Elevate in-plan lifetime income conversations

Establishing a due diligence process for lifetime income solutions

Assisting plan sponsors in analyzing lifetime income solutions can be challenging, but plan advisors don't have to go it alone. As a plan advisor, you may choose either to run the entire process independently or partner with a lifetime income specialist.

Following these steps may help you as you meet with solution providers and make recommendations to plan sponsors. It will also help ensure you're meeting your fiduciary obligations under the Employee Retirement Income Security Act (ERISA):

1 Identify the options available to the plan and its participants.

Before recommending investments, it's important to check platform availability. This step becomes even more important when working with lifetime income options, as the availability of options via non-proprietary recordkeeping platforms is always evolving. The advisor's role is to check with the recordkeeper for platform availability before introducing a lifetime income option; if an option isn't currently available, asking the recordkeeper may lead to the option becoming available down the road.

It's also important to check the plan document to ensure the plan allows a lifetime income option. If it doesn't, the settlor (i.e., the employer) can amend the plan document to add the flexibility for a guaranteed distribution option.

2 Analyze needs.

Determine and document the needs of the plan and its participants. Consider these questions to decide if the plan and its participants may benefit from a lifetime income solution:

- Does the employer also have a defined benefit plan?
- What are the demographics (e.g., ages) of the participants?
- What are the characteristics of the workforce (e.g., blue collar, financial services, etc.)?
- What is the typical turnover of the workforce?
- Do participants work beyond the normal retirement age?
- Do participants leave their balances in the plan after retirement?[1]

3 Review lifetime income options.

Under ERISA, plan fiduciaries are required to follow a prudent process for selecting, monitoring and replacing lifetime income options, and that process is more complex than ever. Here's what you need to do:

A. **Identify the framework for evaluation.** Plan fiduciaries should start by establishing the evaluation framework (e.g., investment policy statement) that they'll use to determine the best lifetime income option for the plan. The SECURE Act provides a safe harbor to the fiduciary for the selection of the insurance

[1] See case studies, DCIIA, Design Matters: The Retirement Tier, Putting it into Practice, available at: cdn.ymaws.com/dciia.org/resource/resmgr/docs/DCIIA_Retirement_Tier_ALL.pdf

carrier(s). However, the fiduciary must still evaluate the reasonableness of fees and perform due diligence of the solution itself — beyond the underlying insurer(s).

B. **Gather information.** Once the framework for evaluation is established (included in an investment policy statement or other stated guidelines), the plan fiduciary should gather relevant information — from not only the underlying insurer to satisfy the safe harbor, but from all parties that comprise the overall lifetime income solution. Some new-to-market solutions are complex and include multiple insurers and parties.

C. **Evaluate objectively.** When comparing lifetime income solutions, it's important to evaluate similar types of solutions. With any lifetime income solution, consider the following:[2]

- **Safe harbor.** Is the insurer making each of the required disclosures under the SECURE Act safe harbor?
- **Legal documentation**. Beyond the safe harbor disclosures, the solutions include a variety of additional documentation; has a copy of all documentation been provided and reviewed? Separate from the obligations related to the insurer's ability to pay, the legal guarantees of the solution should be evaluated. For example, consider if there are any circumstances in which the lifetime income benefits in payout status could cease and how does the legal documentation address this? Also consider, what happens to the accumulated guarantees if the recordkeeper is terminated, the plan eliminates the solution or the plan is terminated or merged?
- **Fees and expenses.** Solutions must be compared to evaluate the relative cost, including both implicit and explicit fees, and to determine that the selected solution is fair and reasonable given the features, benefits and services provided. What are the implicit and explicit costs of the solution?
- **Transparency.** Solutions require ongoing monitoring; has the solution made available data that can be reviewed and compared for purposes of ongoing monitoring, and will data continue to be made available in the future?
- **Portability.** At both the participant and plan levels, is the solution portable?
- **Participant experience and education.** What level of support and education is available to plan sponsors and their participant population to understand the solution and to engage in the experience? How will this be supported through a recordkeeping platform?
- **Risks.** Solutions can address several risks including longevity, sequence of returns, legacy, liquidity, cognitive, etc. Given the needs of the plan and its participants, do the risks addressed by this solution meet the needs of the plan and its participants?

In situations where the solution has a guaranteed lifetime withdrawal benefit (GLWB), additional considerations apply:

- **Guaranteed lifetime withdrawal benefit via participant election:**[3] In this instance, the plan sponsor elects to add a solution to the retirement plan that allows participants to participate in an annuity with a GLWB, which maintains an account balance that continues to be invested, accumulating earnings, while also growing the payout guarantees for the time of retirement.

[2] This resource is focused on solutions that are guaranteed and start to accumulate a benefit before retirement. However, there are several options that start to accumulate a benefit at the time of retirement such as: (1) managed payout options that are not guaranteed; (2) purchase of an annuity at the time of retirement; (3) purchase of a qualified longevity annuity contract (QLAC), which begins the payout at age 85 when the managed payout option is planned to exhaust its account balance; and (4) the option to roll over the account balance to an individual retirement account that is favorably priced. This is not an exhaustive list but provides an overview of the types of other available options in the market, which is constantly evolving.

[3] As discussed more in ***A plan advisor's guide to annuities***, GLWBs are riders that are added to basic annuity structures (or contracts). There are other riders beyond GLWB, which are also part of a class of insurance benefits called "living benefits." Other examples include: guaranteed minimum accumulation benefit (GMAB) and the guaranteed minimum income benefit (GMIB).

In addition to the questions asked above, consider the following:

- How is the benefit base calculated and how is it reduced?
- How does the benefit base calculation differ from the calculation of the account balance? At the time of retirement, how are post-retirement increases in the GLWB credited and lost?

- **GLWB via managed account or target-date fund (TDF) program as a qualified default investment alternative**: In some instances, the plan sponsor elects to add a solution to the retirement plan that automatically defaults participants into a GLWB as part of a managed account or as part of a TDF.

  In addition to the questions asked above, consider the following:

  - Who is serving as the investment manager and what are their qualifications?
  - How is the TDF glide path managed and is it appropriate to meet the needs of the plan and its participants?

D. Decide, document and revisit periodically. As with any fiduciary process, documentation is critical. Plan fiduciaries must make a decision, document the rationale for their recommendation and revisit it over time. Remember, to meet the SECURE Act safe harbor, the decision to select the underlying insurer(s) of a solution requires that the plan fiduciary review the insurer's representations annually.

Need more?

Evaluating the many types of lifetime income solutions, as well as their specific benefits and limitations, may feel like a daunting task. But becoming an expert in this evolving area can boost your value as a plan advisor. As always, we're here to help guide you through the process and answer your questions.

To find out more, call **877.894.3592**
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CT-MK/**116738 C (02/25)** M82/CTNA7588041.1