Decumulation Product Landscape

Lori Lucas, CFA
Executive Vice President
Defined Contribution Practice Leader
Callan Associates
Stepping Back: Types of Retirement Income Options for DC Plans

Types of Income in Retirement Alternatives

Out of Plan:
- Drawdown Solutions
- Annuity as a Voluntary Benefit

In Plan:
- Annuity as a Form of Payment
- In-Plan Guaranteed Income for Life Products
Drawdown Solutions:
Income Replacement Funds

Income replacement funds

- **What They Are**
  - Funds designed to provide stable monthly income stream in retirement—NOT guaranteed

- **Pros**
  - Not necessarily tied to DC plans – Not fiduciary oversight item
  - Full flexibility (to move in and out)
  - Participants remain in full control of lump sum
Drawdown Solutions: Drawdown Technology

Drawdown technology

- **What It Is:**
  - Tools that calculate annual income needs for retirees, taking into account factors such as:
    - Inflation
    - Longevity
    - Market Risk
    - Health Care Costs
    - Spending
  - Provides periodic “paychecks” from retirement account.

- **Pros**
  - Full flexibility (start and stop as desired).
  - Flexibility with investment options.
  - Participants remain in control of lump sum.
Drawdown Solutions: Retirement Counseling

Retirement education, communication, and advice

- What They Are:
  - Group pre-retirement seminars.
  - Individualized pre-retirement support.
  - One-on-one financial planning.

- Pros
  - Much-needed education and hand-holding for retirees.
  - Limited fiduciary risk.
Drawdown Solutions: The Cons

Cons for All Drawdown Solutions:

- No guarantees for longevity risk, etc.
- Reliant on retiree discipline.
- May require partial distributions from plan.
- May require ongoing relationship with participant—positive or negative?
Annuity as a Voluntary Benefit

Income Solutions Approach

- Offers group annuity pricing
- “Lending Tree.com” type of solution
- Typically offered outside the DC plan
- Many recordkeepers already offer this functionality
Annuity as a Voluntary Benefit

- **Pros**
  - Group pricing
  - Easy access
  - Wide availability
  - Not a plan fiduciary oversight item
  - Little cost to plan sponsor

- **Cons**
  - Low utilization
  - "Annuity stigma"
  - Difficulty of partial annuitization
  - Point in time risk
Annuity as a Form of Payment

**Pros**
- Addresses longevity risk and market risk.
- No longer subject to “safest available annuity” requirement.

**Cons**
- Low utilization by participants—palatability issues.
- Fiduciary risk.
- Point-in-time risk.
In-Plan Annuities

Types and Evolution:

- Fixed Deferred Annuities – Insurance Companies
- Deferred Variable Annuities – Insurance Companies
- Guaranteed Minimum Benefit Payment Products – Investment Managers, Others
## Issues and Potential Solutions

<table>
<thead>
<tr>
<th>Issue</th>
<th>Potential Fix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurer risk</td>
<td>Multiple insurers</td>
</tr>
<tr>
<td>Opportunity risk</td>
<td>Focus on preserving accumulation and allowing for growth in retirement</td>
</tr>
<tr>
<td>Inappropriate for younger participants</td>
<td>Gear toward age 50 and older</td>
</tr>
<tr>
<td>Costly</td>
<td>Market pressure</td>
</tr>
<tr>
<td>Lack of portability</td>
<td>No surrender charges/IRAs</td>
</tr>
<tr>
<td>Lack of participant interest/ difficulty communicating</td>
<td>Positioning as default</td>
</tr>
<tr>
<td>Plan sponsor fiduciary concerns</td>
<td>PPA Protection/additional regulation</td>
</tr>
<tr>
<td>Recordkeeper support</td>
<td>Pressure from plan sponsors</td>
</tr>
</tbody>
</table>
Traction with Guaranteed Income For Life Solutions

Does your company offer an income for life product to employees?

- Uns sure: 0%
- Online drawdown modeling services: 4%
- Annuity placement services: 0%
- In-plan guaranteed income for life product: 3%
- Annuity as a form of distribution payment: 26% (2007), 17% (2008)
- None: 65% (2007), 77% (2008)

Source: 2009 Callan DC Survey.
It’s Still Early—But More Interest Being Shown

How likely is it you will offer a guaranteed income for life solution in 2008?

- Very Unlikely: 63% in 2008, 58% in 2009
- Somewhat Unlikely: 35% in 2008, 29% in 2009
- Somewhat Likely: 2% in 2008, 6% in 2009
- Very Likely: 0% in 2008, 7% in 2009

Guaranteed Minimum Benefits Products: What’s on the Horizon

Questions still left unanswered:

- Plan sponsor interest
- Palatability to participants
- Recordkeeper support