While many sponsors talk about infusing their defined contribution plans with lifetime income strategies, Yale University, New Haven, Conn., has already acted.

The university’s four defined contribution plans – three 403(b) plans and one 457(b) plan – now offer a custom target-date series, Target-Date Plus, that includes a guaranteed annuity within the qualified default investment alternative.

The QDIA and the target-date series, part of a major restructuring of the Yale DC plans, prompted judges to bestow an Innovation Award to Hugh Penney, senior adviser for benefits planning, and Kate Castello, associate director for retirement planning.

“The major challenge was building it,” Mr. Penney said.

Another challenge was communication, as Yale officials held “dozens of town halls” on campus and developed a detailed guide “that explained all the moving parts,” he added.

The “vast majority” of comments about the restructuring was positive, he said. “We were prepared for a lot of resistance but we got the opposite.”

Yale has created a new retirement system that accommodates the different needs of 15,000 active participants and 12,000 retirees among the four plans with aggregate assets of $6.5 billion. Some participants have more than one account.

“Our program has been adapting and transitioning over time,” said Mr. Penney, noting that Yale consolidated plans’ record keeping in 2015, making TIAA-CREF the sole record keeper.

The university restructured investment lineups in November 2018. The plans now have 11 core investment options — down from 112 — for participants not investing in the QDIA. The plans also added a self-directed brokerage account.

Yale re-enrolled all participants of all four plans into the QDIA in March 2019. Approximately 5% have opted out.

“Their rollout was well done to retain such high participation in the new options,” one judge wrote.

Target-Date Plus features three risk profiles, ranging from conservative to aggressive, for each target-date vintage. Yale also conducted a risk assessment for participants through questions about risk comfort levels and retirement savings outside of university employment.

The university also tailored Target-Date Plus allocations to different types employees. For example, employees also enrolled in a defined benefit plan have their DC plan glidepaths more heavily weighted in equities. Faculty members, who don’t have a DB plan, have an investment glidepath more balanced between equities and fixed income, Mr. Penney said.

Target-Date Plus was designed in conjunction with TIAA-CREF, the plans’ record keeper, and Aon, the plans’ investment consultant.

When Yale conducted its planwide re-enrollment, it gave participants a choice on how to use the QDIA. If they took no action, they would be defaulted into the Target-Date Plus model portfolio closest to their projected retirement age. If they wanted to answer a few questions about their investment style and/or change in their projected retirement date, they could “personalize” their model portfolio.

Each year, Yale will look at the plans’ underlying investments, the target-date series glidepaths, the outcomes and the participants who remain invested in the QDIA, Mr. Penney said.

“Incorporating annuities/lifetime income solutions into a QDIA is the way the world is moving with the demise of pension plans,” one judge wrote. “I hope to see investment managers look at what Yale has done when they innovate new products for corporate plan sponsors. This solution is what every corporate 401(k) plan needs.”
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