Achieving Retirement Income Security

EBRI
Decumulation/Retirement Income
in Defined Contribution Plans
May 7, 2009
87% say workers should have pensions

Almost 9 in 10 Americans believe workers should participate in a DB plan according to the National Institute on Retirement Security survey…workers want plans that offer portability, employer contributions, continuation of benefits for a spouse after death and a regular check that cannot be outlived

- P&I Daily, 1/4/09
Research Implications: A Call to Action

- Study of Employee Benefit Trends, 7th Annual, MetLife, March 2009
  - Employees and employers out of synch on a range of retirement issues
    - Gap between what employees are seeking and employers willing to offer
    - 50% of employees express a strong interest in employers providing ways to convert lump sums into income for life; only 21% of employers express interest in doing so
    - Employees have a growing appetite for advice and guidance with regard to retirement education; 51% would like retirement-related advice in the workplace; only 37% of employers indicate that they have a responsibility to help their employees
    - Employees view retirement benefits (72%) and health care benefits (75%) as an important factor in employee loyalty. Of employees highly satisfied with their benefits, 73% were also satisfied with their jobs
    - 41% of employees consider workplace benefits to be the foundation of their financial safety net
    - Employers' most important benefit objectives entering 2009 are to retain employees (50%) and to control costs (49%)
    - Retirement-related concern is on the rise; 65% of employees are concerned about being able to provide healthcare in retirement and 61% are concerned about outliving retirement money
An Individual’s Perspective Should Change Over Time

<table>
<thead>
<tr>
<th>Age 25</th>
<th>Age 45</th>
<th>Age 65</th>
<th>Age 85</th>
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</thead>
<tbody>
<tr>
<td>Focus is on asset accumulation</td>
<td>Focus shifts to asset protection + income planning</td>
<td>Normal Retirement Age</td>
<td>Average Life Expectancy</td>
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</tbody>
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Insured Solutions ("Annuities") Mitigate:

- Market Risk
- Inflation Risk
- Longevity Risk
Benefits Of Income Annuities

• **Protection**
  – Guaranteed lifelong income
  – Payments that don’t decrease
  – Death benefit

• **Flexibility**
  – Withdrawal feature (full or partial)
  – Full range of income payout options
  – Return of premium guarantee
  – Inflation protection options

• **Advantages to the plan participant**
  – Institutional pricing
  – Transfers longevity liability to an insurance company
  – Completes retirement planning cycle
Retirement Income Purchased at Retirement

- Income solution as a DC plan distribution or IRA rollover option
  - Single premium insurance products are commonly used
    - Immediate fixed or variable income annuity
    - Deferred fixed income annuity (‘longevity’)
    - Cost of living adjustments or inflation protection
  - Employer determines
    - Single insurer or platform with multiple insurers
Immediate Income Purchased At Retirement
Automatic Trial Immediate Income Program

During the first 2 years of Trial Annuitization, the participant receives monthly annuity payments.

If participant elects to keep the annuity, monthly payments continue from age 67 for as long as the participant lives.

If a participant opts out of Trial Annuitization after 2 years, monthly annuity payments stop and the participant receives the remaining cash value.
Deferred Income Purchased at Retirement

“A 10-15% longevity annuity allocation increases spending 20-30%”

Financial Engines, June 2007, The Longevity Annuity: An Annuity for Everyone?