Subject: **Plan Sponsor Segmentation**

Introduction

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

The following summary will detail what we believe to be the key attributes of plan sponsors that may make them most likely to putting a lifetime income solution into place.

Summary

As lifetime income solution adoption rates remain low, product providers' resources should be focused on those plan sponsors who are either pre-conditioned or well positioned to offer such programs within their DC plans. The focus of this categorization is to help identify the qualities that would make a plan sponsor more likely to adopt such a solution.

Existing Employee Benefits

Why is it important? Those sponsors who have or have had defined benefit plans will be more familiar with lifetime income solutions and more likely to be looking for a similar option to incorporated within their defined contribution plans. The importance of enabling employees to retire on time is key as older employees tend to cost more[i] and an influx of younger employees with new ideas and vigor can benefit the firm. Additionally, Since DB plans focus more on retirement income VS an accumulated asset balance, Employers that understand and promote retirement income and retirement security are more inclined to offer a retirement income solution as part of their defined contribution plan.

They may also have staff who formerly administrated the DB plan but no longer need to, who are equipped to handle the oversight and implementation of a lifetime income program.

Sponsors who believe in the benefits of financial wellness programs tend to be more paternalistic toward their employees and may feel more obligated to help their employees retire. These programs are often implemented to minimize employee financial stress which can lead to lost productivity.

Sophistication

Why is it important? Sponsors who are well versed in ERISA protections and comfortable with the existing prudent selection of annuity provider rules may be more willing to adopt lifetime income solutions ahead of more explicit safe harbors by Congress and / or the Department of Labor.

Understanding how retirement income can benefit both the sponsor and employees will help when the sponsor is working internally to build the consensus needed to implement the solution. Additionally, the pros and cons of various product offerings will be easier to navigate, helping the sponsor move through this critical stage where less sophisticated sponsors sometimes struggle.

Sponsors who understand participant behavior and the tendency for inertia to take over will likely have already implemented automation features such as auto-enrollment and auto-escalation. This could be an essential plan design feature for employers that want their retirement income solution to penetrate a majority of the participants by integrating the retirement income product or solution into the plan's QDIA.

Company Evaluation

Why is it important? A company's industry, competitors, compensation practices and standards can all impact their desire to move more quickly with implementation of a lifetime income solution. Growth industries such as technology companies vs status quo organizations such as auto manufacturers, for example, may look to offer more innovative solutions as a recruitment strategy.

Separately, employers who are dependent on a loyal, long-tenured workforce to complete multi-year projects, would need to ensure their employees are kept happy throughout.

Companies that make large investments in their junior people to develop over many years and emerge as senior managers and executives would be more receptive to holistic retirement programs.

Lastly, if other competitors in the industry are offering similar benefits, sponsors may be more likely to follow suit.

In short, companies that use their benefit plans to attract, retain and manage their human resources, and are willing to re-evaluate the effectiveness of their plans may be more inclined to pursue retirement income solutions as a settlor function as part of their plan design and plan offering.

Participant Demographics

Why is it important? Older workforces, especially those with a frozen or no DB plan, would find it more urgent to implement an income solution as their employees' retirement "red zone" nears. This will be especially true as the next segment of near retirees receive smaller benefits from the frozen or terminated DB plan than the predecessor employees with full benefits that already retired. Additionally, a younger workforce that will receive no benefit at all from a terminated or frozen DB plan will rely predominantly on their DC plan for their income and security. A DC plan with an income solution in place can potentially drive greater savings rates of these younger employees as they will be able to focus participant communications on the relationship between savings and income from early on in their careers.

Participants in certain industries or plan types (i.e. higher education, government, or 403(b) plans) will have be more familiar with annuities and more likely to use a solution that a sponsor puts in place.

Tenure of employees is another important aspect. Companies with high employee turnover would be unlikely to adopt a lifetime income solution, other than plan installment payments, without a simple and effective portability strategy.

Service Provider Evaluation

Why is it important? Consultant impact. Recordkeeper relationship impact. Other benefits providers?

IRIC separately evaluated both recordkeepers and Consultants / Advisors to help sponsors determine and evaluate those providers that can best consult with and guide them on issues relevant to retirement income solutions. As these three important works converge, it seems clear that sponsors with a consultant / advisor and recordkeeper that differentiate their practice on institutional retirement income solutions will likely lead the pact as retirement income infiltrates defined contribution plans over the next decade.

At a high level, record keepers are evaluated on the number of income solutions offered, their capabilities in supporting retirement income, their business model and culture. (Visit http://iricouncil.org/evaluation-tools/) for segmentation articles on record keepers and consultants / RIAs / advisors.) Likewise, advisors and consultant practices are reviewed to help advisors and consultants to better understand those attributes they should possess to appropriately advise on retirement income solutions. Consultants and advisors are reviewed on the bullets below in addition to other aspects of their practice:

- How well versed they are in the types of Retirement income products / solutions available in the market place
- How well-resourced they are in understanding new RI solutions as they are introduced into the market
- Their ability to distinguish how retirement income is an important part of their practice that differentiates them from other intermediaries / advisors.

(Again, visit http://iricouncil.org/evaluation-tools/) to better understand advisors / RIAs / consultants practices and segmentation regarding institutional retirement income solutions.

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[i] IRIC would like to note that many older employees are vital to organization's success and in no way want to infer any discrimination based on age. Indeed, certain older employees bring value to an organization. IRIC makes this argument only for those employees that want to retire "on time", but because of inadequate savings, inadequate retirement income options and / or uncertainty on how to make current retirement nest eggs last for the rest of their life are unable or unwilling to retire at their normal retirement age.