



2023 Retirement Income Pulse Check

Understanding Consultant Perspectives

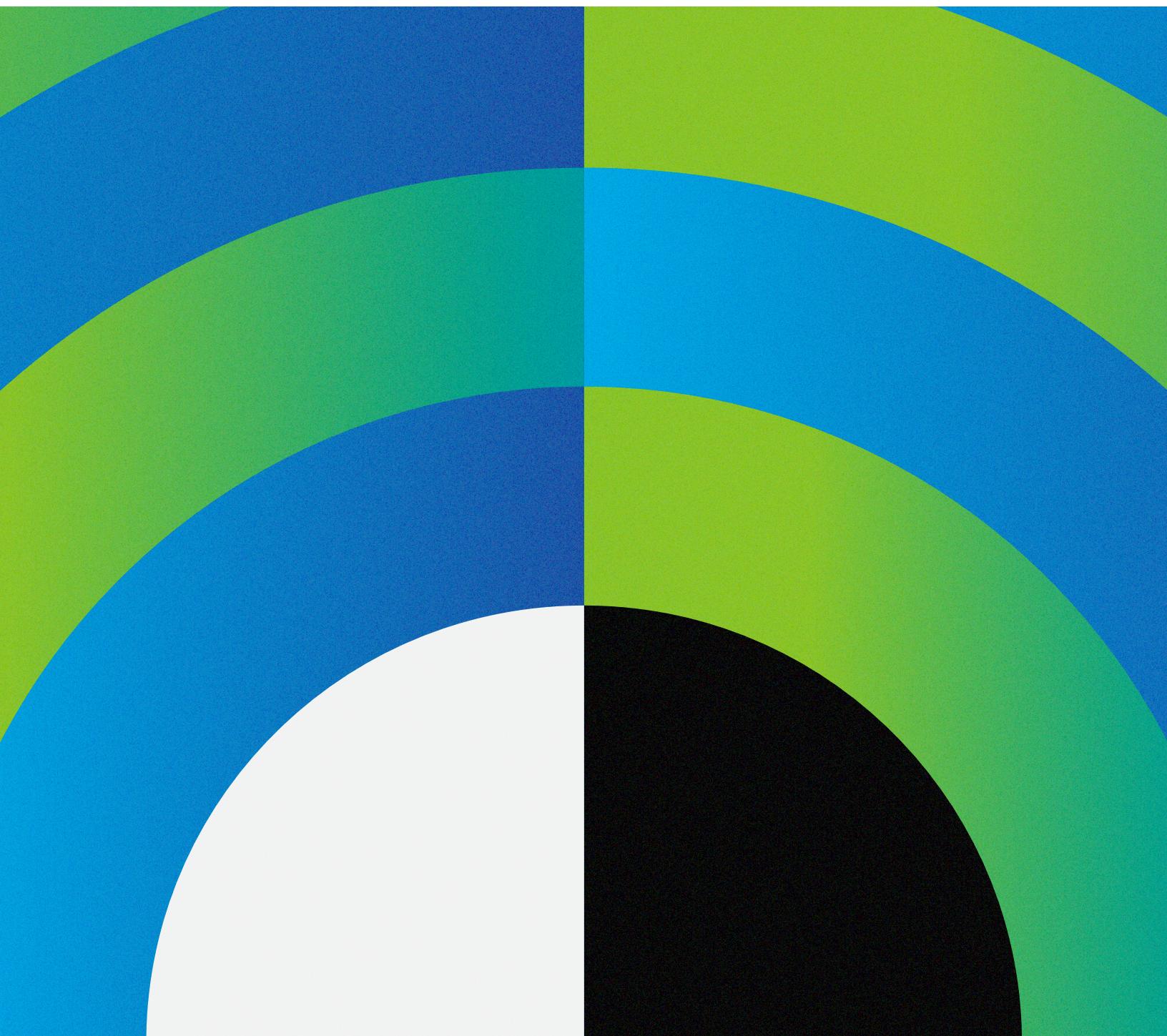


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Introduction

Defined contribution (DC) plans – 401(k), 403(b), and 457 plans – have replaced defined benefit (DB) pension plans as the dominant source of retirement savings for most Americans. While DC plans have been very popular and have amassed \$8.9 trillion¹ in assets, their success in providing retirement security to plan participants has been hard to measure since, unlike traditional DB pensions, DC plans don't inherently offer the promise of guaranteed income for retirees. In fact, in recent years, it has become increasingly clear that DC plans should provide plan participants with the ability to convert at least a portion of their retirement assets into guaranteed income. As today's older participants approach retirement, they'll be faced with important decisions regarding when to take Social Security and how to make their retirement savings last.

While offered in some DC plans today, guaranteed retirement income is expected to be the next big enhancement to DC plans. In recent years, the qualified retirement plan industry has seen the introduction of new guaranteed retirement income solutions – many launched in anticipation of, or since, the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019, which made it easier for plan sponsors to offer these options in DC plans.

Although it is too soon to tell who in the retirement industry will be the driving force behind greater adoption of retirement income solutions by DC plans, it has been clear for some time that consultants play a critical role in helping companies maximize the success and value of their DC plans – and, in turn, help strengthen the retirement security of plan participants.

To understand the role that consultants play in recommending retirement income solutions, MetLife commissioned a study of consultants who advise plan sponsors and investment committees for large DC plans. The study is designed to help plan sponsors, recordkeepers, and advisors understand the perspectives of – and actions taken by – consultants regarding the use of guaranteed retirement income solutions in DC plans.

MetLife's 2023 Retirement Income Pulse Check Study examined consultants' views toward income annuities and other income solutions in the DC marketplace, including:

- The actions they and their clients have taken post-SECURE Act of 2019, which we are referring to as SECURE 1.0, as well as how closely they were following the SECURE 2.0 Act of 2022 and other retirement legislative developments
- The recommendations they most frequently make to their clients to help strengthen retirement security through guaranteed lifetime income
- Their evaluation of income annuities and other solutions in the DC market, including key attributes and approaches (e.g., guaranteed vs. non-guaranteed, in-plan accumulation vs. point-of-distribution, etc.)

¹Source: Investment Company Institute and Federal Reserve Board, "The US Retirement Market, Third Quarter 2022."

Methodology

The survey was conducted online by Greenwald Research, in partnership with ISS Media, owner of PLANADVISER and PLANSPONSOR magazines, on behalf of MetLife between October 25 and December 9, 2022, among 74 defined contribution (DC) plan consultants. Consultants needed to be at least somewhat knowledgeable about various DC plan retirement income options; at least occasionally recommend DC retirement income options to plan sponsor-clients, or if not, be at least somewhat likely to in the near future; and, have at least one retirement plan client with \$500+ million in assets.

Study Findings

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Plan Consultants Are Knowledgeable About Available DC Plan Retirement Income Options

To qualify to participate in the survey, consultants had to be at least somewhat knowledgeable about various DC plan retirement income options. Among consultants knowledgeable about the options available today, 2 in 3 describe themselves as very knowledgeable.

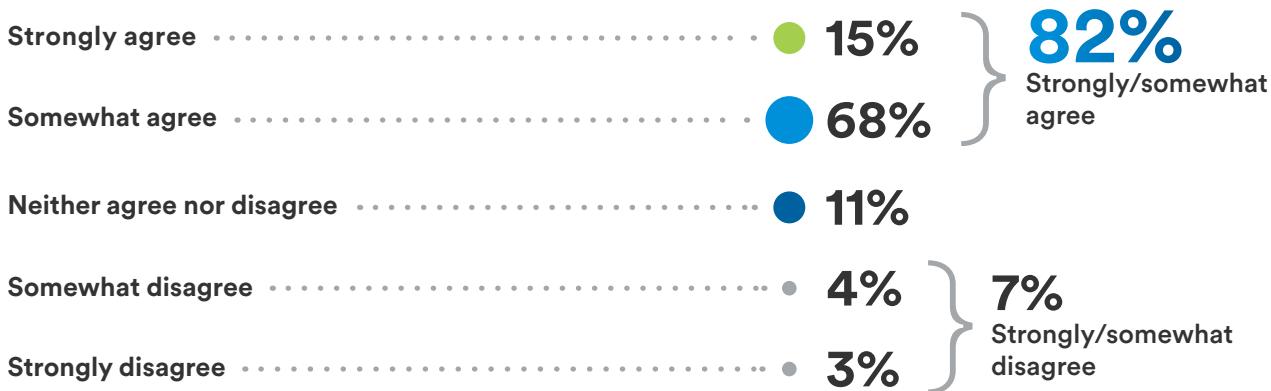
Knowledge on DC Plan Retirement Income Options (n=74)



Post-SECURE 1.0, Consultants Have Gotten More Comfortable Recommending Retirement Income Options

Since the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 removed regulatory barriers to make it easier for companies to offer guaranteed retirement income options, 8 in 10 consultants (82%) say they have gotten more comfortable recommending retirement income options to their clients.

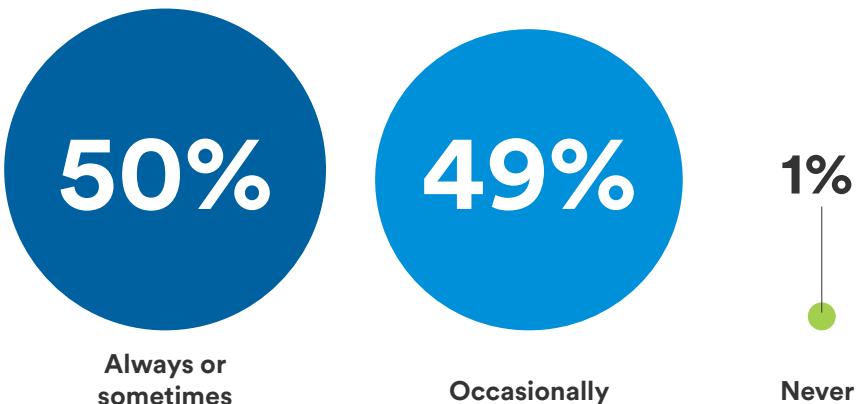
SECURE Act Increased Comfort in Recommending Guaranteed Retirement Income Options (n=74)



Note: Percentages may not equal totals due to rounding.

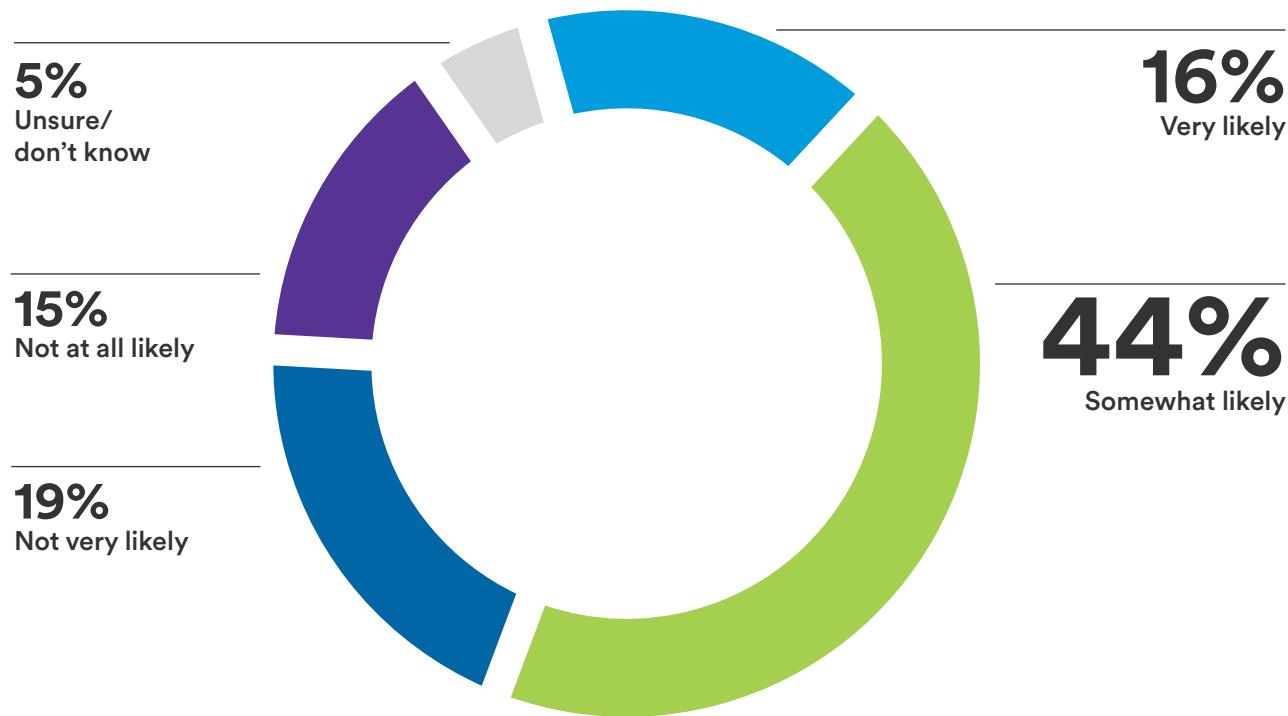
Although all consultants in this survey had to recommend retirement income at least occasionally, half say they do so more often, including 36% who sometimes recommend them and 14% who always recommend them. Although 1% of consultants surveyed are not currently recommending retirement income options, they are likely to recommend them in the future.

Frequency of Recommending Retirement Income Options (n=74)



Moreover, 60% of consultants say they would consider purchasing an annuity option for themselves with a portion of their DC plan assets – suggesting the importance many of them place on having guaranteed retirement income. That percentage rises to 73% for those with fewer than 15 years of consulting experience – likely driven by the fact that they may not expect monthly income from a DB plan or, if they do, they may want to supplement it with additional guaranteed income.

Likelihood of Considering an Annuity for Themselves (n=73)



Note: Percentages do not equal 100% due to rounding.



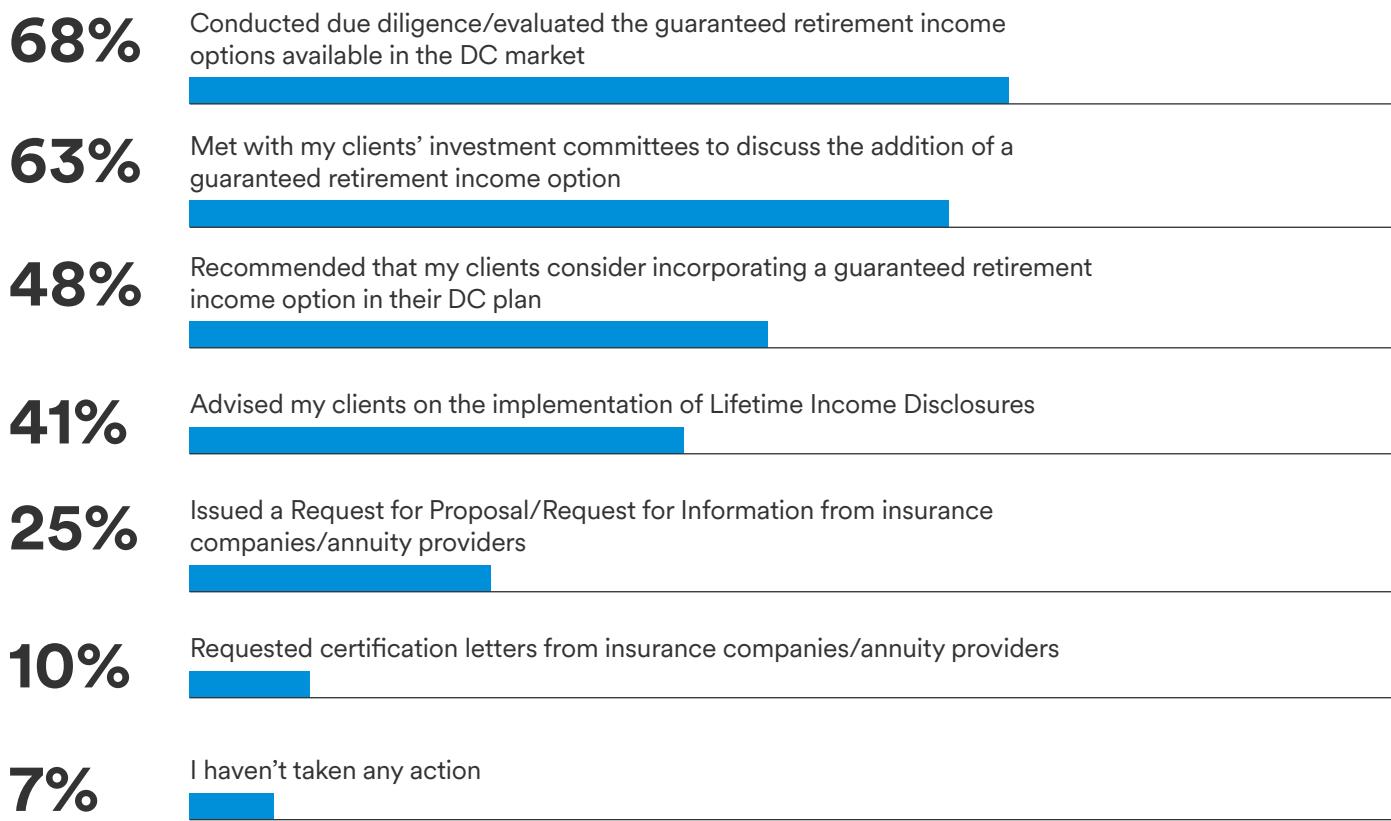
In the Last Few Years, Consultants Have Been Conducting Due Diligence and Meeting with DC Plan Investment Committees

Since the passage of SECURE 1.0, 93% of consultants who recommend offering retirement income options have taken some action regarding guaranteed retirement income options. Among those who recommend that their plan sponsor-clients offer a retirement income option for their DC plan, the actions consultants have taken most frequently include conducting due diligence/evaluating the guaranteed retirement income options available in the DC market (68%), meeting with their clients' investment committees to discuss the addition of a guaranteed retirement income option (63%), recommending that their clients consider incorporating a guaranteed retirement income option in their DC plan (48%), and advising on lifetime income disclosures (41%).

To date, fewer consultants have issued a Request for Proposal/Request for Information from insurance companies/annuity providers (25%) or requested certification letters from insurance companies/annuity providers (10%) in accordance with Certification for the Safe Harbor for Annuity Carrier Selection Amendment to Section 404 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. §1104).

Actions Taken Following the SECURE Act

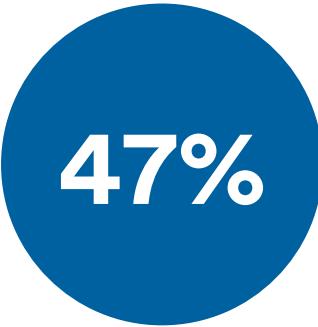
Among Consultants Who Recommend Offering Retirement Income Options (n=73)



When conducting due diligence, consultants say that detailed product descriptions (47%) have been the easiest information to obtain when evaluating guaranteed retirement income options, followed by information about service capabilities (29%). Pricing information is the least likely to be found as the easiest information to obtain, as it was only selected by 16% of consultants.

Easiest Information to Obtain

Among Consultants Who Recommended Offering Retirement Income Options (n=73)



47%

Detailed product descriptions



29%

Information about service capabilities



16%

Pricing information

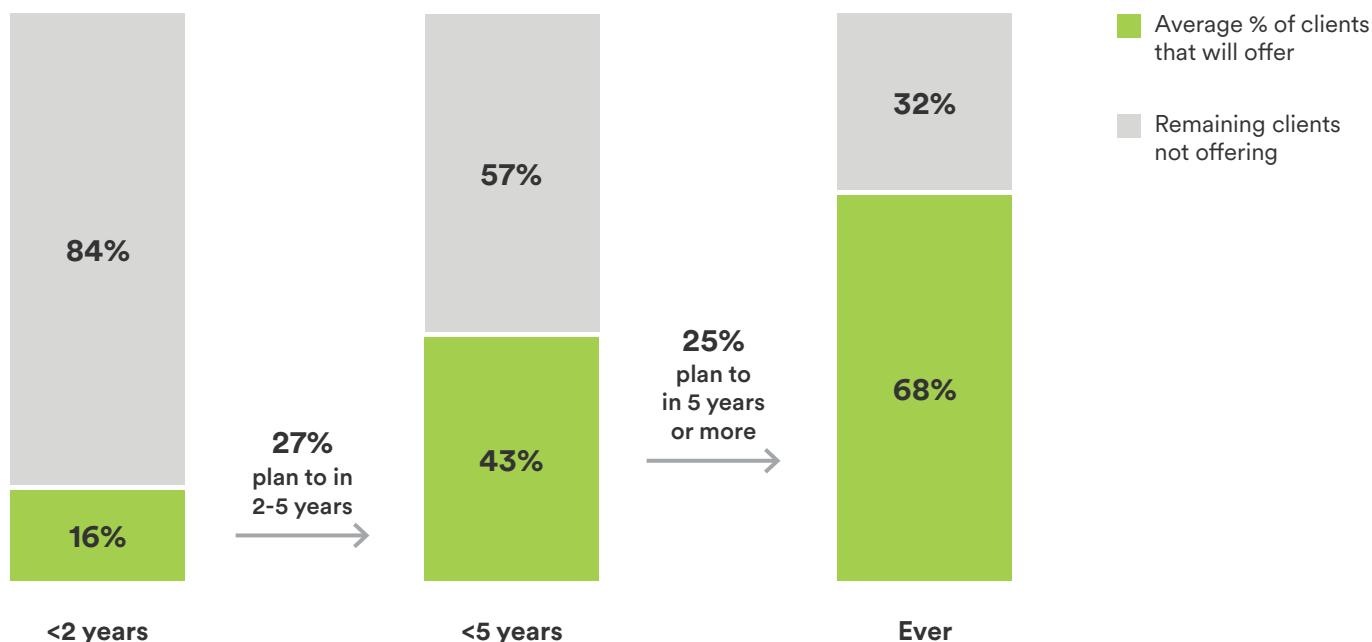


Post-SECURE 1.0, Many Plan Sponsors Have Also Taken Guaranteed Retirement Income Actions, Including Issuing RFPs

Plan sponsors have also taken several actions related to guaranteed retirement income since the passage of SECURE 1.0. Half of consultants say their plan sponsor-clients have conducted due diligence (56%) and/or met with their investment committees to discuss the addition of a guaranteed retirement income option (55%), while about 4 in 10 consultants say their plan sponsor-clients have issued a Request for Proposal/Request for Information from insurance companies/annuity providers (40%) and/or focused on the implementation of Lifetime Income disclosures (38%).

To date, one in 10 plan sponsors (11%) say they have incorporated a guaranteed retirement income option into their DC plan post-SECURE 1.0. Among plan sponsor-clients that aren't yet making retirement income solutions available to their plan participants, consultants say 27% of their clients are considering offering a retirement income option in their DC plan, including 43% who are expected to add them in the next 5 years. Nearly half of consultants believe they will recommend guaranteed retirement income options to 3 or more clients over the next 12 months.

Average Percentage of Clients Expected to Offer Retirement Income Options Within Following Timeframes (n=74)

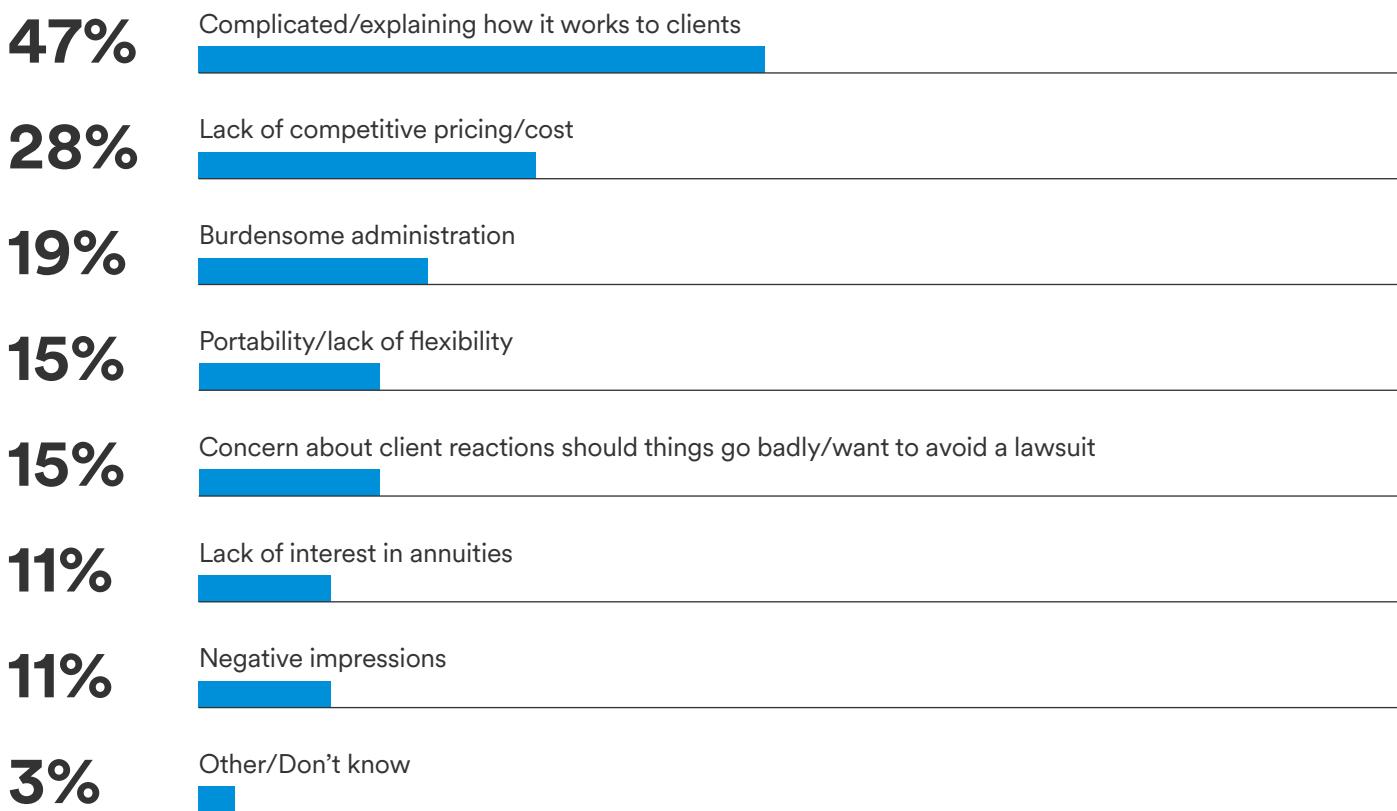


Looking ahead to the strengthening of retirement security for DC plan participants, 78% of consultants had been closely or very closely following SECURE 2.0 and other retirement legislative developments.

A Lack of Interest and Negative Impressions of Annuities Have Not Been the Primary Reasons for Low Adoption by Plan Sponsors

When consultants were asked to identify the biggest issue that stands in the way of their clients offering guaranteed retirement income options to DC participants, bucking conventional wisdom, it was not due to a lack of interest and negative impressions of annuities. Rather, it is consultants' beliefs that these products are complex and difficult for them to explain to their clients, cited by 47% of consultants.

Largest Issue Stopping Clients From Offering Guaranteed Retirement Income Options (n=74)



Given the challenges that consultants face when explaining these solutions to their clients, it is somewhat surprising that 59% say that plan advisors are best suited to provide participant retirement income education.

Many Consultants Believe It Is the Newer Retirement Income Options That Are Difficult to Understand

When characterizing the guaranteed retirement income options that have emerged since SECURE 1.0 passed in December 2019, 62% of consultants say they are difficult to understand. According to the consultants surveyed, the complicated nature of these new products in the marketplace – many of which are investment options with embedded income (e.g., standalone Guaranteed Living Withdrawal Benefit (GLWB), Target Date Fund (TDF) with GLWB, TDF/managed account with deferred fixed annuity) – is the biggest issue that stands in the way of their clients offering guaranteed retirement income options to DC participants.

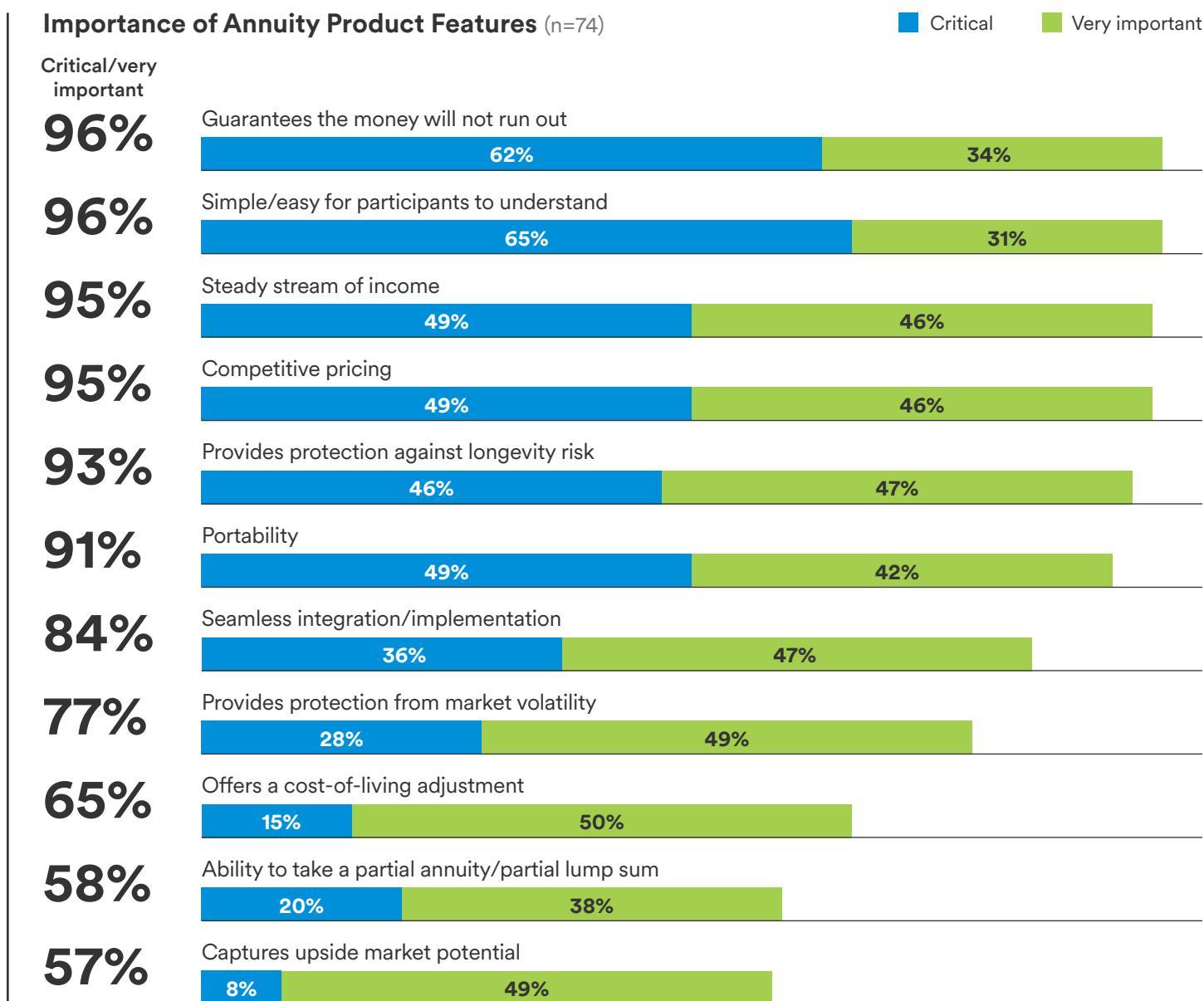
Understandability of New Guaranteed Retirement Income Options That Have Emerged Post-SECURE (n=74)



When Evaluating Annuity Options Available in the DC Market, Lifetime Guarantees and Simplicity Are the Most Important Product Attributes

Guarantees the money will not run out (96%), simple/easy for participants to understand (96%), steady stream of income (95%), competitive pricing (95%), and provides protection against longevity risk (93%) – product attributes typically associated with annuities purchased at the point of retirement (e.g., immediate income annuities) – are the most important attributes, according to consultants.

Capturing upside market potential – typically associated with accumulation investment options with embedded income – ranks lowest on the list at 57%.



Guaranteed Solutions Strongly Favored Over Those Without Guarantees

When consultants were asked if their clients prefer guaranteed annuity options or non-guaranteed retirement income solutions, 58% strongly or somewhat prefer guaranteed annuity options, 23% had no preference, and only 19% strongly or somewhat prefer a non-guaranteed retirement income solution. This was mainly based on past discussions with their clients and suggests a preference for providing the stability of a guaranteed, steady stream of income.

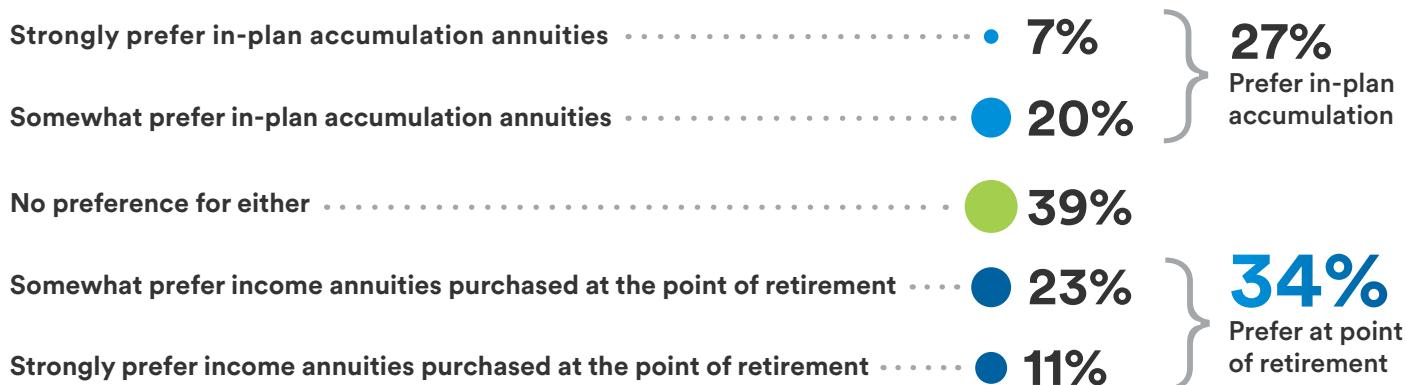
Guaranteed Annuity vs. Non-Guaranteed Retirement Income Option Preferences (n=74)



Immediate Income Annuities and QLACs Edge Out In-Plan Accumulation Annuities

When consultants were asked to what extent do/would their clients prefer in-plan accumulation annuities as an investment option in the plan versus offering income annuities purchased by the plan participant at the point of retirement (i.e., immediate income annuities and/or qualifying longevity annuity contracts (QLACs)), the latter was slightly preferred. While 39% of consultants don't have a preference, 34% strongly or somewhat prefer income annuities purchased by the plan participant at the point of retirement versus only 27% that prefer in-plan accumulation annuities as an investment option in the plan.

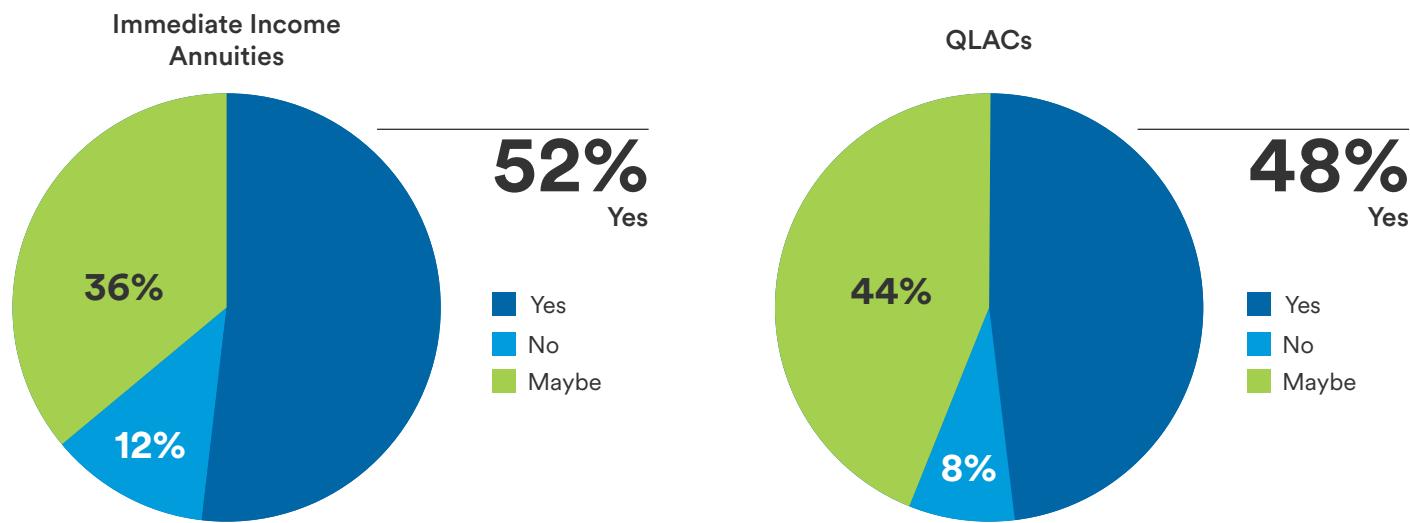
In-Plan Accumulation vs. At Point of Retirement Annuity Preference (n=74)



A preference for solutions purchased by the plan participant at the point of retirement is also strongest among consultants who advise the largest DC plans (\$1 billion+ AUM) (50%), have fewer than 25 clients (48%), and have more tenure in the industry (15+ years' experience) (43%).

Among those who believe their clients prefer at the point of retirement solutions, about half believe that their clients should offer the following solutions as a distribution option from their DC plan in combination with a systematic withdrawal plan (SWiP) or other drawdown strategy: immediate income annuities (52%) and QLACs (48%). With a partial annuity/partial lump sum, the participant can purchase an annuity to cover predictable expenses while providing for liquidity with the remaining assets.

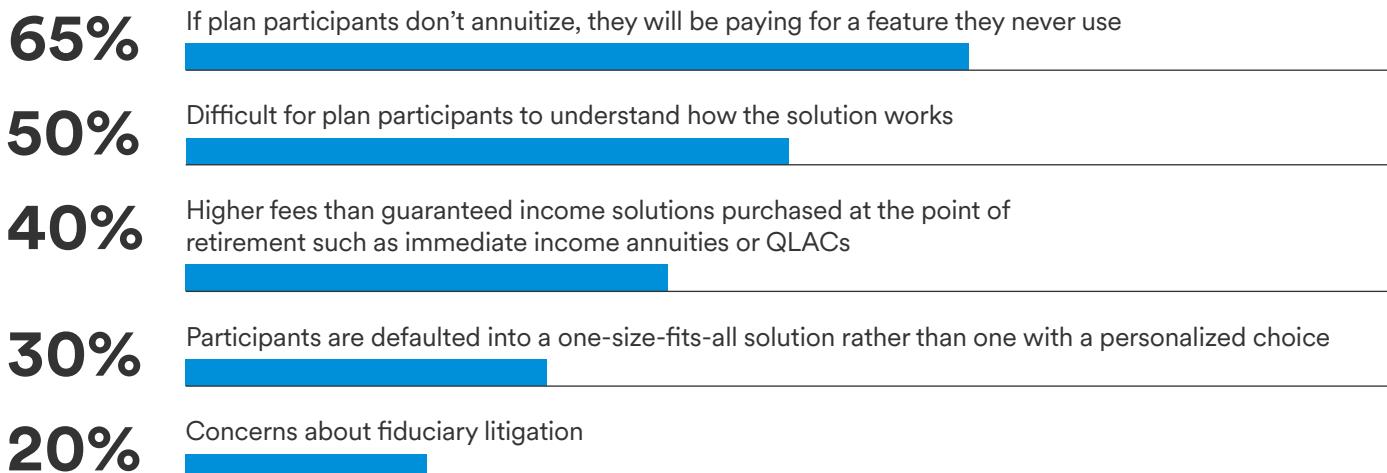
Believe Clients Should Offer Immediate Income Annuities or QLACs in Combination with a SWiP
 Among Consultants Whose Clients Do/Would Prefer Annuities at Point of Retirement (n=25)



Consultants Who Prefer Accumulation Investment Options with Embedded Income Have Concerns

Even consultants who believe their clients would prefer accumulation investment options with embedded income have concerns about target date funds (TDFs) incorporating guaranteed retirement income options – namely, if plan participants don’t annuitize, they will be paying for a feature they never use (65%), it is difficult for plan participants to understand how these solutions work (50%) (as noted earlier), and they have higher fees than guaranteed income solutions purchased at the point of retirement, such as immediate income annuities or QLACs (40%).

Concerns About TDFs Incorporating Guaranteed Retirement Income Options
 Among Consultants Whose Clients Do/Would Prefer In-Plan Accumulation Annuities (n=20)



Recordkeepers Nudging Consultants to Recommend Retirement Income Solutions, While Seamlessly Integrating with Recordkeeper Platforms is Imperative

Nearly three in four consultants (72%) believe it is important for sponsors to offer guaranteed retirement income options on their recordkeeper's platform. But it's recordkeepers who are the ones to request that consultants recommend guaranteed retirement income options for DC plans, ahead of their plan sponsor-clients and prospects.

Importance of Guaranteed Retirement Income Options Available on Recordkeeper's Platform (n=74)



Nearly all consultants (97%) say seamless integration of guaranteed retirement income options with the recordkeeper is very or somewhat important. This could include an investment option with embedded income or guaranteed income solutions offered at the point of retirement, with the latter being much easier to integrate.

Importance of Seamless Integration of Guaranteed Retirement Income Options with Recodkeeper (n=74)

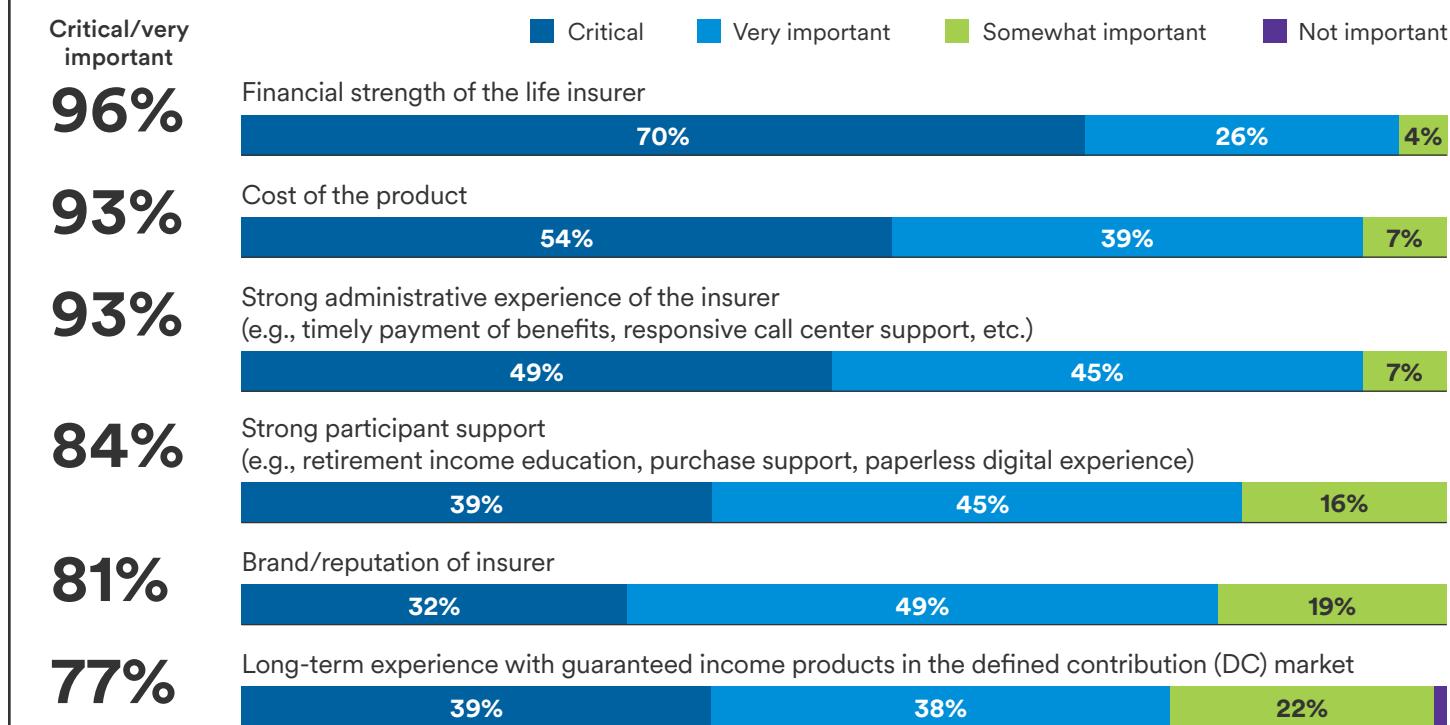


A digital end-to-end participant purchasing experience is also important, according to 88% of consultants.

Financial Strength, Administrative Experience and Product Cost Are Most Important When Selecting an Insurer

When recommending an insurer for an annuity option offered to DC plan participants, consultants rank financial strength of the life insurer (96%), strong administrative experience of the insurer (e.g., timely payment of benefits, responsive call center support, etc.) (93%), and cost of the product (93%) as critical or very important.

Important Criteria When Recommending an Insurer for an Annuity Option (n=74)

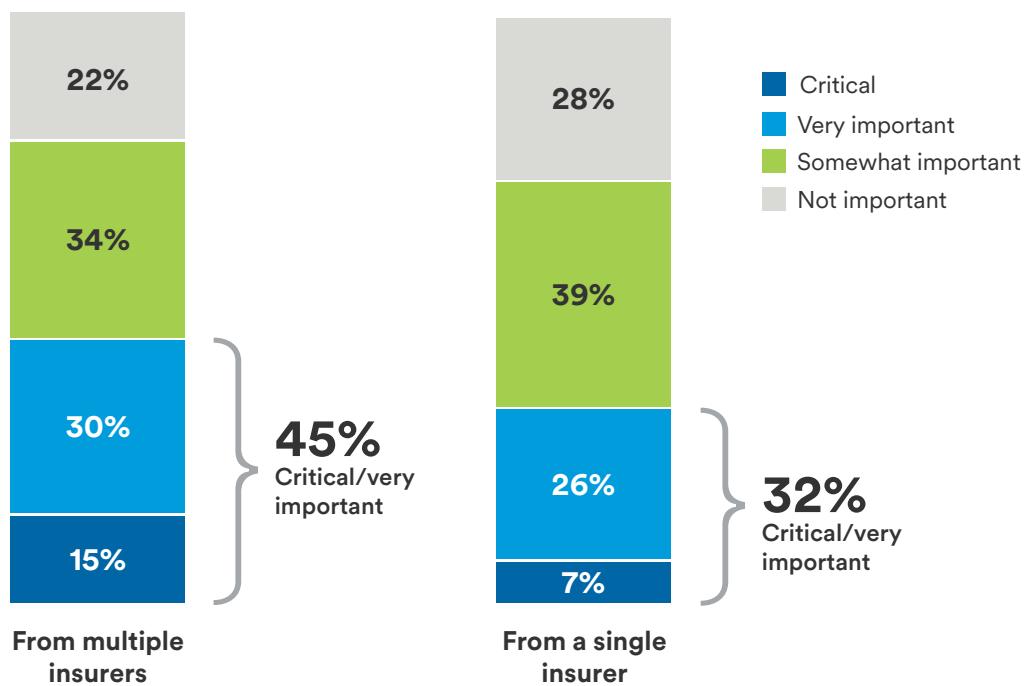


Note: Percentages may not equal totals due to rounding.

Consultants Don't Feel Strongly About Multi-Insurer Diversification

Consultants don't appear to have a strong preference for their plan sponsor-clients to offer guaranteed retirement income option(s) from multiple insurers (45%) vs. a single insurer (32%). If they did use multiple insurers, they believe their clients would work with two insurers, on average, and 69% would have their recordkeeper set it up instead of an aggregator (26%).

Importance of Clients Offering Guaranteed Retirement Income Options Through Single vs. Multiple Insurers (n=74)



More Annuity Providers Expected to Enter the Market

Today, there are dozens of annuity providers offering solutions tailored to the institutional DC market. Among consultants, 77% believe more insurance companies/annuity providers will likely enter the DC market.



Call to Action

As consultants think about the retirement income recommendations they are likely to make to their plan sponsor-clients and prospects, they may want to consider the following:

Work with Your Plan Sponsor-Clients to Determine Their Retirement Income Objectives and Key Results

Helping your clients determine their retirement income objectives and key results (OKRs) for their DC plan is an important first step when considering the various options to address those objectives. For example, is the plan primarily viewed as a supplemental savings program to a DB plan or is it the company's primary retirement savings vehicle? If the latter, is the company concerned about making sure plan participants' retirement savings last throughout their lifetimes and, if so, has the company been focused on educating plan participants about the importance of guaranteed sources of income in retirement?

It may be helpful to re-establish the DC plan as a retirement plan whose intent is to help participants generate retirement income. If a retirement income option is introduced, are you expecting your plan sponsor-clients to view income-related outcomes (i.e., the plan's ability to generate retirement income) as an important measure of their DC plan's success, in addition to traditional accumulation measures (e.g., assets under management, participation rates, etc.)?

Help Alleviate Any Lingering Fiduciary Liability Concerns

The SECURE Act of 2019 contained a fiduciary safe harbor for selecting a lifetime income provider, an important provision that makes clear plan sponsors' role in evaluating an annuity provider. If your plan sponsor-clients are still expressing concerns about their fiduciary role in offering guaranteed retirement income, you may want to spend time explaining to them, in detail, how this provision protects them from fiduciary liability.

The safe harbor utilizes state insurance regulators and an annual certificate provided to the employer confirming an insurer's solvency. This simplifies the insurer review process for employers, negating the need for them to conduct ongoing review of an insurer's capital requirements, liquidity, and solvency. Instead, the employer can rely on written representations from the insurer, which must confirm that the insurer has complied with certain regulatory, financial reporting, and auditing requirements; undergoes an examination by the insurance commissioner in its state of domicile at least every five years; and, agrees to notify the employer of any changes in such circumstances.

Recognize That Not All DC Plan Retirement Income Options Are Created Equally

Deciding which lifetime income options to offer in a DC plan requires careful consideration. In recent years, the qualified retirement plan industry has seen the emergence of many new products along the retirement income spectrum as providers seek to find features and positioning that will meet emerging plan needs and participant preferences.

Ranging from solutions with maximum income flexibility but no guarantees to solutions with maximum income guarantees, a systematic withdrawal plan would be at one end of the spectrum – an investment option with embedded income would be in the middle – and an income annuity (immediate and QLAC) would be at the other end.

Recommend Annuity Options That Are Easy to Explain to Plan Sponsor-Clients and Participants

With new competitors, the industry is seeing quite a bit of innovation around retirement income solutions. While this provides a lot of product choice, it also has created significant confusion for consultants, as noted in the survey findings, as well as plan sponsors and participants.

Although there is now a range of retirement income options available in the market to try to address every potential objection to annuities, it should be noted that income annuities purchased at the point of retirement, such as an immediate annuity or a longevity annuity with an income benefit paid later in life, are the easiest to explain to your clients and their plan participants. They complement existing strategies and are compatible with any recordkeeper or platform, with the flexibility of limited to no build required.

Help Your Clients Introduce Retirement Income Options on Their Terms

The most effective way to engage plan participants in converting some or all of their DC plan balance into guaranteed lifetime income is to have it offered by their employer as a voluntary benefit because of the implied “endorsement effect.” However, while there has been some traction post-SECURE 1.0 and more plan sponsors are expected to offer guaranteed retirement income options, as evidenced by our survey findings, it’s not inconceivable that public policymakers could someday mandate that employers offer these solutions to their plan participants. Acting now, on your clients’ terms, is a way to ensure that the options they offer best meet the needs of their plan participants today and in the future.

Make Retirement Income Education a Plan Priority

Once a retirement income solution is introduced to plan participants, it's important to support the program with a robust income-focused educational campaign. One of the most effective retirement income education tools are Lifetime Income Disclosures, another key provision of SECURE 1.0, which requires DC plan benefits statements to show an accumulated balance and its lifetime monthly income equivalent. The statements will have two important effects: first, they will help DC plan participants understand how much their retirement savings will generate in monthly income, and, secondly, they will encourage participants to save more in their DC plan once they have a more realistic picture of the expected value of their savings.

In addition to the required lifetime income disclosures, it's important to ensure that plan communications focus on both retirement savings and retirement income. While plan sponsors provide education about the need to save for retirement and the risks of investing, many are under communicating about the importance of retirement income. In fact, very few focus on retirement income-related issues such as longer life spans/longevity risk, how to create retirement income, the pros and cons of taking a lump sum versus periodic payments, and when to begin taking Social Security benefits.

Conclusion

In the coming years, because of the recommendations that plan consultants are expected to make – and plan actions that plan sponsors are expected to take – it's likely that retiring plan participants will have more retirement income options in their company's DC plan. What is clear from the study findings is that when it comes to recommending retirement income solutions, DC plan consultants' sphere of influence cannot be overstated – from conducting due diligence, recommending solutions to their clients, to helping recordkeepers integrate solutions on their platforms. Whether millions of future retirees will enjoy retirement security rests largely in their hands.