a rigorous process to analyze and select the RIS that they offer in their DC plans. They would want to learn about the various RISs that are possible to offer in DC plans, the features, the pros and cons of each, and how pre-retirees and retirees can use these RISs to assemble a portfolio of retirement income that meets their goals and circumstances.

The next subsections discuss these considerations in more detail.

Three Types of RIS Products

There are three basic methods for generating retirement income from retirement savings, whether in a current employer-sponsored retirement plan or from other individual retirement saving IRAs or prior retirement plans:

1. *Social Security bridge strategy:* Use savings to substitute for Social Security benefits until the optimum age for starting these benefits. Assets devoted to a bridge strategy are typically invested in funds that minimize volatility in assets, such as a short-term bond fund or stable value fund. The funds are paid in monthly installments over a specified period of time.
2. *Systematic withdrawals:* Invest the assets and draw down the principal and investment earnings with a formal method intended — though not guaranteed — to make the money last for life.
3. *Annuity purchase:* Invest in or transfer savings to an insurance income product (fixed annuities or variable annuities) that guarantees a lifetime retirement income. Survivor benefits may be available through a joint and survivor annuity, period certain annuity or cash refund feature.

Each method can be implemented using a variety of financial instruments and/or approaches:

- *Social Security bridge fund:* installment payments made from mutual funds or exchange-traded funds of short-term bonds, stable value funds, money market funds or certificates of deposit.
- *Systematic withdrawals:* self-managed, professionally managed or managed payout fund. Common strategies include constant dollar amount (with or without adjustment for inflation), endowment method (constant percentage of assets) and life expectancy method (withdrawals spread over remaining life expectancy, such as the IRS required minimum distribution).
- *Annuity purchase:* immediate fixed-income annuity, immediate annuity increased by fixed percentage, deferred fixed-income annuity (flexible premium or single premium), variable annuity contracts with living benefits that include guaranteed lifetime withdrawal benefit (GLWB) and/or guaranteed minimum withdrawal benefits (GMWBs), fixed index annuity (FIA) or qualified longevity annuity contract (QLAC).

Note that some financial institutions may be offering hybrid solutions that provide the ability to convert a target-date-type investment vehicle into a stream of retirement income. In this case, a portion of the component of the investment vehicle that would otherwise be invested in bonds/fixed-income products might instead be invested in fixed annuities while participants save for retirement, thus providing them with optional guaranteed lifetime income in retirement. With this design, participants purchase guaranteed income over time as part of the designated investment alternative that utilizes this hybrid approach.

Solutions That Are Practical Today in DC Plans

The following RISs are practical in today's environment and encompass the three basic methods of generating retirement income and the three characteristics, as discussed above:

In-plan:

- Installment payments to be paid over a specified period of time for a Social Security bridge strategy
- Installment payments intended to be paid indefinitely to implement a systematic withdrawal program, in coordination with use of the plan's target-date, balanced or index funds
- Professionally managed accounts
- Flexible premium or single premium deferred or immediate fixed or variable annuity contracts
- Variable annuity contracts with living benefits (GMWB/GLWB annuity contracts)

Out-of-plan

- Managed payout funds
- Online annuity bidding services for the purchase of single premium immediate annuities (SPIAs) or deferred income annuities (DIAs)

Retirement Income Solutions: Specific Features and Evaluation Criteria

Sponsors and retirees should consider a number of specific features when selecting a RIS or combination of RISs. Plan sponsors should consider these same features when evaluating which RIS product(s) to offer in their DC plans and any potential fees.

- **Product attributes.** Some income products are imbedded into one of the plan's designated investment alternative where the income is derived or purchased during the accumulation period. Sponsors should understand and assess the investment during the accumulation phase, in addition to the evaluation of the product as an income-generating vehicle. By understanding the product attributes during the accumulation, sponsors can prudently determine the investment's value even if the participant decides not to utilize the product as an income-generating vehicle.
- **Amount of initial income provided.** How does this amount compare with amounts that the retiree might expect with other RISs?
- **Lifetime guarantee.** Is this income guaranteed for life no matter how long the retiree lives?
- **Financial strength.** What is the financial strength of the insurance company(ies) providing the guarantee?
- **Insurer experience.** What experience does the insurer have with the particular category of lifetime income product offered?
- **Pre-retirement protection.** Can the amount of retirement income be influenced by investment volatility or changes in interest rates before retirement?
- **Potential for post-retirement increases.** After retirement, is there a potential for the retirement income to increase in order to address inflation risk?
- **Post-retirement decreases.** After retirement, is the retirement income protected from decreases due to asset declines?
- **Access to savings.** Can remaining savings that were invested in the product be accessed after retirement income has started?
- **Inheritance potential.** Are remaining assets at death available for a legacy?
- **Investment control.** Who controls the investment of retirement savings?
- **Withdrawal control.** Who controls the amount of withdrawal from savings invested in the product for retirement income?

It's important to realize that most RISs do not meet all of the above features. This is one important reason why a combination of different RIS products may best meet a plan participant's specific circumstances.

How Various RIS Products Meet Evaluation Criteria From a Retiree Perspective

Pre-retirees and retirees will need to make calculated trade-offs among the pros and cons of various RIS products, depending on their goals and circumstances.

Table 1 summarizes how various RIS products meet the evaluation criteria discussed in the previous subsection from the perspective of the retiree, except for the initial amount of retirement income.

"Yes" answers generally indicate favorable responses, and "no" answers indicate unfavorable responses (although it could be debatable if investment and withdrawal control is desirable).

Table 1. How Different RIS Products Meet Various Criteria From a Retiree Perspective

Criteria	Social Security bridge strategy to optimize Social Security	Systematic withdrawals (any self-managed method)	Systematic withdrawals (advisory service or managed payout fund)	Deferred fixed-income annuity*	Immediate fixed-income annuity*	Variable Annuity with living benefits* (GMWB/ GLWB) and FIA	Deferred variable annuity*
Lifetime guarantee: Is this income guaranteed for life no matter how long the retiree lives?	Yes[a]	No	No	Yes	Yes	Yes	Yes
Preretirement protection: Can the solution or product provide protection from market volatility or changes in interest rates prior to retirement?	No[a]	No	No	Yes	No	Yes[1,2]	No
Post-retirement increase potential: After retirement, is there a potential for the retirement income to increase in order to address inflation risk?	Yes	Yes[1]	Yes[1]	No[8]	No[8]	Yes[2]	Yes
Post-retirement protection: After retirement, is the retirement income protected from decreases due to asset declines?	Yes	No[1]	No[1]	Yes	Yes	Yes	No

* Note that deferred fixed-income annuities, immediate annuities and immediate annuities with a rider that increases the annuity rate over time are primarily used as a small component of an overall portfolio, to hedge against longevity risk. Retirees' broader portfolios typically have the capacity for increase potential, inflation hedging, access to savings, investment and withdrawal control, and inheritance potential. When evaluating a deferred fixed-income annuity or immediate annuity, fiduciaries should take this broader asset allocation into consideration. Likewise, variable annuities often represent just part of a retirement plan's portfolio. As such, the assets that are outside of the variable annuity contract can be accessed, left for a legacy or transferred to different investment options. Additionally, some variable annuities provide access/withdrawals of additional amounts even after the decision to annuitize is made. For example, a GMWB will generally allow additional withdrawals above the normal annuitized payment, but such withdrawals will reduce future annuity payments.

Criteria	Social Security bridge strategy to optimize Social Security	Systematic withdrawals (any self-managed method)	Systematic withdrawals (advisory service or managed payout fund)	Deferred fixed-income annuity*	Immediate fixed-income annuity*	Variable Annuity with living benefits* (GMWB/GLWB) and FIA	Deferred variable annuity*
Access to remaining savings: Can the participant cancel the income stream and receive a remaining cash value?	No[a]	Yes	Yes	No	No[10]	Yes[4]	No
Inheritance potential with remaining savings: Are remaining assets at death available for a legacy?	No[a]	Yes	Yes	No[9]	No[9]	Yes[4]	No
Investment control: Can the participant remain in control of the investment decisions?	No[a]	Yes	No[5]	No	No	Yes[6]	Yes
Withdrawal control: Can the participant change/increase the amount of withdrawal?	No[a]	Yes	No[5]	No	No	Yes[7]	No

[1] Depends on investment performance

[2] Depends on investment performance and contract rules

[3] Depends on measure of inflation used in annuity contract

[4] Subject to contract rules; subject to fees and adjustments in account value

[5] No control while participant transfers control to advisory service; participant can typically withdraw funds from service at any time

[6] Depending on contract provisions; for GMWB/GLWB annuities, limits may exist for allocation to stocks

[7] Amounts in excess of guaranteed amount may be withdrawn, but adjustments and penalties may apply

[8] We are aware of one deferred fixed-income annuity product that provides for non-guaranteed periodic lifetime income payment increases at the insurer's discretion. Some deferred and immediate fixed-income annuities include explicit cost of living adjustments that are priced into the overall premium paid to obtain the income stream.

[9] Some immediate and deferred fixed-income annuities provide a guarantee period with a death benefit or return of premium guarantee.

[10] Some products may provide a liquidity rider that allows for liquidation of the remaining guaranteed payments. This is subject to liquidation factors in the contract.

[a] Social Security payments are guaranteed, but the "bridge payments" are usually not guaranteed unless invested in a fixed-income investment such as a stable value fund or period certain annuity. However, the decision to use a bridge strategy is really a purchase of a deferred fixed annuity since you are declining to take social security at an earlier age and deferring it until your normal retirement date or until your deferred retirement date (age 70 for most Americans) and using your DC assets to "bridge" or hold off the election to receive social security. It should be noted that deferring social security can result in more favorable higher annuity rates/higher payout rates than are otherwise available by insurers on the market today, thereby increasing your guaranteed income from social security. Depending on how you invest and withdrawal the assets in your bridge strategy, these assets may or may not remain in your account to access, include in a legacy, transfer to other investments or withdraw as supplemental income after social security is started. Participants and sponsors should evaluate a bridge strategy in combination with increased social security payments when social security is delayed. For more information on this, see Steve Vernon's Spend Safely in Retirement Strategy, Rest-of-Life Communications, Stanford Center on Longevity.

Trade-Offs Among Various RISs From a Plan Sponsor Perspective

Table 2 is a discussion of the trade-offs from both a plan sponsor and retiree perspective. Note that the pros and cons of annuities compared with systematic withdrawals often complement each other. Also note this chart provides general considerations and tradeoffs. Product designs can become more nuanced and involved causing some mitigation in black & white pros and cons.

Table 2. Retirement Income Solutions — Considerations and Trade-Offs

Retirement income method	Pros for retirees/ participants	Cons for retirees/ participants	Pros for sponsors	Cons for sponsors
Social Security bridge strategy	• Enables retirees to maximize expected Social Security benefits that are guaranteed to be paid for life, do not decrease if investment returns are unfavorable and are increased for inflation. • A portion of Social Security benefits is not subject to federal income taxes. • Ability to access or change the strategy with respect to remaining savings at any time. • Any remaining funds at death are available for a legacy. • Retiree can control investments and withdrawal amounts.	• Pre-retirees are limited to increasing their specific Social Security benefit; they can't increase their benefit beyond the maximum allowed by Social Security's rules. • Money in the bridge fund is paid out rapidly during the specified period until the optimal Social Security starting age. • Social Security benefits are subject to political risk if the system's funding deficiencies force future benefit reductions.	• The process required to change administrative procedures and/or providers prospectively with remaining assets is usually straightforward.	• Plan sponsors may be hesitant to appear to recommend Social Security claiming strategies.
Systematic withdrawals	• Investment returns more favorable than expected can increase amount of retirement income and/or remaining wealth. • Ability to access remaining savings at any time. • Remaining funds at death available for a legacy. • Retiree can control investments and withdrawal amounts.	• Retirement savings can be exhausted before death if the retiree experiences poor investment returns, significantly outlives life expectancy and/or withdraws at a rate too high to be sustained. • Retirees may make unscheduled withdrawals higher than planned. • Retirees are subject to the risk of making mistakes or losing funds due to cognitive decline, as well as the risk of fraud, incompetent advisors and/or excessive fees.	• The process required to change administrative procedures and/or providers prospectively with remaining assets is usually straightforward. • In-plan solutions increase assets under management, helping to reduce unit costs for administration.	• Retirees may think that the income is guaranteed for life when it really isn't. Not only might they deplete their savings, but they might also be surprised to learn that it can happen.

Retirement income method	Pros for retirees/ participants	Cons for retirees/ participants	Pros for sponsors	Cons for sponsors
Annuity products	• Lifetime guarantee (single or joint). Assures the annuitant that he or she will not outlive savings. • Protection against investment losses after retirement. • Protection against making mistakes or losing funds due to cognitive decline and the risk of fraud. • Protection provided by state guaranty funds in the event of insurer bankruptcy. • Provides higher income since the participant is not self-insuring to an age beyond normal life expectancy. Higher income amounts may allow participants to leave more money invested in liquid discretionary spending/emergency buckets	• No ability to access savings or provide an inheritance with unused funds (except for GMWB/ GLWB/FIA annuities). • No potential to increase retirement income if investment experience is favorable (except for GMWB/GLWB/FIA annuities and one fixed annuity product we are aware of). • Subject to investment risk or interest rate changes in period leading up to retirement (except for deferred fixed-income annuities and GMWB/ GLWB/FIA annuities). • Subject to solvency of insurance company (to the extent not covered by state guaranty funds). • No opportunity for legacy/bequest except for GMWB/GLWB or fixed annuities where a guarantee period has been selected.	• Lifetime guarantees provide assurance that retirees won't outlive their savings. • Can promote confidence in employee's retirement income sustainability and allow employees to retire "on time." • Insurance companies typically offer a variety of support functions that include handling communications, education and tax reporting for plan participants.	• In-plan annuity products can be difficult to change prospectively if the annuity product no longer meets the needs of plan participants. This con has been greatly mitigated by the SECURE Act. In cases where the plan sponsor no longer wants to offer the annuity, participants now have the ability to receive the annuity contract directly through a plan distribution. • Some annuity products can be challenging to explain to plan participants, who are likely to view the product as an investment rather than an insurance product.

In summary, following are common goals and circumstances that various RISs might be able to meet:

- A Social Security bridge strategy helps protect the retiree against longevity, investment and inflation risks. The main risk is that funds devoted to a Social Security bridge fund will be quickly depleted before the retiree reaches the target age to start Social Security benefits.
- Systematic withdrawals are typically preferred if the most important goals are flexibility, access to savings, possibility for a legacy with unused funds and the potential for increase in retirement income if investment performance is favorable. The risk is that savings can be depleted if the retiree experiences poor investment performance, withdraws too much money, makes mistakes due to cognitive risk, is a victim of fraud or mismanagement and/or lives well beyond life expectancies.
- Advisory services or managed payout funds are typically used if the retiree desires the advantages of systematic withdrawals but is not comfortable making decisions regarding investments or withdrawal amounts, and if the retiree is willing to pay for these services through fees assessed against savings.

- Annuities are typically preferred if the most important goals are the guarantee of lifetime retirement income and protection from investment losses. Annuities generally provide additional income compared with non-guaranteed solutions since non-guaranteed solutions require participants to assume a longer life expectancy in the event they live beyond their normal life expectancy. With some income annuities, the risks are (1) the retiree does not have access to savings once income is initiated, (2) there is generally less potential for a legacy, and (3) retirement income isn't generally increased by favorable investment performance. Some annuities are also subject to the risk of inflation. Many optional provisions may be available to address some of these risks, but with offsetting costs or possible reduction in the guaranteed income promised, contract provisions and options should be reviewed closely.
- One concern with many annuities is the loss of funds in the event of death early in retirement. This concern can be addressed by buying annuities with joint and survivor, guarantee periods and/or cash refund features. Another solution is to diversify the retirement income portfolio by devoting just a portion of retirement savings to annuities and then investing the remainder of savings using systematic withdrawals to generate additional retirement income.
- Another concern with many annuities is that changes in interest rates in the period leading up to retirement can cause volatility in the amount of retirement income; this concern can be addressed (1) with the purchase of deferred fixed-income annuities in the period leading up to retirement, (2) by investing a portion of savings in long-term bonds that would appreciate when annuity prices increase due to declining interest rates, and/or (3) phasing the purchase of immediate annuities and or deferred annuities in steps before or after retirement.
- The notable exception to the last three points is a GMWB annuity, GLWB annuity or FIA. These types of annuities combine the advantages of systematic withdrawals with the advantages of annuities; they can be viewed as a pre-packaged combination approach. In the accumulation phase, they offer protection against market declines and interest rate volatility. In the payout phase, they offer a lifetime guarantee of retirement income and protection of income against market declines. They also offer access to savings, the possibility of a legacy with unused funds and the potential for increased retirement income if investment experience is favorable. There's a cost for these favorable features: the insurance guarantee fee that's assessed each year on savings.

The remainder of this paper is dedicated to the fiduciary process as it relates to guaranteed solutions. As a result, a consideration of utilizing some of the RISs available in the marketplace would obviously not need to apply the process below if the solution was a non-guaranteed service solution. For example, making installment payments to implement a Social Security bridge fund or systematic withdrawals as described above, and using the plan's existing investment funds, would not incur additional fiduciary risk. A review of the desirability of utilizing this sort of RIS would not need to apply the process below, and a plan sponsor could add an installment payment option to a plan without a significant fiduciary review process for that specific solution.

Fiduciary considerations and the fiduciary process begin after the settlor decision is completed and the sponsor has decided to add a RIS to its plan and has decided on the type or types of RIS/products to add. Later in this white paper are the quantifiable comparisons you can make between products available in the market as a fiduciary. Additionally, below is a review of the general fiduciary process along with a form of attestation statement that sponsors should receive from insurers to avail themselves of the safe harbor and limitations of liability available to them with the advent of the SECURE Act of 2019 for those sponsors that add guaranteed income to their plan.

Fiduciary Process for Guaranteed Products/Information to Consider

In addition to carefully reviewing the features of the annuity contract itself, a fiduciary must also engage in an "objective, thorough and analytical search" to identify and select the insurance company (e.g., the issuer of the annuity contract). In other words, a fiduciary must engage in a prudent process. A fiduciary must appropriately consider information to assess the ability of the insurer to make all future payments under the contract. That is, the fiduciary must gather relevant information and make a careful assessment of that information. Finally, a fiduciary must conclude that, at the time of the selection, the insurer is financially able to make all future payments under the contract and the cost of the contract is reasonable in relation to the benefits and services to be provided under the contract. In other words, the fiduciary must make an informed and reasoned decision. The Department of Labor notes that, if necessary, the fiduciary should seek assistance from a knowledgeable advisor in connection with the decision. The final element from this list, that the fiduciary conclude that the provider is financially able to make all future payments, is made "at the time of selection." This means that a fiduciary is not required to predict the future, only that it should evaluate the provider's ability at the time the decision is made and then monitor the financial strength periodically thereafter.

Fortunately, the safe harbor in the SECURE Act enables sponsors to easily and readily comply with the evaluation of an insurer's financial strength; additionally, it provides not only for the initial evaluation of an insurer's financial strength but also an ongoing limitation of liability in evaluation and review of the insurer. In other words, the safe harbor applies to both the initial evaluation of the insurer as well as the requirement to monitor the insurer annually. With the safe harbor, sponsors will *not* be responsible for any losses incurred from the insurance contract implemented by the plan when following the safe harbor requirements.

[T]he SECURE Act enables sponsors to easily and readily comply with the evaluation of an insurer's financial strength; additionally, it provides not only for the initial evaluation of an insurer's financial strength but also an ongoing limitation of liability in evaluation and review of the insurer.

In addition to information about the insurance company, fiduciaries must assess the features and cost of the annuity contract. Presumably, because of the 408(b)(2) disclosures that service providers are required to make, the information is available, though the cost assessment requires comparison with other similar products available in the market. Based on the annuity contract/products currently being considered, sponsors should compare the cost of the guarantee, the income provided, the administrative support, the record-keeping capabilities, and other riders and features. Later in this document, we review the insurance annuity contracts available in the marketplace along with the pertinent comparison aspects sponsors need to review and consider before selecting a product and an insurer.

A special note regarding fees: The duty to act "prudently" is one of a fiduciary's primary responsibilities under ERISA. The law holds fiduciaries to certain standards of conduct, such as:

- Loyalty to the plan, meaning acting solely in plan participants' and their beneficiaries' interests, and with the exclusive purpose of providing them benefits and avoiding conflicts of interest
- Carrying out their duties prudently, acting with the same skill, care, prudence and diligence as any retirement plan professional would under similar circumstances
- Following plan documents (unless inconsistent with ERISA regulations)
- Diversifying plan investments
- *Paying only reasonable plan expenses*
- Providing participants necessary information to make informed decisions

Plan fiduciaries should review the fees[1] of a guaranteed RIS annually, and against reliable indicators from the institutional market as well as the retail market, as part of proper plan governance. The efficacy of any such review depends on the ability to fully understand the fees charged for each service and to utilize acceptable benchmarks that are available in the marketplace. In drafting the SECURE Act, our legislators made the following statement within the statute itself:

> ...considers the cost (including fees and commissions) of the guaranteed retirement income contract offered by the insurer in relation to the benefits and product features of the contract and administrative services to be provided under such contract; and...
>
> NO REQUIREMENT TO SELECT LOWEST COST.—Nothing in this subsection shall be construed to require a fiduciary to select the lowest cost contract. A fiduciary may consider the value of a contract, including features and benefits of the contract and attributes of the insurer (including, without limitation, the insurer's financial strength) in conjunction with the cost of the contract.

A plan sponsor should decide to move forward with the settlor decision to add an RIS, if and only if, it believes that its fiduciary committee, along with its consultants and advisors, have the ability to prudently address the reasonableness of the fees for the guarantees and services being provided in conjunction with the RISs/products being considered. Later in this document, IRIC provides a comparison of the fees for similar products. In these comparison charts, the fees — along with details regarding how the fees are — applied are disclosed for many of the products available in the market today.

Safe Harbor From the SECURE Act and Provider Template

As part of the fiduciary review, a plan sponsor will be able to take advantage of the safe harbor afforded under the SECURE Act if, at the time of the selection, the insurer is financially capable of satisfying its obligations under the guaranteed retirement income contract by adhering to the safe harbor provisions (see Appendix A). This safe harbor states that a sponsor will *not* be liable for any losses that may result to the participant or beneficiary due to an insurer's inability to satisfy its financial obligations under the contract. To obtain this protection, a plan sponsor should obtain the written testimonial (**see Appendix A**) at the time the RIS is selected and then should ensure they get a renewed testimonial annually from the insurer as well.

To obtain this protection, a plan sponsor should obtain the written testimonial at the time the RIS is selected and then should ensure they get a renewed testimonial annually from the insurer as well.

[1] Certain annuities, such as fixed-income annuities, do not have an explicit fee. As such, comparisons and reasonableness are determined by reviewing the product under consideration against similar products and features associated with spread-based products, such as accumulating crediting rate levels, product liquidity features, guarantor financial strength and level of lifetime income payouts.

Comparison Charts

Table 3. Guaranteed Lifetime Withdrawal Benefits (GLWB) and Guaranteed Minimum Withdrawal Benefits (GMWB)[2]

Evaluation Criteria	GLWB 1 — Lincoln PathBuilder Income℠	GMWB 2 — Great West/Empower SecureFoundation	GMWB 3 — John Hancock Guaranteed Income for Life Select	GMWB 4 — Prudential IncomeFlex Select	GMWB 5 — Transamerica SecurePath for Life
		Investment Structure			
Investment Option(s) Utilized	The *PathBuilder Income*℠ (PBI) guarantee is offered on the Lincoln Variable Insurance Product American Global Balanced Managed Risk Fund (Moderate Fund); The PBI investment option is available as a stand-alone investment option or can be incorporated into the glide path of custom target-date portfolios. Plan sponsors may choose the final maximum allocation of the PBI investment option in the target-date portfolios to be 100%, 75% or 50%. Starting approximately 10 years before the target date, the initial allocation to the PBI investment option is 10%, 7.5% or 5% of the account balance; an additional 10%, 7.5% or 5% of the account balance is allocated to the PBI investment option each year up to the targeted retirement date. The glide paths for the custom target-date portfolios are developed and monitored by Morningstar or an RIA chosen by the client. The PBI investment option is also available as a stand-alone investment option through a Balanced Fund; the guarantee starts with the first deposit to fund.	Proprietary target-date funds and/or Balanced Fund The guarantee on the target-date funds starts 10 years prior to the targeted retirement date. The guarantee on the Balanced Fund starts with the first contribution.	Four different proprietary managed investment portfolios The guarantee starts with the first deposit into one of the investment portfolios.	Proprietary target-date funds and/or Balanced Fund The guarantee on the target-date funds starts 10 years prior to the targeted retirement date. The guarantee on the Balanced Fund starts with the first contribution.	Externally managed indexed based target-date funds The guarantee starts 10 years prior to the targeted retirement date.

[2] A significant contributor to this paper is Alliance Bernstein. Alliance Bernstein, in partnership with several insurers, offers a customized GMWB to several large to mega-size plans. Due to the customized unique product design, integrating the Alliance Bernstein offering into a standardized chart of single-insurer GMWB products proved to be difficult. However, large to mega-size plans considering an engagement can use this chart to determine the competitiveness of the customized approach to similarly structured products available in the market.

Evaluation Criteria	GLWB 1 — Lincoln PathBuilder Income℠	GMWB 2 — Great West/Empower SecureFoundation	GMWB 3 — John Hancock Guaranteed Income for Life Select	GMWB 4 — Prudential IncomeFlex Select	GMWB 5 — Transamerica SecurePath for Life
Participant Investment Choices	If the PBI investment option is part of target- date portfolios, participants are able to elect a target-date portfolio that most closely corresponds to their retirement age based on birth year; the PBI investment option will enter the glide path during the last 10 years. Participants are able to elect the PBI investment option as a stand-alone investment option through a Balanced Fund.	Participants are able to elect the target-date fund that most closely corresponds to their retirement age based on birth year. Participants are able to elect the Balanced Fund directly, if the option is made available by the plan sponsor.	Participants are able to elect any of the investment options.	Participants are able to elect the target-date fund that most closely corresponds to their retirement age based on birth year. Participants are able to elect the Balanced Fund directly, if the option is made available by the plan sponsor; Balanced Fund can also be made a part of Prudential's model portfolio capability, "GoalMaker" — which automatically introduces the Balanced Fund 10 years prior to the participant's retirement age.	Participants are able to elect the target-date fund that most closely corresponds to their retirement age based on birth year.
Equity Participation	The target-date portfolios have equity participation ranging from 50% to above 80% based on age; all portfolios decline in equity participation as they near the target date of the portfolio; as the PBI investment option is added to the glide path, the overall equity participation adjusts accordingly; at age 65, when the target-date portfolio is 100% invested in the PBI investment option, the equity participation will be approximately 50%. The PBI investment option, which can be invested in a stand-alone Balanced Fund or as part of a target-date portfolio, is approximately 50% equity securities.	The target-date funds have equity participation ranging from 60% to 90% based on age; all funds decline in equity participation as they near the target-date of the fund. The target-date funds with the guarantee and the Balanced Fund are invested in approximately 60% equity securities.	Equity participation ranges from 20% to 72% between the different investment portfolios; allocation percentages may vary or be adjusted due to market or economic conditions.	The target-date funds have equity participation ranging from 60% to 97% based on age; all funds decline in equity participation as they near the target-date of the fund. The target-date funds with the guarantee and the Balanced Fund are invested in approximately 60% equity securities.	The target-date funds have equity participation ranging from 30% to 90% based on age; all funds decline in equity participation as they near the target date of the fund. The Retirement Income Fund is invested in approximately 30% equity securities.

Evaluation Criteria	GLWB 1 — Lincoln PathBuilder Income℠	GMWB 2 — Great West/Empower SecureFoundation	GMWB 3 — John Hancock Guaranteed Income for Life Select	GMWB 4 — Prudential IncomeFlex Select	GMWB 5 — Transamerica SecurePath for Life
Ability to Utilize in a Custom Portfolio	Yes The PBI investment option can be used as an investment option within the custom target-date portfolios.	No	No	Yes Third-party target-date funds or an asset allocation fund can be wrapped with the guarantee subject to underwriting.	No
Fees and Expenses					
Expense of Underlying Fund(s)	The PBI investment option has fees of .60% and mortality and expense charges of .05%; additional share classes are available with mortality and expense charges of .25%, .45%, and .65%. 0% (or, for the additional share classes, .15%, .30% and .45%) of the total fee is allocated back to the plan for revenue-sharing purposes. Investment management fees also apply for the balance that is not invested in the PBI investment option; the fees vary by plan based on the target-date portfolio selected by the plan sponsor; the cost of the guarantee only applies to the portion of the model allocated to the PBI investment option.	Varies by share class and fund option selected; fees range from .63% to .71%	Varies by fund option selected; fees range from .83% to .89%	Varies by fund option selected; fees range from .32% to .94%	Varies by fund option selected; fees range from .13% to .15% M&E charges and administration fees of .55%
Cost of Guarantee Fee *Note: Each product offering had language that allowed for a potential increase toa set maximum fee*	Current fee is .90%	Current fee is .90%	Current fee is .75%	Current fee is 1.00%	Current fee is .90%
Total Cost Range (Investment Management Fees and Guarantee Fee)	1.55% (Net fee after revenue sharing is 1.55%) Other share classes have a total fee of 1.75% (net 1.60%), 1.95% (net 1.65%) and 2.15% (net 1.70%), respectively.	1.53% to 1.71%	1.58% to 1.64% Additional distribution fees may apply for compensation to the advisor or third-party administrator; fees are variable.	1.32% to 1.94%	1.58% to 1.60%

Evaluation Criteria	GLWB 1 — Lincoln PathBuilder Income℠	GMWB 2 — Great West/Empower SecureFoundation	GMWB 3 — John Hancock Guaranteed Income for Life Select	GMWB 4 — Prudential IncomeFlex Select	GMWB 5 — Transamerica SecurePath for Life
Balance Charged theGuarantee Fee	The guarantee fee is charged only on the balance in the PBI investment option.	The guarantee fee is charged on the target-date fund 10 years prior to the targeted retirement date. The guarantee fee is charged on the first contribution made to the Balanced Fund.	The guarantee fee is charged after the first deposit is made into one of the investment portfolios.	The guarantee fee is charged on the target-date fund 10 years prior to the targeted retirement date. The guarantee fee is charged on the first contribution made to the Balanced Fund.	The guarantee fee is charged on the target-date fund 10 years prior to the targeted retirement date.
Account Balance During the Accumulation Phase					
Determination of Income/Benefit Base	The initial Income Base is based on the initial contribution to the Moderate Fund. Ongoing contributions increase the Income Base dollar for dollar; excess withdrawals decrease the Income Base on a proportionate basis. The ongoing Income Base is adjusted to the current fund value if the fund value is greater than the current Income Base on the anniversary date.	The initial Benefit Base is determined based on the initial contribution to the fund(s) once the guarantee applies. Ongoing contributions increase the Benefit Base dollar for dollar; withdrawals decrease the Benefit Base on a proportionate basis. The Benefit Base is adjusted to the current fund value if the fund value is greater than the current Benefit Base on the anniversary date.	The initial Benefit Base is determined based on the initial contribution to the portfolio(s). Ongoing contributions increase the Benefit Base dollar for dollar; withdrawals decrease the Benefit Base on a proportionate basis. The Benefit Base is increased at an annual rate of 3% each year on the participant's anniversary date. At the time the participant elects to start taking lifetime income payments, the Benefit Base is adjusted to the current fund value if the fund value is great than the current Benefit Base.	The initial Income Base is determined based on the initial balance of the fund(s) once the guarantee applies. Ongoing contributions increase the Income Base dollar for dollar; withdrawals decrease the Income Base on a proportionate basis. The ongoing Income Base is adjusted to the current fund value if the fund value is greater than the current Income Base on the anniversary date (participant's birthday).	The initial Income Base is determined based on the initial balance of the fund(s) once the guarantee applies. Ongoing contributions increase the Income Base dollar for dollar; withdrawals decrease the Income Base on a proportionate basis. The ongoing Income Base is adjusted to the current fund value if the fund value is greater than the current Income Base on the anniversary date.

Evaluation Criteria	GLWB 1 — Lincoln PathBuilder Income℠	GMWB 2 — Great West/Empower SecureFoundation	GMWB 3 — John Hancock Guaranteed Income for Life Select	GMWB 4 — Prudential IncomeFlex Select	GMWB 5 — Transamerica SecurePath for Life
Frequency and timing of Income/ Benefit Base calculation	Determined on an annual basis Timing is based on anniversary date of the first contribution to the PBI investment option.	Determined on an annual basis Timing is based on anniversary date of the first contribution once the guarantee applies.	Determined on an annual basis Timing is based on anniversary date of the first contribution once the guarantee applies.	Determined on an annual basis Timing is based on the participant's birthday once the guarantee applies.	Determined on an annual basis Timing is based on the participant's birthday once the guarantee applies.
Account Balance During the Distribution Phase					
Payment Options Available	Single or Joint Life	Single or Joint Life	Single or Joint Life	Single or Joint Life	Single or Joint Life
Age Lifetime Income Withdrawals Can Start	The youngest covered person must be age 55 or older to begin withdrawals.	The youngest covered person must be age 55 or older to begin withdrawals.	Single Life option payments can start at age 59 1/2. Joint Life option payments can start at age 65 for both spouses. For both options the participant must have been invested in the product for at least five years.	The youngest covered person must be age 55 or older to begin withdrawals.	Single Life option payments can start at age 55. Joint Life option payments can start at age 55 for the participant or age 50 for the spouse.

Evaluation Criteria	GLWB 1 — Lincoln PathBuilder Income℠	GMWB 2 — Great West/Empower SecureFoundation	GMWB 3 — John Hancock Guaranteed Income for Life Select	GMWB 4 — Prudential IncomeFlex Select	GMWB 5 — Transamerica SecurePath for Life
Withdrawal Percentages Allowed ofIncome/ Benefit Base	Single Life: Age 55 to 64: 4% Age 65 to 70: 5% Age 71 and older: 6% Joint Life: Age 55 to 64: 3.5% Age 65 to 70: 4.5% Age 71 and older: 5.5% The Guaranteed Annual Income percentage may increase to the higher percentage after the participant has elected to start income payments if the participant has a step-up in the year the participant's age reaches the next level. The payout percentages can vary (increase or decrease) based on the interest rate and inflation environment; accrued rates are protected.	Single Life: Between 4% to 7% based on age lifetime income begins Joint Life: Between 3.5% to 6.5% based on age of youngest joint life	Single Life: Between 4% to 5% based on age lifetime income begins Joint Life: 4.5% for all ages greater than 65	Single Life: Between 4.25% to 5.75% based on age lifetime income begins Joint Life: Between 3.75% to 5.25% based on age lifetime income begins	Single Life: Between 3.5% to 5.5% based on age lifetime income begins Joint Life: Between 3% to 5% based on the age of the younger spouse
Frequency and Timing of Income/ Benefit Base Calculation	Determined on an annual basis Timing is based on anniversary date of the first contribution to the PBI investment option.	Determined on an annual basis Timing is based on anniversary date of the first withdrawal.	Determined on an annual basis Timing is based on anniversary date of the first contribution.	Determined on an annual basis Timing is based on the participant's birthday.	Determined on an annual basis Timing is based on the participant's birthday.
Death Benefit — Return of Contributions to Beneficiary	Yes In the event the market value is below the participant's cost basis, the beneficiary is guaranteed a return of the participant's cost basis reduced by any withdrawals that may have been taken prior to the payment to the beneficiary.	No The beneficiary will receive the Account Value in a lump sun.	No The beneficiary will receive the Account Value in a lump sun.	No The beneficiary will receive the Account Value in a lump sun.	No The beneficiary will receive the Account Value in a lump sun.
Annuitization Required	No	No	No	No	No
COLA Option Available	No	No	No	No	No

Evaluation Criteria	GLWB 1 — Lincoln PathBuilder Income℠	GMWB 2 — Great West/Empower SecureFoundation	GMWB 3 — John Hancock Guaranteed Income for Life Select	GMWB 4 — Prudential IncomeFlex Select	GMWB 5 — Transamerica SecurePath for Life
Ability to Roll Over to an IRA after Termination	Yes PBI investment management options and fees may vary from funds offered in the plan.	Yes Investment management fees may vary from the funds offered in the plan. No additional fees apply.	Yes Investment options available are similar to those available in the plan. An annual account maintenance fee applies.	Yes Investment options available are similar to those available in the plan. Additional fees may apply.	Yes Investment options available are the same to those available in the plan. No additional fees apply.

Table 4. Flexible Premium and Single Premium Deferred Fixed Annuity/QLACs

Evaluation Criteria	Deferred Fixed Annuity 1 Principal Pension Builder	Deferred Fixed Annuity 2 TIAA Fixed Annuities (TIAA Traditional, TIAA Secure Income Account)	Deferred Fixed Annuity 3 Wells Fargo Asset Management Retirement Income	Deferred Fixed Annuity – Typical Retail
Purchase Process: • **Single purchase versus purchase over time** • **Ability to use as part of QDIA or stand-alone?** **Available to purchase as a qualifying longevity annuity contract (QLAC)?**	Designed as an investment option available within a retirement plan Participants can purchase over a period of time through ongoing contributions or a single point in time (lump sum purchases) through transfers from other investment options in the plan. Principal Pension Builder is currently only available as a stand-alone investment option for the plan and is not a QLAC.	Institutionally priced flexible premium deferred fixed annuity designed to be used within institutional DC plans (IRA version also exists) Certain versions have been designed to be used inside QDIA-eligible asset allocation services, such as managed accounts and custom model portfolio services. Provides guaranteed interest while participants save for retirement (minimum rates between 1% and 3% depending on the contract) and the option, but not the obligation, to use some or all of the accumulation to buy a stream of income that can never be outlived.	Combines a QLAC with either a target-date fund or a balanced fund, either as part of the QDIA or as a standalone Starting at age 65, participants can allocate a small percentage of their balance to purchase a QLAC, with the aim of mitigating longevity risk while leaving most of their balance fully liquid.	• Typically single purchase but individual contracts may allow ongoing contributions in one contract • Purchased outside a plan so not part of a QDIA Contracts may provide options for clients to utilize the QLAC provision of a DIA contract.
Default for Income to Start	Guaranteed income payments will be paid at the later of age 65 or normal retirement date under the plan, unless the participant selects a different date to begin income payments.	No default age for lifetime income to begin	Non-guaranteed income starts at age 65; guaranteed income begins at age 85 and lasts for as long as the participant and his or her partner live.	• Income payment may not begin earlier than 13 months from date of last purchase and must start within 30 years of the first purchase • If purchased with a QLAC option, income may be deferred up to age 85
Options to Start Income Early or Delay Income	Participants may make a one-time irrevocable election to change the income start date; income may start as early as age 59 1/2 with separation from service or as late as April 1 following the year a participant reaches 72.	Options are available to start lifetime income early or to delay income; participants can invoke multiple annuitizations over time and can also choose between monthly, quarterly, semiannual or annual payment frequencies (or some combination thereof).	Early distribution option allows participants to choose an earlier start date, with income adjusted at an actuarially fair rate.	Contracts may have optional riders or features to adjust income start dates either way; new payments would be calculated with the effective rates at the time of the change.

Evaluation Criteria	Deferred Fixed Annuity 1 Principal Pension Builder	Deferred Fixed Annuity 2 TIAA Fixed Annuities (TIAA Traditional, TIAA Secure Income Account)	Deferred Fixed Annuity 3 Wells Fargo Asset Management Retirement Income	Deferred Fixed Annuity – Typical Retail
Default annuity form for income	Single life annuity with a 10-year certain period beginning on the income start date	No default form of lifetime income; multiple options exist (described below)	Dual life, guaranteed lifetime income	Not applicable
Optional Annuity Forms, Including Availability of Cost-of-Living Protection	Prior to income start date, marital status is confirmed and the type of annuity may change. Available annuity options include single life with or without a certain period and with or without installment or cash refunds; various joint and survivorship options, and optional cost of living adjustments are also available.	Multiple options exist, including single life and joint life (50%, 66.6%, 75%, 100%) as well as guarantee periods of 10, 15 or 20 years.	Standard features include a pre- and post-commencement return of premium guarantee and cost-of-living adjustments.	Select single or joint lifetime options available through the contract, subject to any restrictions if purchased as a QLAC Typical options include fixed period, life only, life with guarantee, life with cash or installment refund; some contracts may allow an inflation protection rider.
Transfer/Surrender Provisions — Before and After Income Starts	Should the need arise, participants may make transfers out of Principal Pension Builder to other investment options offer in the plan. A transfer out of Principal Pension Builder will not result in any charges for the first 90 days following a purchase; however, a surrender charge may apply to annuities surrendered more than 90 days from purchase.	Prior to annuitization, some versions are fully benefit-responsive and also allow transfers subject to industry-standard 90-day Equity Wash; other versions include provisions limiting the amount of transfers and withdrawals, in exchange for higher crediting rates. Liquidity not available on annuitized assets after lifetime income has begun as TIAA has assumed the full liability for the income stream. Under some versions of TIAA's fixed annuities, and with some restrictions, annuitants in payout phase can rebalance future payouts between fixed and variable payout types.	Not applicable to QLACs	Once a contract is outside of its appropriate state's free look period, the contract is not allowed to be surrendered.

Evaluation Criteria	Deferred Fixed Annuity 1 Principal Pension Builder	Deferred Fixed Annuity 2 TIAA Fixed Annuities (TIAA Traditional, TIAA Secure Income Account)	Deferred Fixed Annuity 3 Wells Fargo Asset Management Retirement Income	Deferred Fixed Annuity – Typical Retail
Death Benefits	If you die before the income start date, your beneficiary will receive the total vested Principal Pension Builder balance. If you're married, your surviving spouse may instead elect to receive the guaranteed income payments as an annuity based on his/her own age. If you die after the income start date, the death benefit depends on the type of annuity the participant selected.	Beneficiaries receive total account value of any non-annuitized assets if death occurs prior to lifetime income beginning. If annuitants elect a joint life or guarantee period option, beneficiaries can receive continued payments after the death of the annuitant.	Return of premium guarantee in the event that the participant passes early; premium that hasn't been paid back to the participant is passed to their beneficiaries.	If you die before income payments start, contracts may allow the beneficiary to receive the premium amount back; review contracts to see if this is available and if the feature is included in standard purchase rates or may affect the guaranteed income purchased by reducing purchase rates.
Pricing factors • **How are annuity purchase rates determined?** • **What fees, costs or other assumptions used to determine purchase rates are disclosed?** • **Are commissions paid on purchase of the DIA?** **Does the DIA provide revenue sharing?**	Guaranteed income amount is based on the annuity purchase rates in effect at the time of purchase; purchase rates vary based on participant, current interest rates and certain actuarial assumptions. Generally, the further a participant is from retirement or the higher interest rates are, the greater the amount of guaranteed income purchased. Purchase rates include the cost of the guarantee and other product features; there are no explicit costs to participants unless the participant chooses to surrender Principal Pension Builder more than 90 days from purchase, and then a surrender charge may apply. No commissions or revenue sharing are assumed in setting the purchase rates.	Each contribution buys a guaranteed minimum amount of optional future lifetime income based on the schedule in the contract (no requirement to annuitize). Opportunity for a) additional amounts of lifetime income based, in part, on length contributions have been on deposit, and b) potential increases in annuity payments during retirement, both a result of TIAA's distinctive "sharing the profits" approach. Institutionally priced; no commissions are paid and no loads are assessed.	Wells Capital Management takes on a 3(38) fiduciary role in insurance carrier selection and to ensure competitive pricing. Annuity rates are determined based on factors including interest rates and actuarial assumptions. Commissions are not paid, nor is revenue sharing envisioned.	• Annuity rates are set at the time of purchase • There are no fees to client; all assumptions are calculated into the income amount • Yes, commissions are paid on the purchase of DIA

Evaluation Criteria	Deferred Fixed Annuity 1 Principal Pension Builder	Deferred Fixed Annuity 2 TIAA Fixed Annuities (TIAA Traditional, TIAA Secure Income Account)	Deferred Fixed Annuity 3 Wells Fargo Asset Management Retirement Income	Deferred Fixed Annuity – Typical Retail
Portability for Participant	When a participant has a benefit event, he or she may choose to leave his or her Principal Pension Builder annuities in the plan. The participant cannot make more contributions into Principal Pension Builder but can still transfer some of his or her retirement account balance if he or she wants to buy more guaranteed income; alternatively, the participant may choose to transfer his or her Principal Pension Builder annuities out of the plan as long as his or her balance is at least $5,000. The transfer is done in the form of a Deferred Annuity Certificate, which transfers all the benefits, rights and features from the group contract and plan to the participant; no income starts at this time, so it is not a taxable event.	Under group contracts, if the plan sponsor removes TIAA Traditional or the TIAA Secure Income Account from the plan's menu and the plan has been amended to consider this a distributable event, active and terminated participants can roll their fixed annuity accumulation balance to TIAA Traditional in the IRA and retain many of the same features and benefits (some eligibility restrictions may apply).	When a QLAC is purchased, those assets leave the plan and a direct relationship between the participant and insurer is established; this gives plans the flexibility to change recordkeepers and participants the flexibility to reallocate within their plan's investment options, or to roll their assets out to an IRA.	Not applicable; participant annuity is not part of a group retirement plan.

Table 5. Immediate Income Annuities

Evaluation Criteria	In-Plan Fixed Income Annuity 1 Principal Single Premium Group Immediate Annuity	Fixed Annuity – Typical Retail Fixed Income Annuity
Purchase Process: • Single purchase versus purchase over time • Ability to use as part of QDIA or stand-alone?	Single purchase, generally at the time of a benefit event from the plan; as a distribution annuity, not available as a QDIA for a plan.	Single purchase only; maximum issue age requirements may apply. Purchased outside of a plan, so not available as a QDIA.
Default for Income to Start	Income must start within a year of purchase.	Income must start within a year of purchase.
Options to Start Income Early or Delay Income	Not applicable	Not applicable
Default Annuity Form for Income	Not applicable	Not applicable.
Optional Annuity Forms, Including Availability of Cost of Living Protection	Variety of income payments available; may choose from fixed period, life with or without cash or installment refunds, joint and survivor. Optional annual increase riders may be available for inflation protection.	Variety of income payments available; may choose from fixed period, life with or without cash or installment refunds, joint and survivor. Optional annual increase riders may be available for inflation protection.
Transfer/Ssurrender provisions — Before and After Income Starts	None	Check with provider; a contract liquidity rider may be available for certain types of annuities.
Death Benefits	Death benefit is dependent on the payout option selected; for example, a life only payout method would not have a death benefit, but any remaining premium under a life with cash refund would be paid out as a death benefit to a beneficiary.	Death benefit is dependent on the payout option selected; for example, a life only payout method would not have a death benefit, but any remaining premium under a life with cash refund would be paid out as a death benefit to a beneficiary.
Pricing Factors • How are annuity purchase rates determined? • What fees, costs or other assumptions used to determine purchase rates are disclosed? • Are commissions paid on purchase of the annuity?	• Annuity rates are set at the time of purchase • There are no fees to client; all assumptions are calculated into the income amount • Standardly no commissions; institutionally priced	• Annuity rates are set at the time of purchase • There are no fees to client; all assumptions are calculated into the income amount • Yes, commissions are paid on the purchase of SPIA
Portability for participant	Not applicable; participant annuity is standardly a distribution annuity for the participant and no longer part of the group retirement plan.	Not applicable; participant annuity is not part of a group retirement plan.

Caveats: The Institutional Retirement Income Council (IRIC) is not recommending any specific solution or product by publishing this paper. The paper is an exercise in describing the process to add retirement income to a plan with information to facilitate both the settlor function process as well as the fiduciary process. Additionally, IRIC recognizes that the market is evolving to facilitate portability of products through middleware solutions that will enable guaranteed offerings to be made across many recordkeepers. As of the writing of this paper, sponsors and advisors should recognize that some products may not be available across all providers.

IRIC recognizes that the detailed product grids do not contain many of the products available on the market today. Any advisor or plan sponsor recommending or adopting a product not represented in this paper should consider asking the product manufacturer to complete a customized grid with the categories and information listed in the above IRIC product grids so that the plan sponsor can perform a side-by-side comparison as part of its fiduciary process. Any insurer that wants to have its product included in this white paper should contact IRIC. Any product that is represented in the grid can be updated by the product manufacturer as its product is modified or as new products are introduced. This paper and the product grids will be updated on a periodic basis.

Concluding remarks: We hope this paper facilitates the consideration sponsors and advisors give to the adoption of RIS. The addition of RIS can be a win-win-win proposition.

1. Sponsors win by amending their plan to become a better human resource management tool and keeping assets in their plan.
2. Participants win by receiving significantly more income in their plan than they would with a similarly structured retail solution.
3. Providers win by holding onto assets, deepening their relationship with their clients and using the efficiency of the DC system to deliver additional retirement security to their participant customers.

As RISs are adopted, advisors, sponsors and participants will view their DC plan as a true pension plan that delivers security in retirement by converting some or all of their accumulated balance into dependable lifetime income.

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Appendix A – The Fiduciary Safe Harbor as Provided in the SECURE Act of 2019

FINANCIAL CAPABILITY OF THE INSURER.—A fiduciary will be deemed to satisfy the requirements of determining the financial strength of an insurer if:

(A) the fiduciary obtains written representations from the insurer that—

(i) the insurer is licensed to offer guaranteed retirement income contracts

(ii) the insurer, at the time of selection and for each of the immediately preceding 7 plan years;

- Operates under a certificate of authority from the insurance commissioner of its domiciliary State which has not been revoked or suspended.
- filed audited financial statements in accordance with the laws of its domiciliary State under applicable statutory accounting principles.
- maintains (and has maintained) reserves which satisfies all the statutory requirements of all States where the insurer does business; and
- is not operating under an order of supervision, rehabilitation, or liquidation.

(iii) the insurer undergoes, at least every 5 years, a financial examination (within the meaning of the law of its domiciliary State) by the insurance commissioner of the domiciliary State (or representative, designee, or other party approved by such commissioner); and

(iv) the insurer will notify the fiduciary of any change in circumstances occurring after the provision of the representations in clauses (i), (ii), and (iii) which would preclude the insurer from making such representations at the time of issuance of the guaranteed retirement income contract; and after receiving such representations and as of the time of selection, the fiduciary has not received any notice described in subparagraph (A)(iv) and is in possession of no other information which would cause the fiduciary to question the representations provided.

A fiduciary will be deemed to have conducted a prudent periodic review if the fiduciary obtains the written representations described in clauses (i), (ii), and (iii) above from the insurer on an annual basis, unless the fiduciary receives any notice described in paragraph (iv) above or otherwise becomes aware of facts that would cause the fiduciary to question such representations.

A fiduciary which satisfies these requirements listed above shall not be liable following the distribution of any benefit, or the investment by or on behalf of a participant or beneficiary pursuant to the selected guaranteed retirement income contract, for any losses that may result to the participant or beneficiary due to an insurer's inability to satisfy its financial obligations under the terms of such contract.

To: ____
(Plan Fiduciary / Name of Plan)

From: ____
(Insurer)

The Insurer by signing above is attesting to the requirements listed above and attest that such requirements meet the Fiduciary Safe Harbor of the SECURE Act of 2019. The Insurer also attest that if the Insurer becomes aware of any reason why these attestations can no longer be provided, it will notify the plan in writing as reasonably possible. Additionally, the Insurer will recertify this attestation in writing to the plan on an annual basis.