

Offering Retirement Income Solutions Provides Significant Advantages to Both DC Plan Participants and Employers



Advantages for defined contribution plan participants include:

- Lower fees than comparable retail products, resulting in higher retirement lifetime income;
- Access to risk-mitigation strategies that can significantly lower the cost of retirement compared to self-insuring;
- Significantly enhanced probability of achieving lifetime security if participants are offered the ability to generate income from institutionally priced retirement income solutions; and
- Reduced long-term product risk since due diligence review will have been conducted on the offered product - no parallel review occurs on the retail level.

And, if the retirement income solution is offered as an in-plan arrangement:

- Contributions could, over time, be invested in a retirement income solution, resulting in less behavioral resistance compared to the “at-retirement” purchase of a retirement income solution product;
- Contributions invested over time in a retirement income solution have the ability to realize the benefits of dollar-cost averaging;
- Mitigation of investment risk prior to and through retirement by using income guarantees;
- Dedicated investment of certain contributions in retirement income solutions encourages long-term investment of other assets in equities; and
- Participants could have the ability to “test drive” investment in a retirement income solution product, subject to certain fees, prior to retirement.

Advantages for employers include:

- Positive impact on retiring workers by converting their savings into lifetime secure income;
- Assets of retirees continue to be maintained in the plan, lowering costs for all participants due to improved economies of scale;
- Employment costs and succession planning can be better managed if retirement is financially feasible for older workers;
- Improved value and competitiveness of the retirement plan benefit with only minimal increased costs associated with implementation, communication, and monitoring; and
- Employees who are less worried about their finances are more productive.¹
 - Financially stressed employees are less productive; they spend 62.5 hours more per year managing their affairs compared with employees who are not “financially stressed.”¹
 - Team productivity and morale is threatened when employees work beyond their appropriate retirement age because they cannot afford to retire.

¹ “American Workers: Getting Ahead or Just Getting By?” by Tom Kane, Alliant Credit Union, August 2008.