

What to Consider When Adding Retirement Income Options

Plan sponsors looking to branch out need to evaluate carefully and communicate clearly.

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BETWEEN REGULATORY CHANGES AND A GROWING INTEREST among plan sponsors in keeping retirees in-plan, more plan sponsors are seriously considering offering retirement income options, including (but not limited to) annuities as plan investment options.

“Retirement income is the No. 1 topic that comes up in almost every conversation I have with [defined contribution] plan sponsors and their consultants and advisers,” says Josh Cohen, head of client solutions at PGIM DC Solutions in Newark, New Jersey.

A [May study by Prudential](#) found that 70% of plan sponsors had taken some steps on retirement income, but the majority were still in the education stages. Of those surveyed, 15% were in the process of evaluating products or putting a solution in place.

For those plan sponsors—and those who may be following their lead in the next several years—there are many factors to consider. The first step is examining the objectives of the plan and whether it has a primary goal of optimizing outcomes for retirees, says Michelle Richter-Gordon, co-founder of Annuities Research & Consulting and executive director of the Institutional Retirement Income Council.

In some cases, there are simple design changes that can help plan sponsors meet an objective of assisting plan participants who want to use their accounts to create income for themselves in retirement. For example, plans focused on retirement income should, at a minimum, have flexible distribution options that include the ability to take partial or recurring distributions, says Evan Holmes, a vice president and financial adviser with CAPTRUST.

“If a plan sponsor goes down the path of saying they want to promote their plan as not only an accumulation plan, but one that’s also focused on decumulation, they have to start with whether the plan design is set up in a way that’s flexible enough to draw down the income,” he says.

In-Plan Annuities

In-plan annuities are the most popular new solution being considered for providing guaranteed retirement income (by 34% of plan sponsors), according to the PGIM research, but stable value funds are the most common solution currently in place, with 70% of plan sponsors offering such a fund. Cohen notes that many plan sponsors cite their stable value funds when asked about retirement income solutions but adds that these are not “purposely built to address the broad needs of someone in retirement.”

One important consideration for plan sponsors looking at retirement income solutions is whether they are open to switching recordkeepers to find the best income option for participants.

“If the plan sponsor does not want to switch recordkeepers, then their adviser would need to look at the products and services available through the current recordkeeper and whether any of them is an appropriate fit for the plan sponsor,” Richter-Gordon says.

As with all investment products, the plan sponsor has a fiduciary duty to evaluate any annuities they are considering for the plan. This process may be more complicated than the evaluation of other types of investments, since it is harder to benchmark annuities.

"There is no standard for benchmarking annuities right now," says Gregg Levinson, senior director for retirement at WTW. "You can benchmark the underlying investments, but I don't think there's a standard or index yet to benchmark these things as a whole. So you're going to have to work with an investment consultant who can pull it apart and evaluate the wrapping, the costs and the restrictions to assess it."

One starting place might be the Product Fact Sheets available through the IRIC website, which are updated annually and aim to assist plan sponsors and their advisers in comparing one income option to another.

"Those fact sheets are helpful because they are provided by a dispassionate third party, and I believe they provide material information enabling an adviser to compare and contrast various

Other Solutions

To truly serve their participants, plan sponsors may need to think about multiple income solutions, including annuities (either in or out of the plan), managed accounts and non-guaranteed income options.

"What's very clear is that across populations, folks need different types of solutions," Cohen says. "So in some cases, offering them through a window can be right for a plan with a diverse population."

Self-directed brokerage windows allow plan participants to invest in securities unavailable in the core plan menu. With window-like options for annuities, available through providers like Hueler and Fidelity, plan sponsors can provide participants with some choice between different annuity products that might best serve an individual's needs. While individuals can access these products through the plan's portal and receive institutional pricing, once purchased, those assets leave the plan.

"When it comes to window-like additions, plan sponsors must remember that, while the determination as to whether or not to offer the connection is a settlor function, the selection of the provider is a fiduciary function," Richter-Gordon says.

Some providers of such a product take on the fiduciary role of selecting the providers on the platform, while others do not. If using a provider taking the latter approach, plan sponsors should get third-party assistance to evaluate insurer creditworthiness, Richter-Gordon says.

Another approach might be to offer a sleeve of annuity options within the plan, perhaps tied to target-date funds, creating an effective glide path into annuities, Levinson says.

There are risks and benefits to both approaches, according to Ari Sonneberg, partner in and chief marketing officer for the Wagner Law Group.

"When you're giving participants more choices, as a fiduciary, you still have responsibility to be looking at and monitoring all of those choices," Sonneberg says. "It's not just about selecting them, but also about continuing to monitor them and make sure that they continue to be appropriate."

Regardless of the direction a plan chooses, communication and education support should be part of any rollout of retirement income as part of an investment lineup.

Tags

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