Best Practices for Defined Contribution Plan Distribution
Strategies that Promote Successful Retirement Outcomes
A combination of a recently enacted law, the Setting Every Community Up for Retirement Enhancement (SECURE) Act, and the unpredictable markets brought on by the COVID-19 pandemic, has inspired a renewed focus on employees’ financial health and retirement readiness. With their consultants, plan sponsors are re-evaluating their retirement plan distribution options to help their plan participants more confidently prepare for retirement.

The pandemic has caused 78% of surveyed employers to re-evaluate their retirement offerings.¹

Stressed employees seek employer support

As plan sponsors assess the unprecedented impact on the workplace wrought by the pandemic and look ahead to an uncertain future, one thing is clear: employees’ stress levels have been rising since the onset of the pandemic, with current and future financial health being their top concern. In fact, 86% of employees say finances are a top source of stress for them now and in the future.²

Further, existing retirement challenges tied to a range of demographic and market forces, including increasing longevity, escalating health care costs, and inflation risk, have been magnified by the increased unknowns and unpredictability introduced by the pandemic and, subsequently, the economic recovery. Employees report the following as their greatest concerns regarding their financial well-being:²

- 62% being able to afford the cost of healthcare in retirement
- 59% outliving their retirement savings
- 48% being able to retire as planned/on schedule

As a result, employees are looking to their employer for greater support in improving their financial health and retirement readiness, specifically through their retirement plan. For example, 79% of workers and retirees believe employers are at least somewhat responsible for preparing employees for a financially secure retirement.³ Today’s employees want to see their plan offer nontraditional financial benefits, including 79% of employees seeking guaranteed retirement income options.⁵
DC plans: From savings vehicles to retirement income programs

Even before the pandemic’s upheavals, a new retirement paradigm was emerging in response to the diminishing role of the traditional pension plan. Let’s remember, the first defined contribution (DC) plans, introduced in the 1980s under section 401(k) of the Internal Revenue Code, were originally intended, designed and offered as supplementary savings vehicles — often as a way to encourage workers to supplement the guaranteed income they could expect from Social Security and their defined benefit (DB) pension plans.

With the decrease in DB plans, which provide guaranteed income in retirement, it became imperative that the role of DC plans evolve from a supplementary savings vehicle to a primary source of retirement income.

“The dramatic and continuing shift of private-sector worker plan coverage from DB to DC has implications not only for future retirees who must manage their own drawdown strategy during retirement but also for employers, providers, and policymakers as they navigate this seismic change in the retirement equation.”

The SECURE Act: Driving annuity interest

The passage of the SECURE Act in December 2019 made it easier for plan sponsors to offer guaranteed lifetime income solutions in DC plans by providing a fiduciary safe harbor. By removing the fiduciary barriers and allowing companies to rely on state insurance commissioners to review the financial strength of an annuity provider, the SECURE Act is driving increased interest among plan sponsors to add a fixed income annuity to their DC plans.

- 82% of employers who were awaiting clarification of the annuity selection safe harbor said they would be likely to offer guaranteed income options within five years following its issuance.
- Almost 70% of employers believe that DC plans should include lifetime income options.

SECURE also includes a provision that will require annual 401(k) statements to display an account balance as a monthly income illustration. These lifetime income disclosure provisions are slated to go into effect in September 2021. As a result of these provisions, participants will better understand how their retirement savings translate to retirement income which, in turn, can help them determine readiness to retire and encourage greater DC plan savings.

76% of plan participants surveyed say they would better understand the benefits of income annuities if they received lifetime income disclosures in their statements.
The best DC plans are simple, streamlined and focus on the goal of providing income in retirement.

Today, more than ever, in response to the increased challenges employees face, plan sponsors need to evolve their DC plan to allow participants to generate guaranteed lifetime income. The following seven best practices for DC plan distribution strategies that promote successful retirement outcomes can be used as a guide.

1. **Keep it simple:** For plan sponsors wishing to reframe their DC plan as a retirement income program, it is in the best interests of participants to keep it simple. Experience has shown that complexity in the form of too many choices or features in retirement income products often leads to decision-making paralysis, resulting in participants not taking any action.

62% of survey participants would prefer a simple, easy-to-understand option for distribution.

2. **Opt for a single annuity provider model:** Simplifying the annuitization process benefits:
   - **Participants** — Behavioral economics tells us that when people have more choices, they take less action. In our experience, annuity aggregator platforms lead to participant confusion due, in part, to the lack of consistency in terminology, product design and features among annuity providers.
   - **Plan sponsors** — With the SECURE Act, the insurer review process has been simplified, thereby enabling plan sponsors to feel comfortable selecting a single annuity provider without fiduciary concerns.
   - **Annuity providers** — A single provider model allows the annuity provider to devote increased resources and provide consistent messaging in support of the annuity program.

3. **Allow for partial annuitization:** Plans that allow for partial annuitization address a participant’s need to maximize guaranteed income while addressing liquidity concerns. There is a trend among employers to retain assets in the plan to improve their economies of scale while also helping retirees continue to grow their savings once they retire. By enabling some assets to remain in the plan, the participant is not faced with an “all or nothing” annuitization decision. When partial annuitization was implemented for one very sizable plan, we saw a 58% increase in annuity purchases the first year; the average annuity purchase amount since has increased by almost 200% over the past 17 years.

4. **Shift the mindset from savings to income:** Remind participants the purpose of their savings is to provide income in retirement. Going forward, when providing retirement savings statement balances, be sure to include the estimated monthly equivalent of lifetime income. Illustrating lifetime income during a participant’s accumulation years, instead of solely at the point of retirement, reinforces the need for saving and helps participants understand how their “pot of gold” translates into a monthly paycheck.
DC plans work best when employees understand that income needs to last a lifetime.

5. Educate participants early and often: If participants don’t understand or use their benefits, they will likely place little value on these benefits or their employers for offering them. Developing a foundational retirement income education program is an action sponsors can take now, well before decisions need to be made by participants about converting their accumulated DC account balances (in part or whole) to a guaranteed income stream.

A retirement income education program can help:

• Reposition the plan from one viewed as an optional savings plan to a core retirement income program
• Increase employee understanding of their income needs and the new risks they will face as they approach retirement
• Encourage participants to use the calculators and modeling tools many sponsors provide
• Enable participants to make more informed decisions for better retirement outcomes

When employees understand how their benefits work through their employer’s benefits communications, they’re:

• **100%** more likely to trust their employer’s leadership
• **78%** more likely to be happy with their job
• **50%** more likely to be loyal to their employer

And yet:

• **31%** of employees don’t think their employer’s benefit communications are easy to understand.
• **55%** of employees wish they were more informed about their benefits so that they could get more value from them.

The good news is **80%** of employers are increasing benefit communications (or intend to) than before the pandemic.  

---

83% of current workers say they anticipate receiving retirement income from a workplace retirement savings plan.  

---
6. Take a multi-channel approach to education: Learning about benefits and making financial decisions vary from person to person and from generation to generation. Everyone has different preferences for how they want to engage and learn about their benefits. A multi-channel approach (such as web, email, webinars, mobile, text, social, print, phone, in-person) to communication and education allows participants to feel most comfortable when receiving information. Check your employee benefit communication results to see what works for your employees.

Consider making all benefits information available digitally. Email is great, but employees want more: While 64% of employers use email as a benefits communication channel, only 41% of employees want to learn about their benefits from their inbox.2

Employee’s Top Preferred Channels for Benefits Education

<table>
<thead>
<tr>
<th>Channel</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online Portal</td>
<td>50%</td>
</tr>
<tr>
<td>Email</td>
<td>41%</td>
</tr>
<tr>
<td>In-Person</td>
<td>30%</td>
</tr>
<tr>
<td>Over the Phone</td>
<td>17%</td>
</tr>
<tr>
<td>Mobile App</td>
<td>18%</td>
</tr>
</tbody>
</table>

7. Importance of strong customer support for participants: Experience shows that having strong customer support throughout the purchase journey leads to more successful retirement outcomes. People need support to understand what they are buying and, since these are long-term products, need to be reminded of what they bought. As an example, when self-service tools and the call center were added for a MetLife customer, coupled with a robust communication and education strategy, we saw a 121% increase in quote activity and a 15% increase in annuity purchases.10

Learn more
You can learn more about how fixed income annuities can enhance your or your client’s DC plan and improve participants’ retirement outcomes at [metlife.com/retirementincome](http://metlife.com/retirementincome).
1. MetLife Research, February 2021. On behalf of MetLife, CITE Research (www.citeresearch.com) conducted an online survey among 200 HR decision-makers. Employer research was conducted between February 5-25, 2021. Employer respondents were screened to work in HR, be very involved in decisions about the company’s retirement benefits, and work at a company that offers a 401K plan.


5. Aon’s “2021 Outlook: Defined Contribution Plans – Six Key Themes.”

6. MetLife Research, February 2021. On behalf of MetLife, CITE Research (www.citeresearch.com) conducted an online survey among 600 employees nearing retirement. Employee research was conducted between February 5-10, 2021. Employee Respondents were screened to be planning to retire in the next five years or beginning to play retirement, be 56–75 years of age and have access to a 401K plan through their employer.


Group annuity contracts are issued through Metropolitan Tower Life Insurance Company (MTL) or Metropolitan Life Insurance Company (MLIC). Like most group annuity contracts, MTL and MLIC group annuities contain certain limitations, exclusions and terms for keeping them in force. All guarantees are based on the financial strength and claims-paying ability of the issuing MetLife company. Contact your MetLife representative for more information. Any discussion of taxes is for general informational purposes only and does not purport to be complete or cover every situation. MTL and MLIC, its agents and representatives may not give legal, tax or accounting advice and this document should not be construed as such. You should confer with your qualified legal, tax and accounting advisors as appropriate.