

# **In-Plan Guarantees:** Identifying Trends and Opportunities in an Evolving Marketplace

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# **Strategic Insight**

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**In Plan Guarantees:  
Identifying Trends and Opportunities in an  
Evolving Marketplace**

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## Table of Contents

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<b>1   Executive Summary .....</b>	<b>1</b>
<b>2   401(k) and Retirement Income Trends.....</b>	<b>3</b>
Longer Lives, Longer Retirement .....	3
Retirement Readiness—Impact of the Recent Market Downturn .....	5
Baby Boomers and Retirement Income .....	6
Retirement Trends Spur New Needs .....	9
Understanding Retirement Risks .....	11
<b>3   Market Opportunity .....</b>	<b>15</b>
DC Market Size .....	15
Target Date Fund Use in DC .....	17
Retiree Exposure to Equity Risk .....	21
DC Opportunity by Age Group .....	22
<b>4   Products .....</b>	<b>26</b>
In-Plan Guarantee Product Grids .....	27
Lifecycle Fund-Based Guarantees .....	32
AllianceBernstein: Secure Retirement Strategies .....	32
AXA Equitable: Personal Income Benefit .....	34
BlackRock: LifePath Retirement Income .....	36
Diversified/Transamerica: Secure Path for Life .....	37
Genworth: ClearCourse Annuitization Benefit (no longer available) .....	38
Genworth: ClearCourse Withdrawal Benefit (no longer available) .....	40
Great-West Life: SecureFoundation.....	41
ING: ING Lifetime Income Protection Program.....	42
John Hancock: GIFL Select (Guaranteed Income for Life Select) .....	42
Prudential: IncomeFlex Target (IFX Target) .....	44
Non-Lifecycle Fund-Based Guarantees .....	46
The Hartford: The Hartford Lifetime Income .....	46

In-Plan Guarantees

Lincoln: i4LIFE Advantage .....	47
Metlife: Personal Pension Builder.....	48
Mutual of Omaha: Lifetime Guaranteed Income Account .....	49
<b>5   Challenges .....</b>	<b>51</b>
Lack of Regulatory Clarity .....	51
Annuity Safe Harbor .....	51
Other Issues.....	54
Portability .....	55
Portability Between Recordkeepers .....	56
Portability for Participants .....	56
Technology .....	57
Single Issuer Risk .....	58
Acceptance by Plan Sponsors .....	61
Election by Participants.....	61
<b>6   Forward Momentum .....</b>	<b>63</b>
QDIA: Qualified Default Investment Alternative .....	63
Government Promotion of Income from Retirement Plans .....	65
SPARK Institute Data Standards .....	69
Administration Middleware.....	70
<b>7   Opportunities .....</b>	<b>72</b>
Insurers: Lower Risk VAs .....	72
Plan Sponsors: Conversions from DB.....	73
Competitive Differentiator Among Plans.....	73
<b>8   Conclusions .....</b>	<b>75</b>

## Table of Appendices

---

<b>Appendix A   Internet Resources and References .....</b>	<b>A-1</b>
Websites.....	A-1
Specific articles and papers.....	A-3
Glossary .....	A-5
<b>Appendix B   QDIA Regulation .....</b>	<b>B-1</b>
<b>Appendix C   Overview of VA with GLWB .....</b>	<b>C-1</b>
<b>Appendix D   Overview of SALB .....</b>	<b>D-1</b>
<b>Appendix E   Overview of Fixed Annuities .....</b>	<b>E-1</b>

# 1 | Executive Summary

Defined contribution (DC) plans have increased in importance in their role in providing retirement income for Americans, taking the place of defined benefit (DB) for many workers. Especially with the implosion of many pension plans, DC is rapidly edging out DB as one of the legs of the proverbial three-legged stool of retirement: Social Security, employer-sponsored pensions, and personal savings.

However, as DC places more control in the hands of the participant and moves away from the paternalism of DB, it often fails to provide the income guarantees of the legacy system. Annuities that mirror the guaranteed payments of DB plans may be available but are rarely implemented or encouraged, and few employers have useful systems in place to help employees think ahead to the issues of income planning for a long lifespan in retirement.

The regulatory system neither incentivizes nor creates an onus for income planning, leaving plan sponsors to their own devices to figure out what products or systems they ought to provide their employees. Despite the considerable hurdles to bringing income guarantees to the DC world, many people perceive it as an important social and financial mission, and the industry is abuzz with talk of guaranteed income.

In this context, we examine the development of products and programs designed to increase participant election of retirement income guarantees, whether in the form of a fixed annuity, variable annuity, or a standalone living benefit (SALB)—a contingent annuity that marries a variable style guarantee with a contingent fixed annuity.

This report is based on extensive field research of in-plan guarantee options during which we interviewed the manufacturers of each product covered in this report. Due to the dearth

of publicly available information on DC options, there is no definitive source for data on currently marketed products. However, we have made every effort to identify what is available and in good conscience present this report as complete. The report provides key characteristics of the products and market as well as reference to publicly available information on the internet in order to facilitate further research.

### Key Findings:

- Target date fund-based solutions are leading the vanguard of product development, largely because they are the primary lifecycle vehicle eligible for use as qualified default investment alternatives (QDIAs);
- As with earlier DC innovations, in-plan guarantees are not expected to gain broad acceptance until several jumbo plan sponsors adopt income guarantees and the Department of Labor/Treasury provide regulatory clarity;
- However, we also see unusually high implementation among smaller plans and see the evolution of this market as bifurcated into a small group of large sponsors with conviction and a large population of smaller sponsors;
- Inclusion of income guarantees among small plan sponsors does not correlate with high adoption by those participants;
- The interest of government agencies in this subject indicates both the acceleration of regulatory developments and an environment where income guarantees are supported, in turn suggesting that the compliance risks of adopting in-plan guarantees are lower than anticipated;
- The proliferation of products of varying design will continue and solutions have already emerged to respond to the market challenges.