



New Outlook on Retirement Income

AN EVALUATION FRAMEWORK FOR DC PLANS



An Intentional and Iterative Process

We believe the process of evaluating and adding retirement income solutions to a plan should first identify the intended objectives of plans and their participants and only then determine which solutions best address those needs.

It is important to recognize that a solution or suite of solutions doesn't need to be constructed all at once. In fact, an iterative and intentionally staggered process—focused on short-term, intermediate term, and long-term goals—enhances the flexibility of a tier-based approach. In many cases, plans already offer some of the building blocks that would make up an effective retirement tier.

Phasing in additional solutions to fill gaps can power the construction of the retirement tier, step by step.

Evaluation Framework

Initially we want to bring focus to inputs that can inform the retirement income pursuit and outline an evaluation framework to help navigate the complex and rapidly evolving retirement income landscape. This process is designed to help sponsors identify retirement income solutions that merit further exploration and rule out less suitable approaches.

We suggest adopting the following hierarchy:



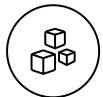
Establishment of baseline objectives, preferences and limitations

- Committee Views and Objectives
- Participant Income Needs and Preferences
- Practical Factors
- Review of Current Investment Lineup



Evaluating proposed new investment options

- Single-asset options
- Multi-asset options
- Annuity-based options



Consideration of other plan resources

- Tools, education and investment guidance



Taking Action

- High level check
- Understanding solutions
- Mapping preferences to solutions



Final Thoughts

Anytime you modify or enhance plan investments, the plan's fiduciaries are under a continuing duty to monitor and perform activities to review on an ongoing basis. This review includes not just performance but also that the investment continues to be appropriate for the intended audience. When adding features and choices in this retirement income category, there may be additional considerations to ensure that the adoption of the new options are supported to meet the needs of an audience that may no longer have day-to-day contact with the plan or company-supported communication channels.

Establishment of Baseline Objectives, Preferences and Limitations

Committee Views and Objectives

What is the strategic purpose of your plan?

- ☐ Savings plan ☐ Retirement plan

What do you prefer participants do with their plan balances when they retire?

- ☐ Roll over to an IRA ☐ Stay in your DC plan

When considering adding to or reinforcing your plan's retirement income capabilities, would you prefer a single solution to serve all participants or a range of solutions to address a variety of participant needs?

- ☐ Prefer single solution ☐ Prefer range of solutions (i.e., tier)

Is your goal to offer a plan that focuses on asset accumulation or are you focused on supporting transition into and through retirement? Your answers don't necessarily lead to adding retirement income solutions to your plan, but it's helpful context.

A single retirement income solution may offer simplicity for participants, but a suite of solutions may offer more flexibility to address a range of participants' needs.

Participant Income Needs and Preferences

Careful consideration of desired income characteristics can help you assess the suitability of different retirement income solutions for your plan. Although income duration (how long income will last) and income volatility (how much income may vary during periods of poor market performance) often get the most attention, other income characteristics may be just as important—or even essential—to retiring participants.

INCOME ADEQUACY

How much will my periodic income be?



INCOME DURATION

How long will my income last?



ASSET GROWTH

Can my assets continue to grow?



INCOME VOLATILITY

How much will my income vary?



ASSET LIQUIDITY

Will I have access to my assets beyond my income payment?



CONTROL AND CHOICE

Can I change my mind if my needs or circumstances shift?



When considering investments, the available options should be compared to participant preference ranges to ensure that there is as broad a range of coverage as possible. Bear in mind that sponsor needs and ability to work with certain investments may be mismatched with participants' ability to comprehend and adopt—i.e. an option that is easy to add to the plan is not necessarily easy for participants to understand and include in their own planning.

Practical Factors



RECORDKEEPER

Does the proposed solution(s) fit with your recordkeeper’s capabilities, or are you willing to engage with them upon adding?

Do the plan’s governing documents allow for optimization of retirement income investment options, retirement distributions and other features which will directly facilitate ease of use for target participants?



CULTURE

Does the solution align with your committee’s comfort level and/or openness to innovation?

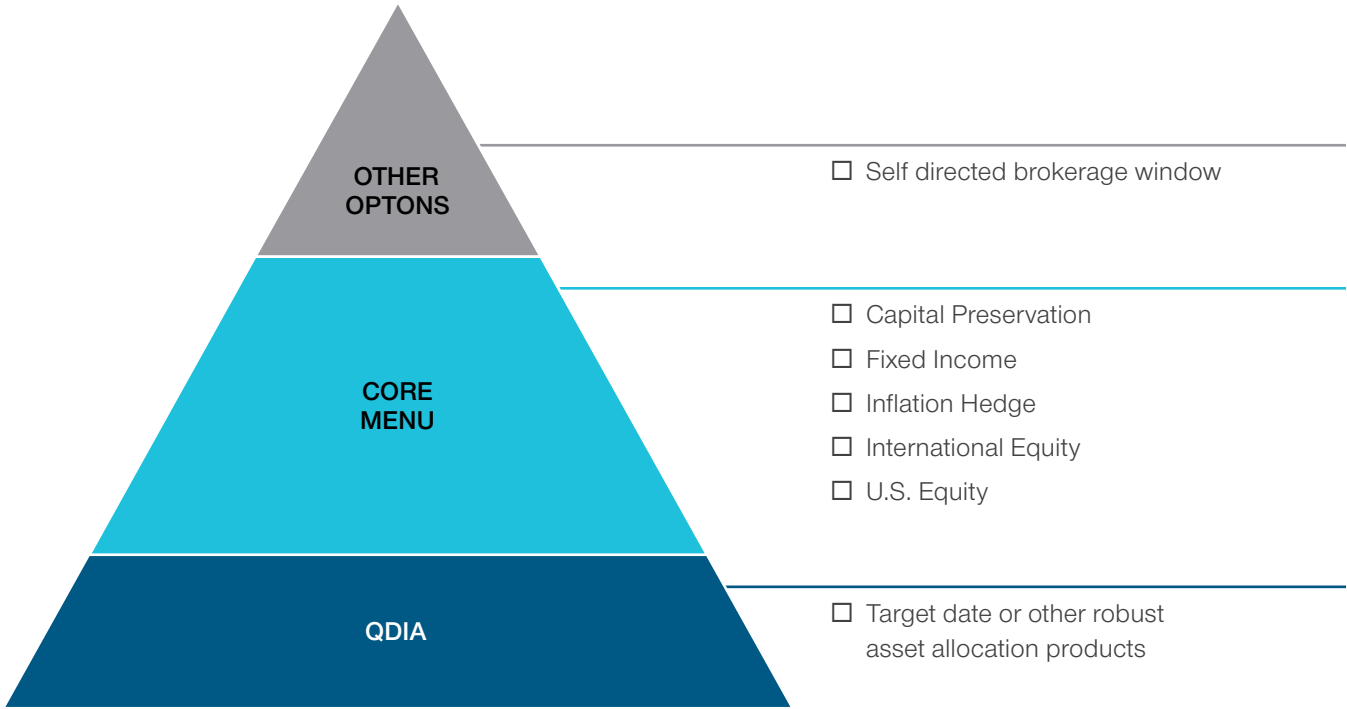


UTILITY

Will the target participant population be able to understand and use the solution?

Review of Current Plan Lineup

Review your current plan line-up with a fresh perspective: which of the current options in the plan today can be leveraged to be a retirement income component? Which ones provide an appropriate savings vehicle for savers, while simultaneously providing an appropriate choice for those in the retirement income producing phase? As an example, many plan sponsors rely on a “through retirement” style QDIA option to provide appropriate choices across a wider demographic of needs and ages.



EVALUATION HIERARCHY

Investment Solutions

Use the tables below, and on the following pages, to evaluate each income solution in terms of functional utility of solution, compatibility with committee views and objectives, and practical factors unique to your plan’s circumstances.

Proposed New Single Asset Retirement Income Solutions

Compatibility With Committee Views and Objectives	Alignment to Participant Preferences	Practical Factors Unique to Your Plan’s Circumstances
Is the solution compatible with your committee’s: <ul style="list-style-type: none">Fiduciary views?Preferred level of operational and administrative complexity?Comfort level or openness to innovation?	Can the solution suitably address or resolve: <ul style="list-style-type: none">Retirement income needs or concerns identified as important to your committee?A range of needs and concerns, or is it a solution that is targeted to a specific situation?	Can the solution be implemented or delivered: <ul style="list-style-type: none">With your recordkeeper’s current (or future) capabilities?Within the desired timeline?Such that your participants can understand

Stable value strategies

Money market strategies

Core bond and total return bond strategies

Core plus bond and multi-sector bond strategies

Corporate bond strategies (investment grade)

High income bond strategies (below investment grade)

Low duration bond strategies

International and global bond strategies

Other: _____

Proposed New Multi-Asset Retirement Income Solutions

Compatibility With Committee Views and Objectives	Alignment to Participant Preferences	Practical Factors Unique to Your Plan's Circumstances
Is the solution compatible with your committee's: <ul style="list-style-type: none"> Fiduciary views? Preferred level of operational and administrative complexity? Comfort level or openness to innovation? 	Can the solution suitably address or resolve: <ul style="list-style-type: none"> Retirement income needs or concerns identified as important to your committee? A range of needs and concerns, or is it a solution that is targeted to a specific situation? 	Can the solution be implemented or delivered: <ul style="list-style-type: none"> With your recordkeeper's current (or future) capabilities? Within the desired timeline? Such that your participants can understand

Managed payout strategies

Target date with managed payout (non-guaranteed income)

Target date with guaranteed income

Managed account (with income planning)

Other: _____

Proposed Annuity-Based Retirement Income Solutions

Compatibility With Committee Views and Objectives	Alignment to Participant Preferences	Practical Factors Unique to Your Plan's Circumstances
Is the solution compatible with your committee's: <ul style="list-style-type: none"> Fiduciary views? Preferred level of operational and administrative complexity? Comfort level or openness to innovation? 	Can the solution suitably address or resolve: <ul style="list-style-type: none"> Retirement income needs or concerns identified as important to your committee? A range of needs and concerns, or is it a solution that is targeted to a specific situation? 	Can the solution be implemented or delivered: <ul style="list-style-type: none"> With your recordkeeper's current (or future) capabilities? Within the desired timeline? Such that your participants can understand

Annuity, single provider

Annuity, platform

Other: _____

EVALUATION HIERARCHY

Plan Resources

Use this table to evaluate the tools and resources currently in place, and those options under consideration to support participant needs for plan guidance. Guidance and education can apply to general planning considerations, investments, plan elections, and more. Consider the needs of your particular workforce and their accessibility and comfort with various options. When thinking about alignment, consider segmenting your participants by age/stage to ensure that you are covering all differentiated groups, e.g. ages 20 to 35, ages 35 to 50, 50 to retirement, and post-retirement.

Tools, Calculators, Education, and Guidance

Compatibility With Committee Views and Objectives	Alignment to Participant Preferences	Practical Factors Unique to Your Plan's Circumstances
<ul style="list-style-type: none">▪ Does your fiduciary committee have specific boundaries regarding what tools, calculators, and information you would consider?▪ Are there certain retirement projection approaches or educational insights that you believe are best suited to your workforce?	<ul style="list-style-type: none">▪ How much of an impact do you think education can make?▪ Is there need for improvement of your current content or tools?▪ To what extent do you think human and/or automated financial guidance are necessary components for an effective retirement income solution for your plan?	<ul style="list-style-type: none">▪ Are you making use of all educational resources made available through your current recordkeeper?▪ If considering additional tools, calculators, and information from a third party, how would that content be deployed?▪ Many recordkeepers can offer a plug and play solution to provide access to financial guidance. Are you aware of, and offering these options in your plan?

EVALUATION HIERARCHY

Taking Action

Up to this point, we’ve asked you to evaluate specific retirement income solutions by their own merits. However, when considering multiple solutions to address the wide variety of participant needs and considering overall compatibility with your plan lineup, it’s also important to consider the set of solutions as a whole. How does the narrowed list of services and solutions look in aggregate?

High Level Check

Sufficient Breadth of Solutions?	Unintentional Redundancy?
Do the solutions selected for further evaluation—when considered together—meet an array of retirement income needs consistent with what your committee is trying to achieve?	Do the solutions selected for further evaluation—when considered together—avoid unintended duplication of capabilities or features that could confuse participants?

Understanding Solutions

While there are many ways to think about the various retirement income solutions, we've offered an approach. We've arranged retirement income solutions corresponding to selection complexity for plan sponsors from the least to greatest complexity.


























SELECTION COMPLEXITY FOR PLAN SPONSORS

COMMON FEATURES		SPECIALIZED SOLUTIONS	
Distribution Methods		Retirement Income Investments	Individualized Strategies
<ul style="list-style-type: none"> Systematic Withdrawals On Demand Withdrawals 	<ul style="list-style-type: none"> Required Minimum Distributions Total Distributions/Rollovers 	<ul style="list-style-type: none"> Bond Ladder/Target Maturity Managed Payout Annuity (for example, IIA, DIA, GLWB) 	<ul style="list-style-type: none"> Managed Accounts Rollover IRA
In-Plan Investments			
<ul style="list-style-type: none"> Age or Risk Based Portfolios (QDIA) Stable Value 	<ul style="list-style-type: none"> Core Investment Options Brokerage Account 		

Mapping Preferences to Solutions

Retirement Income options should also be evaluated against the list of participant preferences. Not all choices will solve for all needs, but with some thoughtful selection, you may be able to cover most needs with a few choice selections. You may also want to back test this mapping against the relative complexity chart. You want to be sure that you have an option(s) suitable for participants of all levels of investment sophistication.

 Excellent
  Good
  Variable
  Poor
  Very Poor

	Systemic Withdrawals	Bond Ladder	Managed Payout	Managed Accounts	Annuities
Income Yield					
Income Duration					
Income Volatility					
Asset Liquidity					
Asset Preservation					

Final Thoughts

By completing this phase of the evaluation process, you will be able to focus your time and attention on specific retirement income services and solutions for your plan and your participants. But these are only the first steps. The next step will be to apply due diligence to each of the services and solutions you have identified for further exploration. This will continue to narrow and solidify those solutions appropriate for formal selection and implementation.

The following list provides a few areas you should review:

- Evaluating your standard offer of tools, calculators, and measurements, as well as considering when to look beyond what your recordkeeper provides
- Assessing the impact of systematic withdrawals, partial distributions, and governing documents
- Bridging the gap to more strategic timing for Social Security benefits
- Addressing the need for advice (e.g., managed accounts, financial advisors)
- Reorienting or adding investment options suitable for a suite of retirement income offerings
- Considering income guarantees and how best to implement them (e.g., part of multi-asset solution, standalone annuity, annuity platform)
- Investigating custom strategies (e.g., target yield, target risk)
- Considering which retirement income options may require more education for your participants
- Developing the plan to reassess and monitor new features and options as part of the regular overall plan review process

And remember, we are here to help.



Please reach out to your T. Rowe Price relationship manager so we may support you as you evaluate retirement income solutions for your plan. Our team has developed foundational considerations to support the next phase of assessing each solution one by one.

For more information and additional discussion of these topics, please contact your financial professional:

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