

The Next Evolution in Defined Contribution Retirement Fact Sheet on Retirement Income

The Society of Actuaries (SOA) and the Stanford Center on Longevity developed the research report, “The Next Evolution in Defined Contribution Retirement,” to provide employers and plan sponsors with more information about offering retirement income generators. Here is a snapshot of the findings:

Key Steps for Plan Sponsors to Build a Retirement Income Strategy

- 1) Minimize fiduciary exposure and carry out due diligence responsibilities by setting up a rigorous process to design the program, evaluate the offerings and assess the financial stability of retirement income providers
- 2) Implement a default retirement income generating option that becomes effective when a retiree fails to make an election. Use of the IRS-required minimum distribution minimizes plan sponsor fiduciary liability. The retirement income option:
 - Offers flexibility
 - Ensures funds last for life
 - Delays taxation to the participant as long as possible
 - Helps the participant pay attention to income generation
- 3) Select the retirement income strategies to offer plan participants
- 4) Decide if retirement income options are in or out of the plan, or offer both options
 - In-plan offerings
 - Systematic withdrawals through professionally managed accounts
 - Systematic withdrawals for fixed period combined with deferred annuity
 - Group immediate or deferred fixed income annuity contracts
 - Immediate annuity bidding service
 - Guaranteed minimum withdrawal benefits or bidding service
 - Out-of-plan offerings include immediate annuity bidding service or managed payout funds

Elements of a Successful Program

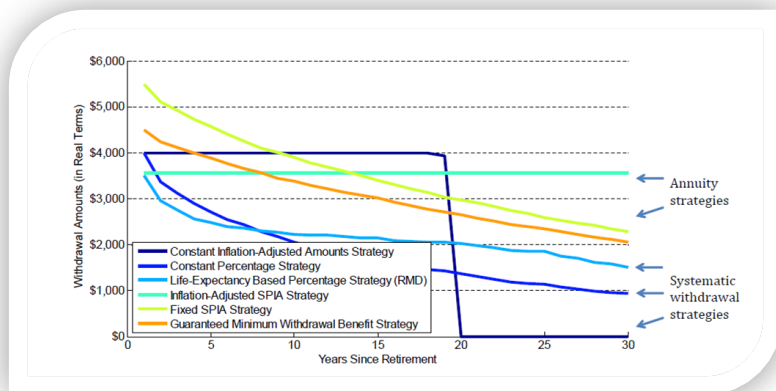
- Communications about the pros and cons of the retirement income solutions
- Institutionally priced retirement income options
- Offering one or two retirement income solutions and then evolves to a more robust menu of choices over time
- Decision support, such as phone representatives, computer modeling and informational materials
- Options that have a reasonable chance of delivering lifetime retirement income
- Communications to older employees about the importance of making informed decisions on retirement income
- An easy path for retiring employees to select and implement a retirement income generator
- Flexibility for retirees to combine retirement income generators so the choice is not “all or nothing”
- A default option that protects the plan sponsor from fiduciary liability and drives the employees to make informed choices
- Flexibility for the plan sponsor to change plan administrators or retirement income providers

Important Questions Employers Need to Consider



- *Who controls the investments and withdrawals?*
- *Is there a lifetime guarantee?*
- *Is there potential to increase retirement income after reaching retiring?*
- *Before retiring, can the amount of retirement income be influenced by investment volatility?*
- *Can savings be accessed after retirement income has started?*
- *Are remaining assets available for a legacy plan?*

The report includes stochastic forecast models prepared by Dr. Wade Pfau of The American College, to help identify the tradeoffs of the different retirement income generators. Here are two examples of many:

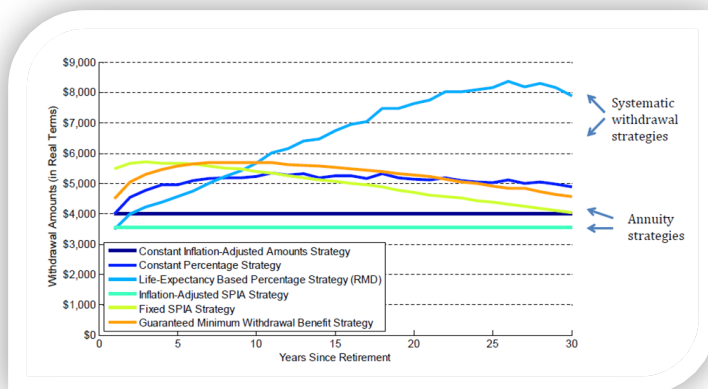


Comparison of forecasted retirement incomes under an unfavorable scenario

- The systematic withdrawals exhaust retirement savings at 20 years and the projected retirement income drops to zero
- The inflation-adjusted annuity provides the highest amount of real income at 30 years, followed by the immediate fixed income annuity. These amounts are not impacted by investment performance.
- Annuities provide higher retirement income under unfavorable conditions than solutions that rely on investing retirement assets

Comparison of forecasted retirement incomes under a favorable scenario

- The highest amounts of income are produced by retirement income generators that invest retirement savings and determine the amount of retirement income as a percentage of invested assets
- The lowest amounts of retirement income are produced by immediate fixed income and inflation-adjusted annuities. They do not adjust the amount of retirement income for investment performance.



Employee Advantages from Employer-offered Retirement Income Plans

- Makes retirement income option part of a larger retirement plan
- Eases creation of income options
- Provides access to pre-screened providers and already evaluated solutions
- Institutional pricing delivers significantly higher retirement income than the retail market
- Reduces risk of exhausting savings; retire with confidence and financial security

Factors to Consider About the Income Provider

- ✓ Level of expertise with the products
- ✓ Level of capital, surplus and reserves
- ✓ Insurance rating
- ✓ Product terms and associated costs
- ✓ Any additional protections offered through state insurance guaranty associations

For the full report, "The Next Evolution in Defined Contribution Retirement," visit <http://www.soa.org/Research/Research-Projects/Pension/research-2013-next-evol-dc-design.aspx>.

The Society of Actuaries (SOA) is an educational, research and professional organization dedicated to serving the public, its members and its candidates. The SOA's mission is to advance actuarial knowledge and to enhance the ability of actuaries to provide expert advice and relevant solutions for financial, business and societal problems. The SOA's vision is for actuaries to be the leading professionals in the measurement and management of risk. Visit <http://www.soa.org>.

The Stanford Center on Longevity's mission is to redesign long life. The Center studies the nature and development of the human life span, looking for innovative ways to use science and technology to solve the problems of people over 50 and improve the well-being of people of all ages. Visit <http://longevity3.stanford.edu>.