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DESIGN MATTERS: THE RETIREMENT TIER
WHAT IS IT? | PAPER #2

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What Is It?

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HOW DOES A "RETIREMENT TIER" FIT IN WITH A PLAN'S INVESTMENT TIERS?

A retirement tier is not a complete stand-alone entity; it can include components of the plan's existing investment tiers, where appropriate. Qualified Default Investment Alternatives (QDIAs) with integrated lifetime income strategies can, for instance, be a key part of a "do it for me" investment-tier strategy. However, a plan's QDIA, in and of itself, may not be enough to satisfy the needs of all older participants. There is evidence to support this:

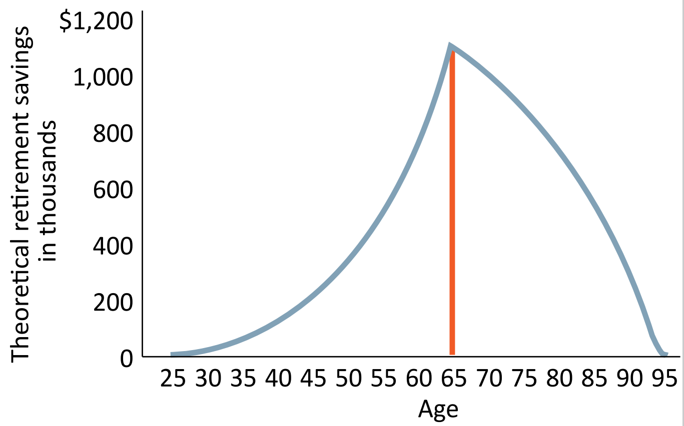
- As participant tenure increases, the likelihood of being in the QDIA appears to decline[1]
- Data from multiple sources shows that participants who are closer to retirement are aware that they have more varied situations with respect to how financially prepared they are for retirement.[2] In addition, the assets they hold in their current DC plan may be only a small part of their total household retirement assets (they are more likely to be married than younger participants). Finally, this group of participants reports a significantly higher level of engagement with their plan than the typical "average" participant.

"Retirement tier" is a broad term; for the purposes of this series, DCIIA has defined it as a range of products, solutions, tools and services, all of which allow a defined contribution (DC) plan sponsor to broaden the plan's goal from one wholly focused on savings to one that also accommodates and supports participants who are near, entering, or in retirement. For participants who will use their DC plan savings as a primary source of income through their retirement years, a retirement tier can prove to be a valuable addition to the plan. Retirement tiers can also benefit plan sponsors in various ways. While adding one to a DC plan obviously needs to be an informed decision, it helps greatly that it can be implemented in a number of ways and in incremental steps. This multi-part DCIIA series, "Design Matters: The Retirement Tier," is intended to be a comprehensive retirement-tier resource for DC plan sponsors.

To begin, we acknowledge that for decades, most DC plan sponsors, participants, and providers have primarily focused on 'saving' as the goal. Plan sponsors have guided employees on how to do exactly that for the roughly 40 years prior to retirement, as the graph below illustrates.

Recognition of the Significance of the Post-Retirement Phase

Saving Phase	Post-retirement Phase
• 40 years pre-retirement • Straightforward needs and objectives	• 30 years post-retirement • Complex needs and objectives



This is a hypothetical illustration.

With the advent of the retirement tier, we have an opportunity to broaden everyone's focus to include helping participants navigate the 30+ years that could be spent in the 'retirement' phase of life. This is timely, now that most plan participants approaching retirement need to rely on their DC assets for their retirement income. A retirement tier enables a plan sponsor to focus on helping retired and nearly retired employees understand both how to invest and how to withdraw their savings in order to generate income that will support them during their retirement years.

The retirement tier can be simple or detailed. It is important to debunk a myth that sometimes arises within the industry that a retirement tier—or, indeed, any strategy to help retiring plan participants—is a stark, complex, or all-or-nothing proposition. This myth is based on the fallacy that a DC plan must either help participants (and their spouses) all the way through retirement or force all terminated participants out of the plan at the first available opportunity. In truth, a DC plan can adopt plan design, communication and investment choices—including those oriented towards retired participants such as a retirement tier—that are separated-participant "friendly," without signing up for a lifelong, full commitment to all separated participants.

Plan sponsors interested in adopting a retirement tier that entails a modest commitment could, for instance, adjust their plan documents so that participants can stay in the plan after retirement and take partial distributions. After amending the plan document to offer participants more flexible access to their savings, plan sponsors could, over time, evaluate what else they might choose to do. Other plan sponsors who are interested in offering a more detailed retirement tier could add retirement-income options in-plan, as well as provide access to options outside of the plan, such as institutionally priced annuities or other insurance-based strategies. These types of strategies could also be integrated into the QDIA. Beyond providing retirement investment options, plan sponsors can also choose to incorporate education, communications and other tools to help participants think about the investment risks that remain important in retirement (such as sequence of returns risk) and other decisions they may want to consider when planning their withdrawal strategies (such as when to begin Social Security and how to plan for financing a long and healthy life). There truly are no hard and fast rules for building a retirement tier.

The table below highlights some common misconceptions about what needs to be included when offering a retirement tier:

Common misconceptions regarding what a retirement tier needs to be

- **A silver bullet:** All individuals have unique circumstances and a single solution is unlikely to adequately address all needs
- **In-plan:** Plan sponsors choosing not to allow partial withdrawals can still provide meaningful assistance in the run-up to retirement
- **A separate (or new) tier of the plan:** Many retirement tier components may already be in the plan
- **Recordkeeping intensive:** Complex builds may not be required
- **Retirement income means insurance is included:** An insurance solution (such as annuities) is not a requirement, although annuities and other insurance-based strategies may be a beneficial part of a retirement tier

SO, WHAT DOES MAKE UP A RETIREMENT TIER?

While retirement tiers can vary from each other, all plan sponsors should begin by considering two key issues:

Plan Design (at a minimum, the partial withdrawal decision)	Plan sponsors should decide whether they want to adjust plan documents to allow separated participants to make withdrawals from the plan — essentially, whether they would like retirees to stay in the plan while drawing income.
Recordkeeper Integration (connection point to the participants and retirees)	The recordkeeper is the plan's connection point to the participant after separation, so retirement-tier solutions that integrate seamlessly with the recordkeeper will likely be more successful. The cost of the recordkeeping implementation may impact how many and which options a plan offers.

The following components can further support a retirement tier:

Targeted Communications	Plan sponsors can offer education specific to participants who are near, at, or in retirement on how to invest their savings while taking withdrawals. Participants are likely to be more responsive to such communications once they are approaching retirement.
Investment Options without Guarantees	In its simplest form, an investment structure is composed of an asset allocation/do-it-for-me tier (typically the QDIA) and the core tier (e.g., capital preservation, fixed income, equity). A plan sponsor can also add investment options that are managed for withdrawing assets. These strategies usually focus on managing market volatility and providing a reasonable payout. They can be capital markets-based strategies and can be reviewed/replaced like any other investment option in the plan.
Tools and Coaching (Even Advice)	Models, questionnaires and scenario-building tools can be offered online. These tools can be easy to use and can help participants think through their unique retirement needs. Access to financial coaches who will assist participants and retirees without venturing into providing actual financial advice may be beneficial. Independent advice providers that the plan sponsor has vetted may be helpful to employees and retirees.
Guaranteed Products (Including Annuities)	Plan sponsors can offer services that assist in placing annuities and advising on insurance-based investment strategies, either in the plan as a distribution option or outside of the plan. They may also consider adding a QDIA with an integrated lifetime income option that could be a solution for those approaching or in retirement.
Consolidation (Rollovers In/Out)	Thanks to past job changes, many participants will have assets in other places, such as IRAs or the plans of previous employers. At retirement, these participants may be more likely to consolidate their assets outside the plan. Plan sponsors can, however, encourage participants to consolidate all retirement assets into the plan. The more assets participants have in the plan, the more likely they are to explore the plan's retirement tier. A variation on this is finding a service that, without consolidating, provides a picture of an individual's total financial situation.

Some plan sponsors have already started addressing their plan's structure to ensure that retirees may remain in the plan, thereby enabling those participants to support their households' needs from the investment and distribution options that are available. For employers that do not wish to have retiree assets remain in the plan, a retirement tier is still possible. Each retirement tier may be customized to the workforce demographics of the particular plan, the needs of its participants and the objectives of the employer. By modifying the distribution options and services they offer, plan sponsors have the opportunity to provide meaningful and robust solutions that may positively impact retirement outcomes.

The Retirement Tier papers are a multi-part series. Other papers in the series may be accessed through the DCIIA website at **www.DCIIA.org**

ENDNOTES

[1] DCIIA testimony before the ERISA Advisory Council on Employee Welfare and Pension Benefit Plans, "Lifetime Income Solutions as a Qualified Default Investment Alternative (QDIA) – Focus on Decumulation and Rollovers," June 19, 2018.

[2] "Fragmented Savings," *PlanSponsor*, 2018-2019 issue, pp. 48-9; and "2019 Franklin Templeton Retirement Income Strategies and Expectations (RISE) Survey," conducted online among a sample of 2,002 adults comprising 1,000 men and 1,002 women, all age 18 or older.

ABOUT DCIIA

DCIIA is a nonprofit association dedicated to enhancing the retirement security of America's workers. DCIIA's diverse group of members include investment managers, consultants and advisors, law firms, recordkeepers, insurance companies, plan sponsors and other thought leaders who are collectively committed to the best interests of plan participants. For more information, visit: **www.dciia.org**.

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