For benefits, KPMG in Canada’s workforce can simply Add to Cart.
Innovative DC plan thinking is required, now more than ever

The global pandemic has greatly impacted not only the economic landscape for employers and employees but also our personal sense of security and comfort. Helping people stay the course for retirement – in a time of great uncertainty – is more important than ever.

Your plan and participant outcomes can be optimized when decisions are interdependently considered around four key components – plan design, participant engagement, plan governance and investment menu design. Plans that adopt a broader, more holistic approach to helping people prepare for retirement across these components, a philosophy we call the Circle of Action, can make all the difference.

As always, our focus is on innovative DC thinking with concrete ways to turn ideas into action. In this issue, we highlight how plans can keep participants in-plan with a flexible post-retirement platform to help them reimagine retirement. Emilie Inakazu, Senior Manager, Benefits & Pension in the Total Rewards Team at KPMG in Canada, offers insight into their innovative, evolved customized benefits shopping experience and inclusion of an environmental, social and governance (ESG) option into their retirement plans menu. Fred Reish provides an overview of the new lifetime income illustrations, the important provisions within the Department of Labor’s (DOL) regulation and six best practices to consider. We offer three fundamental questions to help sponsors assess the plan suitability of including a real assets strategy. And we explore how creating a formal Education Policy Statement (EPS) can help plan sponsors and participants meet the challenges of an evolving retirement world.

Thank you for taking the time to read Shifting DC Times. We welcome your thoughts, feedback and suggestions for future topics. Please share your ideas with your Invesco DC Professional or email our editorial team at DCTimes@invesco.com.

Marty Flanagan
President & CEO
Invesco

To access these articles and more online, visit invesco.com/dctimes

CIRCLE OF ACTION

The best plan decision-making occurs holistically around four key areas, a philosophy we call the Circle of Action. We structure each issue accordingly to deliver the actionable insights you need.
2019 Plan Sponsor Council of America (PSCA) Signature Awards recognized excellence in retirement plan communications and were judged by a panel of 27 business leaders, primarily plan sponsors.


Honored to be recognized for our retirement thought leadership.
Shifting DC Times caught up with Emilie Inakazu, Senior Manager, Benefits & Pension in the Total Rewards Team at KPMG in Canada. She is responsible for the management of national firm-wide benefits and retirement savings programs, ensuring they remain relevant to the multigenerational workforce across 40 locations in Canada. Here, she talks with us about the redesign of KPMG in Canada’s Total Rewards program – a dynamic, intuitive and personalized benefits marketplace centered on employee choice. With 65% of their workforce under the age of 35, the Total Rewards Team, in partnership with KPMG leaders and employees, focused the program’s redesign in 2018 to better reflect the current digital “on-demand” experience, as well as new definitions of lifestyle and wellness.
What’s the (Canadian) difference?

A Defined Contribution (DC) Plan is similar to the US market and is a type of registered pension plan offered by employers where both the employee and employer contributions are locked in until retirement. The contributions and any gains on the assets are tax-deferred and, therefore, taxed when the money is withdrawn.

A Group Registered Retirement Savings Plan (RRSP) is another type of plan that can be offered by employers where both employers and employees can make tax-deferred contributions similar to a DC plan. One key difference with a DC plan is that members can access the funds within a Group RRSP at any time regardless of age or employment status with withdrawals taxed at the employees’ marginal rate. A second key difference is that the regulatory requirements placed upon the employer for offering a DC plan are greater.

A Tax-Free Savings Account (TFSA) is an account in which all contributions are net of tax. However, any interest earned, dividends and capital gains are not taxed, and can be withdrawn tax-free at any time. Canadians over the age of 18 are able to contribute up to $6,000 annually to a TFSA as of 2020. While it’s called a savings account, a TFSA can hold certain investments, including mutual funds, securities and bonds, as well as cash. It is commonly used for both short-term and long-term savings goals.
You were given permission by your new CEO and leadership team to “think differently and do differently” when redesigning the Total Rewards program. How did this impact your approach to the program’s key components to support an evolved, flexible Total Rewards marketplace?

Giving us this employee-focused directive really translated into an opportunity to be creative and innovative while supporting the needs of our people. We’re a fairly small team, so we co-designed the program with our fellow employees and our national partners.

We began the process by focusing our thinking not just on the individual offerings but on the creation of an exceptional experience overall. In a world where immediate access is key, we realized our online delivery model had to feel similar to a retail experience, which is very personalized and intuitive. We wanted to deliver an all-in-one benefit platform with an “in-the-moment” experience. Using design thinking techniques, we first worked to understand the benefits journey of our people and identify how we can improve their experience when engaging with the program. We then worked to create an experience that empowers people to shop for their lifestyle through a platform of program offerings and content tied to their personal preferences, with access to a digital wallet.

On the technology side, our objective was to implement something simple and intuitive despite the behind-the-scenes technology complexities. The technology we needed didn’t exist in the Canadian market, so we went through the gamut of looking into building our own platform, and meeting with high-profile organizations who loved the idea but didn’t have a solution in place at the time. We finally decided to partner with an innovative organization that wanted to take the journey with us to create the unique experience we were looking for.

The result is now one that offers our people access to a simplified online portal, where they can monitor not only their overall benefits but their wellness pool as it adjusts during the selection process. The system is dynamic. For example, if someone selects medical or dental benefits for a dependent, the system recognizes the additional premiums they’ll need to pay and adds extra money to cover it. The dynamic Total Rewards shopping platform empowers people to make the benefits choices that are best for them and/or their families in their current life stage.

We realized our online delivery model had to feel similar to a personalized and intuitive retail experience.
Please elaborate on the wellness pool of money employees now have access to and how it differs from a past approach.

When the revamping process began, KPMG in Canada had around 20 different lifestyle offerings available to employees on a use-it-or-lose-it basis — in addition to fixed spending for medical, dental and drug coverage. To make it simpler for our people to choose their relevant benefits and lifestyle options, we created what we call a “wellness pool.” This pot of money is available to every individual to put toward whatever they feel best supports their definition of well-being for themselves and/or for their families. The choice is up to them. They can allocate their wellness dollars across a mix of offerings they value most, whether that be health and dental benefits, an RRSP, a TFSA, a Health Spending Account (HSA) or our newest offering, the Lifestyle Spending Account.

As an employer, we wanted to really step back and say, “We’re not defining what ‘wellness’ is for you. You get to define that for yourself based on your personal needs and spend the pool as you see fit.”

Every fall, we have an annual enrollment period with a “fresh” pool of wellness dollars. Individuals can continue to maintain their current choices, or they can reallocate dollars based on whatever makes sense for them at that point in time. If they experience what we call a qualifying life event — such as getting married or having a child — then employees have the opportunity to go in and make changes mid-year as a result of that. For example, if an employee is thinking about getting married, they can access their digital wallet and look at all the new offerings they should be thinking about — such as adding a beneficiary to their retirement plan(s). And depending on the nature of the change, employees may be eligible for additional wellness pool dollars.

Talk to us about the enrollment experience and access to the digital wallet. What is your approach to inform and excite employees about the Total Rewards program and what it offers?

There are a couple of different components to the online experience. The most important thing is that everything is centralized and easily accessible through a mobile device or desktop platform.

For new KPMG hires, the enrollment experience is really their first interaction with the platform and with the Total Rewards program. During initial enrollment, employees have a narrower view to the programs because we don’t want to overwhelm them. Instead, we want to present them with the key things that are relevant, where they have to make a conscious choice by a certain deadline (such as our flexible benefit medical/dental insurance and the four wellness accounts: Lifestyle Spending Account, the TFSA, the RRSP and their HSA).

Once they’ve completed their enrollment, they transition to what we call their “day-to-day post-enrollment” experience. This tees up their respective coverage summary and gives them a digital wallet. The experience is customized right when they sign in. Once employees access their personalized digital wallet, they see the full scope of offerings they are eligible for.

We hear from our people that it’s a very positive first interaction with our firm. I think the flexibility of the program is certainly a differentiator when you’re talking about attracting and retaining top talent. Long-term employees may go through a number of life changes, and the Total Rewards program can evolve accordingly. Employees of all ages value that. The key to our ongoing success is to continually solicit feedback on the program and our offerings and be agile in making changes that continue to be personal, flexible and meaningful to all.

A Health Spending Account (HSA) is a group benefit that provides reimbursement for a wide range of health-related expenses, over and above regular benefit plans. HSAs are administered in accordance with Canada Revenue Agency guidelines and are tax exempt. A Lifestyle Spending Account covers many other services and products at the discretion of the employer above what a health spending account would cover. It could include such things as gym memberships, yoga, meditation, etc. Money spent from this account is a taxable benefit. Flexible benefit insurance includes the option to choose from two or more health and dental options.
What did you learn about your retirement savings options as part of the Total Rewards program review?

For many years, we had two retirement-focused plans in place. Our DC Plan is a registered pension plan with a combination of employee and employer contributions based on a specific set schedule of eligibility. It’s one of the best recruiting and retention tools we have; we’re quite generous for people who have a long tenure with KPMG. Employees have to opt in to participate, and the engagement remains high.

Our RRSP is a tax-deferred retirement plan primarily funded with employee contributions, although they can choose to put all of their wellness pool dollars into the RRSP if they like. In the previous Total Rewards design, employees were automatically enrolled in the RRSP and any remaining “free benefit” money was automatically allocated to a target date fund in the RRSP as the default. As a result, many people just ended up in the default because they didn’t actively engage in that process.

When we looked closely at these offerings, we realized we were missing something for a majority of our workforce under age 35. In multiple employee surveys and focus groups, we found that the employees over age 40 appreciated the existing two options, as retirement was starting to become top of mind for them. However, for many of our younger employees, we found retirement was not the pressing focus of their savings goals. Instead, they were saving for a wedding, or for something smaller like a vacation, or buying a car. There was nothing in place at work to help support their shorter-term savings goals without complicated and/or limiting access-to-savings rules.

This was really the impetus to introducing our TFSA as an “opt-in” option in 2018. We realized that adding a shorter-term savings option in addition to our existing plans would help to better reflect our workforce. It’s been a great success: 67% of employees under age 35 are actively enrolled and saving in the TFSA. The group RRSP and the group TFSA are both tied to the wellness pool; employees can choose to allocate some or all of their dollars into either of those accounts. They can also choose to set up payroll deductions and set their own savings schedules.

It’s been a great success: 67% of employees under age 35 are actively enrolled and saving in the TFSA.
You offer the same investment menu across the DC, RRSP and TFSA plans. Please walk us through the asset categories/options provided and the thinking behind the menu design.

When we look at our investment lineup across the three plans, we’re trying to strike a balance between simplicity of options for those with less investment knowledge and comfort level, while still providing enough diversity for people who see themselves as informed investors who are more engaged. Offering the same menu across the three plans ties to simplicity: By offering eight asset classes – six single asset class options and two asset allocation solutions – there’s enough variance in the degree of risk and liquidity to support an employee’s short – and/or long-term savings goals. An employee saving in the TFSA may choose one set of asset classes, compared with what they might choose for the DC plan, which is longer-term. If they don’t want to choose, they can default to the target date fund series.

To help, our plan recordkeeper offers educational and informational content about each investment option and asset class, with access to an advisor (at no cost to the employee) if an employee wants to have a conversation about the investment options, the differences between plans, and what is right for them.

**SINGLE ASSET CLASS OPTIONS**
- Canadian Equity
- US Equity · International Equity
- Global Equity · Fixed Income
- Money Market

**ASSET ALLOCATION SOLUTIONS**
- Target Date Funds (default)
- Balanced fund option

You recently added a “green offering” (environmental, social and governance [ESG] fund) to the investment menu lineup. Please share the rationale behind this new option.

Wherever possible, we try to respond to employee feedback and make decisions based on that collective information. We had increasingly heard from some of our people that they were seeing investment options available in the market – specifically green offerings – that weren’t available on our menu.

As a member of a global network of firms, we are committed to addressing climate change and are focused on reducing global emissions across our whole network and supporting environmental projects designed to advance sustainability. KPMG’s Sustainability Practice advises clients on developing strategies that integrate “impact” as part of their business. So it only made sense that we should offer an investment choice that aligns with our corporate values.

As part of our decision-making process, we engaged in discussions with our external consultants and had one of our practice leaders speak to our pension committee about ESG considerations, as well as inform the broader group about what options existed that would make sense for our business and our people.

We then looked at the available options from two perspectives: One, we really wanted to push the envelope and go toward the impact spectrum of ESG, otherwise we felt it wasn't going to be differentiated; and two, we certainly weren't willing to sacrifice performance. We believe that you can incorporate ESG factors without sacrificing return.

KPMG in Canada doesn’t roll out new investment options often, so it was important to do it right, leveraging today’s communication tools. We had targeted communications from our recordkeeper. We linked to resources on our internal KPMG portal and included a combination of videos, infographics, some more traditional handbooks and FAQs. We had already been activating consistent messaging and education around the existing fund lineup, so we added focused “evergreen” content around what ESG stands for, and what to consider when investing, and partnered with our recordkeeper to provide more detailed fund information as part of the overall education offering.

As a global firm, we are committed to addressing climate change, so it only made sense that we should offer an investment choice that also supports this goal.
The Real Deal

Can diversified real assets investments help your participants over the long term? Three key questions to consider.

It is no surprise that effective diversification remains one of the most useful tools plan sponsors have to help strengthen potential retirement outcomes for participants. So why do many participants still remain poorly diversified?
The vast majority of US defined contribution (DC) assets have been invested in target date funds (30.7%), as well as traditional US equity (33%), stable value (10.2%) and US fixed income (6.9%) strategies. Less than 1% was invested in expanded “portfolio diversifier” categories, such as Treasury Inflation-Protected Securities (TIPS), real estate and alternatives.¹ That is in sharp contrast to similar retirement plans abroad, such as Australia’s arguably more developed DC system that, on average, held alternative allocations of approximately 22% as of June 30, 2020.² Real assets, in particular, may offer diversifying strategies and potentially tighten the range of outcomes. Today, plan sponsors and their advisors can choose from a range of diversified real assets solutions to help offer participants an efficient way to tap into this compelling set of diversifiers, which can be packaged together in one easy-to-access, professionally managed investment solution.

\(^1\) Callan DC Index, data as of June 30, 2020.


### US vs. Australia: DC plan asset allocation

**As of June 30, 2020**

<table>
<thead>
<tr>
<th>Category</th>
<th>US</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alternatives/Other</td>
<td>0.1%</td>
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</tr>
<tr>
<td>Hedge funds</td>
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<tr>
<td>Private equity</td>
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<tr>
<td>Brokerage window</td>
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<td>0.0%</td>
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<tr>
<td>Company stock</td>
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<td>0.0%</td>
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<tr>
<td>International fixed</td>
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<td>8.0%</td>
</tr>
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<td>International equity</td>
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</tr>
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<td>Money market/Cash</td>
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<tr>
<td>Real estate</td>
<td>0.4%</td>
<td>9.0%</td>
</tr>
<tr>
<td>TIPS</td>
<td>0.4%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Infrastructure</td>
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<td>6.0%</td>
</tr>
<tr>
<td>Stable value</td>
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</tr>
<tr>
<td>Target date funds</td>
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<tr>
<td>Domestic fixed</td>
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</tr>
<tr>
<td>Domestic equity</td>
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<td>12.0%</td>
</tr>
<tr>
<td>Balanced</td>
<td>6.2%</td>
<td></td>
</tr>
</tbody>
</table>

1 Callan DC Index, data as of June 30, 2020.

In 2020, just 1% of US DC assets was invested in alternative categories, such as real assets, versus 22% of Australian DC assets.

Defining real assets
Broadly speaking, real assets are typically defined as value-generating tangible assets, or investment securities closely linked to them, where investment value is based on the asset’s underlying characteristics and overall supply/demand dynamics. Unlike traditional financial assets, such as stocks and bonds, real assets are things such as property, office buildings, water systems, communication networks, cattle, oil and precious metals.

Real assets investments have long been used in institutional portfolios to help expand diversification, as they may perform well when traditional stocks and bonds have lagged. The category covers a wide range of investments including global infrastructure, real estate and commodities. TIPS are also frequently included in diversified real assets portfolios, given their link to inflation.

Compelling investment characteristics
Real assets have historically offered potentially three key investment benefits:

- **Income:** Significantly higher income levels than global equity and fixed income alternatives
- **Diversification:** Moderate correlation to broad equities and can provide a hedge against inflation
- **Returns:** Historically attractive absolute total return and risk-adjusted performance

Working together, these potentially additive attributes may help fill the diversification need in many participant portfolios, diversifying risk and improving long-term overall return potential.

Is inflation really a threat?
Low inflation has been the norm for years, but with the unprecedented amounts of liquidity that have been pumped into the system by central banks and governments worldwide this year, many market watchers believe a return to higher inflation levels is likely inevitable at some point. Adding an allocation to a diversified real assets strategy may help provide a degree of protection from the potentially erosive effects of higher inflation before they occur.
Are real assets right for your plan? Here are three questions to ask.

1. **What is your goal?**

Diversified real assets strategies can be structured differently to meet various objectives. The two primary goals typically used for DC plans are either as inflation-sensitive or defensive portfolios. The approach can depend on a variety of factors, including participant demographics and how the strategy fits within the investment menu.

2. **Which categories of real assets should be included?**

The strategic allocation in areas such as global infrastructure, real estate, commodities, TIPS and natural resources equities is based on the manager's long-term risk/reward outlook and correlation for each segment. Some managers also implement active tactical tilts to these longer-term allocations in an effort to take advantage of shorter-term market movements, such as supply shocks or changes in demand.

For illustrative purposes only. This information is not intended as a recommendation to invest in a specific asset class or strategy.

<table>
<thead>
<tr>
<th>Hypothetical real assets portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
</tr>
<tr>
<td>Global infrastructure (liquid)</td>
</tr>
<tr>
<td>Daily valued direct real estate</td>
</tr>
<tr>
<td>Active commodities</td>
</tr>
<tr>
<td>TIPS</td>
</tr>
</tbody>
</table>

How various strategies approach each segment can also differ. For example, does the strategy pursue an active- or passive-management style? Other segment-specific considerations include:

- **Global infrastructure:** This has been an area of increasing investor focus due to growing global demand for infrastructure. However, plan sponsors should evaluate the types of securities and underlying sector and regional exposures, as the associated investment characteristics can be dramatically different. Traditionally, infrastructure investments involved low liquidity and long lock-ups. However, infrastructure securities that trade on exchanges make this more feasible for DC plans.

- **Real estate:** A manager may invest in publicly listed real estate investment trusts (REITs) and/or exposure to direct real estate assets, with the latter typically offered in a daily valued structure when used in DC plans. Adding direct real estate assets may offer greater diversification benefits than investing in REITs alone, due to lower correlations to traditional stocks, bonds and cash.

- **Commodities:** This segment, in particular, can be highly volatile on its own, but can be valuable within a multi-asset portfolio. With commodities, an active risk-managed approach may improve the allocation's overall risk/reward profile.

- **TIPS:** While often underutilized and misunderstood by participants as a standalone investment, TIPS can help provide protection from certain types of inflation and add ballast to a real assets portfolio.

A multifaceted approach to real assets can bring together potentially complementary characteristics to help limit the range of investment outcomes and smooth out long-term performance. But it is important to understand how managers approach portfolio construction.

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Investment in infrastructure-related companies may be subject to high interest costs in connection with capital construction programs, costs associated with environmental and other regulations, the effects of economic slowdown and surplus capacity, the effects of energy conservation policies, governmental regulation and other factors.

Inflation-indexed securities generally fluctuate in response to changes in real interest rates, and the Fund's income from its investments in these securities is likely to fluctuate considerably more than income distributions on its investments in more traditional fixed-income securities.

Investments in real estate related instruments may be affected by economic, legal, or environmental factors that affect property values, rents or occupancies of real estate. Real estate companies, including REITs or similar structures, tend to be small and mid-cap companies and their shares may be more volatile and less liquid.

Obligations issues by US Government agencies and instrumentalities may receive varying levels of support from the government, which could affect the fund's ability to recover should they default. Commodities may subject an investor to greater volatility than traditional securities such as stocks and bonds and can fluctuate significantly based on weather, political, tax, and other regulatory and market developments.
Adding listed real assets to a traditional 60/40 portfolio has historically raised the return profile without materially increasing portfolio standard deviation

Performance as of September 30, 2020. Real Assets are represented by the S&P Real Assets Equity Index. Equity within the portfolio is represented by MSCI World Index. Fixed Income is represented by Bloomberg Barclays Global Aggregate Bond Index. Our indices are rebased to 100, using our starting point (12/31/1995). Standard deviation measures the degree to which the performance of a portfolio varies from its average performance during a specialized period. Standard deviation is represented by the diamonds in the chart and are color coded to the corresponding portfolio allocation. Past performance is not indicative of future results. An investment cannot be made into an index. The chart is shown for illustrative purposes and does not predict or depict the performance of any particular investment.

**3 How can plans drive stronger participant adoption?**

There are two main ways plan sponsors and their advisors can effectively implement a diversified real assets strategy into their plan lineups:

- **A streamlined core menu option.** Among large plans, 35.8% offer TIPS as a standalone option (with an average allocation of 1.2%) and 22.9% of plans include a real estate option (with an average allocation of 1.6%). While these options are fairly prevalent, utilization is low. It’s widely understood that too many options within an investment menu can be confusing to participants, which is why a more effective solution may be replacing these standalone options with one professionally managed, diversified real assets portfolio — providing even greater potential diversification while helping to simplify participant decision-making.

- **Within target date and target risk funds.** One diversified strategy can make it easier to implement real assets as a component within customized and off-the-shelf target date and target risk funds.

Ultimately, the best way to drive constructive behavior is to make it easy for participants to tap into the potential benefits diversified real assets may provide.

**Next steps**

Diversified real assets solutions can offer an effective lineup addition for plan sponsors looking to enhance diversification and help narrow the range of participant outcomes. Look at the plan’s current investment allocations. Where are participants allocated? How diversified are their portfolios? What types of portfolio diversifiers are available on the investment menu? Are there missing segments or opportunities to drive more constructive behavior? If so, a diversified real assets solution may be a smart addition.

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5 Callan DC Index, data as of June 30, 2020.
Over the past several years, the sole focus on helping employees save for retirement has shifted - by necessity - to also include helping employees turn their savings into an income stream that may need to last for 20 years or more during retirement. How can plan sponsors (who prefer participants remain in-plan) help employees transition from saving to spending in a smart and measured way?
The days of strolling into the sunset (with a pension from your long-term employer and days filled with leisure) are over. Today’s retirement is being redefined every day. What used to be called “retirement” has now evolved to “a second act,” “a post-career life” and “a new journey.” The transition to retirement has become more fluid, with a majority of employees planning to work – at a full-time or part-time level – well into traditional retirement years.

Whether they plan to continue working full-time, cut back to part-time or completely retire in the traditional sense, many participants feel unprepared and want help:

- Just 24% are offered help calculating how much to save for retirement, and only 14% receive help planning for healthcare expenses in retirement.
- 1 in 4 employees would like their retirement plan to include more investment options designed for after retirement.

While the retirement landscape continues to shift, many defined contribution (DC) plans still reflect the outdated vision of retirement with limited distribution options, an investment menu focused on accumulation, and “too-late” communications about the option to stay in the DC plan, and the benefits of doing so. Unfortunately, 66% of retirees said their most recent employers did nothing to help with their transition to retirement.

To help support participants in this next phase of life, plan sponsors – especially those who prefer participants stay in the plan “post-retirement” – should evolve their retirement programs to include a coordinated approach of retiree-friendly plan design, income-focused investments, and the education, resources and tools needed for support.

Here, we offer three plan considerations that can help reflect the new reality:

1. **Provide flexible ways to access retirement savings:** Offer a wide range of distribution options and encourage rollovers INTO the plan.

2. **Help build an income plan:** Provide a range of investment menu solutions to help participants build a sustainable income plan.

3. **Start the conversation earlier with the tools to help:** Share the benefits of staying in-plan earlier (ages 40+), and provide the education and tools needed to build their holistic plan.

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1 Transamerica Center for Retirement Studies 2018 Survey (survey of 2,043 fully or semi-retired US workers).
2 Employee Benefit Research Institute, 2020 Retirement Confidence Survey (survey of 2,042 US workers and retirees).
Provide flexible ways to access retirement savings

Offer a wide range of distribution options and encourage rollovers INTO the plan.

Plans that offer participants a wider range of ways to access their retirement savings fit the new reality of retirement and income. A full one-third of those who retire eventually reverse course and return to work either full- or part-time. The ability to tap into assets on an “as-needed” basis versus taking it all in one fell swoop better matches the needs of today’s retirees.

Positively, plans are now offering more than a one-time lump sum distribution in cash, although it is still the most offered option among large plans (95%). Increasing access to more flexible distribution options, such as ad hoc partial withdrawals that can be taken as needed without limitation, and installment payment programs that set up payment on a monthly or quarterly schedule, are increasing. Our ReDefined Contribution Plans DC Language study showed that a vast majority (93%) of participants would prefer to stay in their plan if there was a monthly payout feature. It only takes a simple plan amendment to provide participants with an expanded range of options.

Greater options to access savings

Large plans offer more than just the lump sum distribution option

Roll INTO
Qualified plan\(^1\) (pre-tax) 403(b) (pre-tax) Designated Roth Account (401(k), 403(b))

<table>
<thead>
<tr>
<th>Roll FROM</th>
<th>Qualified plan(^1)</th>
<th>403(b) (pre-tax)</th>
<th>Designated Roth Account (401(k), 403(b))</th>
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</tr>
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<td>SEP IRA</td>
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<td>403(b) (pre-tax)</td>
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<tr>
<td>Designated Roth Account (401(k), 403(b))</td>
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<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

Source: IRS Publication 590-A

1. Qualified plans include profit sharing, 401(k), money purchase and defined benefit plans.
2. Must include in income.
3. Must be an in-plan rollover.
4. Any amounts distributed must be rolled over via direct (trustee-to-trustee) transfer to be excludable from income. Generally, a rollover is a tax-free distribution of cash or other assets from one retirement plan to another within 60 days of receipt of payment or distribution. For more information regarding retirement plans and rollovers, visit Tax Information for Retirement Plans at irs.gov.

Promote and encourage rollovers INTO the plan

Many plans offer the ability to roll qualified assets (such as existing IRAs or the accounts from previous employers) INTO the plan. However, few plan sponsors actively promote this or explain the benefits of doing so - including simplifying the retirement planning process and expanded access to institutional pricing. As part of the communications around flexible distribution options, showcase the plan's ability to accept assets into the plan - at any time.

4. Invesco, ReDefined Contribution Plans: 2018 defined contribution language study (survey of 801 US workers employed full-time at organizations with 5,000+ employees).
For those participants already working with a financial professional outside of their retirement plan, sponsors should check with their recordkeeper to see if financial professional credentials can be added. That way, participants can continue working with their financial professional while the assets stay in-plan.

**The benefits of staying in-plan**

Encouraging employees to stay in-plan throughout their retirement journey offers multiple benefits for both the plan and its participants:

- **Lower pricing:** Keeping assets in the plan helps maintain scale to negotiate and offer lower pricing (e.g., administration, investments, etc.) to participants.

- **Fiduciary oversight:** Investment options screened through the plan sponsor, including retirement income products, have increased oversight versus options offered outside the plan.

- **Planning tools:** Participants have ongoing access to retirement planning tools and modeling options available through the plan.

For plan sponsors who prefer participants stay in the plan, it’s important to actively and regularly promote that staying in the plan is an option for them, as well as the many benefits of doing so as part of the shift from saving to spending.

**Employees who stay in-plan post-retirement can gain multiple benefits.**
Help build an income plan

Provide a range of investment menu solutions to help participants build a sustainable income plan.

Since participants age 50 or older control 63% of all 401(k) plan assets, the focus on including varied and flexible retirement income solutions is rising. Plan sponsors can help participants build a sustainable income plan by providing a range of investment products - including guaranteed options - within the DC menu.

The passage of the Setting Every Community Up for Retirement Enhancement (SECURE) Act in 2019 has helped by providing a needed boost to guaranteed solutions by extending safe harbor protections for plan sponsors when they select annuities and by reducing their potential liability even if the insurer later encounters issues with stability. The Act also addresses concerns about portability and what happens when workers change jobs with an in-plan annuity. It specifically allows direct transfers from one retirement plan to another, preserving participants’ investment accounts and avoiding surrender fees.

For plan sponsors who prefer employees stay in the plan to help keep the pricing advantage of scale, offering a flexible range of “post-retirement investment options” is key. Across the investment spectrum, these tend to fall into three broad categories:

- **Investment options without guarantees:** Plan sponsors can add investment options managed for withdrawing assets (such as managed accounts with a drawdown feature, managed payout funds or stable value). These strategies usually focus on managing market volatility and providing a reasonable payout. They can be reviewed/replaced like any other investment option in the plan.

- **Guaranteed solutions:** Plan sponsors can offer services that assist in placing annuities and advising on insurance-based investment strategies, either in-plan as a guaranteed income for life product, outside of the plan as a rollover or as a distribution payment.6

- **Hybrid approach:** Blends both non-guaranteed and guaranteed solutions. Starting with the plans’ qualified default investment alternative (QDIA) that offers participants the option to purchase a guaranteed solution (e.g., annuity) at a particular age to provide a guaranteed stream of income at some point in the future.6

Together with the plan’s consultant, sponsors should look at their current investment menu to determine if any changes are needed to better align with their evolving demographics and stay-in-plan philosophy.

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6 Annuity benefits are riders that incur extra cost. Annuity product guarantees are based on the issuing insurance company’s claims paying ability.

Start the conversation earlier with the tools to help

Share the benefits of staying in-plan earlier and provide the education, resources and tools needed to build a holistic plan.

In addition to providing flexible distribution options and retirement income solutions, it’s critical to start the dialogue much earlier than the usual age of 55+. Most employees start thinking about retirement around age 42, which could be the perfect time to start the conversation.\(^7\) And it’s important to provide the user-friendly resources and tools they need to help turn their savings into an income stream that can last.

Turning savings into an income stream

When participants actually start thinking about this phase and how best to plan for it, most are simply overwhelmed.

Employees may struggle with putting a comprehensive plan together and are not confident doing so.\(^6\)

- Half of workers (48%) have tried to calculate (on their own) how much money they will need to live comfortably in retirement, but a majority of both workers and retirees say it would be helpful if their employer offered education or advice on converting savings into income in retirement.
- 82% of workers (and 71% of retirees) who did receive some education or advice on this topic found it helpful.

To help participants of all ages approach this daunting effort with confidence, plan sponsors can offer a comprehensive range of financial wellness and other retirement-focused education and tools easily accessible through the provider’s website. Here, we suggest a coordinated approach:

- **Segment communications tied to age:** While all participants should have access to education and tools, segmented communication strategies - based on their age and/or life stage - can help nudge employees to start thinking about the transition when it makes the most sense for their personal situation.

  Begin talking with employees (starting at age 40) regarding the option to stay in the plan - and the benefits of doing so - and highlight the robust offering (e.g., resources, tools, income-focused investments, etc.) available to them to help them make an income generation plan. Continue the dialogue with increasing communications as participants age (50 to 55+). For those who stay in the plan, communicate how the plan can continue to help them make decisions along the way.

Across all communications, actively promote the various ways employees can access the tools and educational information to learn more about their options: Access to seminars, videos, articles, chat functions online, webinars, calculators and modeling tools, a licensed call center and more can help establish the plan as a go-to resource.

### Retirement income challenges

What every employee needs to consider before tapping into their retirement savings

#### How much each year?

Accurately predict how much money is needed each year to cover expected lifestyle and changing expenses (e.g., healthcare, inflation, etc.) as they age.

#### Where will it come from?

Identify various sources of income, including DC plan assets, IRA assets, taxable nonqualified investments, Social Security payments, spousal assets, potential inheritance, etc.

#### What to tap, when?

Construct an appropriate investment and income generation strategy, including the best order to tap various sources in the most tax-advantaged way and at the optimal age to begin claiming Social Security.

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\(^7\) Empower, Rethink, Rewire, Retire, Survey key findings, October 2019 (survey of 2,001 US near-retirees and retirees).

\(^6\) Employee Benefits Research Institute, Retirement Confidence Survey 2020 (survey of 2,042 US workers and retirees).
• **Provide personalized income modeling tools and worksheets:** Provide access to easy-to-use, intuitive models, questionnaires, and scenario-building tools and calculators that help participants think through their unique retirement income needs.

Education topics should include ways to help them understand when to tap Social Security, what healthcare expenses they may face, ways to guarantee portions of their income, drawdown strategies and an evaluation to determine if they are saving enough. Include an “Income Sources” worksheet where they can list what they currently have by type (e.g., taxable, nontaxable, government sources, etc.) and where it is located; along with clear-language “Drawdown Strategy Case Studies” that showcase different scenarios that might reflect their personal situation.

• **Offer guidance:** Consider offering access to financial coaches or independent advice providers (vetted by the plan sponsor). The vast majority of DC plan sponsors (95%) offered some form of investment guidance or advisory service to participants (online advice, on-site seminars and guidance were the top three).9

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**What you need to know about new lifetime income illustrations**

The 2019 SECURE Act included a mandate for plans to give annual lifetime income illustrations to participants. According to the Department of Labor (DOL), the illustrations “will help participants better understand how the amount of money they have saved so far converts into an estimated monthly payment for the rest of their lives, and how this impacts their retirement planning.” It may seem like a relatively small change for sponsors; however, these illustrations will likely raise a number of questions in participants’ minds. A good approach would be to anticipate those questions and communicate answers before the illustrations are given to participants.

Fred Reish provides an overview of the DOL regulation, the important provisions within and six “best practice” considerations going forward in our Shifting DC Times article, The Road to Retirement.

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**Putting it all together**

Plan sponsors should evolve their retirement program to include a coordinated approach of retiree-friendly plan design, income-focused investments, and the education and tools needed to help participants thrive in their next phase. Together with your plan consultant, consider three approaches:

1. **Provide flexible ways to access retirement savings:** Offer a wide range of distribution options and encourage rollovers INTO the plan.

2. **Help build an income plan:** Provide a range of investment menu solutions to help participants build a sustainable income plan.

3. **Start the conversation earlier with the tools to help:** Share the benefits of staying in-plan earlier (age 40+) and provide the education and tools needed to build their holistic plan.

Sponsors committed to helping their employees thrive in their “second act” can start by reviewing the plan’s demographics and conducting a gap analysis to see what options and services the plan could consider adding. Identify and leverage the plan’s service providers’ robust tools and services to help build out the integrated approach. Last, the plan’s Employee Retirement Income Security Act (ERISA) attorney can help advise if any plan amendments or other fiduciary or documentation considerations need to be made.
Employers today are constantly challenged to not only attract and retain valued employees, but also to reduce their financial stress all while increasing productivity. Many plan sponsors understand that participants are increasingly looking to them to provide education, tools and planning services they need to meet their retirement planning challenges. Most large defined contribution (DC) plan sponsors are working to address this with a focus on helping participants:

- Save early, often and enough for retirement;
- Select (or default to) appropriate investment options;
- Better understand the intersection of retirement and healthcare; and,
- Learn how to create a retirement income plan that can last a lifetime.
Today, robust, tailored educational programs must focus on both accumulation (saving) and decumulation (income) topics, take into consideration the changing concept of “retirement,” and use language and delivery methods that appeal directly to various generations in various formats. An Education Policy Statement (EPS) can help plan sponsors create — and follow — an education strategy and plan that incorporates this complex, new reality. The EPS not only clarifies and documents a plan sponsor’s commitment to effective employee education but also provides a detailed execution roadmap.

**The value of a multifaceted Education Policy Statement**

Like an Investment Policy Statement (IPS), the six sections of the EPS should clearly define expectations and scope, while allowing for flexibility. While neither are required, if a plan is going to create, adopt and have the EPS as part of the plan’s guidance documents, it needs to be followed. Otherwise, the plan risks an unintended fiduciary “shortfall,” where a committee did not follow through on EPS directives. Plan sponsors should review the EPS on a regular basis and include it as an important plan committee meeting agenda item at least annually.

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**Distracted at work**

A significant number of participants – across all generations – report being distracted by their finances at work. Nearly half of employees say they spend more than three hours per week distracted by it.

- **37%** Millennials
- **34%** Generation X
- **16%** Baby Boomers

PricewaterhouseCoopers Employee Wellness Survey, April 2017 (survey of 1,600 full-time US workers).
What’s in an EPS?

Here, we walk you through the six sections of an EPS: purpose, plan goals, education goals, who does what, how success will be measured, and how it will all get done.

1. **Purpose**
   This should be a short statement highlighting a plan sponsor’s commitment to:
   - Building sustainable and effective employee education reflecting plan demographics and plan philosophy;
   - Establishing and following a structured framework that seeks to meet employee needs; and,
   - Setting up a disciplined method for measuring progress against benchmarks and other metrics to course-correct as needed and document successes.

2. **Plan goals**
   What is the plan sponsor trying to achieve in the big picture? Examples include:
   - **For the plan:** Meet employer needs, such as satisfying Employee Retirement Income Security Act (ERISA) participant communications requirements or reducing plan costs by helping older participants transition to the next stage (e.g., part-time or full retirement).
   - **For participants:** Help employees reduce stress and increase productivity, maximize the retirement savings potential offered by the plan and/or continue the education journey for retired participants who stay in the plan.

3. **Education goals**
   Define three to five goals of the education initiative that will help address the plan goals previously outlined. It’s important to be specific about what you want to achieve and what associated metrics the plan is working toward. Examples include:
   - **Saving for retirement:** These include goals such as increasing plan participation rates, deferral rates, account balances, and ensuring proper asset allocation. It could specifically seek to increase managed account usage among participants ages 45 and up, and/or with balances above $100k, or to increase health savings account (HSA) invested assets (versus just deposits) to fund healthcare in retirement.
   - **Creating income in retirement:** For plans that prefer participants stay in the plan through retirement, goals can include increasing preferred distribution types/usage, increasing part-time and full retirement, and increasing allocation among retirement income-focused options for a certain plan demographic.
   - **Overall financial wellness:** These include decreasing student loan debt, increasing emergency fund savings, saving for a child’s education, etc. Whether part of a human resources/benefits strategy, or specific within the plan offering, sponsors should consider how financial wellness can impact retirement saving.

4. **Roles and responsibilities**
   Who does what? This section identifies the various parties involved in employee communication and their responsibilities. In general, it usually includes the plan sponsor, the plan’s consultant, the plan’s service provider and/or a third-party administrator.

5. **Measurement and benchmarking**
   This specifies what the plan will use to check the progress of each objective against industry and plan benchmarks (as well as the tracking frequency and more subjective engagement metrics outlined in the education goals section). Including an EPS progress report as an agenda item in at least one of the plan committee’s quarterly meetings helps to increase engagement and ensure success.
6 Execution plan

This is a comprehensive plan outlining the execution steps tied to each of the education goals. This section may be more fluid than the previous sections; if needed, it can be a separate document attached to the broader EPS for easier use. Your plan consultant and service provider(s) can help provide the data needed to build out a truly segmented, effective and dynamic plan for success.

For each of the three to five education objectives (in Section 3), outline the following:

A. Target audience

Which segments of participants would potentially benefit from this particular education? Look across plan demographics, such as age, income, gender, full- or part-time, union or non-union, marital status, HSA utilization or not, etc. In many cases you may have a wide range, but the goal should be to get as specific as possible. The more specific you can be, the better the associated messaging can be to help drive change.

B. Target psychographics

While demographics explain “who” your participant is, psychographics explain “why” they do what they do. For each target in the respective objective, take some time to better understand the attitudes, principles or beliefs that might be holding them back. Is it a lack of awareness? A poor perception of the offering? A lack of available money or time? Consider participant surveys and/or review online metrics to see what may have motivated engagement in the past, and what could impact it going forward. While it may take some extra effort, this can better inform which educational angle might help – or hinder – the effort, resulting in greater success.

C. Topics

Within each education goal, there may be multiple topics to cover (and corresponding modules that go in-depth). For example, across retirement planning topics, Social Security is a major topic for ages 40 to 69, while helping participants with investment selection is critical across a younger population. Turning accumulated savings into retirement income resonates most with near retirees (ages 50 to 59).

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The execution plan may be more fluid than the previous sections — if needed, it can be a separate document attached to the broader EPS.

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A participant’s age impacts the retirement planning topics they consider most important.

<table>
<thead>
<tr>
<th>Topic</th>
<th>&lt;30</th>
<th>30-39</th>
<th>40-49</th>
<th>50-59</th>
<th>60-69</th>
<th>≥70</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security</td>
<td>25%</td>
<td>36%</td>
<td>41%</td>
<td>46%</td>
<td>42%</td>
<td>28%</td>
</tr>
<tr>
<td>Investment selection</td>
<td>38%</td>
<td>41%</td>
<td>36%</td>
<td>33%</td>
<td>27%</td>
<td>39%</td>
</tr>
<tr>
<td>Healthcare expenses</td>
<td>28%</td>
<td>41%</td>
<td>33%</td>
<td>35%</td>
<td>36%</td>
<td>30%</td>
</tr>
<tr>
<td>Evaluating if I am saving enough</td>
<td>44%</td>
<td>46%</td>
<td>33%</td>
<td>26%</td>
<td>13%</td>
<td>27%</td>
</tr>
<tr>
<td>Turning my accumulated savings into income in retirement</td>
<td>36%</td>
<td>37%</td>
<td>23%</td>
<td>34%</td>
<td>26%</td>
<td>22%</td>
</tr>
<tr>
<td>Understanding if I will outlive my money</td>
<td>37%</td>
<td>28%</td>
<td>30%</td>
<td>27%</td>
<td>31%</td>
<td>23%</td>
</tr>
<tr>
<td>How to prioritize retirement savings versus other obligations</td>
<td>47%</td>
<td>27%</td>
<td>20%</td>
<td>21%</td>
<td>16%</td>
<td>38%</td>
</tr>
<tr>
<td>Ways to guarantee portions of my income</td>
<td>23%</td>
<td>27%</td>
<td>25%</td>
<td>29%</td>
<td>25%</td>
<td>14%</td>
</tr>
<tr>
<td>Drawdown strategies</td>
<td>21%</td>
<td>20%</td>
<td>21%</td>
<td>26%</td>
<td>20%</td>
<td>33%</td>
</tr>
</tbody>
</table>

D. Tools and services

What tools and services should accompany each topic for a comprehensive planning experience? Offer a wide range of access options (including short-form videos, articles, calculators and access to guidance) to meet the engagement preferences of various generations.

In a recent study, both active and retired participants felt their own retirement planning research was the most helpful (88%) compared with what their plan provides. Online savings tools and calculators provided by the plan were the second most helpful (77%). Plans should run a gap analysis to see what educational components, tools and services may be missing, compared with other plans or industry standards. In addition to leveraging the plan providers’ income projection calculators and modeling tools, what is the plan doing to increase usage and engagement of options overall?

E. Communication strategies

Leverage successful plan communication strategy combinations for each target segment (e.g., provider website, email, mobile apps, text, push notifications). And consider the learning preferences of workers from different generations: baby boomers and Gen Xers most value traditional instructor-led courses or self-learning tools, while millennials (Generations Y and Z) prefer collaborative and technology-centric options.1

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1 Robert Half, “The Key to Managing a Multigenerational Team: Don’t Overthink It,” July 2017 (survey of more than 12,000 working professionals).

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<table>
<thead>
<tr>
<th>Retirement planning tools &amp; services, 2020</th>
<th>Very helpful</th>
<th>Somewhat helpful</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own research</td>
<td>45%</td>
<td>43%</td>
</tr>
<tr>
<td>Online savings tools and calculators provided by 401(k) provider</td>
<td>33%</td>
<td>44%</td>
</tr>
<tr>
<td>Employer communications</td>
<td>17%</td>
<td>35%</td>
</tr>
<tr>
<td>Conversations with the call center that administers 401(k) plan</td>
<td>16%</td>
<td>35%</td>
</tr>
<tr>
<td>Group meetings/benefit fairs provided by employer</td>
<td>14%</td>
<td>28%</td>
</tr>
<tr>
<td>Video and articles on 401(k) website</td>
<td>14%</td>
<td>38%</td>
</tr>
<tr>
<td>Chat function of 401(k) website</td>
<td>12%</td>
<td>27%</td>
</tr>
</tbody>
</table>

Summary

Today’s DC plan education approach is evolving alongside an ever-evolving participant base and retirement world. An EPS can help plan sponsors create a robust, thoughtful education plan with success metrics in place to reflect this. Together with the plan’s consultant:

- Leverage service provider and payroll data to customize the education effort to the plan’s demographics;
- Ensure the plan reflects an intuitive user-friendly online experience across multiple touchpoints and topics; and,
- Push out in small bite-sized pieces, and often.

Last, keep the plan committee informed and engaged with a progress report as part of the committee quarterly meeting agenda.

Participants are comparing their experience interacting with the 401(k) plan to an experience they just had shopping online. Education technology must be efficient and intuitive; once considered cutting-edge, responsive web design and mobile apps are now standard.
NOW IS THE TIME TO PREPARE FOR LIFETIME INCOME ILLUSTRATIONS

Fiduciaries for defined contribution (DC) plans will soon be required to give lifetime income illustrations to their participants. But what does this entail? Now is the time for plan committees to begin preparing for the illustrations and their likely impact on plans and participants. Here we provide an overview of the Department of Labor (DOL) regulation, the important provisions within and six “best practice” considerations going forward.
What’s happening, when

The 2019 Setting Every Community Up for Retirement Enhancement Act, commonly known as the SECURE Act, included a mandate for plans to give annual lifetime income illustrations to participants. However, the law delayed the requirement until one year after the DOL issues final guidance on how to calculate the monthly income amounts and on the disclosures to be given to participants.

- On September 18, 2020, the DOL published an interim final regulation. As a result, the first illustrations must be made for the participant benefit statements for 2021.
- Most likely, plans will decide to provide the illustrations for account balances on the December 31, 2021 statements, which will be distributed in early 2022.

The purpose is to give participants additional information to help them think about retirement security and the retirement income that can be generated by their plan investments.

What you need to know

As fiduciaries, plan committees will be legally responsible for developing and delivering the illustrations to participants. In most cases though, the work will be done by service providers (e.g., plan recordkeepers). However, plan committee members must make sure the job is done and that it’s done properly. As a result, committee members, and the staff that supports the plan committee, need to understand the requirements.

In addition, committee members should consider the impact of those illustrations on participants and decide if additional services are needed, and if plan operations and investments need to be modified.

For example:
- Will participants understand what the projected income means for them?
- Will they need additional information about retirement income adequacy and how to reach that goal?
- Would it be a good idea to amend the plan to allow retired participants to take monthly withdrawals?
- Should the plan’s investment lineup include investments and advisory services that focus on producing retirement income?

Important provisions to know

The regulation specifies the assumptions to be used for the projections on the benefit statements; plans will not be able to customize their illustrations. In return for using the mandated format, assumptions, model language and disclosures in the regulation, plan committees are protected against claims that the projections were inaccurate or misleading.

While the regulation’s assumptions must be used by plans, the required illustrations can be augmented by additional projections and information, “as long as such additional illustrations are clearly explained, are presented in a manner that is designed to avoid confusing or misleading participants, and are based on reasonable assumptions,” according to the DOL. However, there is not a fiduciary safe harbor for that additional information. As a result, committees that want to give more information to their participants should work with their consultants and providers to prudently design those projections and explanations.

Income stream illustrations “will help participants better understand how the amount of money they have saved so far converts into an estimated monthly payment for the rest of their lives, and how this impacts their retirement planning.” — Department of Labor

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1 This article refers to “participants.” However, the SECURE Act and the DOL interim final regulation also apply to beneficiaries of deceased participants and alternate payees with account balances.

2 The DOL guidance is an “interim final” regulation, meaning that it can still be changed before participant illustrations must be provided. In fact, the DOL has asked for comments and may make some changes. For example, the DOL may provide additional guidance for additional projections of lifetime income. Nonetheless, the process for mandating the illustrations is underway and any modifications are likely to be relatively minor.
Required assumptions and disclosure

Lifetime income disclosure:

A participant’s benefit statement must include:

1. The value of the account as of the last day of the statement period;³
2. The “equivalent lifetime income stream” payable in equal monthly payments for the life of the participant, and;
3. The equivalent lifetime income stream for the joint lives of the participant and spouse.

While these illustrations contemplate the “annuitization” of the account balances of participants, the rules do not require that plans offer annuities.

<table>
<thead>
<tr>
<th>Lifetime income illustration - DOL Example</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Account balance</strong></td>
</tr>
<tr>
<td>as of [date]</td>
</tr>
<tr>
<td>$125,000</td>
</tr>
<tr>
<td><strong>Monthly payment at age 67</strong></td>
</tr>
<tr>
<td>(single life annuity)</td>
</tr>
<tr>
<td>$645/month or life of participant</td>
</tr>
<tr>
<td><strong>Monthly payment at age 67</strong></td>
</tr>
<tr>
<td>(Qualified joint and 100% survivor annuity)</td>
</tr>
<tr>
<td>$533/month for life of participant</td>
</tr>
<tr>
<td>$533/month for life of participant’s surviving spouse</td>
</tr>
</tbody>
</table>

Assumptions for converting an account balance into a lifetime income stream:⁴

**Commencement date and age:** The assumptions are that the first payment is made on the last day of the statement period (for example, December 31, 2021) and that the participant is age 67 on that date. (If the participant is older than 67, their actual age must be used.) The DOL selected age 67 because it corresponds to the Social Security normal retirement age for most employees. It allows participants to consider both their age 67 plan benefits and Social Security retirement benefits when planning for retirement.

**Marital status:** For calculating the joint and survivor annuity, the plan must assume that the participant is married and that the spouse is the same age as the participant. The calculation is done on the basis of a joint and 100% survivor annuity, meaning that a surviving spouse will receive the same monthly payment as the participant.

**Interest rate and mortality:** The regulation also specifies the interest rate and life expectancies to be used for the calculations.

**Explanation of lifetime income streams:** The guidance also includes disclosures to be given to participants about the calculation of lifetime income streams and the meaning of single and joint life annuities.

**What this means to plan committees**

While the first lifetime income illustrations probably won’t be given to participants until early 2022 for their December 31, 2021 account balances, committee members should begin the process of understanding the details of the requirement and evaluating its likely impact on participants. For example, committee members should consider whether to provide additional services to support the illustrations and whether educational programs are needed for participants to have context for understanding the illustrations.

³ The calculations are based on a participant’s full account balance, even if the participant is not 100% vested. In addition, the account must include the amount of any participant loans, unless the loan is in default.

⁴ Where a plan offers guaranteed income products (e.g., annuities), in some cases the regulation permits the use of those annuity payment rates in lieu of using the assumptions in the regulation. However, those rules are beyond the scope of this article.
Here are six steps for committees to consider:

1. **Gain an understanding** of these new requirements and their presentation to participants. Have your consultants, providers and attorneys meet with the committee to discuss the new rules and how they will support the plan’s compliance with these new requirements.

2. **Evaluate the impact on participants.** Will the participants understand the illustrations? Should the plan provide education in advance of the distribution of the lifetime income illustrations? Since the illustrations must be given each year, and account balances change with additional contributions and market fluctuations, should participants be given explanations about how contributions and market volatility can affect the amounts of lifetime income in the future?

3. **Should the plan provide additional lifetime income illustrations and services?** For example, should the plan provide a second set of projections that assume that a participant is his or her actual age and then, using reasonable assumptions, project growth in the participant’s account to age 67 before calculating the monthly income amounts? While there isn’t a safe harbor for those additional calculations, some consultants and providers have years of experience providing participants with those calculations without fiduciary challenges. The requirement is to be prudent, not to be perfect. In addition, should the plan provide a website calculator for participants to perform individualized personal projections (e.g., including outside assets or other family assets)?

4. **Should the plan provide participants with benchmark information and “gap analysis?”** When a participant receives a lifetime income illustration, a logical question would be “How much do I need to retire securely?” Some service providers and consultants have developed benchmarks for participants to use to decide whether or not they are on course for a secure retirement. Committees should discuss that service with their consultants and service providers. What happens when a participant looks at the income projections and sees that he or she is below the benchmark for financial security in retirement? There is a service called “gap analysis” that suggests the additional contributions that should be made to be on course for retirement income. Committees should consider whether to offer these services to their plan participants.

5. **Will the plan facilitate the payment of lifetime income to retired participants?** An increasing number of large and mid-sized plans are amending their plans to allow flexibility in distributions to retirees. For example, that could include eliminating the charges (if any) for distributions, permitting monthly distributions — “paychecks” — for retirees; permitting special distributions for unexpected needs; and allowing changes to the regularly scheduled distribution amounts.

6. **Will the plan provide investment solutions designed to provide retirement income payments to retirees?** For example, that could include balanced mutual funds that are managed to provide income; target income funds; and investment management services. These are some of the most important questions to consider when thinking about the new lifetime income illustrations. These questions cannot be answered and implemented overnight. As a result, committees should start the process of looking into these issues and the options. Because of the complexity of lifetime income calculations and the probable need for additional services, committees should speak with their consultants and service providers to obtain the benefit of their retirement industry knowledge. In addition, some of the “solutions” involve legal questions, so committees should include the plan’s lawyers in the discussions.

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**Concluding thoughts**

At first blush, lifetime income illustrations may seem like a relatively small change. However, those illustrations will likely raise a number of questions in participants’ minds. A good approach would be to anticipate those questions and develop and communicate answers before the illustrations are given to participants. The questions and answers require serious thought and a collaborative effort with the plan’s consultants and service providers. Now is the time to start that process.

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