The SECURE Act: Opening doors to lifetime income

What it now means for retirement plans

The imperative to improve retirement readiness for American workers got a strong push forward with the signing into law of new comprehensive retirement reform legislation. The Setting Every Community Up for Retirement Enhancement (SECURE) Act issued 30 provisions designed to help modernize the private retirement system. The SECURE Act in large part empowers retirement plan sponsors to revise plan design and policy in a variety of ways that open plans to more opportunities to help employees pursue lifelong financial security.

This paper considers the significance of the SECURE Act as a catalyst for the industry to better address gaps in employees' access to lifetime income solutions, opportunities to more actively engage in saving for retirement, and even the basic availability of employer-sponsored retirement plans.

The SECURE Act has far-reaching implications for the future of retirement plans. Importantly, the Act clearly recognizes lifetime income as a driver of overall financial confidence and retirement readiness among American workers. Employers, plan sponsors, and plan consultants are in a position now to review, refresh, and refine retirement plans in ways that advance the overall financial well-being and confidence of American workers by giving them more opportunity to build a path toward lifetime income.

Bridging today's gaps in retirement readiness

Americans lack access to in-plan options that can guarantee income throughout retirement.	Americans in general are not saving enough for retirement.	Not enough Americans have access to an employer-sponsored retirement plan.
25%	**40%**	**56%**
25% of plans include products that provide monthly retirement income[1]	40% of workers say their total savings is less than $25,000[2]	56% of workers without a retirement plan say they have less than $1,000 in savings[2]
The SECURE Act		
Promotes a path for increased access to lifetime income in retirement	Helps Americans save more for retirement with additional flexibility and choice	Creates the ability for more employees to participate in retirement plans

The SECURE Act includes progressive lifetime income-related provisions.

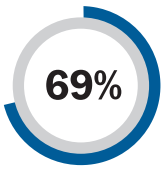
- Fiduciary safe harbor for the selection of a lifetime income provider, §204
- Illustrations of projected lifetime income, §203
- Portability of lifetime income options, §109

Making income the outcome

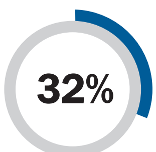
The industry has beat the asset accumulation drum for decades. Since 2008, however, people have wrestled with difficult consequences from this position.

For instance, investors principally following an accumulation strategy may have found that, in the aftermath of the 2008 market drop, the large sum of money they were pursuing may no longer have been enough to sustain spending for a financially comfortable retirement. Today, investors are talking about the risks associated with a non-diversified portfolio that has to support both savings and income.

Employers found themselves with an aging workforce reluctant to retire, not sure what their "magic number" should really be, let alone how to spend whatever money they had saved. During the past decade, the industry has come to appreciate just how much it must change course and adopt new ways of looking at, educating workers about, and preparing people for living comfortably in retirement.



of employees expect their employer's retirement plans to provide guaranteed monthly income[3]



don't know if those plans include an investment option that offers lifetime income[3]

The call today is for sufficient *income* as the desired outcome of a retirement strategy to enable the lifestyles today's workers would like to have. Several provisions in the SECURE Act offer the opportunity to begin to build in—or expand existing—lifetime income solutions by way of in-plan annuities. Lifetime income options added to defined contribution plans can generally create the kind of experience that defined benefit plan participants have always had.

Among the not-for-profit sector, sponsors of defined contribution plans have long offered investment options that provide for lifetime income. The for-profit sector, on the other hand, has been less embracing of this position.

Plan sponsors in the for-profit sector will need to more fully appreciate the growing importance of offering lifetime income solutions, and what that means to them in terms of how to modify plan design to accommodate those solutions. For instance, plan sponsors should better understand the characteristics of annuities, in much the same way they do mutual funds, to gain an appreciation of the benefits of not only offering guaranteed income in retirement, but also of the additional advantages of saving within annuities during the working years.

Plan sponsors have new choices to consider

The SECURE Act recognizes the criticality of income in retirement and makes it easier for plan sponsors to include lifetime income options in their retirement plans. For example, the safe harbor provision for selecting annuity providers (§204; effective immediately; applies to 403(b), 401(k)) provides plan sponsors with the guidance they need to meet their fiduciary requirement to assess the financial capability of insurers to meet guaranteed income obligations. Under this provision, defined contribution plan fiduciaries can rely on representations from the insurer issuing the annuity regarding the strength of their financial position and other attributes. With the fiduciary onus being shifted to the issuing company, plan sponsors and consultants may more willingly consider using lifetime income-providing annuities in a plan's lineup.

Consider how safe harbor provisions in the Pension Protection Act of 2006 (PPA) helped instigate the use of target-date funds in defined contribution plans. The PPA granted plan fiduciaries a safe harbor in the form of a qualified default investment alternative, naming target-date funds as an option. Based on several factors including cost and ease of use, target-date funds saw a steady uptake among plan sponsors.

Similarly, with the government "blessing" of a safe harbor provision through the SECURE Act, we should again expect a steady increase in interest in—and, presumably, the use of—insurance products (e.g., fixed annuities, variable annuities, guaranteed lifetime withdrawal benefits [GLWBs], qualified longevity annuity contracts [QLACs]) among defined contribution plans. As before with the PPA, we can expect plan fiduciaries in the new SECURE Act environment to seek out simplicity, ease of use, and low costs. Corporate employers may increasingly look to the not-for-profit sector for guidance on this front. Ultimately, this will help push more innovation in the space for providers to meet the needs of new customers.

Benefits	Attributes	Fixed annuity*	Variable annuity*	Guaranteed lifetime withdrawal benefit (GLWB)	Qualified longevity annuity contract (QLAC)
While saving for retirement	Employee's balance in the product receives guaranteed rate of return	Y	N	N	N/A
	Allocation to the product serves as an interest rate hedge	Y	N	N	N/A
	Directly participates in potential equity market upside	N	Y	Y	N/A
Lifetime income in retirement	Provides employees the option to receive guaranteed income for life that's protected from market volatility	Y	N	Y	Y
	Potential for lifetime income payments to increase periodically after payments begin	Y	Y	Y	N
	Lifetime income payments generally greater than 5% at age 65	Y	Y	N	N
	Amounts supporting lifetime income accessible for withdrawal after payments begin	N	N	Y	N
Non-lifetime income options in retirement	Fully liquid for lump-sum, systematic withdrawals, and required minimum distributions	Y	Y	Y	N/A
	Unwithdrawn account balance in retirement protected from market downturns	Y	N	N	N/A

*In-plan annuity options

Outfitting a plan for savings and income diversification

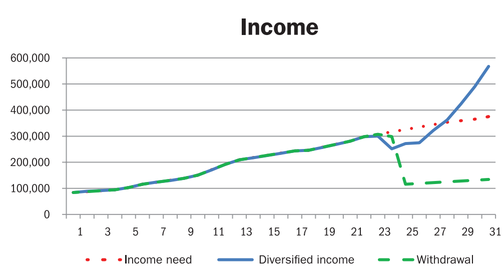
Refining plan design to include annuities can provide an exceptional complement to a diversified retirement strategy. Annuities offer advantages during accumulation as well as the opportunity for lifetime income.

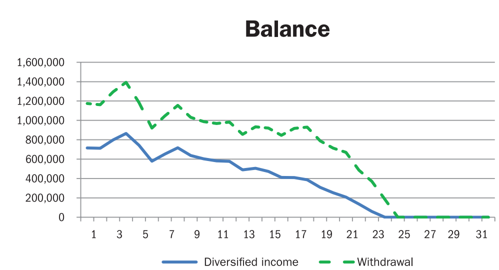
In-plan annuities solve for the common perception that annuities are too expensive to be a viable option. Retail annuities average about 250 basis points; institutionally priced in-plan annuities run about one-fifth of that cost, roughly 50 basis points or less.

In-plan annuities offer a degree of flexibility that employees want. Guaranteed and variable annuities provide a variety of income options that, when included with other income sources (e.g., Social Security, systematic withdrawals from mutual funds) can deliver higher overall income versus a typical withdrawal strategy. This is based on the mortality risk pooling features that are at the heart of payout annuities.

TIAA examined the impact of diversifying an income plan by adding annuity income to investment portfolio withdrawals and income from Social Security/pensions.[4] The scenarios below account for retirement income and account balances relative to a desired retirement income amount. One line tracks the pure investment-withdrawal option; the other tracks income that includes annuities.

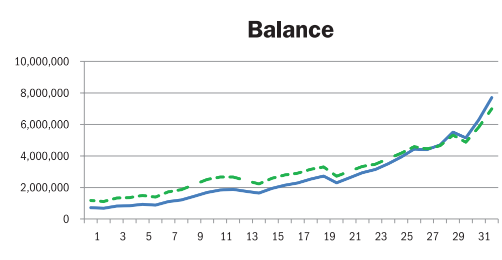
Scenario 1: Down stock market, high inflation
In this model, retirement begins when markets are down and inflation is high. During the next 30 years, the account balance is depleted. However, a diversified income plan provides the "insurance" of having fixed and variable annuities, generating a higher income floor even when the account balance is depleted.





Scenario: 1970–2000

Scenario 2: Up stock market, low inflation
In this model, retirement begins in a relatively strong market with low inflation. Early in retirement, the pure withdrawal method provided a higher balance, but over time the diversified income plan closes the gap and eventually surpasses the pure withdrawal method.



Scenario: 1990–2020

"Market proofing" retirement

Historically, regardless of the cause of volatility, markets have generally proved resilient over the long term. Despite increased volatility, investors should avoid making sudden changes to their portfolios and instead focus on adhering to a plan that is tailored to individual long-term goals, investment objectives and risk tolerance. Investors may look to "market proof" options, such as fixed annuities, to safeguard a portion of savings and diversify a retirement income portfolio.

Employees have the opportunity to explore and set up a variety of income strategies that can suit the lifestyle they want—and change with them as their lives change. Annuities can provide them with the confidence of income for life and should be considered as one of the tactics in a diversified retirement income plan.

Plan sponsors and consultants can also consider the opportunity for incorporating a lifetime income component into new default investment solutions, a best-practice solution that can help give access to guaranteed income to those who do not proactively engage in their retirement planning.

Even as target-date funds provide a secure stable path, the retirement industry is gearing toward hybrid funds.

PLANSPONSOR, November 2019

Target-date funds

- Simple to use
- Participants select a fund based on year they will retire

Custom default solutions

- Simple to use
- Lifetime income potential
- Combines wealth accumulation and income replacement

TIAA modeling has illustrated how including a guaranteed investment component such as a fixed annuity in a target-date arrangement can help provide a level of certainty, protection and stability that previously hasn't been broadly available. For instance, balances allocated to the guaranteed investment component will grow every day at pre-defined interest crediting rates that will always be greater than or equal to a guaranteed minimum rate between 1% and 3%. The guaranteed investment component may then offer the option for participants to use some or all of their accumulation to purchase a stream of income that they can never outlive.

Beyond the menu: Addressing gaps in access to retirement plans and promoting more engagement

Several provisions of the Act further promote engagement in retirement plans and encourage improved saving behaviors.

TIAA has been a leader in illustrating projected lifetime income, having provided this information to participants on quarterly account statements for decades.

Lifetime income illustrations must be included on benefit statements (§203)
Seeing a projection of how a dollar-figure accumulation breaks down into monthly payments can significantly inform a plan participant's outlook on how well-prepared they may be for retirement. Income projections on regular account statements can illustrate the amount the participant could receive in a monthly payment if the participant's total accrued benefits under the plan were used to provide lifetime income. Two scenarios are to be illustrated: lifetime income through a single life annuity, and lifetime income through a qualified joint and survivor annuity, assuming the participant has a spouse of equal age.

Not yet effective; applies to 403(b), 401(k).

Portability of in-plan lifetime income investments (§109)
The flexibility to move a retirement savings balance with a job/employer change can help employees feel more confident in using annuities as part of their retirement strategy. The provision allows for active employees who change jobs or those who retire to take a distribution of a lifetime income investment if the employer decides to remove the investment from the plan's menu. Employees can move a lifetime income investment using a direct rollover to an IRA, conversion to an individually owned certificate, or potentially even to another retirement plan.

Effective for plan years beginning after December 31, 2019; applies to 403(b), 401(k), 457(b), IRAs.

Increase the required minimum distribution start age to 72 (§114)
With an increase in life expectancy comes the real possibility of people living longer in retirement than ever before. Providing an increase in the required minimum distribution age allows for the potential of savings to continue to grow before distributions are required.[5]

Effective with distributions required to be made after December 31, 2019, with respect to individuals who attain age 70½ after 2019 (born after 6/30/1949); applies to 403(b), 401(k), 457(b), IRAs.

Allow post-70½ IRA contributions (§107)
The Act repeals the prohibition on individuals age 70½ from making non-rollover contributions to traditional IRAs. Although certain qualifications apply, this provision opens the possibility for continued savings toward retirement. The exclusion for qualified charitable distributions would be reduced (but not below zero).

Effective for taxable plan years beginning after December 31, 2019; applies to IRAs.

Increases access to "open" multiple employer plans (MEPs) (§101)
Allows unrelated employers to participate in a MEP that would be treated as a single plan for ERISA and code purposes. In a time of increasing government oversight and compliance, mitigating fiduciary risk can ease the burden on organizations. A MEP combines investment policy statement development, investment lineup assistance, investment selection and monitoring, ongoing reporting, payroll integration, and more. Participating organizations delegate fiduciary responsibilities to an experienced ERISA 3(16) plan administrator and ERISA 3(38) investment adviser. Further, a MEP, through its shared service providers, can offer strong participant support to help promote employee financial literacy and responsible savings strategies.

Effective for plan years beginning after December 31, 2019; applies to 401(k).

Early withdrawal penalty relief
The CARES Act, the financial stimulus legislation enacted in March 2020, includes a provision that allows for a “coronavirus related distribution” (CRD) from qualified retirement plans, including IRAs and 401(k)s. Participants may withdraw up to $100,000. Significantly, the CARES Act waives the 10% early distribution penalty for CRDs taken between January 1, 2020, and December 31, 2020.

Permit plan withdrawals for birth or adoption (§113)
Creates a new, optional distributable event for births or adoptions taken within 1 year of the birth or adoption. This provision exempts such distributions from the 10% excise penalty tax and allows the amount withdrawn to be repaid to the plan without regard to 60-day time limit for rollovers. Participants can make tax-free withdrawals of up to $5,000 for each birth or adoption.

Applies to distributions made after December 31, 2019; applies to 403(b), 401(k), 457(b), IRAs.

Taking steps to evaluate plan design and consider modifications

The many provisions of the SECURE Act present an opportunity to review your retirement plan objectives and plan design, make adjustments that may attract, retain and engage a more diverse group of employees, and ensure your participants are aware of lifetime income and savings solutions.

TIAA has taken a leadership role in supporting retirement reform legislation and applauds the passing of this important act. We will continue to monitor the developments of how DOL provides guidance on the SECURE Act provisions so that we can work accordingly with plan sponsors and consultants.

With more than 33,000 annuitants over age 90 receiving income from us today, we have seen many examples of how guaranteed income in retirement enables individuals to be more financially confident today and throughout retirement. Let’s talk more about the opportunity you now have to improve employees’ retirement readiness with an option for lifetime income.

- **Plan sponsors:** Contact your TIAA Relationship Manager. If you are served by the Administrator Telephone Center, consultants are available at **888-842-7782**, weekdays, 8 a.m. – 8 p.m. (ET).
- **Plan consultants:** Contact the TIAA Consultant Relations team.

Access the latest SECURE Act updates: **TIAA.org/public/plansponsors/secureact**

As you explore what the SECURE Act means to your plan, keep in mind:

- Which of the provisions of the SECURE Act will have the most impact on your plan and how you can address them.
- How you can modify plan design to accommodate new ways of engaging employees, encouraging savings, and promoting a diversified strategy for retirement income.
- The value that in-plan annuities can offer to both plan fiduciaries and employees.
- How integrating a guaranteed investment component in a target-date arrangement can improve your plan default investment by layering in a lifetime income feature.
- Your legal and tax counsel can provide guidance on implications and timelines.
- How to work with and through your plan investment committee and other stakeholders as you consider and adopt new plan design features.

[1] Building retirement income into investment menus. TIAA Lifetime Income Survey, September 2019

[2] Employee Benefit Research Institute, 2019 Retirement Confidence Survey, "RCS Fact Sheet 3: Preparing for Retirement in America," April 2019

[3] TIAA Lifetime Income Survey, September 2019

[4] TIAA analysis assumptions: Client-projected income was back tested over 30 years; variable annuity (VA) returns were equal to CREF Stock; non-annuitized assets were invested 60/40, with 60% in CREF Stock and 40% in a bond fund with a 70/30 mix of U.S. government and corporate bonds; actual performance and inflation rates were used in all years; analysis used the current "new money" rate for TIAA Traditional; TIAA Traditional income was kept level; assumes all income is spent by participant; for joint life expectancy, analysis used Social Security Trustee Report numbers (alternative 2, mid-level projection). Past performance is no guarantee of future performance.

[5] The CARES Act, enacted in March 2020, includes a provision to suspend required minimum distributions for 2020.

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