Retirement Income Gaining Interest Among Plan Sponsors and Participants

Today, employees are responsible for investing their own retirement assets, and they are also tasked with making decisions about decumulation. A recent MetLife survey called "The Role of the Company" confirmed employees recognize these responsibilities, but they still want help from their employer, viewed as a trusted partner. Roberta Rafaloff, head of MetLife's Institutional Income Annuities business, spoke with PLANSPONSOR about how employers can help guide employees in terms of structuring retirement income.


Roberta Rafaloff (Photo by Christopher Lane)

PLANSPONSOR: Why is now an important time for defined contribution (DC) plan sponsors to be active in the promotion of quality retirement income outcomes?

Rafaloff: While employees must manage their own DC plan participation, employers can still have a tremendous impact on retirement outcomes, especially as they decide what investment managers to hire, what the structure of the plan will look like and, just as important, what the plan distribution options will be.

Today, employers are starting to ensure that their DC plans have a focus on retirement income. They are exploring options that are available and trying to decide which fit best with their employees, culture and plan design.

Target-date funds (TDFs) and managed accounts have gained popularity due in large part to the mindset of "set it and forget it." We believe the same mindset is prevalent when it comes to decumulation, so we encourage participants to consider an income annuity. With these products, the retiree doesn't have to actively manage investments to last throughout retirement. Instead, they give a certain amount of money to an insurance company upfront, and the company ensures that they receive an exact amount of monthly income for as long as the participant lives.

PS: How important is simplicity to consider in structuring retirement benefits to promote quality outcomes?

Rafaloff: Simplicity is incredibly important in the DC plan market. Once you start adding complexity, people shut down and inertia kicks in. This is true of both employer and employee. The employer needs a solution that's easy to implement and recordkeep. The solution must also be easy for the participant to understand and utilize.

PS: Do plan sponsors see specific barriers in terms of bringing retirement income solutions to their plan participants?

Rafaloff: Yes, they do. The Department of Labor (DOL) did come out with a safe harbor for plan sponsors that select a 401(k) annuity provider. However, most plan sponsors feel that safe harbor isn't strong enough. Additional guidance is needed.

Beyond a stronger safe harbor, regulators could mandate lifetime income disclosures on plan statements. This would require annual plan statements to show participants how much their lump-sum balance translates to in terms of guaranteed lifetime monthly income. This would show people they don't have as much saved as they think, and encourage additional savings.

PS: In the DC plan industry today, what distribution options are participants typically presented with?

Rafaloff: There are a few common options. First, they can take a lump sum and roll it into an IRA [individual retirement account]. Second, many plans offer systematic withdrawals which allow for flexibility but offer no guarantees. Finally, there are retirement income distribution options that are guaranteed, which allow participants to either fully or partially annuitize their lump sum.

PS: Has the level of interest in retirement income solutions been growing among DC plan participants?

Rafaloff: We are seeing growing demand among plan participants for retirement income options. According to the 2018 Retirement Confidence Survey by the Employee Benefit Research Institute and Greenwald & Associates, four in five DC participants express interest in putting some or all of their money in guaranteed lifetime income products, regardless of whether the product is an in-plan investment option or a separate product purchased outside of the plan upon retirement. ■

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