Lifetime Income Statements

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In 2019, the SECURE ACT amended the section of ERISA that requires participant benefit statements as well as what must be contained in statements to be distributed to participants and beneficiaries. The amendment required that participant account balances in defined contribution plans be expressed as both a life annuity and a qualified joint and survivor annuity (QJSA), in addition to the other mandated disclosures. The intent was to better inform participants on the options of annuities that will provide a stream of monthly income after retirement.

The new regulation applies to defined contribution plans even if annuities are not allowed as a form of distribution in a company's plan document. This may cause confusion for participants who do not have the annuity option in their plan. The regulation became effective September 18, 2021, so at least once a year benefit statements that are issued after that date must contain the required disclosures. Most balance forward plans are maintained on a calendar year basis so these disclosures will be included with their December 31, 2021 participant statements. Most daily valued plans will be incorporating in the June 30, 2022 statements that will be issued this July. The new disclosures must be distributed with participant statements at least every 12 months thereafter and some daily recordkeepers may choose to include with each quarterly statement going forward. Plan sponsors, fiduciaries and others are shielded from liability arising out of such disclosures, as long as they comply fully with the new regulation.

Some of the assumptions that the DOL requires providers to use to prepare the Lifetime Income disclosure:

- *Retire at age 67.* Monthly payments will begin at age 67, the full Social Security retirement age for most workers. There is no adjustment if the participant wants to retire at age 65 or wait until age 70.
- *One-size-fits-all mortality.* Life expectancy will be measured using the unisex IRS tables. Statistically speaking, however, women live longer than men which may overstate the payments women can expect and understate that of men.

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- *Two Payment Estimates*. The DOL rule requires two different monthly income estimates: one for a single life annuity and one for a joint and 100% spousal survivor annuity beginning at age 67. They are assuming that the participant and spouse are the same age and are married. Personal circumstances at retirement are not addressed such as the participant being single at retirement.
- *Use a conservative discount rate*. All plans will have to use the 10-year constant maturity Treasury securities yield rate. The DOL intentionally chose this benchmark because it uses a somewhat-lower rate that will, in turn, yield modestly lower monthly payments and maybe account for administrative and other costs associated with the annuities.

In my opinion, the DOL's conservative estimates may discourage participants from even trying to save since it does not include future investment returns or factor in inflation. For example, a 30- and a 50-year-old participant with identical account balances will see the same age-67 projected monthly payments on their statements. They also do not allow you to factor in future contributions into the required disclosure so annuity amounts look small for newer and younger participants with smaller account balances. Younger participants may think it is not worth participating in the 401(k) plan at all if their estimates are so low.

The goal was to encourage participants to save more and, at retirement, consider buying an annuity to generate a stream of monthly income with at least a portion of their balances. The feedback we have received from our clients has been much different. Even though accompanying the annuity illustration will be an explanation of how to read and use the estimate, the average participant may not understand or take the time to read two-pages of legal language. Getting participants to read a one-page statement is difficult. While I applauded their effort, I think the outcome will be much different.

While it appears that the new requirement is not the best way to present information to participants, it may encourage participants to ask more questions and really start to think about their retirement income. The majority of participants in 401(k) plans have access to retirement calculators that will more closely model their retirement savings goals. Most recordkeepers have sophisticated retirement calculators that will give the participants a better idea if they are going to have enough saved for retirement. Many of the calculators allow the participant to include household status, salary and retirement savings, supplemental retirement income (such as a pension or Social Security), how long they intend to work and expected lifestyle as a retiree. Many organizations such as AARP that deal with retirees will also have calculators. These tools are easy to find and will help participants to determine the amount of money they will need to retire with the lifestyle they desire.

This author recommends that companies and their financial advisors incorporate education on these new disclosures into their overall education package so that participants truly understand how to read and interpret them or where they can go to find additional information to supplement calculations for their own personal situation.

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