

**MetLife**

# LIFETIME INCOME POLL

Perspectives of Defined  
Contribution Plan Sponsors on  
Regulatory Developments

2016

## ABOUT METLIFE

MetLife, Inc. (NYSE: MET), through its subsidiaries and affiliates (“MetLife”), is a leading global provider of insurance, annuities and employee benefit programs. MetLife holds leading market positions in the United States, Japan, Latin America, Asia, Europe and the Middle East.

The MetLife enterprise serves 90 of the top 100 FORTUNE 500®-ranked companies<sup>1</sup> and has \$917 billion in total assets and \$841 billion in liabilities.<sup>2</sup> Our principal insurance operating companies, through which our institutional income annuity, U.S. pension, stable value and nonqualified business are issued, are Metropolitan Life Insurance Company and MetLife Insurance Company USA. These operating companies have \$577 billion in total assets and \$557 billion in liabilities,<sup>3</sup> and manage \$92 billion of group annuity assets, including institutional income annuities,<sup>4</sup> and \$38 billion of transferred pension liabilities.<sup>4</sup> The MetLife enterprise also has a more than 35-year track record in stable value with \$53 billion of stable value business,<sup>4</sup> and has \$25 billion of nonqualified benefit funding assets.<sup>4</sup>

## ABOUT THE RESEARCH PARTNERS

**Asset International, Inc.** is a privately held publisher and information provider to global pension funds, asset managers, financial advisors, banking service providers and other financial institutions in the private and public sectors. Asset International produces and distributes print and digital publications, conferences, research and data resources via its industry-leading brands PLANSPONSOR, PLANADVISER, Global Custodian, Chief Investment Officer, Strategic Insight, The Trade, Investor Economics and, most recently, Market Metrics and Matrix Solutions. The company was acquired in June 2014 by Genstar Capital and has offices in New York, Boston, Toronto, Vancouver, London, Hong Kong, Melbourne and Stamford, CT.

**MMR Research** is a mid-sized, versatile, full service, custom marketing research firm. The company is headquartered in Roswell, GA, and has regional service offices in Athens, GA, Dallas, TX, Detroit, MI and Washington, DC. The MMR team is made up of highly experienced and educated marketing research professionals, with most having at least 10 if not 20+ years serving in previous client-side and/or supply-side roles.

<sup>1</sup> FORTUNE 500® is a registered trademark of the FORTUNE magazine division of Time Inc.

<sup>2</sup> MetLife, Inc. as of March 31, 2016. Total assets include general account and separate account assets and are reported under accounting principles generally accepted in the United States of America.

<sup>3</sup> Metropolitan Life Insurance Company and MetLife Insurance Company USA as of March 31, 2016. Total assets include general account and separate account assets and are reported on a statutory basis.

<sup>4</sup> As of March 31, 2016.

## INTRODUCTION

Plan sponsors are increasingly being called upon to help their defined contribution (DC) plan participants achieve successful retirement outcomes. Critical to that success is ensuring that participants have easy access to lifetime income options. With this survey – the MetLife 2016 Lifetime Income Poll – MetLife sought to understand plan sponsors’ current perspectives about the core purpose of a DC plan, including the most effective ways to deliver lifetime income to plan participants. The poll also gauges plan sponsors’ knowledge about the important strides that the U.S. Departments of Labor (DOL) and Treasury have made in recent years – and are contemplating in the future – to strengthen Americans’ retirement security through lifelong income that plan participants can count on.

In our view, there are several key fiduciary issues related to guaranteed lifetime income where regulatory clarity is still needed. Chief among them are a workable safe harbor on which plan sponsors could rely for annuity carrier selection in DC plans, and lifetime income disclosures on DC plan benefits statements. The latter would result in a participant’s account balance being expressed in income terms, as well as current market value, without adding fiduciary risk for plan sponsors or their service providers. It is clear from our poll findings that plan sponsors, in large numbers, agree that recent regulatory developments are prompting consideration of plan design changes for DC plans. Many also agree that additional lifetime income regulatory action is needed and would make it easier for plan sponsors to offer – and, in turn, plan participants to select – solutions that provide guaranteed income for life.

### About the Poll

The MetLife 2016 Lifetime Income Poll was fielded May 17-23, 2016. MetLife commissioned MMR Research Associates, Inc. to conduct the online survey in cooperation with Asset International, Inc. There were 212 DC plan sponsors who participated in the survey, representing a broad range of DC plan asset sizes (see chart below). Among the plan sponsor-respondents, 80% reported DC plan assets of \$250 million or more, with 44% having assets greater than \$1 billion.

DC Plan Size	Total Respondents	%
Greater than \$1 billion	93	44%
\$500 million-\$1 billion	43	20%
\$250-\$499 million	34	16%
\$100-\$249 million	21	10%
Less than \$100 million	19	9%
Don't Know	2	1%
<b>Total</b>	<b>212</b>	<b>100%</b>

## KEY FINDINGS

### Plan Sponsors Say Income Should be the Core Purpose of a DC Plan

A large majority of plan sponsors surveyed (85%) agree that the core purpose of a DC plan should be to serve as an income source during retirement. This is significant compared to just 9% of plan sponsors in a 2012 MetLife study who believed that the primary focus of their DC plan was to provide retirement income, as opposed to retirement savings.<sup>1</sup> Additionally, eight in ten respondents (82%) believe the importance of plan sponsors making lifetime income options available to their DC plan participants will grow in the future.



**85%** of plan sponsors say income should be the core purpose of a DC plan

### Most Plan Sponsors Aware of the DOL and Treasury's Focus on Lifetime Income; Say It Represents Sound Public Policy

Nearly all respondents (94%) report that they are at least somewhat knowledgeable overall about the focus by the DOL and Treasury over the last several years on strengthening Americans' retirement security through lifelong income solutions, with 45% being extremely or very familiar with the regulators' actions. Six in ten plan sponsors (62%) agree that encouraging workers to consider guaranteed lifetime income options, such as by facilitating the availability of longevity insurance and partial annuitization, represents sound public policy.

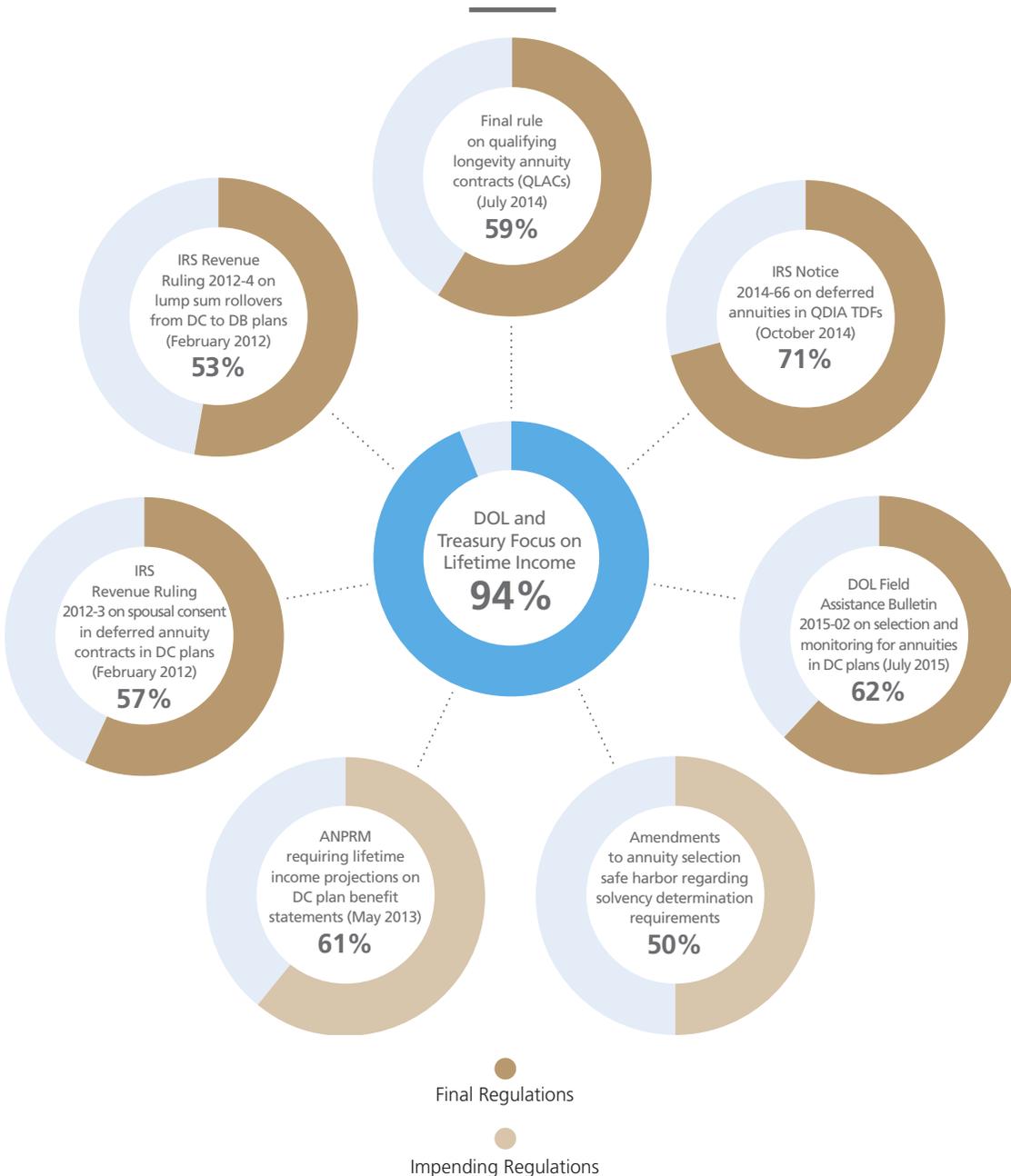


**94%** of plan sponsors are knowledgeable about the DOL and Treasury's lifetime income focus

## Less Familiarity with Specific Lifetime Income Regulatory Actions

When asked about their familiarity with specific lifetime income regulatory actions taken by the DOL and Treasury, as well as those not yet finalized, about one-half to two-thirds of plan sponsors say they were at least somewhat familiar with each of the specific actions already taken. These numbers are promising, considering that DC plan sponsors have historically focused on the asset accumulation side of the DC plan equation, and have only recently begun to focus on lifetime income for their plan participants.

### Plan Sponsor Knowledge about DOL and Treasury's Lifetime Income Efforts (including Specific Regulatory Actions)



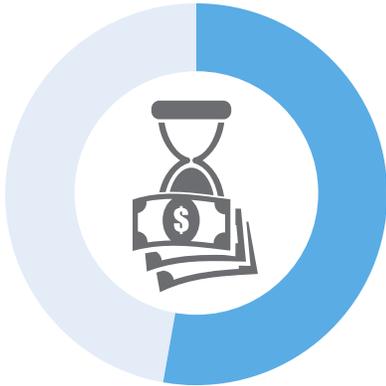
When looking at the specific regulatory actions that have already been promulgated, plan sponsors have the highest level of familiarity with IRS Notice 2014-66, authorizing deferred annuities to be included in qualified default investment alternative (QDIA) target date funds. Seven in ten plan sponsors (71%) are at least somewhat familiar with the final regulation. It is likely that this particular regulation received the highest level of familiarity among all of those related to lifetime income because it involves broader plan investments – in this case TDFs – and because it was actionable. DC plan sponsors tend to have a very high level of familiarity with investment-related concepts, as opposed to those having to do with guaranteed retirement income.

Six in ten plan sponsors also have familiarity with several other recent final regulations. Notably, 62% of plan sponsors are at least somewhat familiar with the DOL Field Assistance Bulletin (FAB) 2015-02, issued in July 2015, providing guidance and direction on selection and monitoring for annuities in DC plans. Additionally, 59% of plan sponsors are at least somewhat familiar with the final rule issued in July 2014 from the U.S. Internal Revenue Service (IRS) and Treasury Department authorizing Qualifying Longevity Annuity Contracts (QLACs) for DC plans and IRAs. Rounding out this middle group, 57% of plan sponsors are at least somewhat familiar with IRS Revenue Ruling 2012-3, issued in February 2012, which provided clarification and instructions for handling spousal consent for deferred annuity contracts in DC plans.

Among recent lifetime income final regulations, plan sponsors have the lowest level of familiarity with IRS Revenue Ruling 2012-4, issued in February 2012, which allows a rollover of lump sum payouts from a DC plan to a DB plan with the same employer to take advantage of the DB plan's annuity form of payment. Just over half of plan sponsors (53%) have any level of familiarity with the final regulation. The number of those extremely or very familiar with this particular Revenue Ruling was much higher, as would be expected, among plan sponsors who have defined benefit (DB) plans, than among sponsors with no DB plan. Over a quarter (27%) of those with DB plans reported being extremely or very familiar, compared to just 16% of those without DB plans.

### **Final Regulatory Developments Will Lead to Plan Sponsor Action**

Although there is not universal awareness about recent regulatory actions, several of the DOL and Treasury's recent regulatory actions are having – or are expected to have – a direct impact on DC plan design, with the goal of enabling more secure retirement outcomes. Over one-half of plan sponsors (53%) familiar with the final QLAC rule said they would be likely to offer a QLAC to their DC plan participants at some point in the next five years. The smallest plans (under \$100 million in plan assets) are even more likely to say they would offer a QLAC in the next five years (91%). The next most likely group to offer QLACs in the next five years are plans with \$500 million to \$1 billion in assets (65%). When it comes to the largest plans, 44% of those with assets over \$1 billion would be likely to offer a QLAC in the next five years. This is not surprising, since larger DC plan sponsors tend to take longer to implement plan design changes, and they tend to be more cautious from a fiduciary standpoint.



**53%** of plan sponsors are likely to offer a QLAC in the next five years

Additionally, nearly four in ten plan sponsors (38%) familiar with FAB 2015-02 on the selection and monitoring of annuities in DC plans say that the FAB is having some or a significant impact on their interest in offering income annuities to plan participants. Although many sponsors believe the DOL needs to do more to clarify the safe harbor with regard to the selection of annuity providers for DC plans (as discussed on the next page), the FAB has nevertheless had a favorable impact in getting plan sponsors' attention and enabling consideration of income annuities in DC plans.

#### **Plan Sponsors Familiar with Impending Lifetime Income Regulatory Actions**

Nearly all plan sponsors (96%) agreed that it would be helpful for plan participants if account balances were required to be communicated as lifetime income – in addition to the total account balance – on DC plan benefit statements, including 62% who believe it would be extremely or very helpful for plan participants. Six in ten plan sponsors (61%) are at least somewhat familiar with the DOL's Advanced Notice of Proposed Rulemaking (ANPRM), issued in May 2013, which – if proposed and finalized – would require projected lifetime income to be added to the account balance and other information already required on DC plan benefit statements.



**96%** of plan sponsors support lifetime income disclosures on DC plan benefit statements

Additionally, half of plan sponsors (50%) are at least somewhat familiar with proposed amendments to the annuity safe harbor carrier solvency determination requirement, “primarily focused on the condition of the safe harbor relating to the ability of the annuity provider to make all future payments under the annuity contract.” However, only 7% are either extremely or very familiar with proposed amendments to the annuity safe harbor carrier solvency determination requirement. This proposal was put forth by the American Council of Life Insurers (ACLI) in October 2013. According to an article published at the time the proposal was introduced, “The ACLI proposal would allow the fiduciary to rely on a certification by its chosen carrier that it has met certain standards with respect to state insurance commissioner review. The [insurance] carrier would have to be licensed in 26 or more states, to prevent ‘forum shopping.’ [The insurer] would have to have a clean certificate of authority from its home insurance commissioner, audited financial statements and reserves that satisfy the requirements of all states where it does business; also, [the insurer] could not have operated under an order of supervision, rehabilitation or liquidation. In addition, the [insurance] carrier would have to undergo a financial examination by the insurance commissioner of the domiciliary state at least every five years.”<sup>i</sup>

**Most Plan Sponsors Agree That a Workable Safe Harbor for Annuity Carrier Selection is Needed; Think Certifications from Annuity Providers Based on State Insurance Regulatory Process Should be Permitted**

Nine in ten plan sponsors (92%) agree that it is important for the DOL to provide a workable safe harbor for annuity carrier selection criteria for individual account qualified plans in order to make it easier for plan sponsors to include income annuities in their DC plans, including 70% of plan sponsors who think it is extremely or very important. This percentage rises to 96% among those who say they are at least somewhat familiar with proposed amendments to the annuity safe harbor carrier solvency determination requirement, primarily focused on the condition of the safe harbor relating to the ability of the annuity provider to make all future payments under the annuity contract.



**92%** of plan sponsors want a workable safe harbor for annuity carrier selection

<sup>i</sup> Plan Sponsor, “Fixing DC Annuities: There’s a Proposal on the Table,” October 2013.

More than a third of plan sponsors (37%) agree that solvency determination (i.e., evaluation of the annuity provider to ensure that its solvency is adequate to make all future payments to the annuitants(s)) is the most pressing issue that still needs to be addressed to ensure a workable safe harbor. This rises to 47% among those who are extremely or very familiar with the proposed amendments to the safe harbor.

Three-quarters (76%) of respondents say that in determining the adequacy of the solvency of a potential annuity provider for their DC plan, they would prefer to be permitted to rely on certifications from the annuity provider based on the regulatory process carried out by a state insurance commissioner, rather than to conduct the solvency due diligence process themselves as part of their regular due diligence process for plan providers.

### **Workable Annuity Safe Harbor Has Potential for Two-Thirds of Plan Sponsors to Make Income Annuities Available to DC Plan Participants, Majority Within Two Years of Safe Harbor Issuance**

Although today fewer than one in ten plan sponsors say that their 401(k) plan includes a guaranteed lifetime income option, nearly two-thirds of plan sponsors whose plans do not currently include such an option (66%) say that they would be at least somewhat likely to make income annuities available to their DC plan participants for their retirement when the DOL completes work on an updated safe harbor rule for the selection of an annuity provider.



**66%** of plan sponsors would likely offer income annuities when a safe harbor for annuity carrier selection is issued

Nearly two-thirds of plan sponsors (61%) who indicated they would be likely to offer an annuity to their DC plan participants for their retirement – following the issuance of an updated safe harbor rule for the selection of an annuity provider – would plan to do so within two years after its issuance. Fifteen percent would do so after two or more years, and nearly one-quarter (24%) said they did not know when they would plan to make them available.

### Plan Sponsors Share Best Practice Approaches to Income

Nine in ten plan sponsors (90%) believe that it is in the best interests of plan participants to keep plan design changes simple since complexity, such as too many choices and features, often leads to participant inertia (i.e., avoiding taking any action). Nearly three-quarters of plan sponsors (72%) agree that offering only lump sum or systematic withdrawal distributions may not always be in the best interest of plan participants. Additionally, with the goal of simplicity in mind, nearly six in ten plan sponsors (58%) do not believe that withdrawal solutions with minimum guarantees are easy to understand for the average DC plan participant.



**90%** of plan sponsors believe simplicity is in the best interest of plan participants

To encourage more widespread adoption of income annuities, nearly eight in ten plan sponsors (79%) think that allowing plan participants to take a partial lump sum *and* a partial annuity from a DC plan is preferable to a plan design where participants must take their entire account balance as *either* a lump sum *or* an annuity. The percentage of respondents who agreed with this particular point was slightly higher among respondents with a DB plan, at 81%, compared to 68% who do not have a DB plan. With the DOL reportedly close to finalizing rules proposed in 2012 that would make it easier for sponsors to offer partial annuitization in defined benefit (DB) plans, this finding bodes well for adoption of this feature in DC plans as well.

## CONCLUSION

For more than a decade, those influential in the institutional retirement community, MetLife among them, have called for DC plans to be reframed. No longer can DC plans exist purely for participants to accumulate a pool of assets for retirement, only to leave these individuals – largely on their own – with the responsibility of spending down those assets, hoping for the best amid trying to manage market, investment and longevity risks. We believe the core purpose of today’s DC plans must be recast from retirement savings to retirement income, enabling plan sponsors to provide the education, tools and solutions to help participants make their savings last a lifetime.

In order for this to be achieved, a call to action is in order. Over the past several years, public policymakers have made enormous strides to strengthen retirement security for millions of U.S. workers – strides that are proving to be seminal to the role that DC plans will play in the future in the provision of lifetime income. However, there is still more regulatory work to be done. Plan sponsors are signaling that they are ready to reframe their DC plans to communicate retirement account balances in lifetime income terms and provide solutions to ensure successful retirement outcomes. This makes it especially timely for the infrastructure supporting the retirement income/distribution phase of DC plans to become as complete as the infrastructure that supports the accumulation phase. We believe these research results offer a framework for a common understanding of the path forward for the retirement industry and its regulators. The future of millions of DC plan participants is depending on it.



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