GEORGETOWN UNIVERSITY

McCourt School *of* Public Policy

Center for Retirement Initiatives

Webinar | June 24, 2020

COVID-19 & Income Protection: The Case for Innovative Lifetime Income Strategies

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Our Panel:

Brendan Curran, CFA, Managing Director, Head of U.S. DC Investment Strategy, State Street Global Advisors
Kevin Hanney, Senior Director, Pension Investments, Raytheon Technologies Corporation (RTX)
The Honorable Seth Harris, former Acting Secretary and Deputy Secretary, U.S. Department of Labor
David C. John, Senior Strategic Policy Advisor, AARP
Tamiko Toland, Head of Annuity Research, CANNEX USA
Han Yik, Head of Institutional Investors, World Economic Forum

Moderator:

Angela M. Antonelli, Executive Director, Georgetown Center for Retirement Initiatives

Seth D. Harris

Seth Harris Law & Policy,

Cornell Institute for Public Affairs &

Alliance for Lifetime Income

What Are Potential Characteristics of "21st Century Pensions"?

- **Supplement Social Security income** which ≈ 40% pre-retirement income replacement, on average
- **Predictability** = professionally managed by fiduciaries; reduces *"investor behavior risk," "market risk,"* and *"sequence-of-returns"* risk
- **Regularity** = every week, two weeks, or month; no *"withdrawal risk"*
- **Visibility** = disclose any gap between income and spending; exposes *"overspending risk"* and *"underspending risk"*
- **Reliability** = last for a lifetime; solves *"longevity risk"*

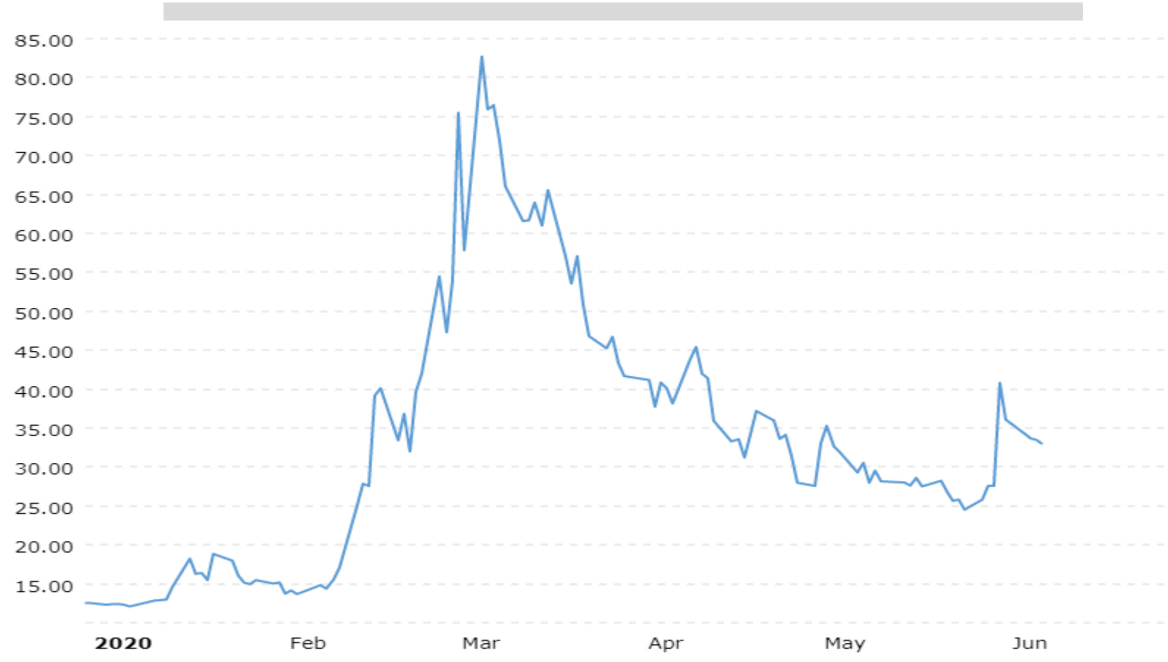
Pre-Pandemic Pension Gap Combined with Pandemic-Driven Market Volatility

The Imputed Pension Gap:

- **1975** = 32% of U.S. private-sector employees had *pension plans.*
- **2016** = around 9% of U.S. private-sector employees had *pension plans.*
- **If % in 2016 = % in 1975:**
  - almost 51 million employees would have had pensions
  - ***37 million more workers than have pensions today*** (23% of the pre-pandemic workforce)
- **86% of state and local government employees have pension plans in 2019** (11% of the pre-pandemic workforce)

Epic Market Volatility During the COVID-19 Pandemic:

(VIX Volatility Index as of 6/22/20)



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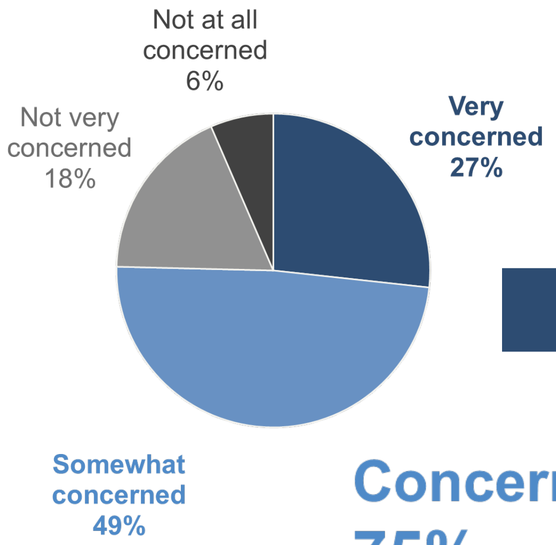
Survey Question: Effect of Current Economy and Investing Environment from COVID-19 on Retirement Investments

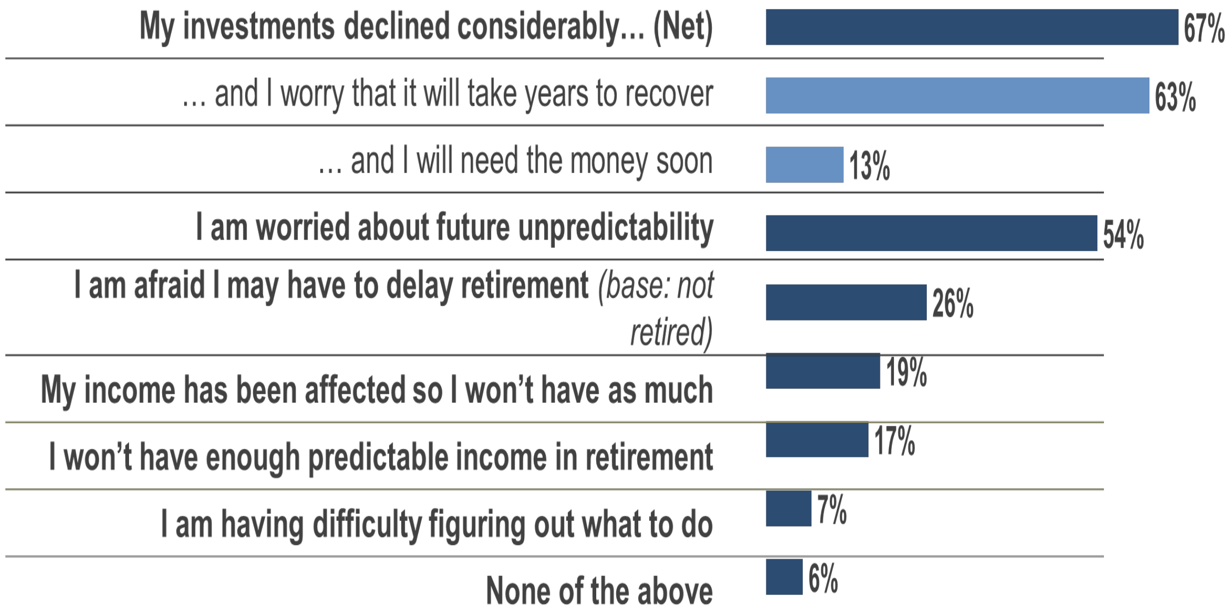
(Alliance for Lifetime Income COVID-19 Retirement Reset Tracker Report, May 2020)



Concerned (NET) 75%

Reason(s) for

Among those somewhat or very concerned



Change is Coming with Respect to Annuities

SECURE Act

Two provisions directly aimed at adding protected lifetime income to employer-sponsored defined-contribution plans:

- Mandates Lifetime Income Illustrations (based on annuity)
- Adjusts the "safe harbor" for fiduciaries choosing to include annuities in their plans

Annuities in Employer Plans

- May take some time
- Likely won't be identical to annuities in the individual market
- Must address the predominance of Qualified Default Investment Alternatives
  - 86% of QDIAs are target date funds (Callan)
  - Driving dramatic growth in target date fund investments

Tamiko Toland

Head of Annuity Research

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Simply Reliable Data™

GREENWALD & ASSOCIATES

2020 Guaranteed Lifetime Income Study

Practices, Attitudes, and Perceptions of Consumers and Advisors

2020 Guaranteed Lifetime Income Study
Greenwald & Associates and CANNEX

- **Consumer Survey**
  - Sixth year of fielding
  - 1,000 online interviews
  - Respondents between 55 and 75 years old
  - Minimum households assets of $100,000

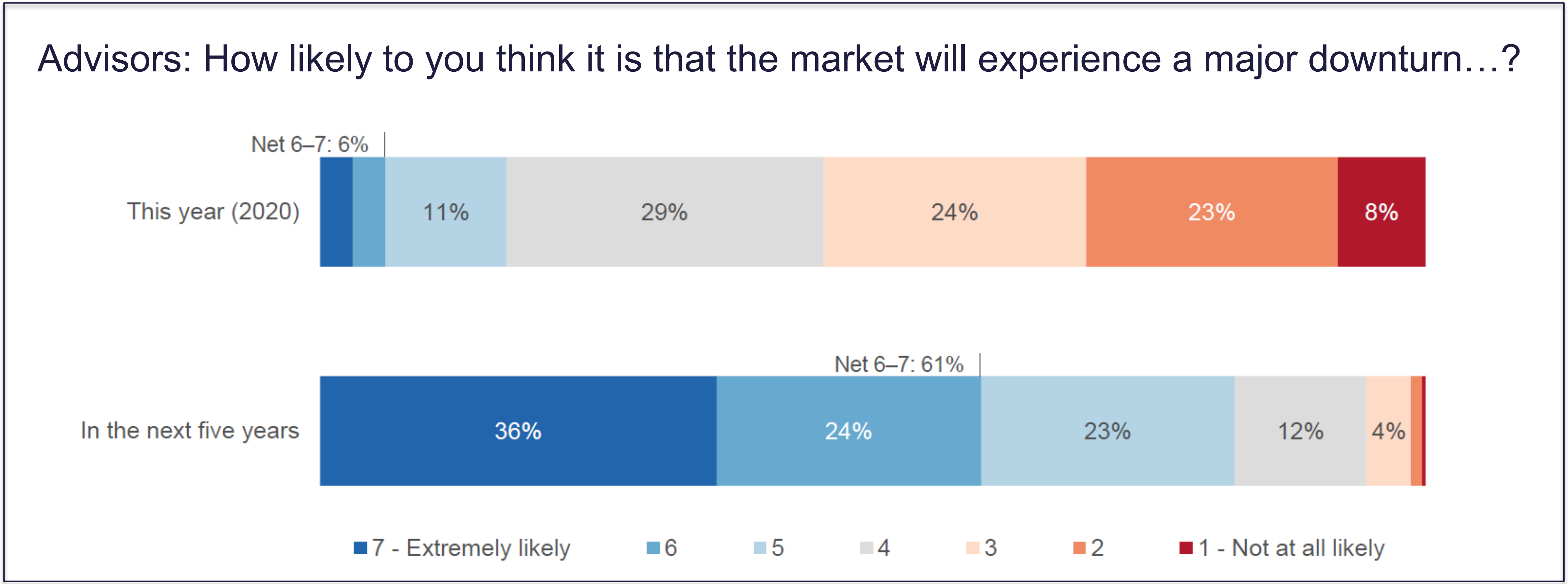
- **Advisor Survey**
  - Second year of fielding
  - 302 online interviews
  - Minimum three years of experience
  - Minimum $15 million in assets under management
  - At least 50% of clients are age 55 and over
  - At least 50% of income from work with individual clients

- **Top Ten Findings, Data Supplement Available Online**
  - http://www.cannex.com/index.php/2020-gli-study-u-s/
  - https://greenwaldresearch.com/glis/

- **Summer Focused Refielding**
  - Opportunity to determine effect of COVID-19 on attitudes to guaranteed lifetime income

Few Advisors Expected a Market Downturn in 2020

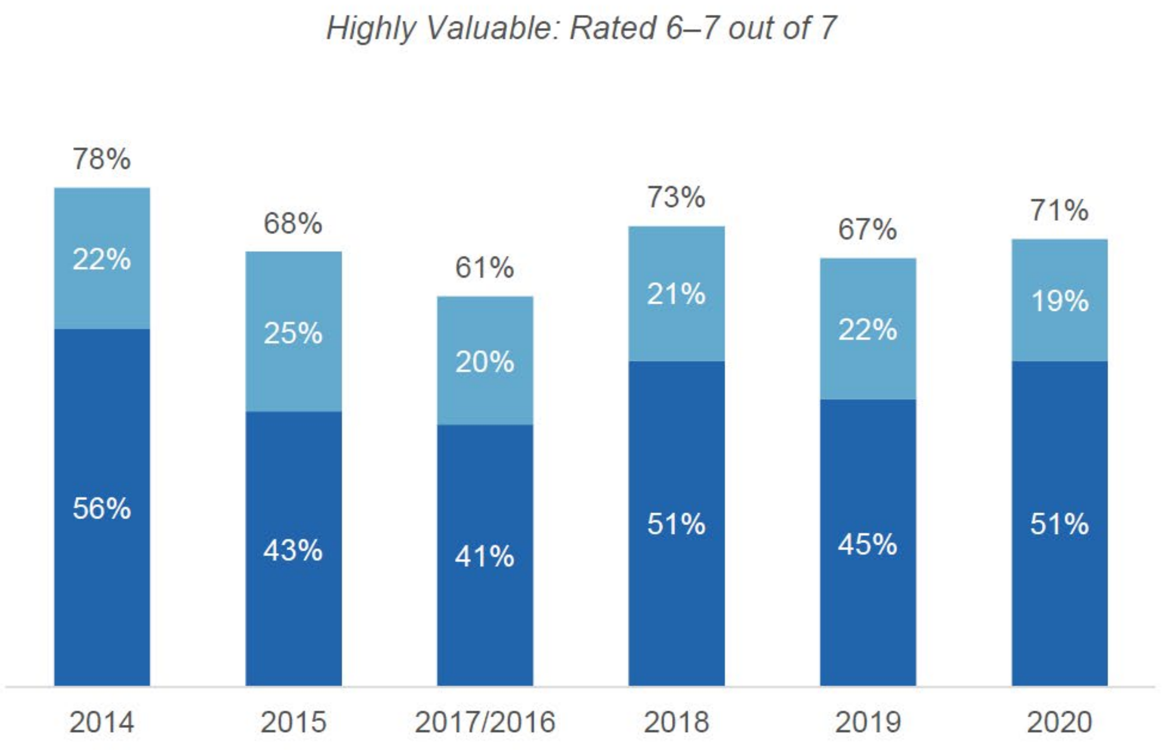
- **We fielded this question in February, weeks before the market crashed in March, 2020**
- *Planning, planning, planning*

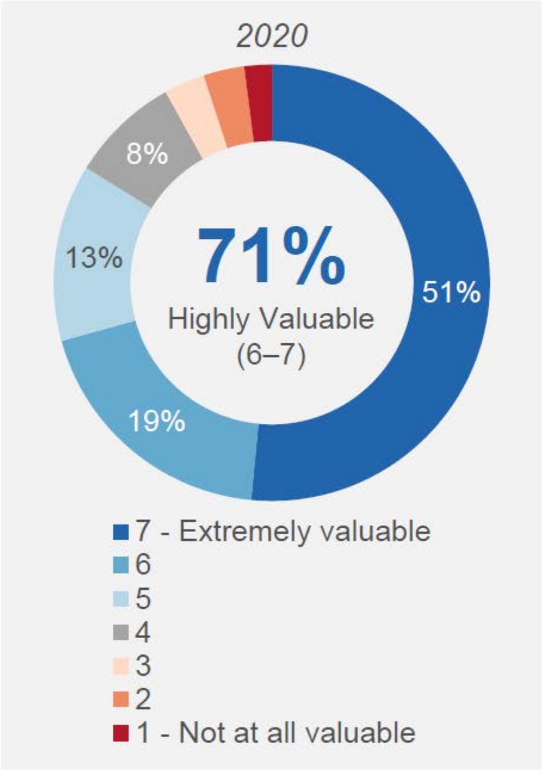


Guaranteed Lifetime Income Beyond Social Security is "Highly Valuable" to Most Consumers

- Highest results among: women, those with lower assets, those with an advisor, and those who heard positive things about annuities

How valuable is it to you to have guaranteed lifetime income in addition to Social Security in retirement?





Stigma Around the Name Annuity Remains

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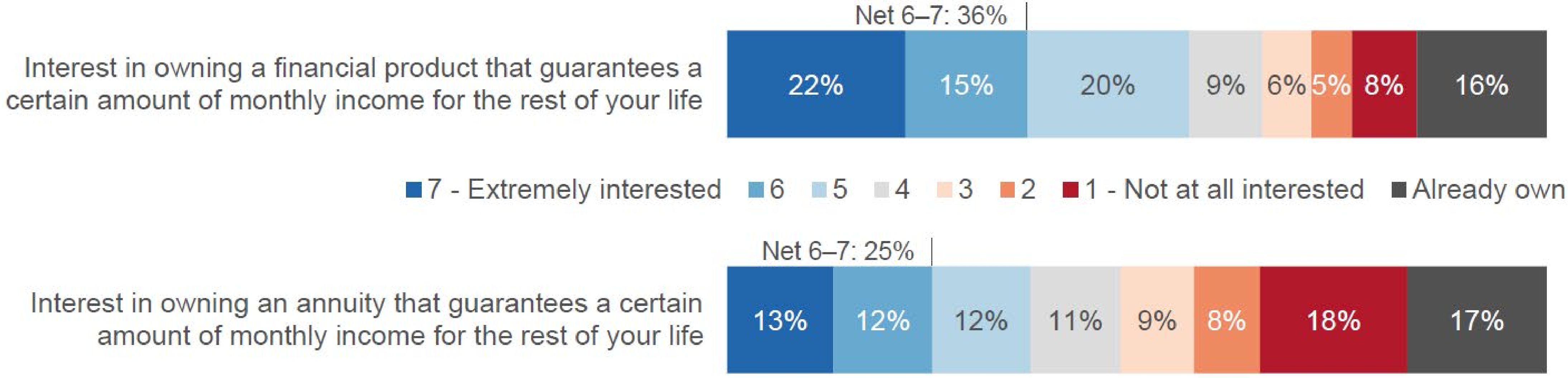
- **One-third (33%) of respondents who expressed interest in a financial product that guarantees lifetime income became LESS interested when asked about owning an annuity.**

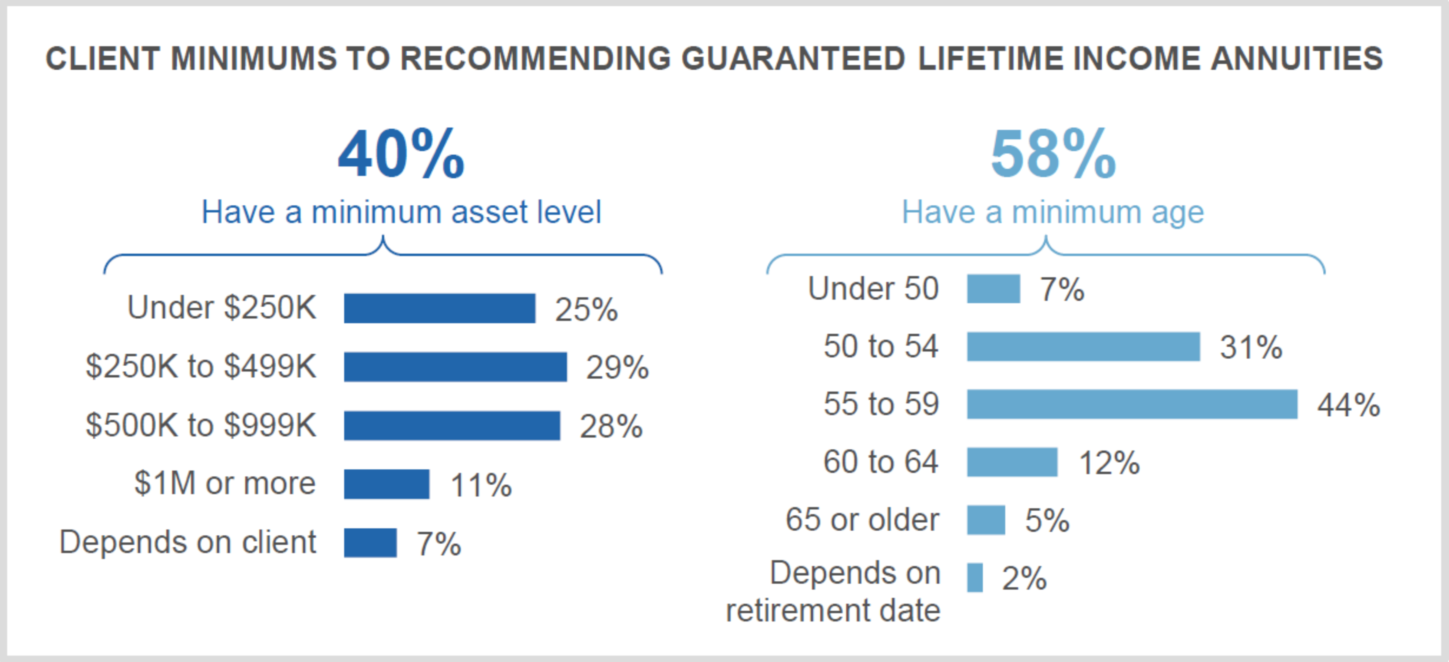


33% of respondents decreased interest when GLI product is described as an annuity (vs. 35% in 2019).

Those whose interest decreased dropped their interest rating from an average of 5.2 for the unnamed product to 3.1 for an annuity.

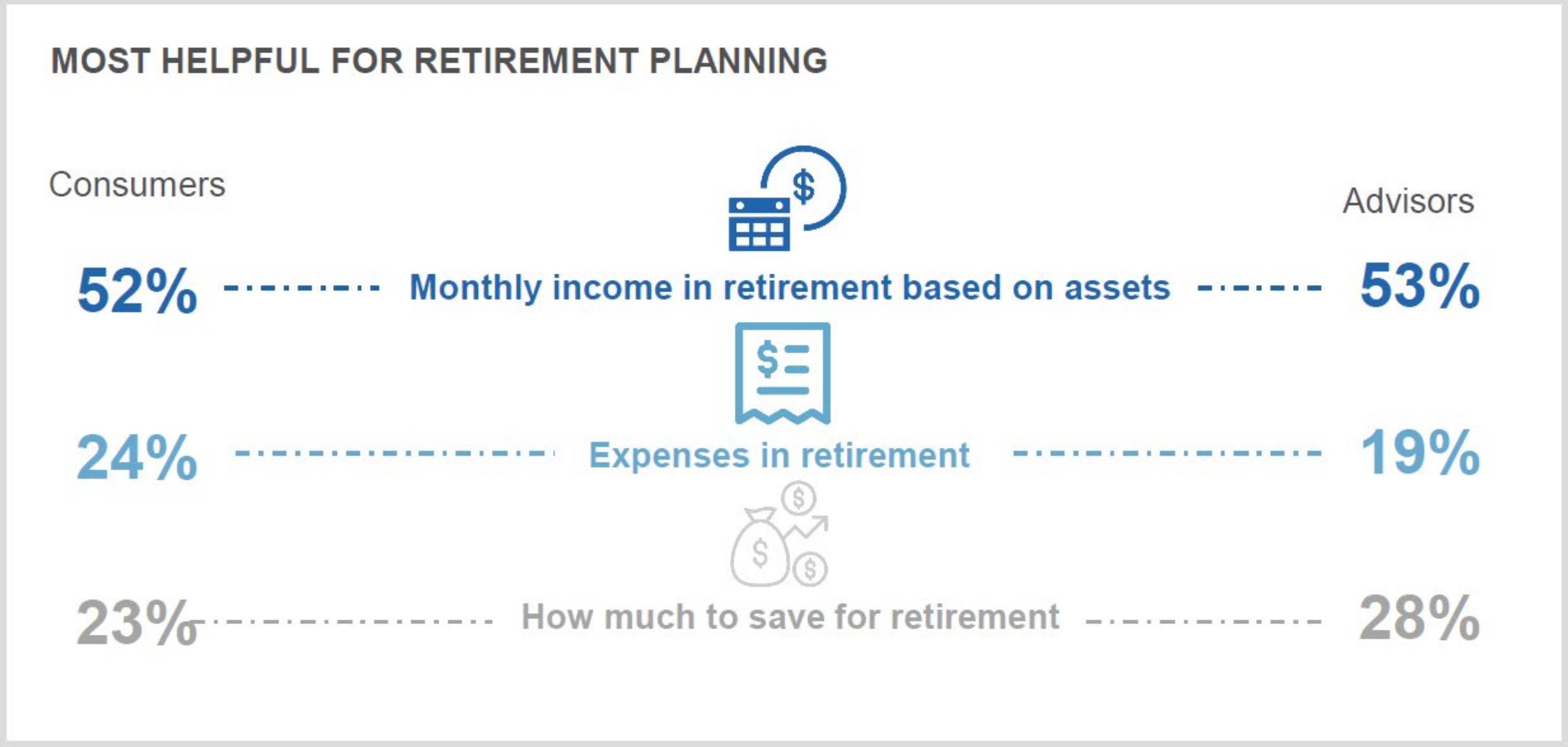
Clients May Have to Meet Minimum Asset, Age Requirements

- Clients with lower asset levels are more interested in an annuity yet may not be offered one
- Advisors may not believe that an annuity is appropriate for people with less savings (economic utility)
- Furthermore, distributors often establish compliance guardrails of lower and upper limits outside of which there are extra hurdles



Half of Advisors and Consumers Agree that an Estimate of Monthly Retirement Income Is Most Helpful

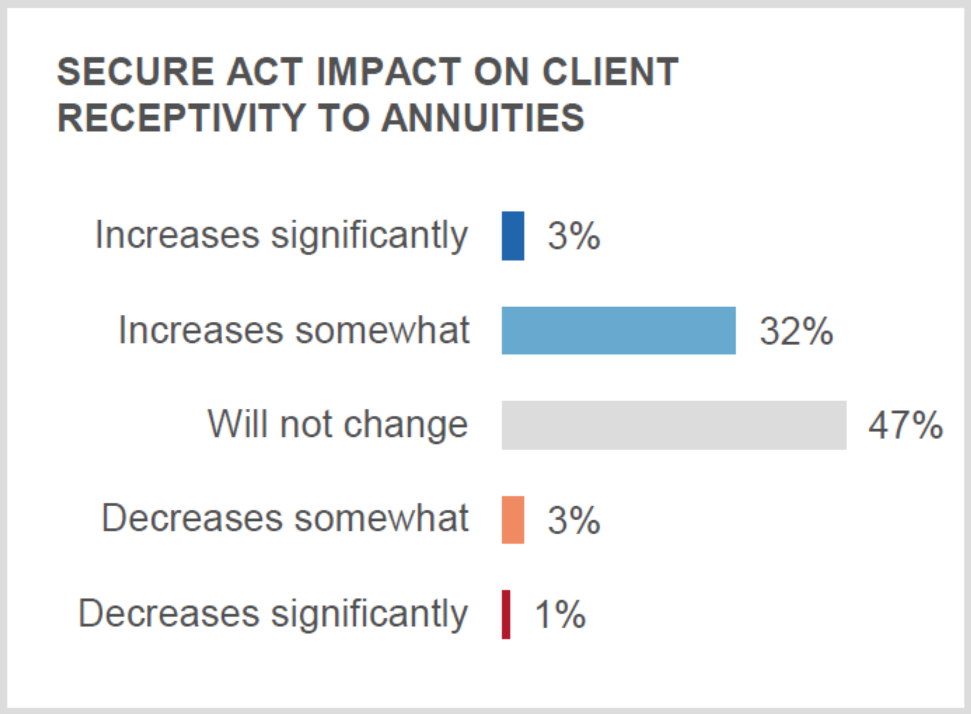
- Validates the use of income estimates that will be required under the SECURE Act
- Among consumers who find it useful, more calculate it on their own than get a figure from their advisors



SECURE Act Will Increase Client Receptivity to Annuities

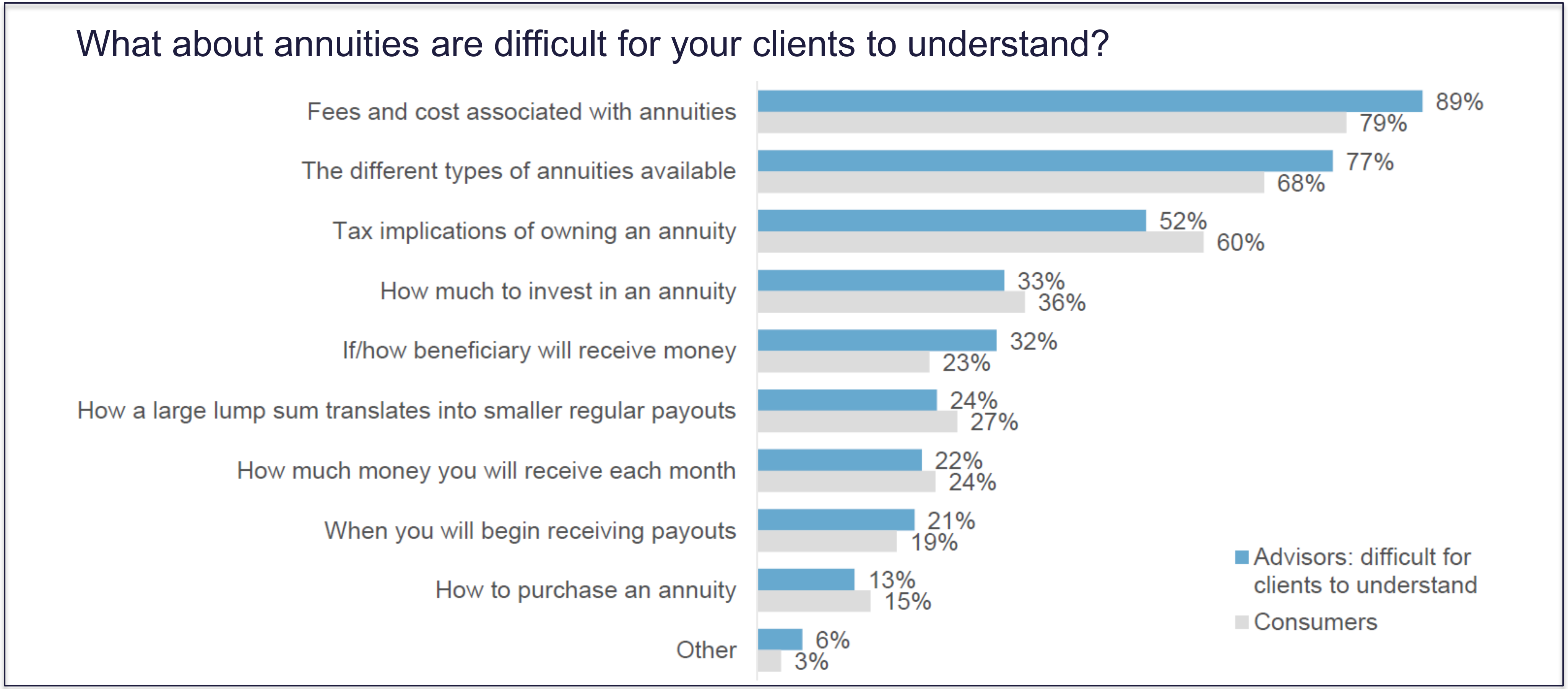
- SECURE Act framework enhances the legitimacy of the product
- Receptivity within the defined contribution space may be greater than we see in the retail environment

Advisors Predict:



Fees, Complexity Pose Hurdles

- Simplify offerings and structures
- Ample, consistent consumer education and a robust process at the point of retirement



Questions?

- Full report and sponsorship of future studies
- For follow-up, please contact:

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Brendan Curran, CFA

Managing Director, Head of U.S. DC Investment Strategy

State Street Global Advisors

The Retirement Income Journey

The Case for Retirement Income

"I fondly remember the time before the money ran out."

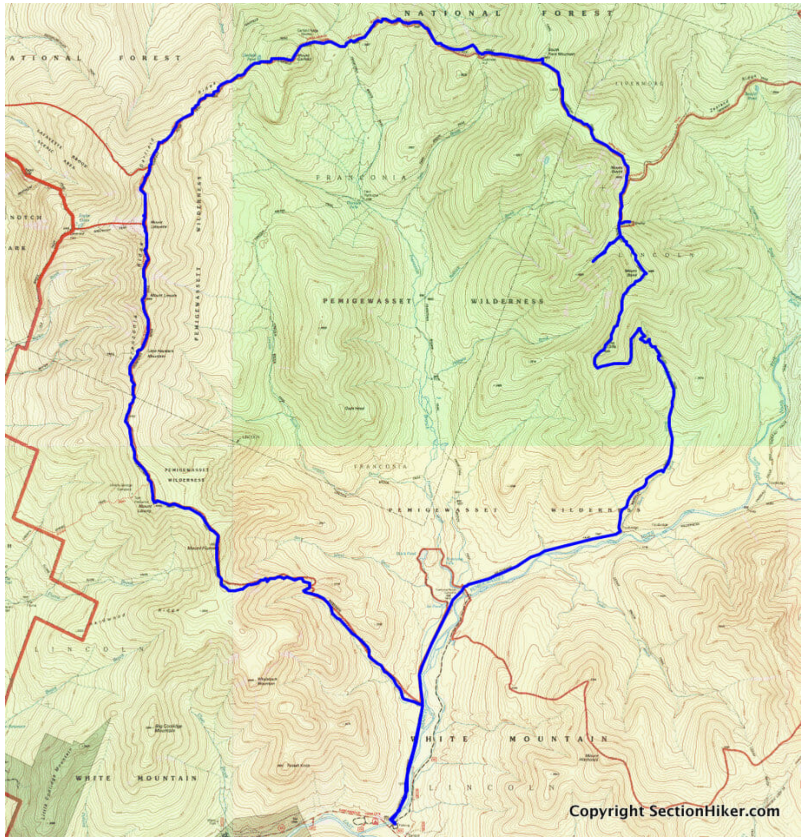
For illustrative purposes only. Rights to image secured for one year until May 17, 2021.

76% of responders would value an employer provided retirement income solution (GR3)

Source: State Street Global Advisors, Global Retirement Reality Report © 2018, n=1657

The Journey:

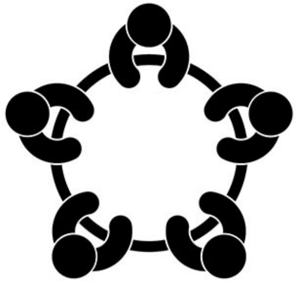
Hiking the Pemi Loop



STATE STREET GLOBAL ADVISORS

Stakeholder Engagement

Education, Engagement & Action



Stakeholder Engagement

Building enthusiasm and alignment amongst interested parties

- Education
- Engagement
- Action

Packing the Essentials

Selecting the right tools for the journey ahead

- Liquidity vs. security
- Seamless journey
- Cost must reflect value

Educating the Hikers

Communicating for a successful hike

- Collaboration is key
- Emphasize multiple touch points along the way
- Demonstrate value

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Web: www.ssga.com Tracking Code: 3029638.3.1.AM.RTL

Expiration Date: September 30, 2020

Kevin Hanney

Senior Director, Pension Investments

Raytheon Technologies Corporation (RTX)

Raytheon Technologies

Georgetown Center for Retirement Initiatives

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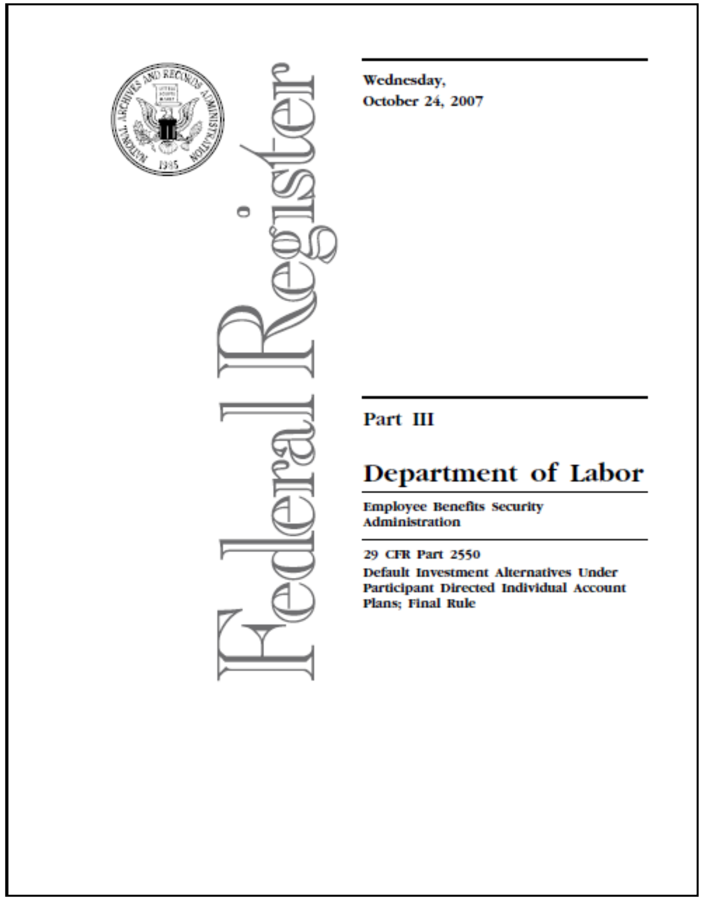
June 24, 2020

Qualified Default Investment Alternative (QDIA) Safe Harbor Rules

From the Preamble to the Final Rule:

- "…The [Department of Labor] believes… the approach it is taking to defining qualified default investment alternatives for purposes of the regulation is sufficiently flexible to accommodate future innovations and developments in retirement products."
- "…It is the view of the [Department of Labor] that the availability of annuity purchase rights, death benefit guarantees, investment guarantees or other features common to variable annuity contracts will not themselves affect the status of a fund, product or portfolio as a qualified default investment alternative when the conditions of the regulation are satisfied."



Federal Register

Wednesday,
October 24, 2007

Part III

Department of Labor

Employee Benefits Security Administration

29 CFR Part 2550
Default Investment Alternatives Under Participant Directed Individual Account Plans; Final Rule

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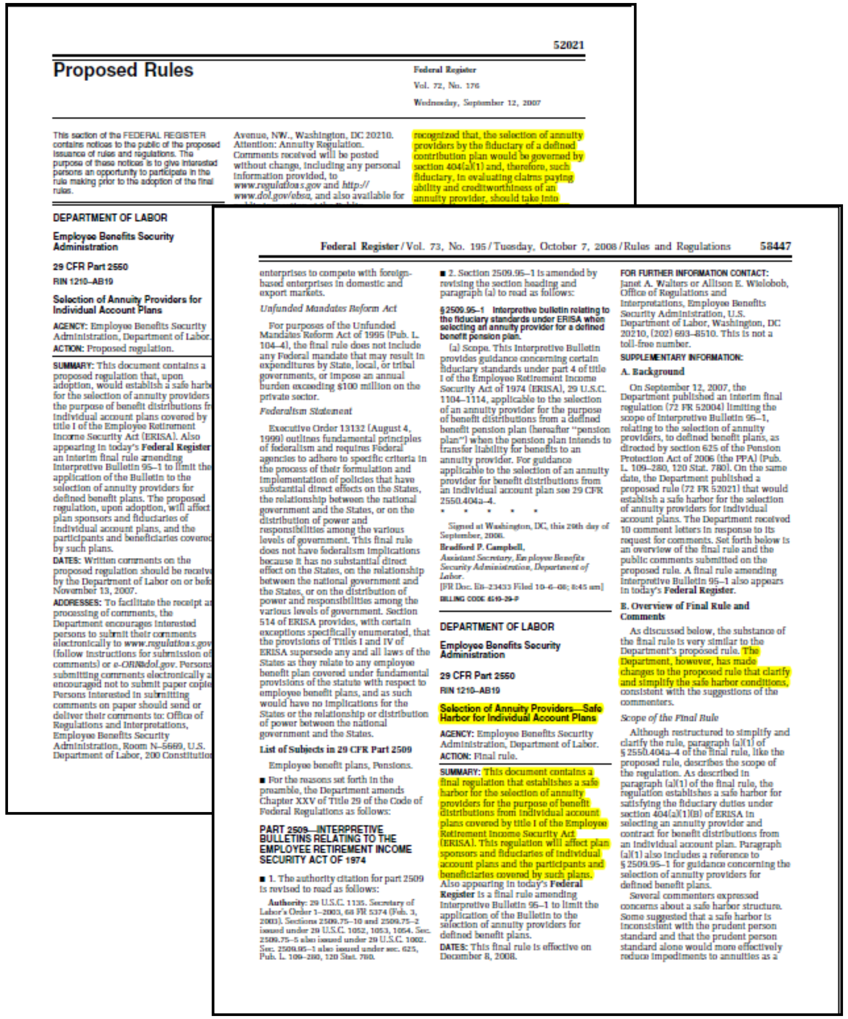
Former Annuity Provider Selection Rules

Purpose, Scope & Intended Impact

- Established a safe harbor for the selection of annuity providers in DC plans
- Proposed rule included descriptive guidance which clarified the Agency's position on sufficient due diligence process & selection criteria
- See Proposed rule paragraph (c)(1)i-vi & Proposed rule paragraph (c)(2)i-viii
- Final rule included changes to the proposed rule intended to clarify and simplify the safe harbor conditions in part by omitting the descriptive guidance
- Fiduciaries would have benefited greatly from widespread and commonly accepted understanding of the omitted guidance



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The SECURE Act

NEW SAFE HARBOR FOR Guaranteed Retirement Income Contracts ("GRICs")

Applies upon receipt of the following written representations from the insurer:

- the insurer is licensed to offer guaranteed retirement income contracts;
- the insurer, at the time of selection and for each of the immediately preceding 7 plan years:
  - operates under a certificate of authority from the insurance commissioner of its domiciliary state that has not been revoked or suspended;
  - filed audited financial statements in accordance with the laws of its domiciliary state;
  - maintains and has maintained reserves which satisfy all the statutory requirements of all states in which the insurer does business;
  - is not operating under an order of suspension, rehabilitation, or liquidation;
- the insurer undergoes, at least every 5 years, a financial examination by the insurance commissioner of its domiciliary state; and
- the insurer will notify the fiduciary of any change in circumstances after providing the above representations which would preclude the insurer from making such representations at the time of issuance of the contract
- Fiduciary must not have received notice of any change in the insurer's circumstances or other information which would cause it to question the representations provided.

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Source: https://www.groom.com/resources/lifetime-income-provisions-under-the-secure-act/

The SECURE Act

NEW REQUIRED LIFETIME INCOME DISCLOSURES

- SECURE Act section 203 amends benefit statement rules under ERISA section 105 to require addition of a "lifetime income disclosure" to at least one pension benefit statement furnished to participants during a 12-month period.
- The new lifetime income disclosure must express a participant's total accrued benefits as a "lifetime income stream" (i.e., as the monthly payment amounts that a participant or beneficiary would receive if the account balance were applied to provide a lifetime income stream, based on assumptions to be specified in a future DOL rule.)
- Two sets of lifetime income stream illustrations are required: (i) a qualified joint and survivor lifetime income stream, based on the assumption that the participant has a spouse of equal age, and (ii) a single life annuity.
- DOL is required to issue interim final rules within one year of the SECURE Act's enactment (i.e., by December 20, 2020) prescribing the assumptions plan administrators are to use when converting total accrued benefits into lifetime income stream illustrations.
- This lifetime income disclosure requirement will become applicable to pension benefit statements furnished more than 12 months following the later of DOL's issuance of: (i) interim final rules, (ii) a model lifetime income disclosure, or (iii) assumptions used to convert total accrued benefits to lifetime income streams.

Source: https://www.groom.com/resources/lifetime-income-provisions-under-the-secure-act/

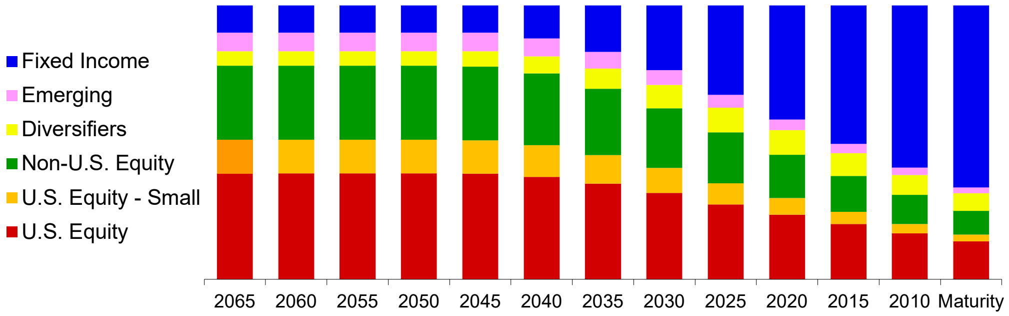
UTC Savings Plan

Let a Professional Manage It for You

Lifetime Income Strategy

Default

Target Retirement Funds (Former Default)



Build It Yourself

Stable Value Fund

Gov./Corp. Bonds

U.S. Equity Large Cap

U.S. Equity Small Cap

Non-U.S. Equity

Emerging Equity

Build It Yourself
With More Choices/Fees

Mutual Fund Window
10,000+ Funds Available
4,000+ no load/transaction fee

Inflation Sensitive Assets Fund

Multi-Market Risk Parity Fund

Stock Ownership

Stock & ESOP

Carrier

Stock & ESOP

OTIS

Stock & ESOP

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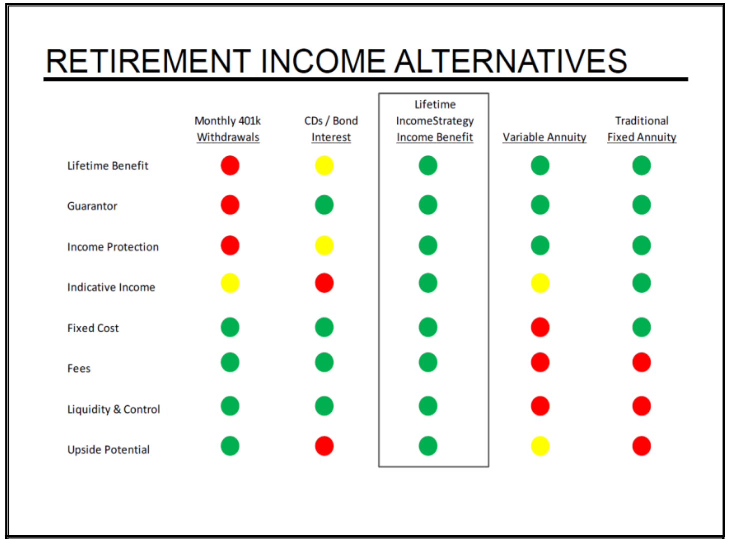
Putting Theory into Practice
Lifetime Income Strategy

A 21st Century Pension Design

- Secure retirement default offered through a defined contribution retirement plan
- Professionally managed investments
- Retirement income guaranteed by insurance contracts
- Guaranteed income benefits combined with a growth portfolio, daily liquidity, optional joint life and beneficiary features
- Offers security & certainty in retirement (like traditional pensions) while preserving the freedom & flexibility people need today (…and tomorrow)



LIFETIME INCOME DESIGN

Obstacles, risks and solutions

Low utilization rate

Benefit becomes outmoded / Insurers discontinue benefit

Insurer insolvency

Aggregator termination / replacement

Early adopter

Regulatory

Growth, liquidity and control

Flexibility in design

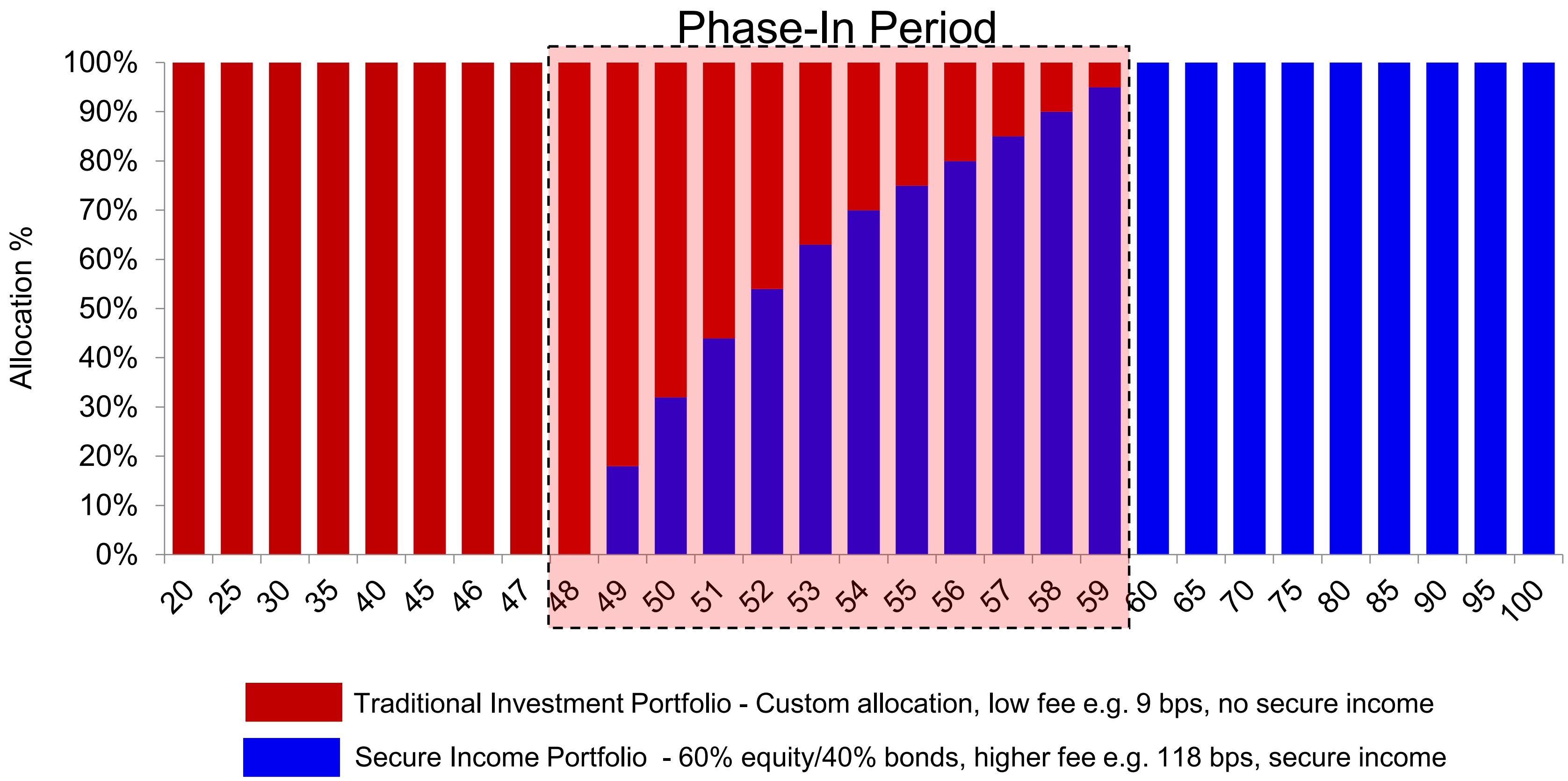
Multi-insurer, insurance safety net

Transferable platform

Design control

Broad support and interest

Investment & Allocation



Complete solution over lifecycle

- As a young saver, invest in low cost, traditional global growth portfolio
- As a pre-pensioner, acquire & build secure income, maintain growth portfolio
- As a pensioner, collect lifetime income with confidence, maintain growth portfolio

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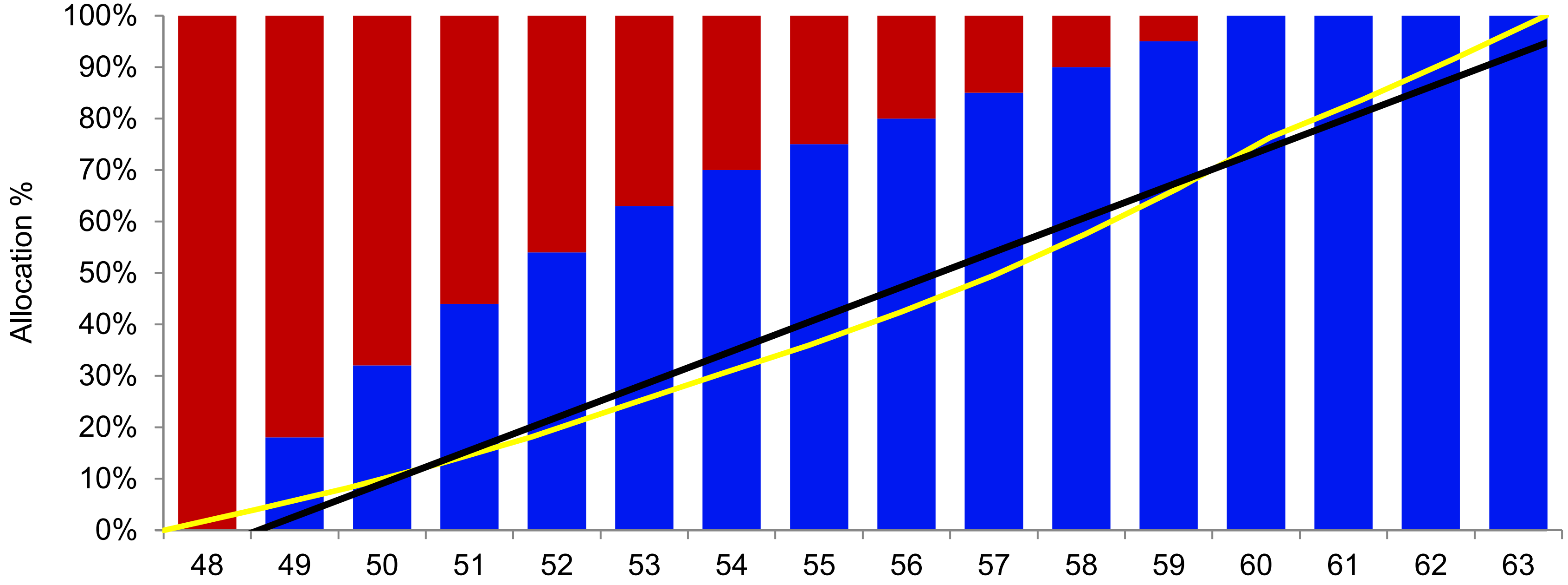
Income Phase-In

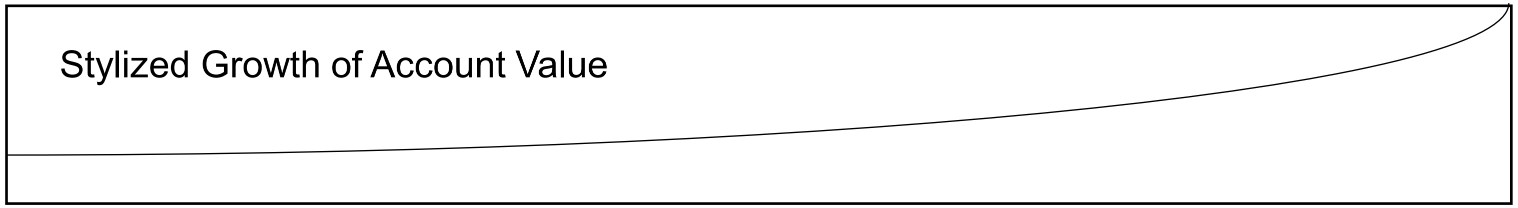


Traditional Investment Portfolio - Custom allocation, low fee e.g. 12 bps, no secure income

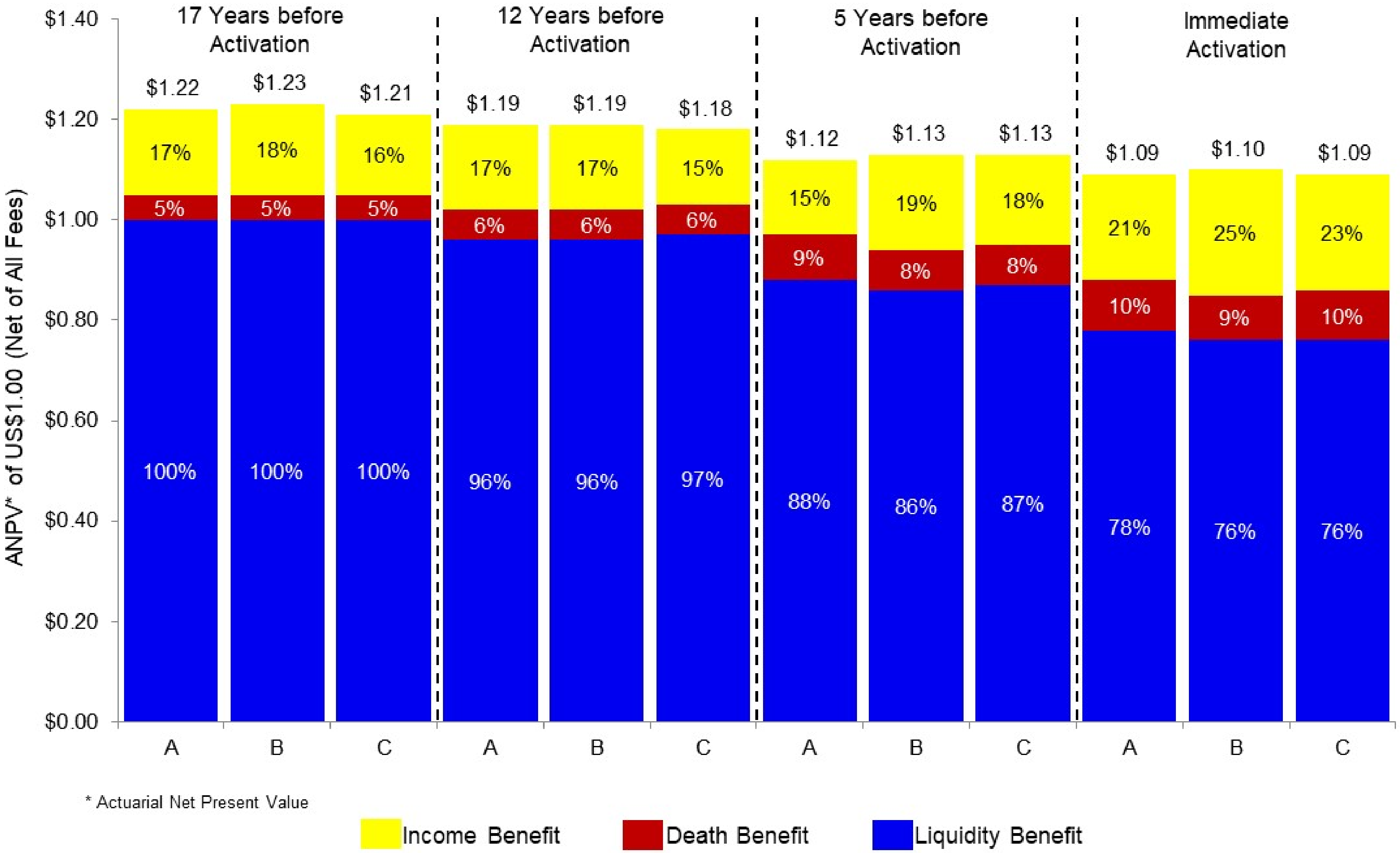
Secure Income Portfolio - 60% equity/40% bonds, higher fee e.g. 119 bps, secure income

Income accumulation trend line (R-squared = 0.986)

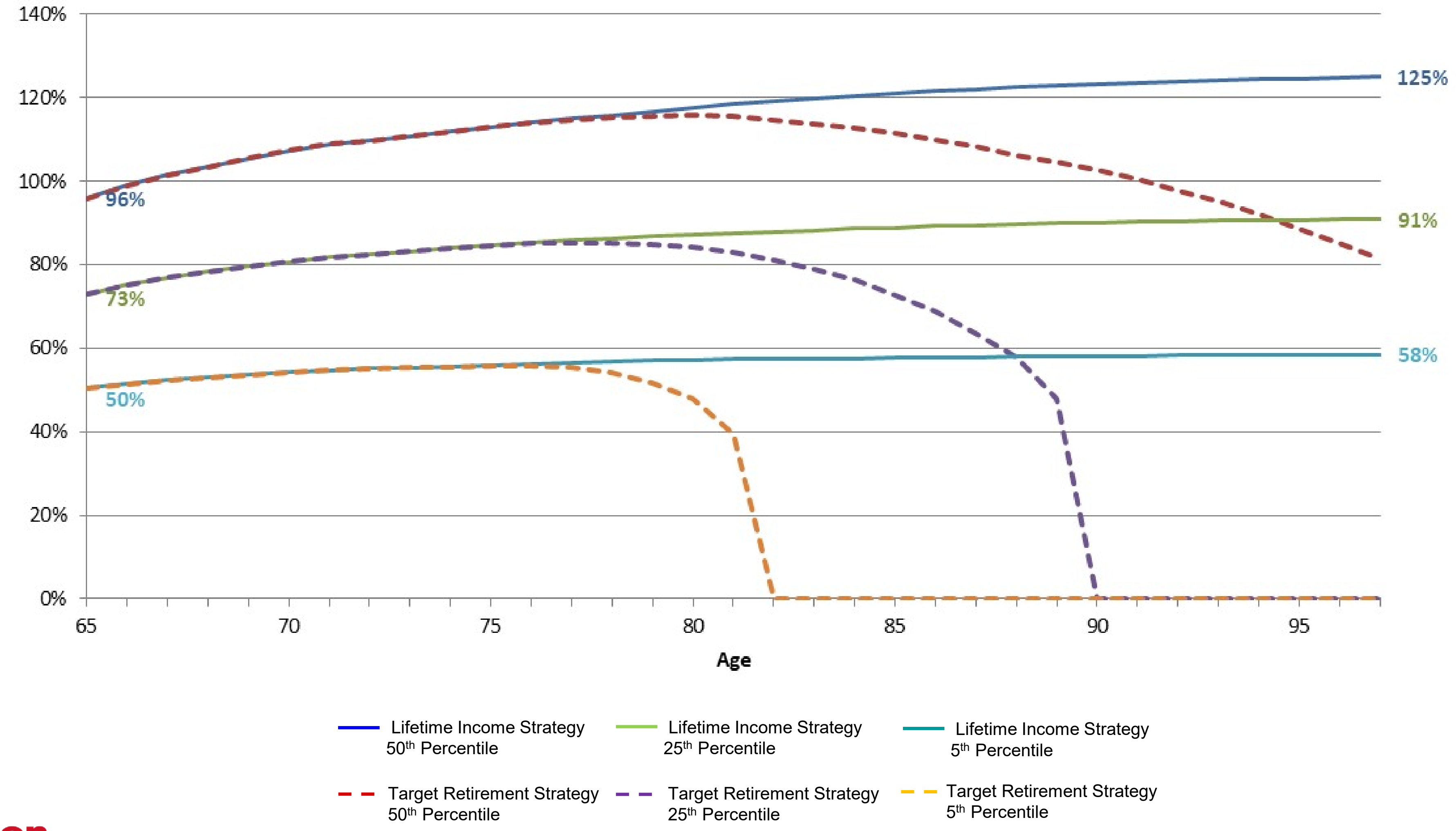
Percentage of final income accrued



Economic Value Estimates



Projected Income Levels



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David C. John

Senior Strategic Policy Advisor

AARP

Lifetime Income/Decumulation Phase

- Transform DC savings plans into retirement income plans
  - ❖73 percent of Americans said they do not have the financial skills to manage their money in retirement
  - ❖79 percent said that retirees don't have the investment skills to ensure their retirement savings last throughout retirement

    (Retirement Insecurity 2019: Americans' Views of the Retirement Crisis)
- Consider lifetime income solutions and be clear about the trade-offs associated with each type of solution
- Evaluate and address how legal and regulatory constraints dampen pace of innovation (SECURE Act & future SECURE Act 2.0)

Common Lifetime Income Solutions

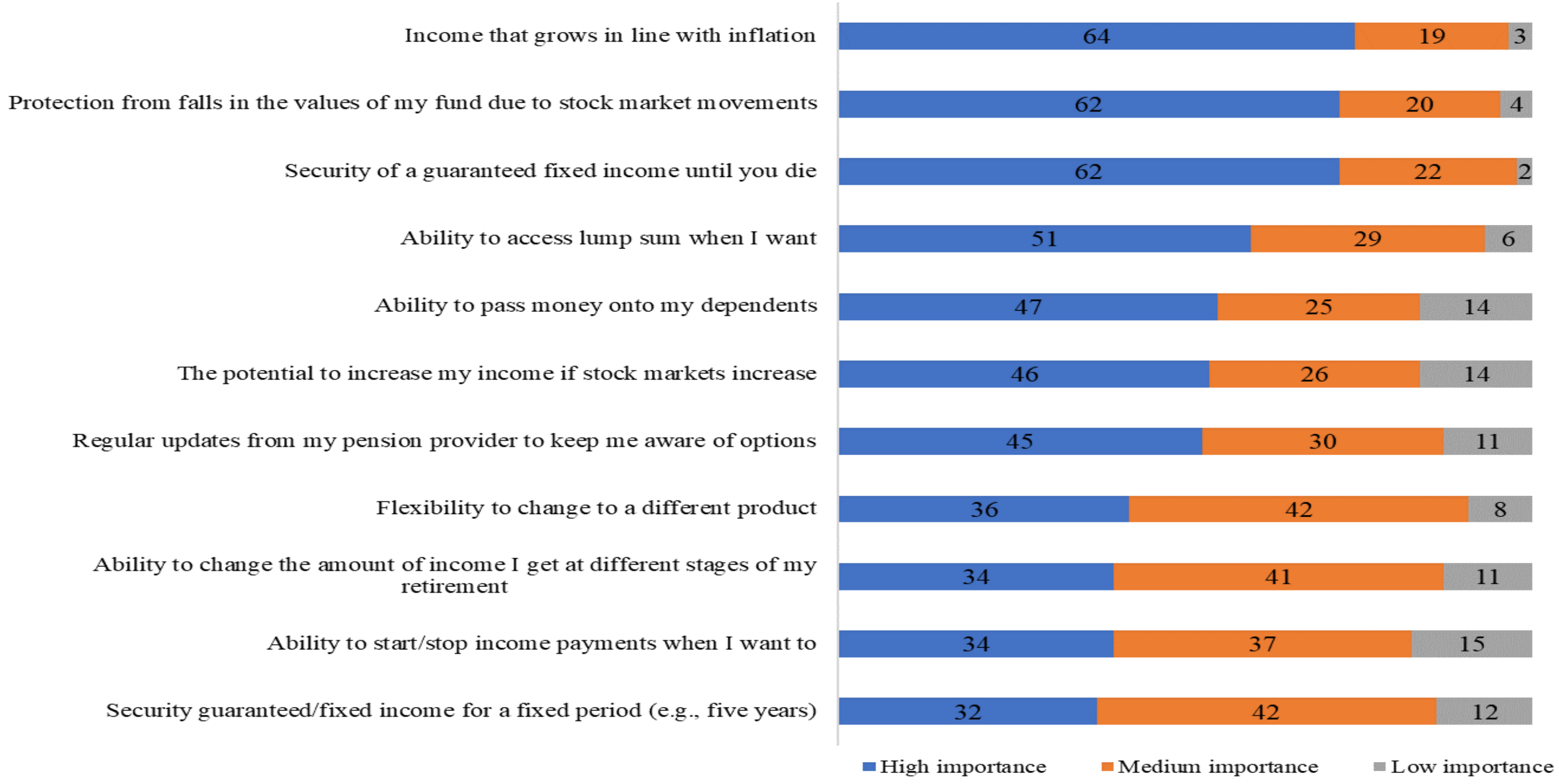
Investment Only	Hybrid	Guaranteed
• Systematic Withdrawal Plan • Managed Payout Fund • Laddered Bond Fund	• Target Date Fund with a Deferred Annuity • Target Date Fund with a GMWB	• Immediate Annuity

Many products are available offering varying degrees of portability, flexibility, and liquidity

For more information about these solutions, see "Generating and Protecting Retirement Income in Defined Contribution Plans: An Analysis of How Different Solutions Address Participant Needs (Policy Report 19-02, June 2019)," Georgetown University Center for Retirement Initiatives.

Many Countries Trying to Develop Lifetime Income Options to Meet Preferences

Preferences for Retirement Products Among NEST Customers



Source: National Employment Savings Trust (2015, Figure 3.1)

Automatic Retirement Income Options for Savers

- An automatic retirement income solution that helps consumers as much as existing automatic retirement saving mechanisms
  - A pooled managed payout fund;
  - A fund from which retirees could withdraw partial lump sums for emergencies or other special purposes; and
  - A QLAC-type longevity annuity
- Structure similar to proposals in UK and Australia

For more information, see "From Saving to Spending: A Proposal to Convert Retirement Account Balances into Automatic and Flexible Income," Brookings Institution, 2019

Tontines vs. Annuities

- Given some of the challenges with presenting annuities, other solutions considered
- Tontine –
  - ✓pooled funding with redistribution of risks
  - ✓investors buy into the pool and returns are paid out to members
  - ✓those living will get paid but if you die you get nothing
- Varies from an annuity in payout and treatment of risk
- Can be less costly, but in doing so shifts risks to consumer
- Longevity risk remain with possibility of payments declining over time

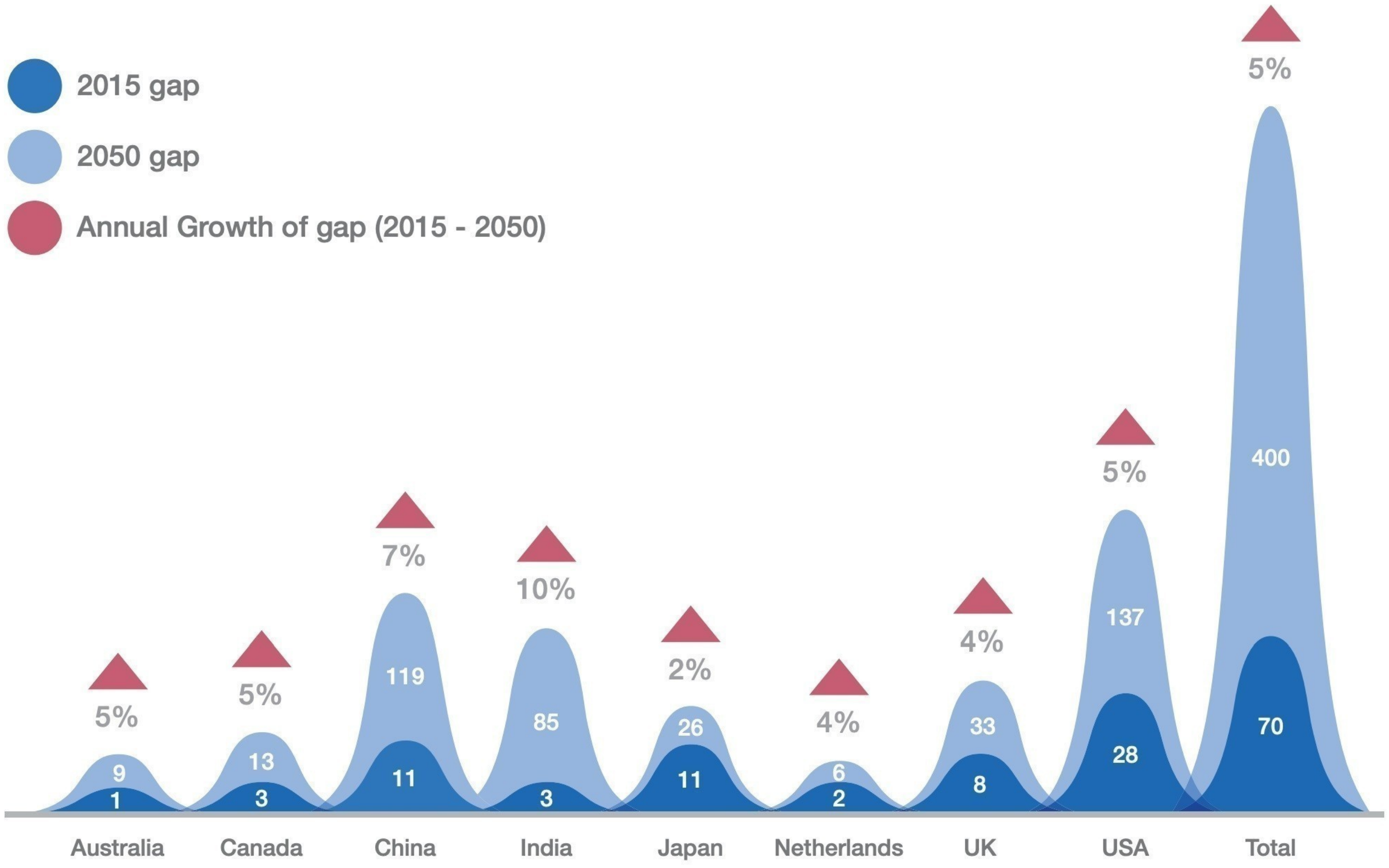
Han Yik

Head of Institutional Investors

World Economic Forum

We'll Live To 100 – How Can We Afford It?

Figure 1: Size of retirement savings gap ($ trillions, 2015)



Source: Mercer Analysis

Retirement Age and Life Expectancy

Denmark and Estonia have indexed retirement age increases to increases in life expectancy. (The Netherlands has indexed state pension eligibility to increases in life expectancy.)

Collective DC – addressing longevity risk

- Used in the Netherlands, Denmark and parts of Canada
- Being introduced in the UK
- Similar advantages to DC plans for employers (set contribution amount)
- Eliminates (theoretically) longevity risk for employees
- Risk – target payout can increase or decrease with investment performance

QUESTIONS?

Center for Retirement Initiatives
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