In-Plan Annuities: The Plan Sponsor Perspective

Matthew Drinkwater • Annuity and Retirement Income Research

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In-Plan Annuities: The Plan Sponsor Perspective

Annuity products have been part of defined contribution (DC) retirement savings plans for many years, often as a way to fund 403(b)(1) plans. Group annuities have also been used as the funding mechanism for 401(k) plans. However, the vast majority – perhaps as many as 9 in 10 — DC plans have no in-plan option for generating lifetime-guaranteed income for retiring employees.

Despite historically low adoption of in-plan annuities (IPAs) to date in 401(k) plans — in 2019, just 14 percent of savings and thrift plan participants in private-sector jobs worked for employers who offer this option — some stakeholders are seeing an uptick in adoption and others have recently introduced new products.[1] These developments have been driven in part by the enactment of SECURE and SECURE 2.0, which provided plan sponsors with a safe harbor to select an insurance company's in-plan product.

LIMRA's research, as well as that of other organizations, demonstrates a high need and desire among workers to create guaranteed income within their employer-sponsored retirement savings plans. With so few private-sector workers covered by defined benefit plans, the majority must plan to rely primarily on DC plans (and IRAs, which are primarily funded by rollovers from DC plans) to generate income from retirement savings. Our research shows 70 percent of workers believe in-plan guaranteed income options should be available in their DC plans.[2]

At the same time, our research suggests that DC plan advisors and consultants have reservations about IPAs: about 8 in 10 believe that income solutions are best placed outside of DC plans for average participants.[3] They also believe the sales process to be time-consuming. And, fiduciary concerns remain among plan sponsors, as the prospect of adding annuities to retirement plans may be more challenging than selecting mutual or target date funds (TDFs).[4]

Against this backdrop, as part of a multi-phase research initiative, in mid-2023, LIMRA conducted a survey of DC plan sponsors in order to understand their perspectives regarding the IPA market today, and to identify opportunities for insurers and other stakeholders.

Key Questions:

- What are the characteristics of plan sponsors who offer IPAs compared with those who do not offer IPAs?
- Why do sponsors offer, or not offer, IPAs? Specifically, how important are factors such as cost, complexity, fiduciary concerns, or participant demand in offering IPAs?
- What methods have employers used to assess whether to offer IPAs?
- Is the decision to offer IPAs related to decisions about traditional defined benefit pension plans?
- What proportion of participants elect to contribute to IPAs when offered – and do employers encourage them to do so?
- Among those sponsors not now offering IPAs, what proportion are considering doing so, and when will they make their decisions?

[1] *National Compensation Survey: Retirement Plan Provisions in Private Industry in the United States*, 2019, Department of Labor, April 2020; Tuohy, C., "The Numbers Show Workplace Annuities Gaining Some Traction," *Ignites*, February 1, 2023.

[2] *Lifetime Income: Do Workers Want Options in Their Plans*, LIMRA, 2020.

[3] *Defined Contribution Advisor Views: Advisor Perspectives on Retirement Income*, LIMRA, 2023.

[4] Zuss, N., "Fiduciary Concerns Continue to Stymie Annuities in 401(k)s," *Plan Adviser*, January 17, 2023.

About the Study

Study participants, with sample drawn from a nationally representative panel, completed an online survey fielded June – July, 2023.

Sample criteria*:

Respondent

- Age 18 or older
- Either an employee working in accounting/finance, human resources, legal, operations/production, or in senior management (e.g., executive, owner, president/CEO), or self-employed executive, owner, or president/CEO.
- Involved with company's retirement benefit decisions

Company

- 10 or more full-time employees
- In operation for 3 or more years
- Private-sector for-profit, not-for-profit (NFP), or non-profit employers (NP), including healthcare employers but excluding all educational or government employers
- Offers employees a DC plan, such as 401(k) or 403(b) plan

- To be selected for the study, all respondents had to pass several quality control checkpoints within the survey, and had to satisfy other quality control requirements for internal consistency of responses.
- 209 sponsors of DC plans offering IPAs, and 357 sponsors of DC plans that do not offer IPAs, participated in the study.**
- Results were weighted to ensure results were representative based on plan size, for DC plans with 10 or more active participants, and prevalence of in-plan annuities (assumed to represent about 12 percent of all plans).
- The survey was administered by a major research vendor.

*See Appendix A for additional information about the sample. **See Appendix B for additional information about the in-plan annuities offered.

Executive Summary

Paternalism/employer philosophy: Companies that believe the locus of responsibility for ensuring retirement security lies closer to the employer than the employee will be more inclined toward considering and adding IPAs. Paternalistic employers do not want their current and former employees to fend for themselves. They would rather make certain decisions for their employees, on the grounds that it will be to their employees' financial benefit in the long run. That may also mean outsourcing decisions to trusted experts, rather than providing plan participants with too much autonomy. This attitude also explains why these employers' plans tend to have automatic enrollment and deferral escalation, shorter vesting schedules, and to be more restrictive in allowing lump-sum distributions. These employers not only believe in the importance of income products within a DC plan, they also feel that guaranteed income investment options are necessary to ensure retirement security, to a much greater degree than sponsors of plans without IPAs. IPA-offering sponsors make employer matching contributions to IPAs and are even willing to explicitly recommend the IPA to their participants, resulting in higher IPA participation rates. Exactly why some employers are paternalistic — to improve employee recruitment and retention, for example — is beyond the scope of the present study. But whatever the reason, recordkeepers and insurers marketing IPAs will likely have more success using messages that emphasize (or even celebrate) the commitment of employers to their employees' long-term wellbeing.

DB pensions: There's a strong connection between defined benefit pensions and IPAs. Employers offering DB pensions — active or frozen — tend to offer IPAs to a greater extent than do employers who do not have DB pension plans. Also, employers who used to offer DB pensions are more likely than other employers to offer IPAs. This strong connection can be explained partly in terms of the employer's guiding philosophy of paternalism. Offering DB plans, and an IPA within a DC plan, are likely seen as ways to improve the chances that their retired employees will enjoy a stable, secure retirement. The IPA has the additional advantage of (often) being portable and allows for more participant optionality but not at the expense of jeopardizing their future incomes. In addition, DB pensions and IPAs tend to be more suitable for employers with low turnover and long-tenured employees.

Age of employer and age of plan: While very large, established employers were among the first wave of plan sponsors to adopt IPAs, the research suggests that there is more recent activity at the smaller end of the market. Younger employers may be good candidates for IPAs because they have little or no legacy plans to deal with and because their guiding philosophy may still be under development. They might be more willing to try something new than older employers with ossified ideas about the role of plan sponsors.

Availability of IPAs: Not every recordkeeper provides access to IPAs on their platforms. And even those that do might not be making all of their sponsor clients aware of them. Older, smaller employers are among the least likely to have access to, or have considered adding, IPAs. Younger employers undergoing rapid growth may be a more attractive market segment for IPAs. As IPAs rise in popularity, recordkeepers without any IPAs may be at a competitive disadvantage.

Pipeline of IPAs: About half of the no-IPA sponsors say that they have considered adding an IPA at some point. Most of those who have considered doing so are still considering, and haven't made a final decision; about 3 in 4 claim that they will make this decision within the next 12 months, suggesting that an IPA pipeline may have formed, depending on what decisions are ultimately made and if employers really do keep to this timeline. Recordkeepers and insurers should continue to build awareness of the benefits of IPAs, and to nudge their deliberating clients toward decisions.

Plan advisors/consultants: Sponsors of plans with and without IPAs tend to rely on the guidance of a plan advisor or consultant. Both IPA and no-IPA sponsors feel these stakeholders bear a "high" level of responsibility for helping people create income from their DC plan balances. And, among IPA-offering sponsors and sponsors that do not offer IPAs but have evaluated doing so, the plan advisor/consultant is by far the most common stakeholder to handle the RFP process. Thus, plan advisors/consultants appear to play the same role in the IPA evaluation process among employers who do and do not have IPAs.

Executive Summary, Continued

Objections to In-plan Annuities, and Ways to Address Them

- **Employee demand**. The top reason why employers say they do not offer IPAs is a lack of demand from employees. Yet many of these employers have not formally assessed the demand for IPAs. Had they done so, it's possible they would have made a different decision. Moreover, a lack of demand may not be an especially compelling reason to reject IPAs. For one, the vast majority of workers have either never heard of IPAs or know little about them — not enough to make a fully informed decision about how appropriate they might be. Also, demand can be increased by employers, by taking the time to explain them, offering group meetings, and building broad awareness prior to adding an IPA. And, if the IPA is connected to the plan's QDIA, many new employees will be automatically enrolled in it, regardless of demand level.
- **Plan advisor/consultants recommendations**. Among the sponsors in the no-IPA group who have at least considered IPAs, a high proportion (79 percent) relied on plan advisor/consultants when evaluating IPAs. However, only 8 percent said that they didn't offer IPAs because their advisors/consultants recommended against adding them. Thus, plan advisor/consultants may have an asymmetrical effect across sponsors: While plan advisor/consultants appear to be instrumental in deciding to add IPAs, recommendations *against* IPAs do not seem to be as crucial in deciding *not* to add them. Building awareness and buy-in among the plan advisor community will be critically important for the growth of the IPA market.
- **Product-based objections**. Employers not offering IPAs often criticized the IPAs themselves, claiming that they are expensive, complicated, resource-intensive, hard to explain, not flexible and not portable. Also, many employers are not yet sold on the value of an IPA since IPAs are still relatively new and do not have a long enough track record. In theory, these are the reasons that the IPA manufacturers and recordkeepers can most directly address by rolling out innovative products that are not costly, complicated, or hard to understand — or by explaining how their existing products are affordable and easy to understand, pointing to the successful (but limited) track record of IPAs so far. Testimonials of both sponsors and participants could also help drive home the value of IPAs.
- **Limited resources**. Many business leaders, including HR and employee benefits directors, have little bandwidth to balance day-to-day operational responsibilities with in-depth evaluations of potential employee benefits. They have to be strategic about where to direct their attention and resources when making benefits-related decisions. Accordingly, a focus on other employee benefits priorities, such as health care coverage, was cited by over one fifth of employers as a reason they do not offer IPAs. Along with the product-based objections that they are too complicated for the company to add to the DC plan and too time-consuming to administer, this sentiment could be addressed by emphasizing the turnkey, plug-and-play nature of the new IPAs on the market. That approach may be most successful at small employers who would prefer not to take on the responsibility associated with implementing a customized, complicated option.
- **Fiduciary concerns.** Related to the concern that insurers backing the IPA guarantees won't be able to meet their future obligations, fiduciary concerns were sometimes mentioned by sponsors of plans without IPAs, but to a lesser degree than product-based or employee demand-based objections. The passage of SECURE in late 2019, as well as other regulatory changes in the past few years, likely alleviated some of these concerns. Nevertheless, uncertainty about fiduciary liability may linger, so industry stakeholders should continue to explain the new protections in place.

 

In-Plan Annuity Sponsors Versus No In-Plan Annuity Sponsors

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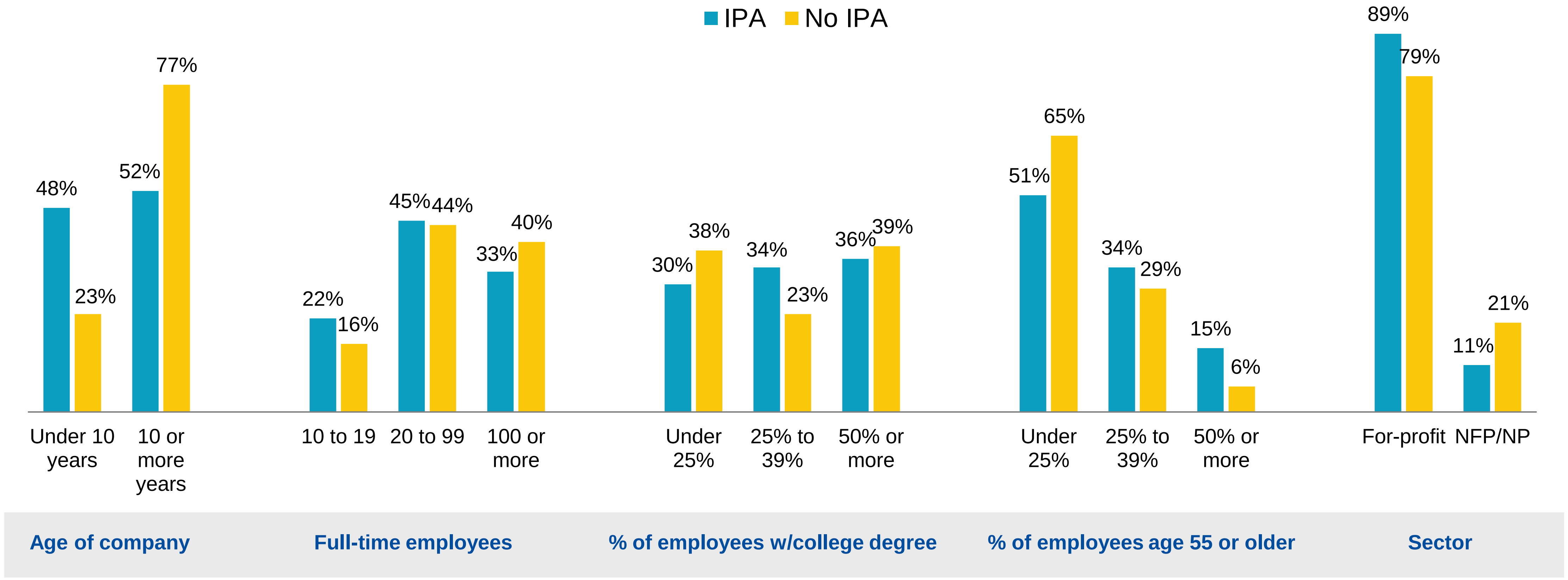
IPA Versus No IPA — Employer Characteristics

Across these metrics, the clearest difference between the IPA and non-IPA groups is age of company. **Employers offering IPAs in their DC plans are twice as likely as employers without IPAs in their plans to be under 10 years old.** The IPA employers also skew toward college-educated employees. Otherwise, there aren't major differences between the two employer groups.

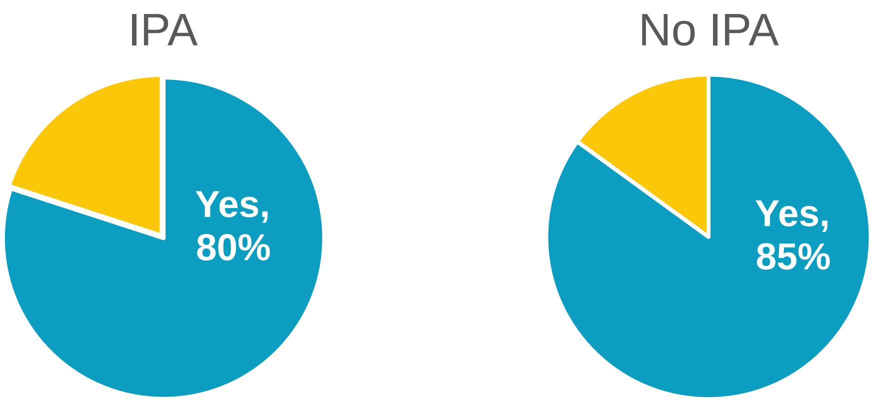


Based on 209 sponsors of plans with IPAs and 357 sponsors of plans without IPAs.

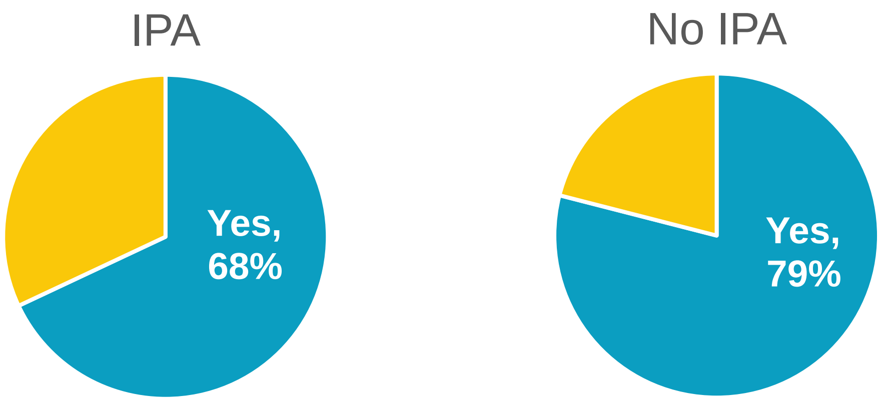
IPA Versus No IPA – Employer Characteristics

The two groups are very similar in terms of their use of professionals. **The vast majority of both groups work with plan advisors/consultants**, and working with third-party administrators (TPAs) is also very common. While both types of professionals may be involved with the implementation of IPAs**, plan advisor/consultants likely have much more sway in terms of the decision to add an IPA.**

Works with plan advisor/ consultant



Works with TPA



Based on 209 sponsors of plans with IPAs and 357 sponsors of plans without IPAs.

IPA Versus No IPA – Employer Characteristics

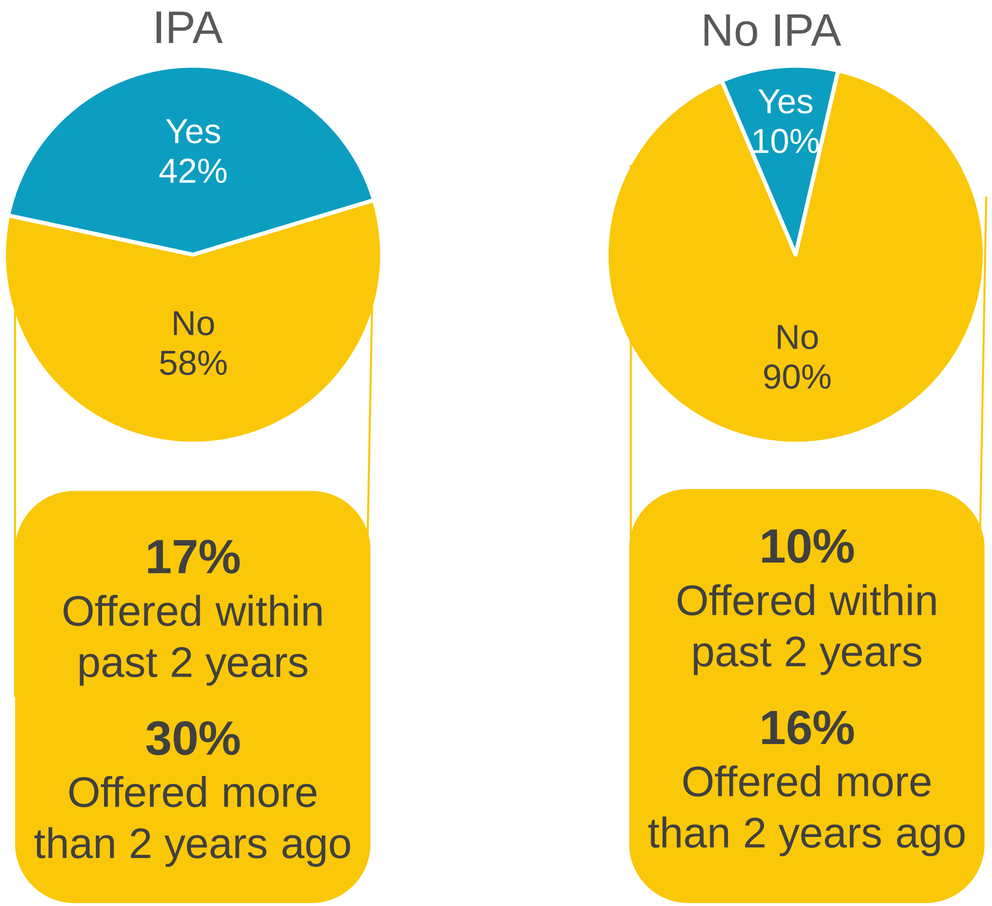
IPA-offering employers are much more likely than non-IPA employers to offer a traditional DB pension plan, and to have offered a traditional DB plan in the past.

This finding is consistent with the idea that employers who will be interested in IPAs are those who value the ability of a retirement plan to generate lifetime-guaranteed income. If traditional DB pensions are no longer workable for them due to high costs or other reasons, an in-plan option for generating lifetime income from a DC plan represents an attractive alternative.

Defined Benefit Pension Plans

Offer a traditional defined benefit pension plan?

Offered DB plan in the past?

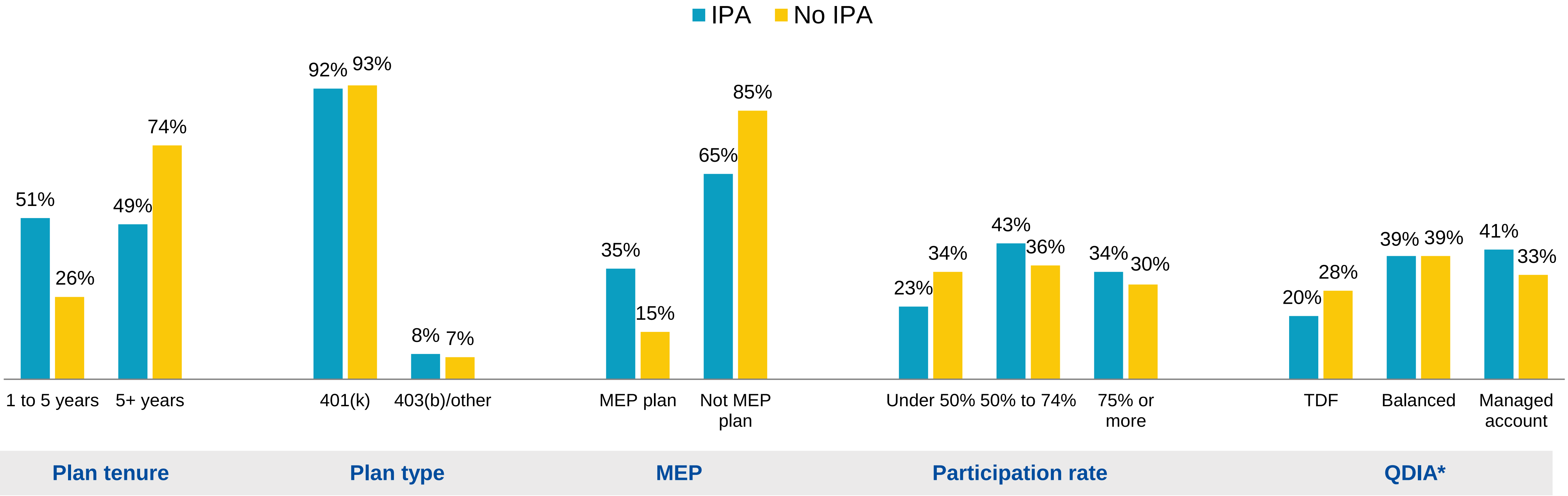


 Based on 209 sponsors of plans with IPAs and 357 sponsors of plans without IPAs.

IPA Versus No IPA – Plan Characteristics

In the IPA group, as would be expected given the fact that the employers are younger, **the DC plan tenure tends to be shorter**. **And** they are much **more likely** to be set up as multiple employer plans, or **MEP plans**. **But in terms of plan type, overall participation rate, and use of qualified default investment alternatives (QDIAs), the IPA and no-IPA plans are very similar**.

With regard to QDIAs, while the investment selections are similar, the likelihood of having *any* QDIA is higher for the IPA group than the no-IPA group, 90 percent versus 77 percent, respectively.



Based on 209 sponsors of plans with IPAs and 357 sponsors of plans without IPAs. *Based on the 79% of sponsors of plans that have qualified default investment alternatives (90% of IPA group, 77% of No-IPA group).

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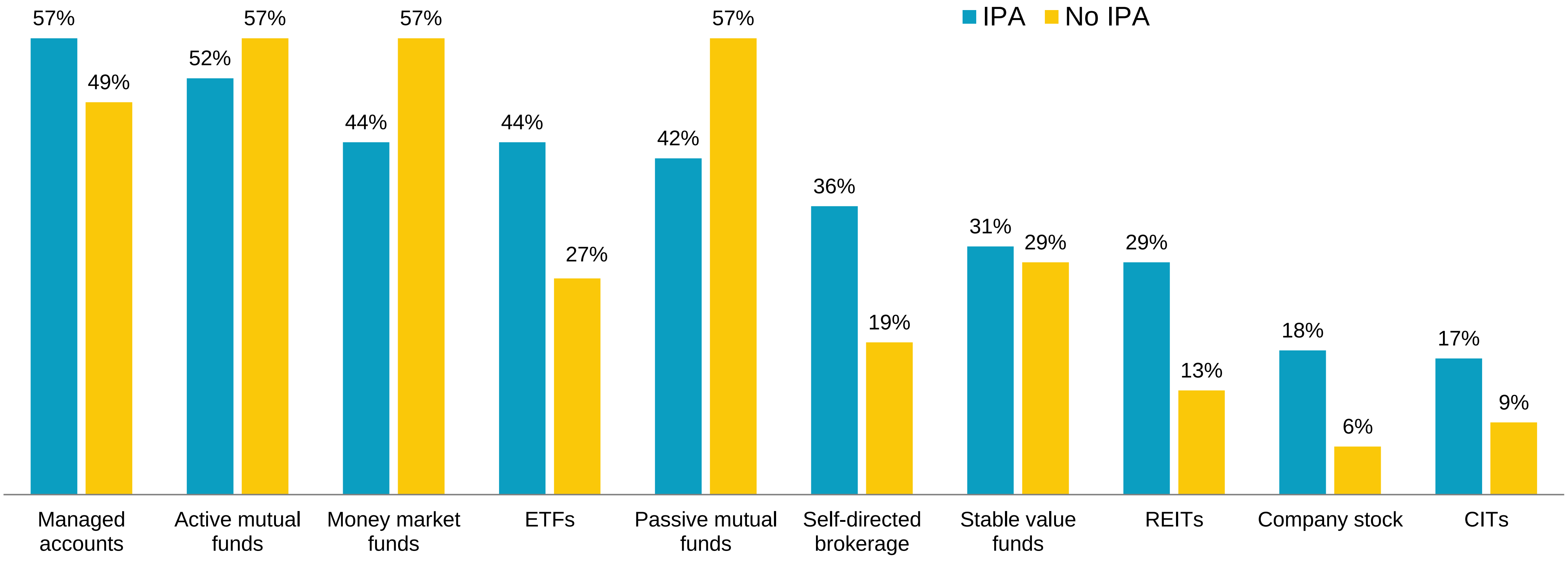
IPA Versus No IPA – Plan Investment Options

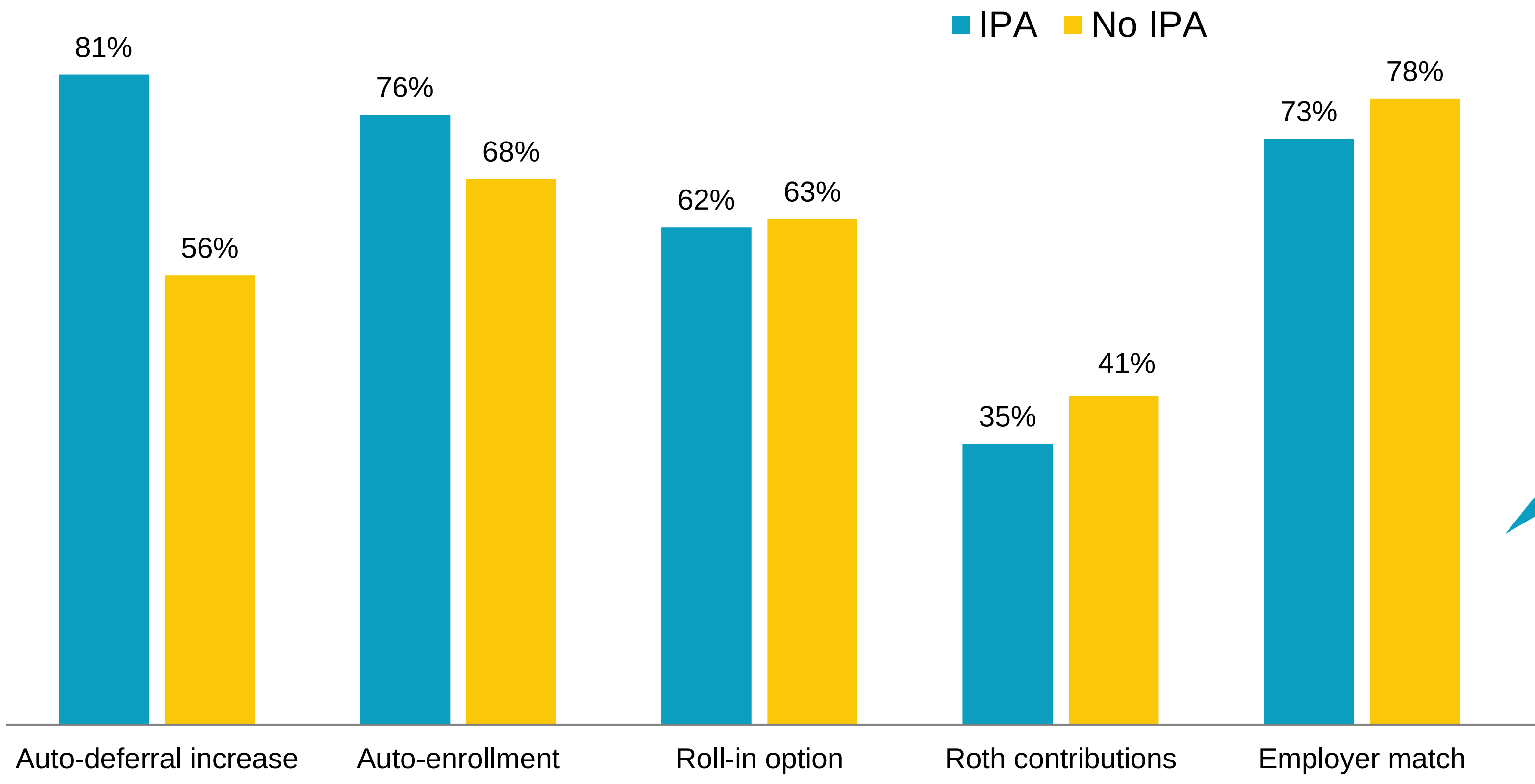
Plans with IPAs tend to have similar investment line-ups as no-IPA plans. But, perhaps because they are usually newer plans, the IPA plans are more likely to have less common investments like exchange-traded funds (ETFs), self-directed brokerages, real estate investment trusts (REITs), or collective investment trusts (CITs) beyond the more standard managed account and mutual fund options. They are also three times as likely as the no-IPA plans to include company stock, which could reflect the fact that the IPA employers are a bit more likely to be for-profits than the no-IPA employers.



 Based on 209 sponsors of plans with IPAs and 357 sponsors of plans without IPAs.

IPA Versus No IPA – Plan Inflows

Auto-features, especially the automatic escalation of deferrals, were more common in IPA plans. Roll-ins from other DC plans, Roth contributions, and employer matches were around the same prevalence across IPA and non-IPA plans. In terms of company matching contributions, the median contributions were within one percentage point of each other. Overall, **features associated with plan inflows were very similar across the two groups.**



Median Employer Matching Contribution

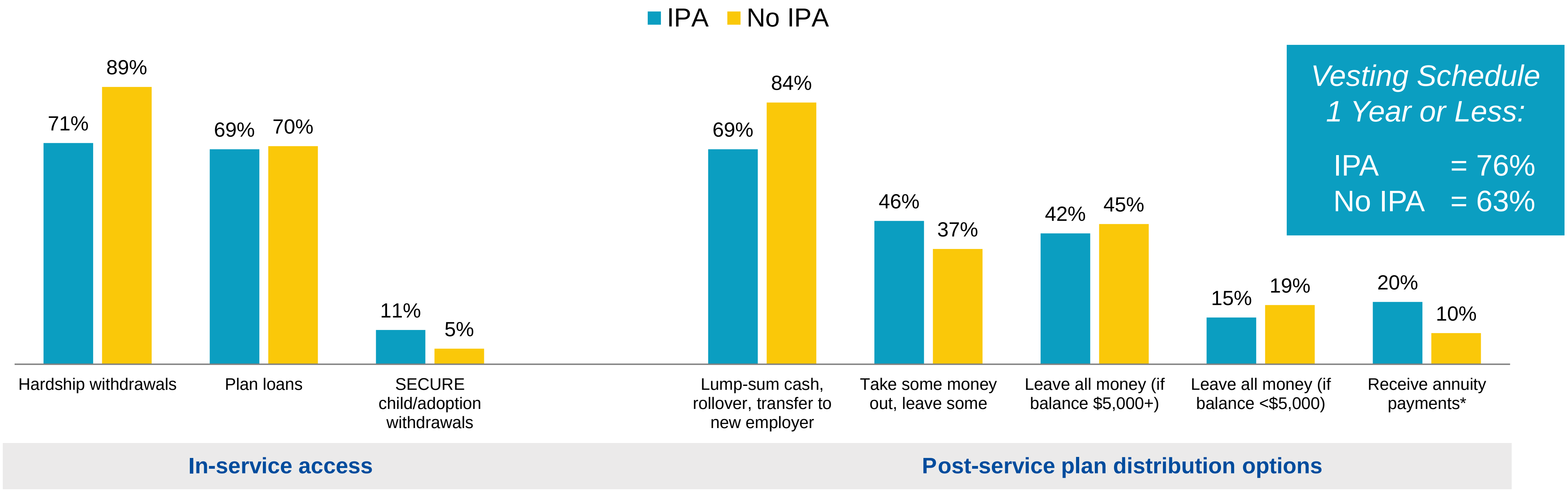
IPA = 7.0%
No IPA = 6.0%

Based on 209 sponsors of plans with IPAs and 357 sponsors of plans without IPAs.

IPA Versus No IPA – Access to Funds

IPA plans are generally more restrictive in terms of participants' access to funds. Hardship withdrawals and lump-sum distribution options are more common in the no-IPA plans than the IPA plans. That difference might be an indication of paternalism on the part of the employers who sponsor plans with IPAs. If the goal is to maximize future retirement security, restricting access to funds makes sense, because it prevents leakage and implicitly encourages participants to build up savings separately from their retirement plans that can be used for short-term, emergency needs.

The somewhat higher prevalence of short, 1-year vesting schedules among the IPA plans may reflect lower employee turnover at these employers. A more stable base of employees also favors offering features such as IPAs.

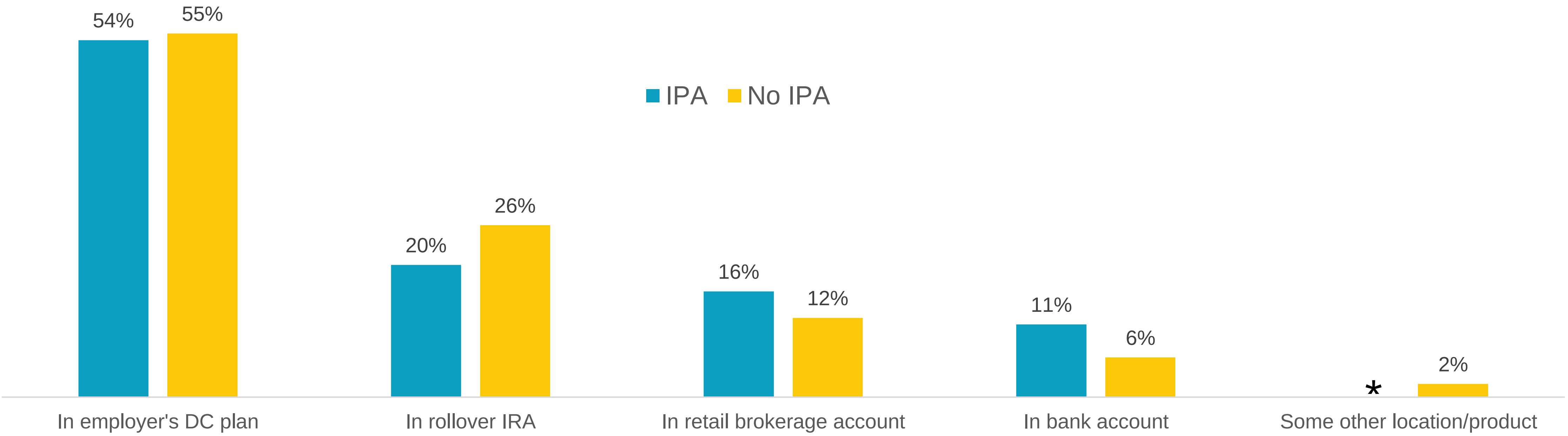


Based on 209 sponsors of plans with IPAs and 357 sponsors of plans without IPAs. *While by definition all plans with IPAs have annuity payout options, these percentages refer to the proportion of DC plans that allow any departing employee to receive an annuity payout (e.g., through an out-of-plan income product or platform), not just retirees who had contributed to an in-plan annuity.

IPA Versus No IPA – Sponsor Attitudes

The same proportion of the IPA and no-IPA employers agreed that the best location for average workers to access retirement income products is within an employer's DC plan. Relatively few employers felt that rollover IRAs, brokerage accounts, or bank accounts were ideal locations for such products. **This attitude reveals a possible disconnect between plan sponsors and plan advisors**. In research LIMRA conducted in 2022, plan advisors were asked the same question; only 18 percent felt the best location to access retirement income products was an employer's DC plan, while two thirds said that they best place to access retirement income products is a rollover IRA.[5]

"The best location for an average worker to access retirement income products is…"

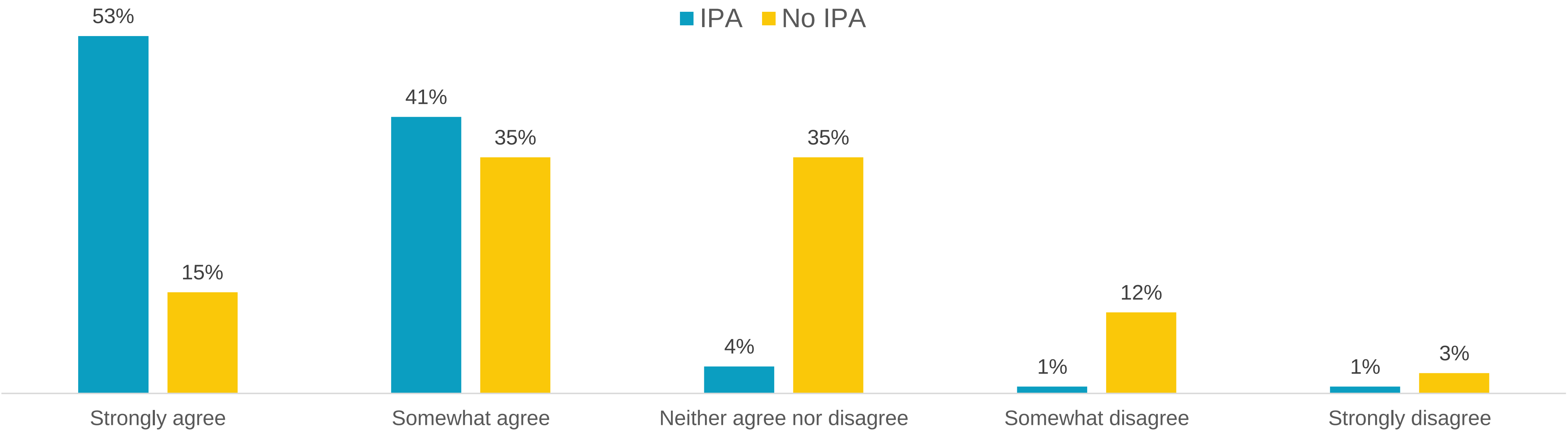


Based on 209 sponsors of plans with IPAs and 357 sponsors of plans without IPAs. *Less than 0.5%.
[5]Source: Defined Contribution Advisor Views: Advisor Perspectives on Retirement Income, LIMRA, 2023. Based on 130 advisors surveyed between October – November 2022.

IPA Versus No IPA – Sponsor Attitudes

While the IPA and no-IPA groups agree on the importance of income products within a DC plan, they very much disagree on the universal importance of guaranteed investment options, and how necessary they are to ensure retirement security. Thus, no-IPA group is not rejecting all forms of income generated from the DC plan they sponsor – it's the necessity of offering *guaranteed* income to all of their retiring employees.

"Guaranteed income investment options are necessary to ensure retirement security for nearly all retiring employees"



 Based on 209 sponsors of plans with IPAs and 357 sponsors of plans without IPAs.

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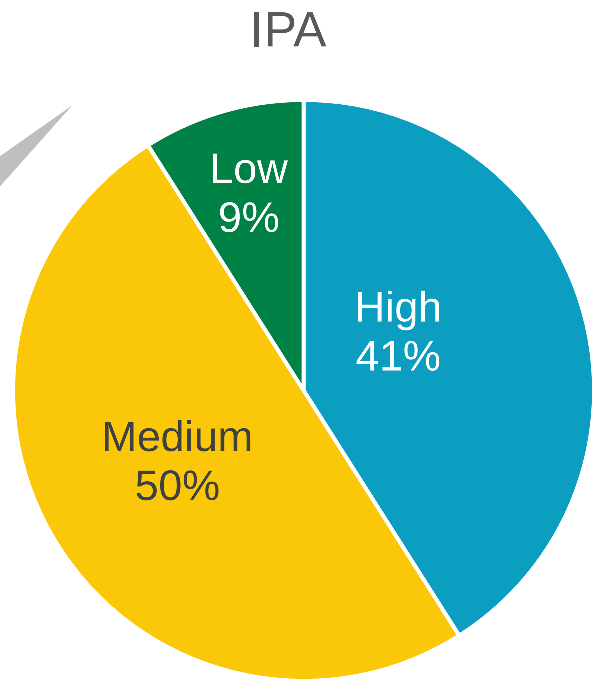
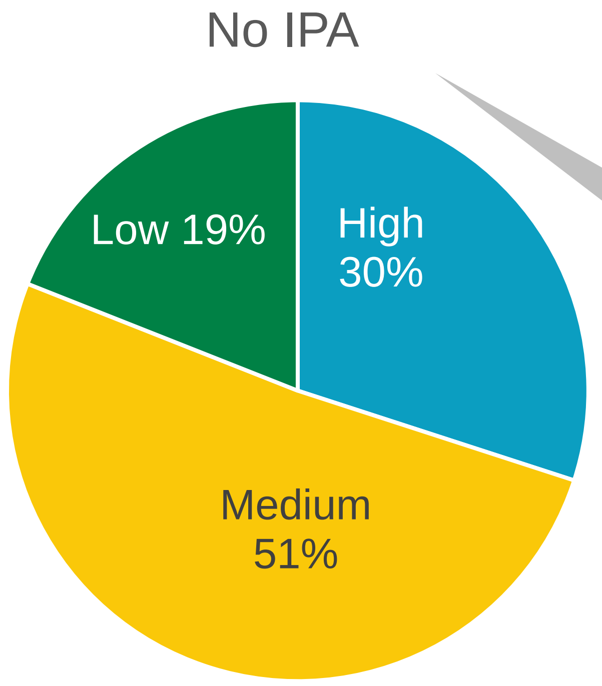
IPA Versus No IPA – Sponsor Attitudes

Much of the attitude differences between the IPA and no-IPA employers can be understood in terms of perceived levels of responsibility for helping people convert their retirement savings into income. The **employers sponsoring plans with IPAs are more likely than their no-IPA counterparts to feel that the responsibility lies with them, the plan sponsors, to help participants turn their plan balances into retirement income**. The No-IPA group is more likely to feel that they bear only a “Low” level of responsibility.

Plan sponsors’ level of responsibility for helping individuals turn their retirement plan balances into income streams in retirement

“It’s our responsibility”





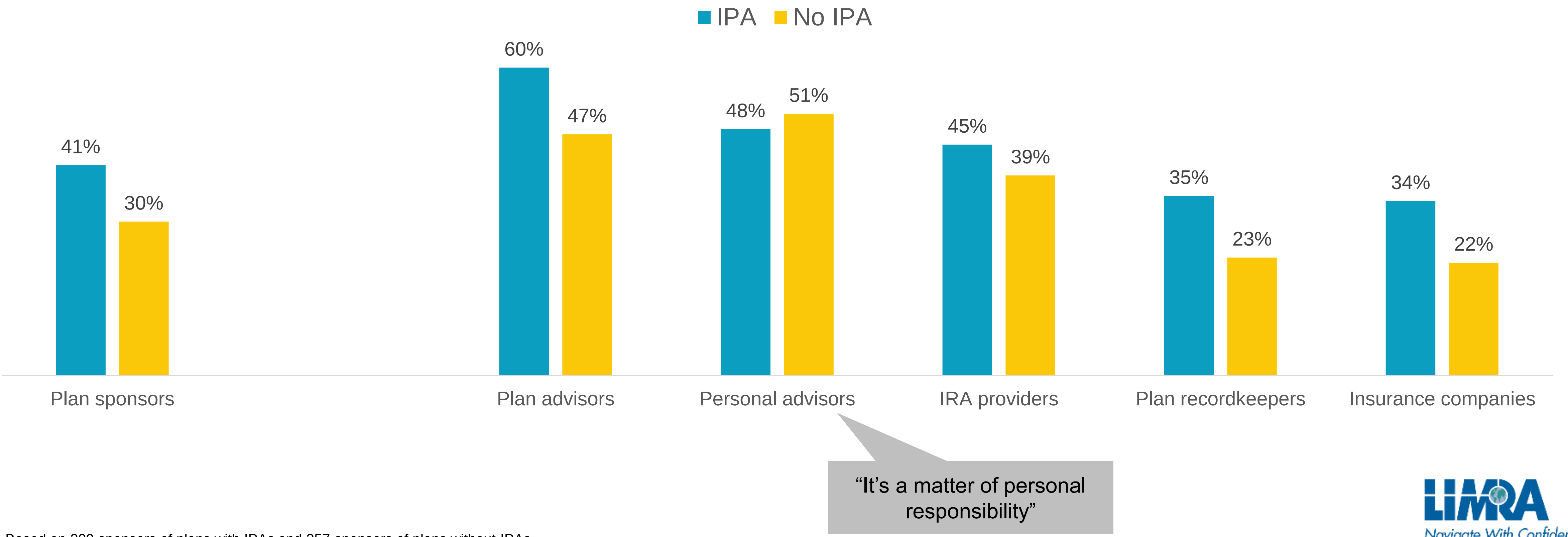
“It’s a matter of personal responsibility”

 Based on 209 sponsors of plans with IPAs and 357 sponsors of plans without IPAs.

IPA Versus No IPA – Sponsor Attitudes

So who does have a "high" level of responsibility for helping people create income from their savings? Among both the IPA and no-IPA groups, there's agreement that *advisors* bear the responsibility. The no-IPA group was slightly more likely than the IPA group to believe personal advisors have "high" levels of responsibility, which is consistent with the overall sense that the locus of responsibility lies outside of the employer and the employer's partners such as plan advisors and recordkeepers.

Stakeholder has "High" level of responsibility for helping individuals turn their retirement plan balances into income streams in retirement



 Based on 209 sponsors of plans with IPAs and 357 sponsors of plans without IPAs.

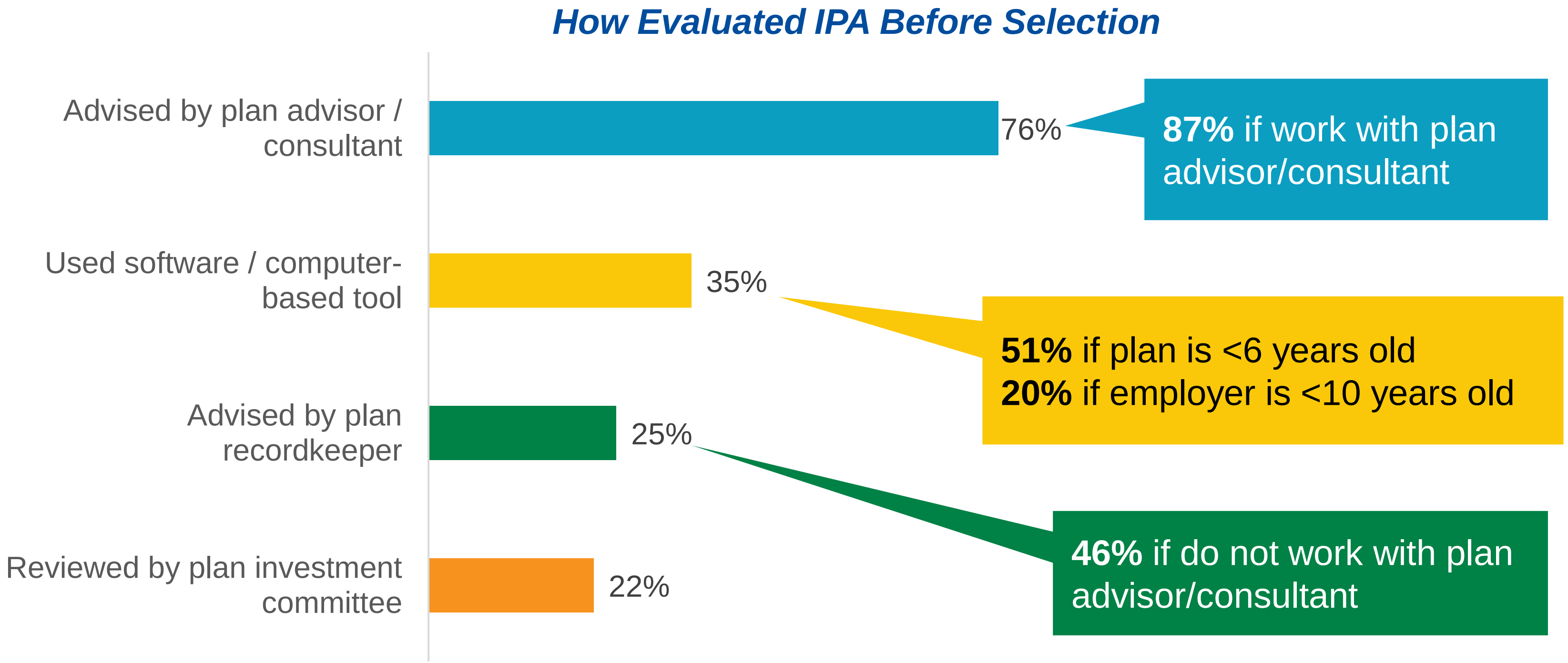
Sponsors of Plans With In-Plan Annuities

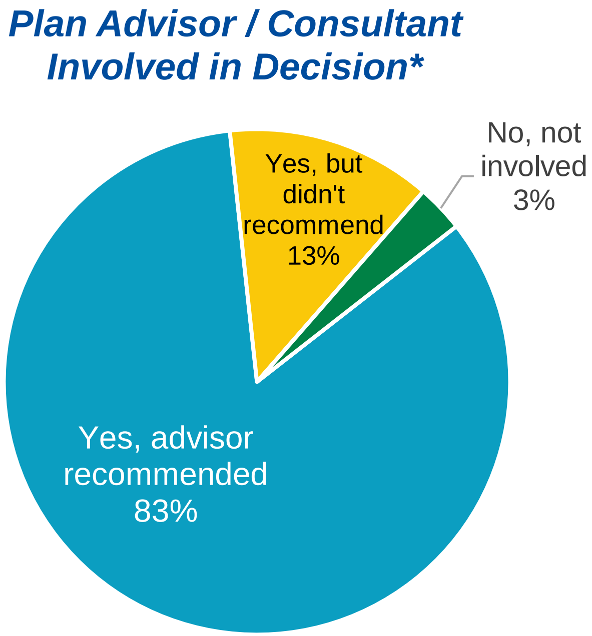
In-Plan Annuity Decision and Implementation

IPA Group

Plan advisor/consultants play a major role in the IPA evaluation process. If the employer currently works with a plan advisor/consultant, 87 percent of the time, that individual is advising on the IPA decision. As shown in the pie chart, advisors do not always recommend the IPA, implying a level of autonomy among some of these employers, but overwhelmingly employers go along with the recommendations. **The plan recordkeeper plays a role in the evaluation process only one quarter of the time – but that proportion is much higher among the minority of sponsors who do not work with plan advisor/consultants**.

The use of digital tools is fairly common, particularly if the plan was recently created. The greater reliance on computer-based tools among newer plans could be linked to the age of the employees themselves, with younger decision-makers who are more tech-savvy opting for digital tools.





Based on 209 sponsors of plans with IPAs. Multiple responses allowed. *Based on sponsors who work with a plan advisor/consultant.

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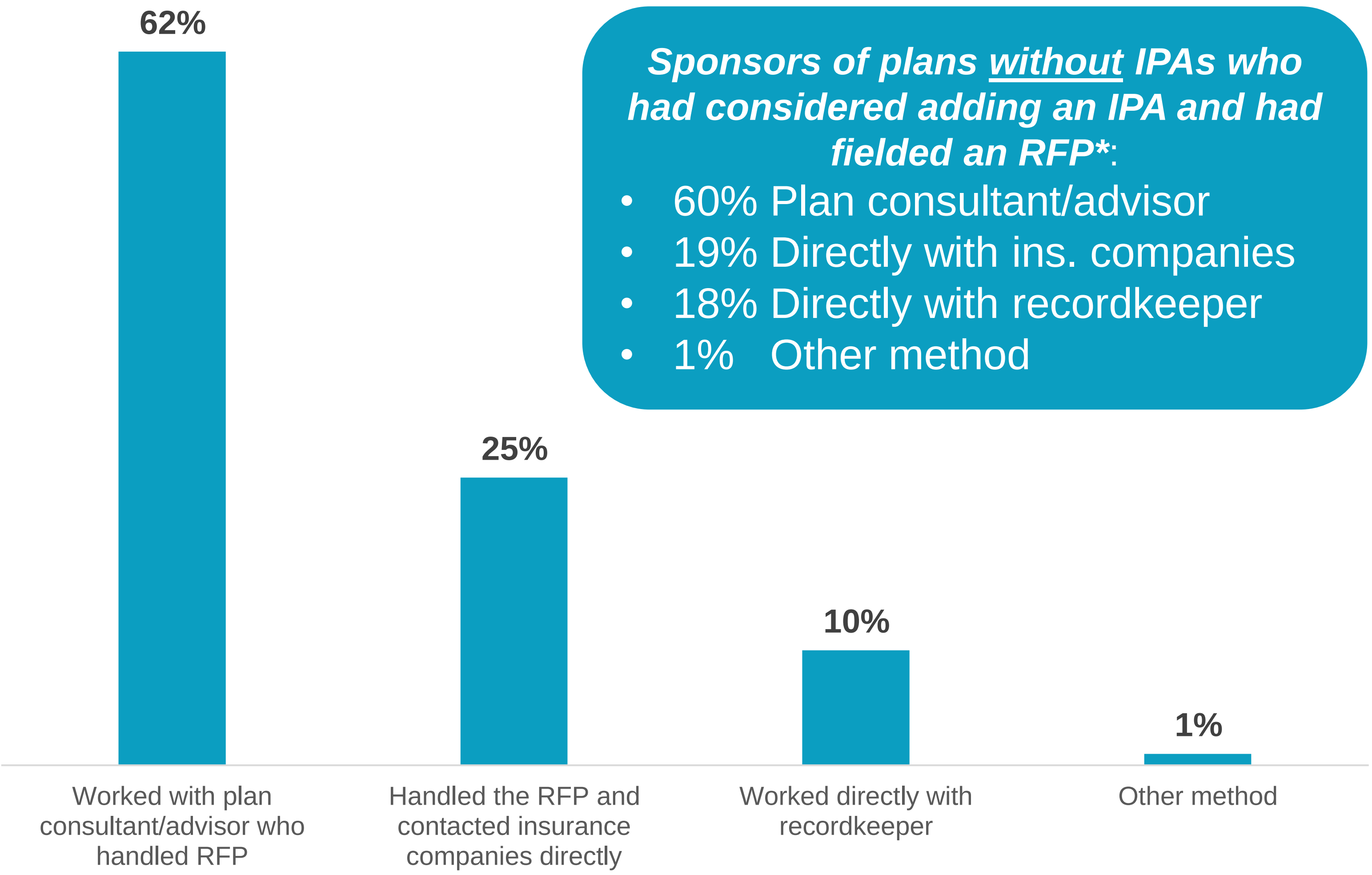
How Fielded Request for Proposal (RFP)

IPA Group

Most often, plan advisors/ consultants fielded the request for proposal (RFP) to insurance companies, with another quarter of sponsors saying that they handled the RFP themselves.

There was very little difference between the IPA and no-IPA sponsors in terms of their handling of RFPs, except that the no-IPA sponsors were more likely to work directly with the recordkeeper. These findings imply that at least the initial evaluation process is probably not much different for the IPA and no-IPA employers.



Sponsors of plans without IPAs who had considered adding an IPA and had fielded an RFP*:

- 60% Plan consultant/advisor
- 19% Directly with ins. companies
- 18% Directly with recordkeeper
- 1% Other method

Based on 209 sponsors of plans with IPAs. Multiple responses allowed. *Based on 191 sponsors of plans without IPAs who considered or are considering adding an IPA and had fielded an RFP; multiple responses allowed.

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Decisions Linked to DB Plan Decisions

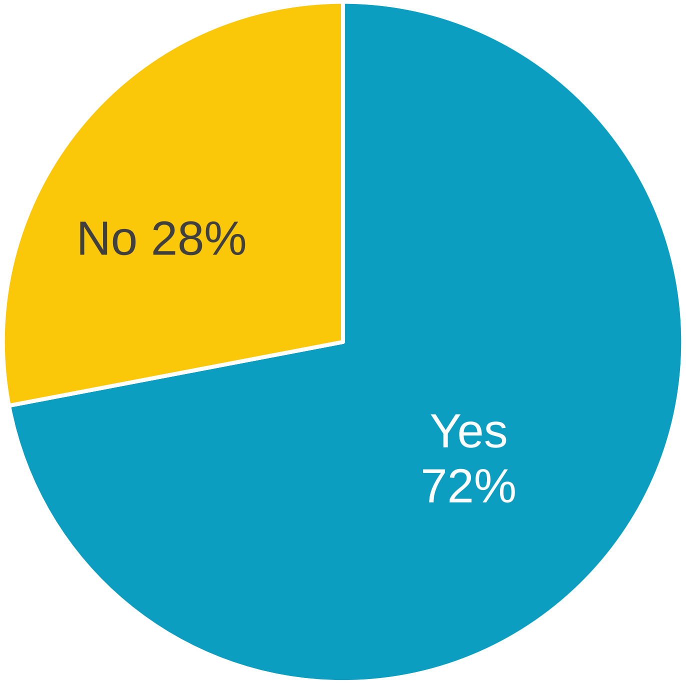
IPA Group

While **a sizeable proportion (42 percent) of IPA-offering employers also sponsor DB plans**, 60 percent of these plans are partially or fully frozen, with participants no longer accruing benefits.*

Nearly all IPA-offering employers with frozen DB plans added or enhanced other retirement benefits, typically by adding a DC plan or making other changes to an existing DC plan, such as boosting the employer matching contribution rate. And nearly 3 in 4 connected their decision to add an IPA with the freezing of their DB plans, though the order of decisions could vary, with the decision to add an IPA leading to a decision to freeze the DB plan, rather than the reverse.

Similarly, among the IPA employers who used to offer a DB plan, 65% added the IPA because of the DB plan termination.*** Taken together these results point to a **very strong connection between IPA and DB plan decisions.**

Decision to offer IPA connected to the decision to freeze the DB pension plan**



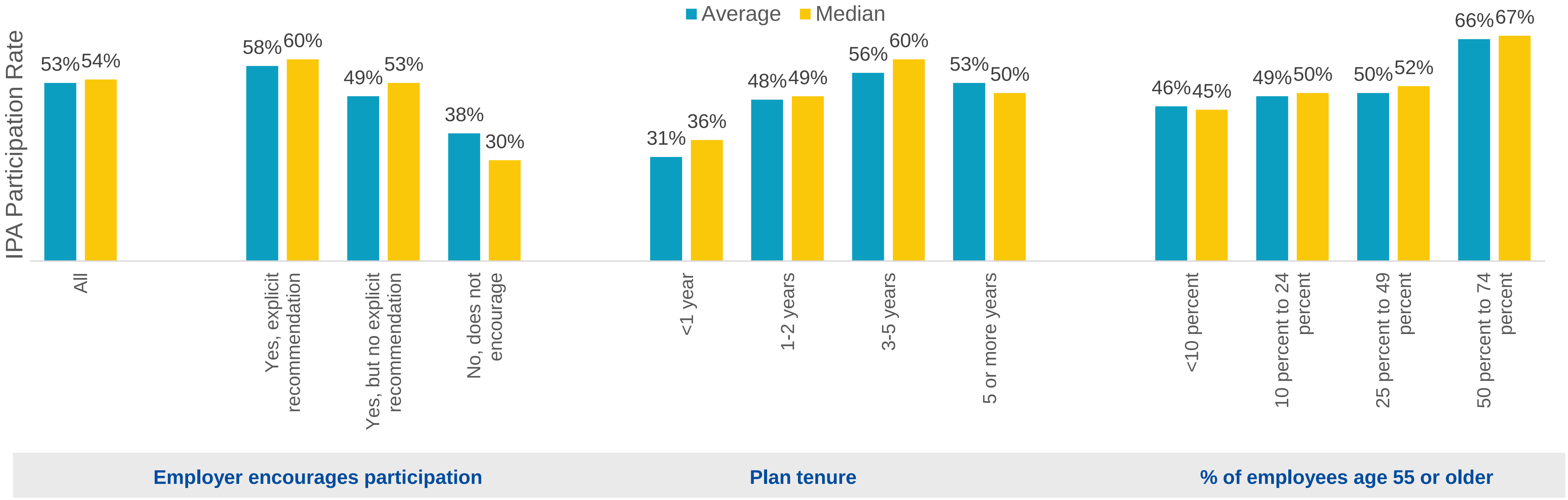
*Based on 69 sponsors of plans with IPAs who have DB pension plans. **Based on 35 sponsors of plans with IPAs who have frozen DB pension plans. ***Based on 62 sponsors of plans with IPAs who terminated their DB plans.

IPA Participation Rate

IPA Group

On average, **the majority of participants in the DC plan also contribute (or used to contribute) to the IPA**. Most likely, this high take-up rate reflects a combination of automatic enrollment and other factors, including plan tenure and the ages of employees — especially among the 16 percent of employers where at least half of employees are age 55 or older.

Employers can move the needle by encouraging plan participants to invest in the IPA. The median IPA participation rate is twice as high at employers who explicitly recommend the IPA to plan participants than at employers who do not make the effort to encourage participation.



 Based on 209 sponsors of plans with IPAs. For breakout of results by percentage of employees age 55 or older, results for “75 percent or more” not shown due to low sample size.

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Why Employer Offers IPA

IPA Group

There could be many reasons for an employer to decide to add an IPA to its DC plan. The top 5 most commonly mentioned reasons were cited by at least one third of sponsors, and represent a range of factors. Two of the top reasons involved the employer's paternalistic philosophy regarding retirement income: they feel an obligation to help their employees generate income in retirement and feel the best place to do so is within the DC plan they sponsor. Plan consultant/advisor recommendations, workforce turnover management, and employee demand were also cited.

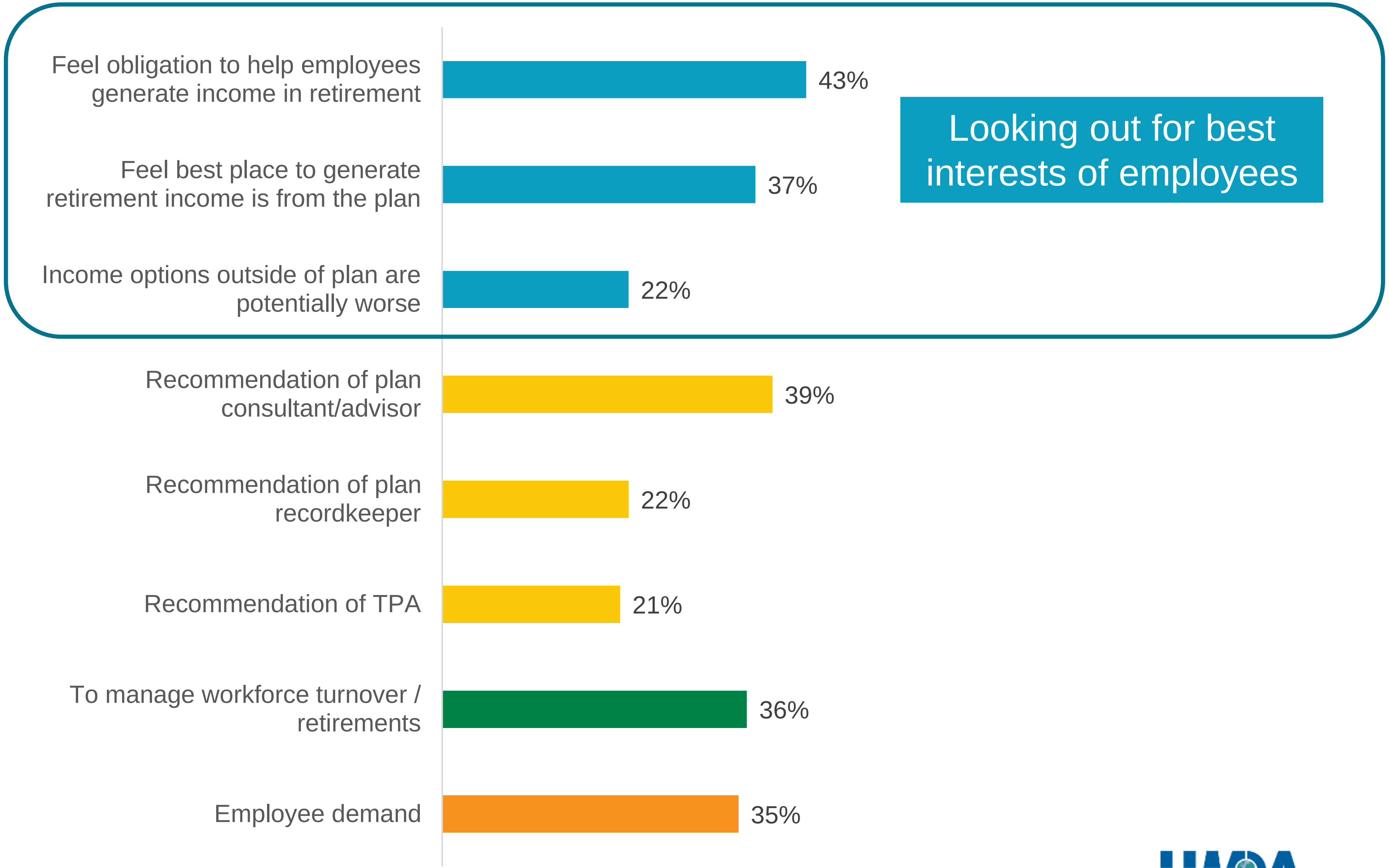
 Based on 209 sponsors of plans with IPAs. Multiple responses allowed. Not shown: 8% froze or terminated DB plan.

Why Employer Offers IPA – Looking Out for Employees

IPA Group

Sponsors of plans with IPAs want to look out for the best interests of their employees, feeling an obligation to assist them even after they retire, by helping them generate income from the plan. In-plan income options are seen as potentially better than income options available outside of DC plans.

There was little variability in the prevalence of these attitudes across different types of sponsors, suggesting this motivation may be central for most employers.



 Based on 209 sponsors of plans with IPAs. Multiple responses allowed.

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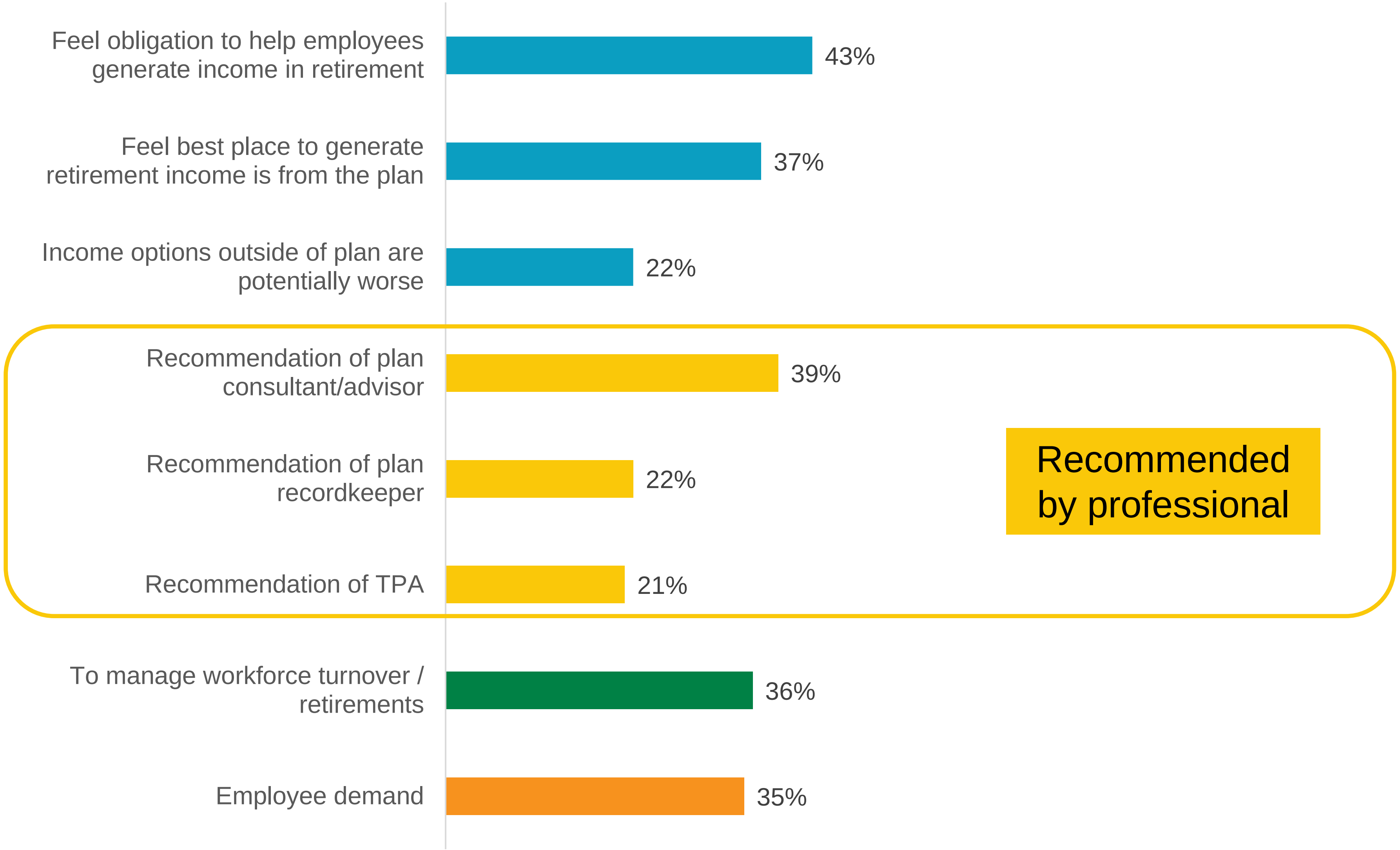
Why Employer Offers IPA – Recommendations

IPA Group

As noted earlier, sponsors of plans with IPAs rely on a plan advisor/consultant’s recommendations for evaluating and selecting IPAs. Consistent with these findings, **nearly 4 in 10 sponsors offer IPAs based on the recommendation of a plan advisor/consultant**.

Recommendations from plan recordkeepers are TPAs were less-often mentioned as reasons; however, these stakeholder may play important roles at different stages of the IPA implementation process.



Based on 209 sponsors of plans with IPAs. Multiple responses allowed.

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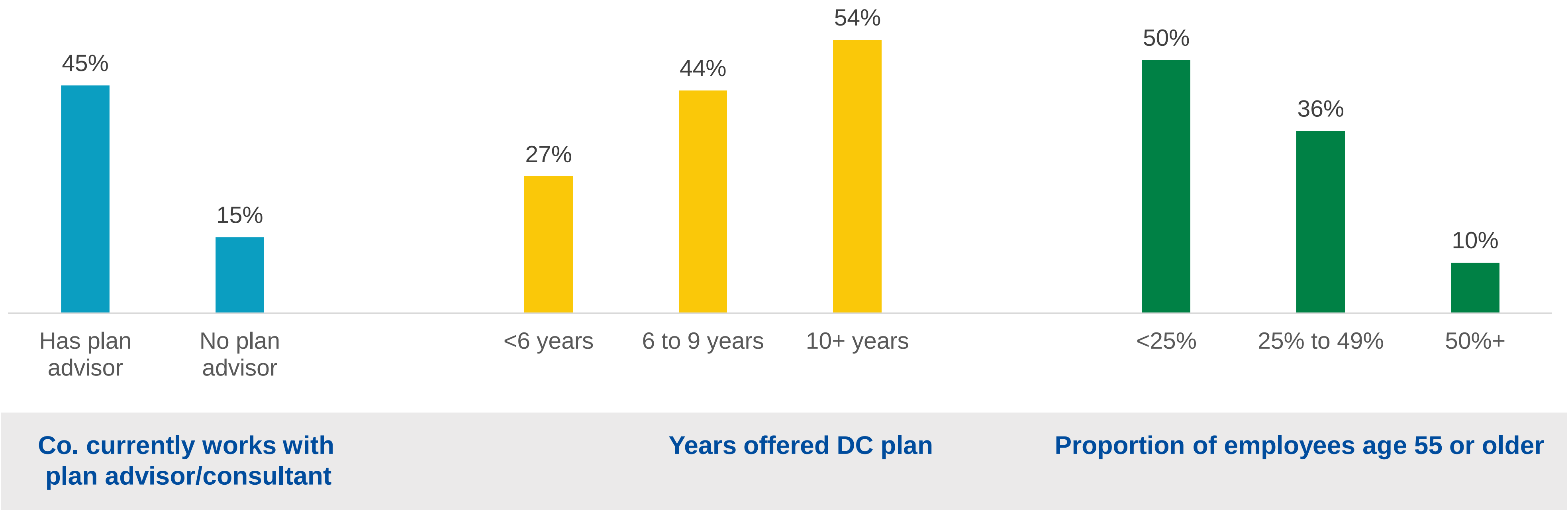
Why Employer Offers IPA – Recommendations

IPA Group

Nearly half of employers who work with plan advisors/consultants based their decisions to offer IPAs on their advisors' recommendations.

While the age of a company and the average age of its employees are linked, younger plans can include relatively old employees and older plans can include relatively young employees, which explains why reliance on a plan advisor/consultant is more common among older DC plans, and especially among employers with a younger employee base.

Offer IPA Based on Recommendation of a Plan Advisor/Consultant



 Based on 209 sponsors of plans with IPAs.

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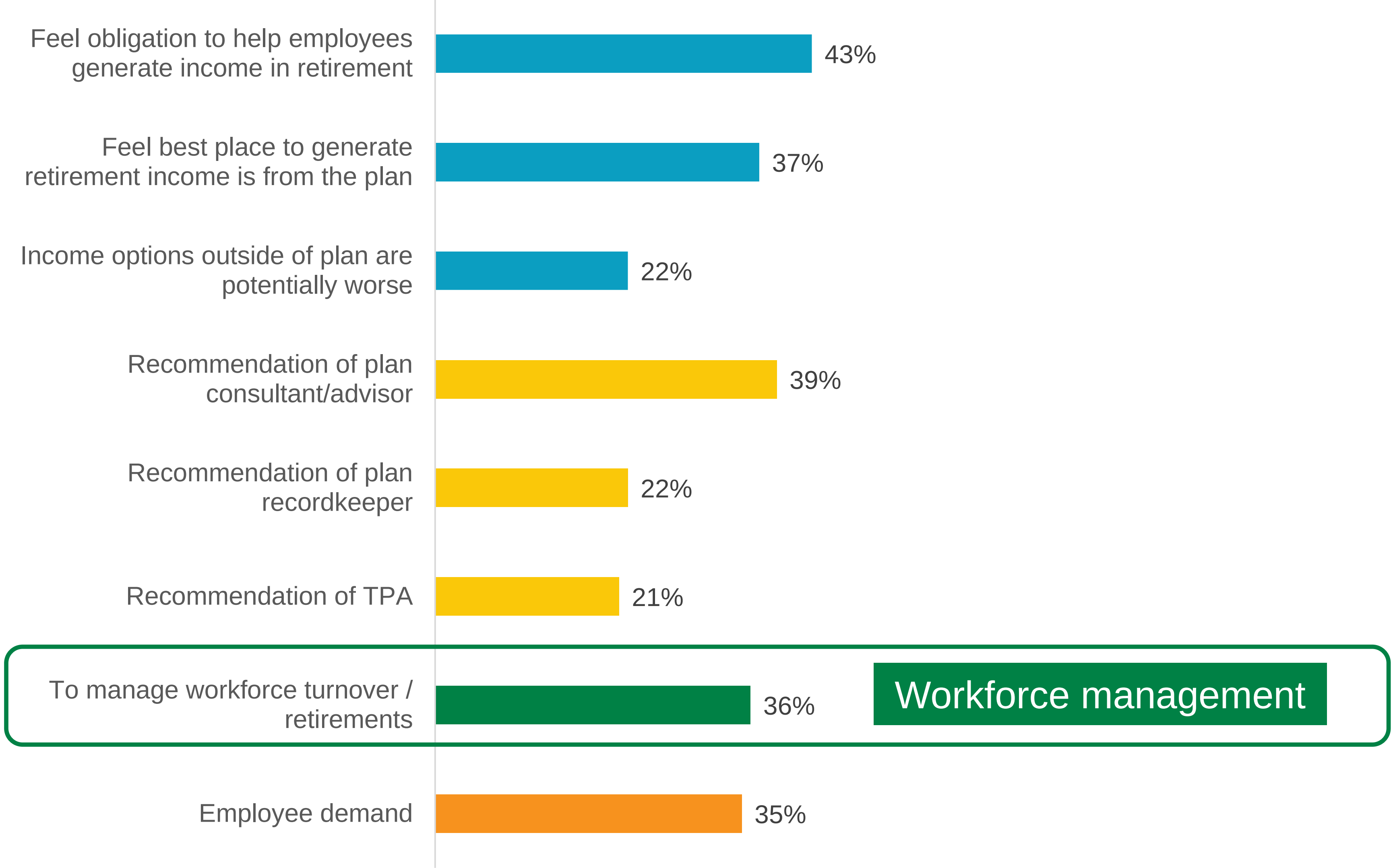
Why Employer Offers IPA – Workforce Management

IPA Group

From an employer perspective, a key benefit of traditional DB plans is that they provided a means of workforce management. As employees age, especially in certain industries, their productivity and value declines while their salaries and cost of benefits increase. With their specified retirement ages and guaranteed income payments, DB plans tacitly encouraged retirements, making room for younger employees.

With DB plans no longer serving as a workforce management tool, IPAs could be filling that need. **More than one third of IPA sponsors say that they offer IPAs as a way to manage turnover and retirement. That's especially true for plans and employers that are at least 10 years old,** for whom the age demographics may be more heavily tilted toward older employees.



 Based on 209 sponsors of plans with IPAs. Multiple responses allowed.

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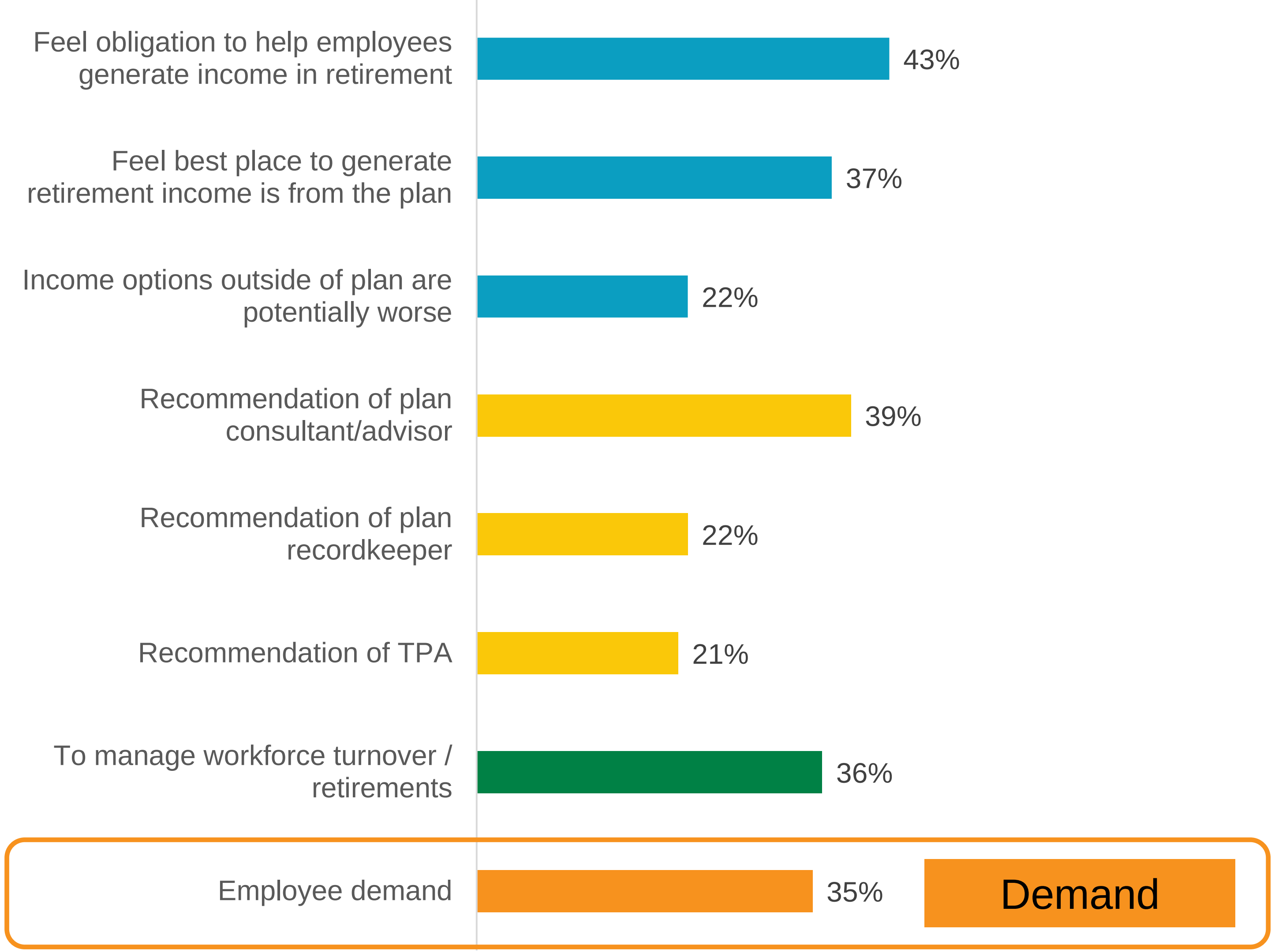
Why Employer Offers IPA – Workforce Management

IPA Group

Only about one third of sponsors of plans with IPAs added these options based on employee demand prior to offering the IPA.

In keeping with a paternalistic philosophy, it may not be prudent to base an IPA decision on an assessment of employee demand. On one hand, it seems obvious that employers should find out whether an IPA will be used by employees before going through the process and incurring the expenses involved in adding an IPA. On the other hand, explaining the value of annuities has been an ongoing challenge, with many failing to realize their value and seek them out, even when it would clearly be advantageous for them to do so. Therefore, even if employees think they do not need an IPA, many will need it.



 Based on 209 sponsors of plans with IPAs. Multiple responses allowed.

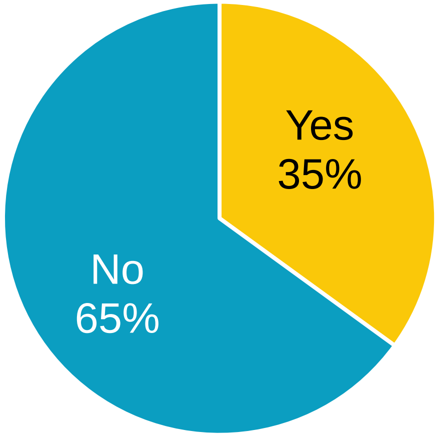
Assessing Employee Demand for IPA

IPA Group

Employers may use a variety of methods to assess demand for IPAs among their employees. Surveys tend to be used more often than group meetings.

Among the assessment methods used, focus groups may represent more of a consensus-building method for employers who were already leaning toward adding or not adding an IPA, as the participation of coworkers in these groups may lead to tacit pressure and conformity. Surveys, being anonymous and individually completed, may be a better gauge for understanding the actual demand, but may be less educational and engaging than group meetings.

Offer IPA Due to Employee Demand



Assessment Methods

73% Employee Surveys

45% Focus Groups / Employee Meetings

12% Other Methods

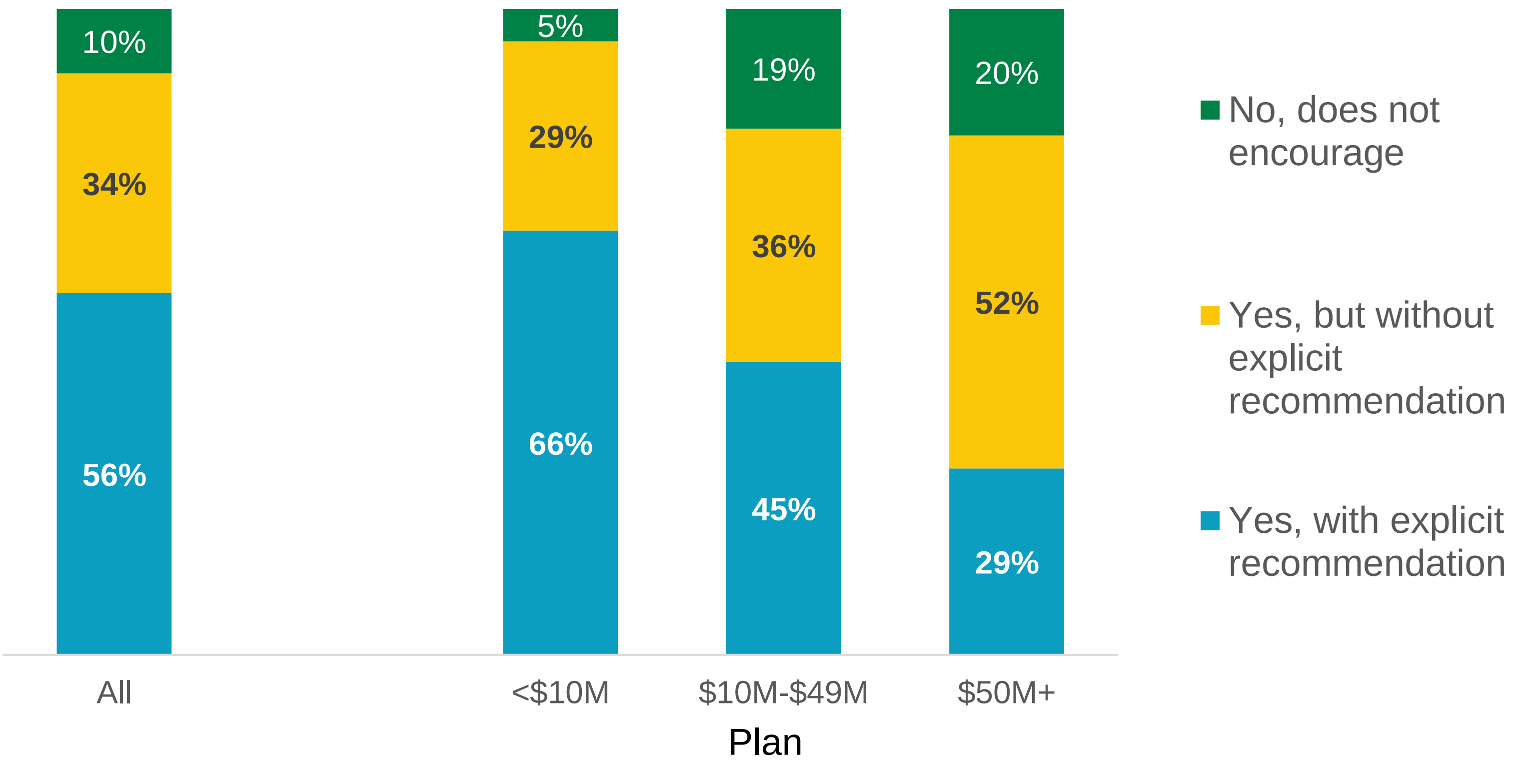
 Based on 209 sponsors of plans with IPAs. For assessment methods, multiple responses allowed.

Employer Encouragement of IPA Participation

IPA Group

A paternalistic attitude among sponsors of IPAs has lead some of them to not only offer an IPA, but also to encourage their employees to invest in it. Encouragement can take the form of direct, explicit recommendations, or more indirect means like building awareness about the benefits without formally endorsing the IPA. The explicit recommendations by employers could lead to fiduciary exposure, unless they mean recommendations made through other entities, like a plan advisor or the recordkeeper, who directly endorse the IPA to employees.

Smaller plans, as well as MEP plans, are most closely associated with direct recommendations. In both cases, these tend to be younger employers.



MEP Plans: **73%** encourage with explicit recommendation
Non-MEP Plans: **47%** encourage with explicit recommendation

 Based on 209 sponsors of plans with IPAs.

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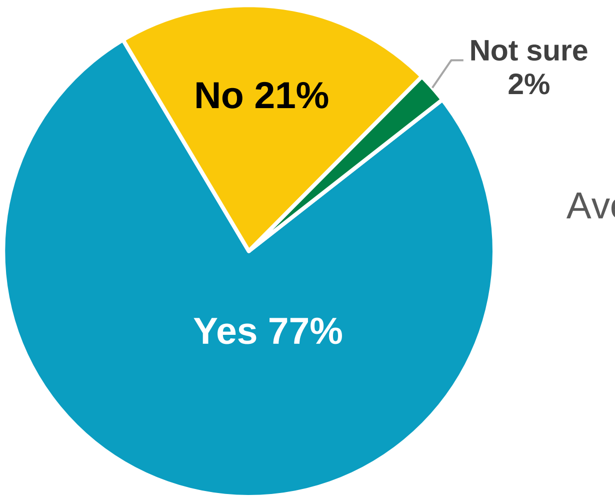
Employer Attitudes Toward IPA

IPA Group

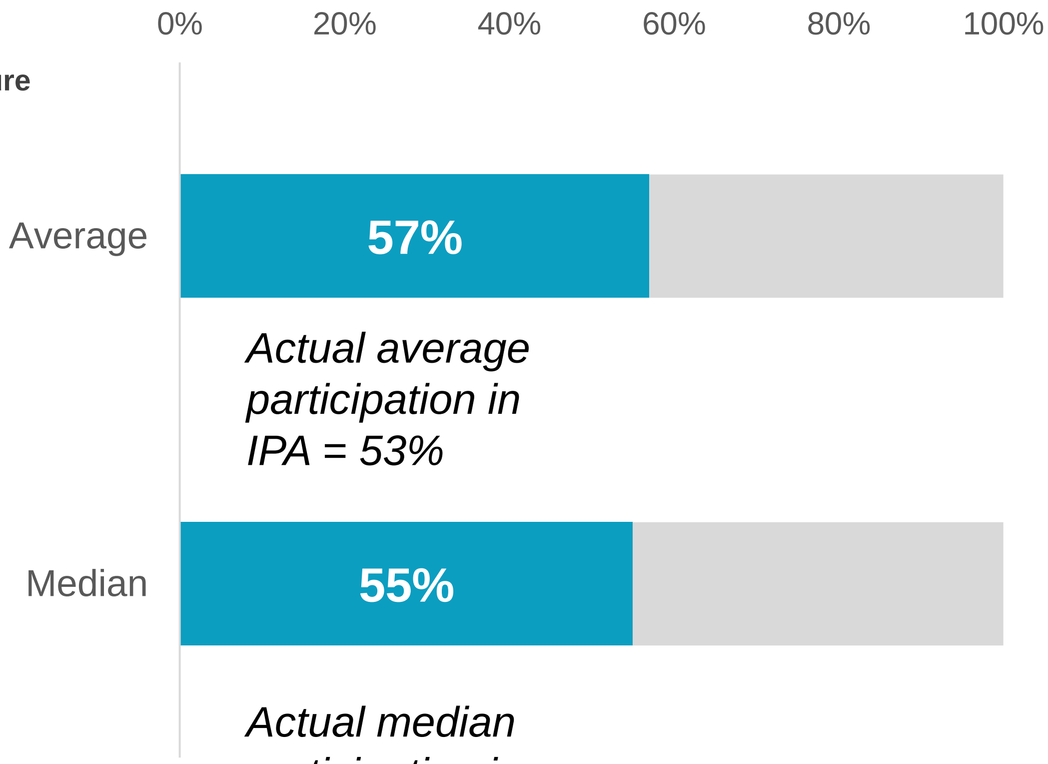
While sponsors of IPAs clearly feel that in-plan annuities can help their retiring employees to generate sustainable income, and are often willing to explicitly recommend them to employees, they also feel that IPAs are not for everyone. In fact, **3 in 4 believe that participants need to have a minimum balance before they invest in an IPA**. And when asked for the proportion of their plan participants for whom an IPA would be appropriate, typically they feel only about half of employees should be investing in them.

Perhaps, given their complexity, IPAs are not seen as a priority for employees beginning their careers, for whom rapid accumulation is the main goal. Employers with especially young employee bases may therefore be more circumspect in making broad recommendations to participate.

Participants Should Have Minimum Balance Before Investing in IPA



Proportion of Plan Participants For Whom IPA is Appropriate



Actual average participation in IPA = 53%

Actual median participation in IPA = 55%

Based on 209 sponsors of plans with IPAs. Multiple responses allowed. *Based on sponsors who work with a plan advisor/consultant.

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Sponsors of Plans Without In-Plan Annuities

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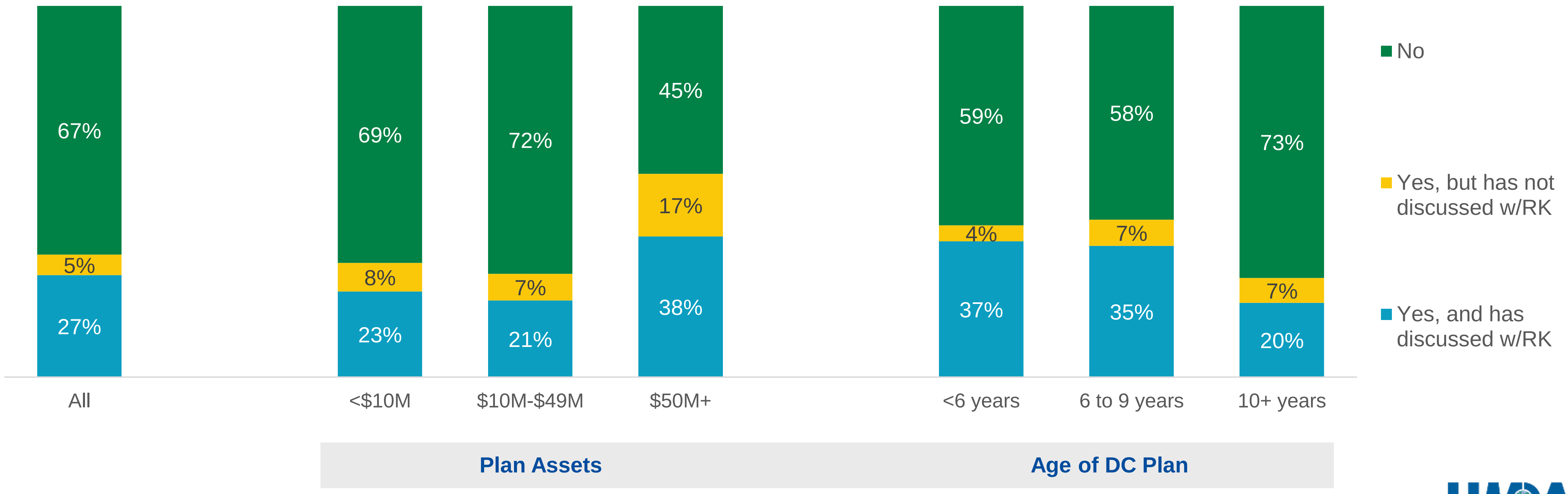
IPA Availability

No-IPA Group

Only about a third of sponsors of plans without IPAs say that their plan recordkeepers offer an IPA. Without an IPA available on the recordkeeper's platform, sponsors face a more difficult process of selecting and adding an IPA.

Larger plans tend have greater availability of IPAs, as do younger plans. The largest plans tend to be older plans, but the smallest plans represent a mix of older and younger plans, and it may be that the combination of being a small and older plan is linked to less access to IPA via the plan recordkeeper.

Plan Recordkeeper Offers IPA



 Based on 357 sponsors of plans without IPAs. Results exclude "Not sure" responses.

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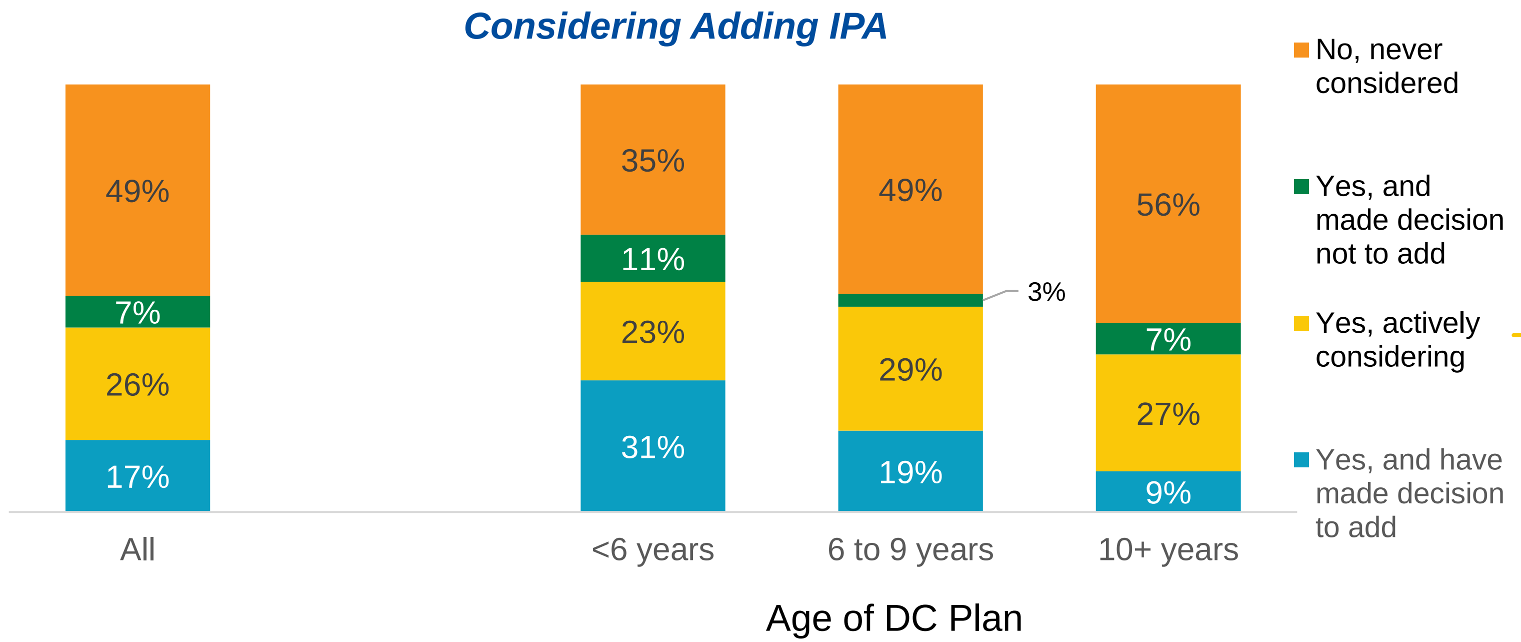
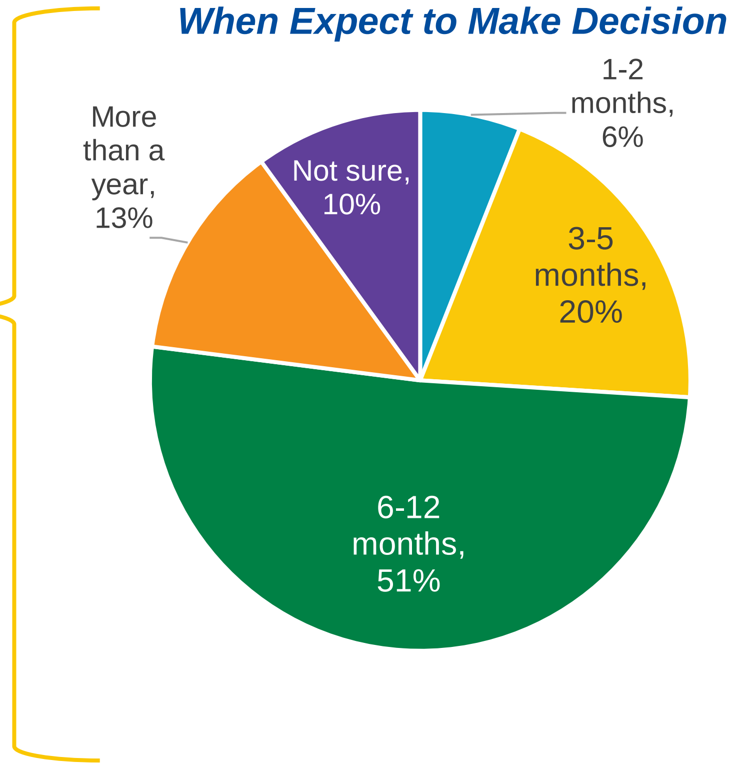
IPA Under Consideration

No-IPA Group

About half of the no-IPA sponsors say that they have considered adding an IPA at some point. Most of those who have considered doing so are still considering, and haven't made a final decision. Among this group, about 3 in 4 claim that they will make this decision within the next 12 months, suggesting that an "IPA pipeline" may have formed, depending on what decisions are ultimately made and if employers really do keep to this timeline.

Younger plans are not only more likely to have considered adding an IPA, they are also much more likely to have made the decision to add. This finding is consistent with the overrepresentation of younger companies and plans within the IPA group. In addition, smaller and older employers are the least likely to have considered IPAs.





Additional factors linked to consideration of IPA:

Most likely to have *never considered*: Smaller plans, smaller employers, no QDIA, non-MEP plans, and older employers
Most likely to have made decision to *add IPA*: MEP plans, younger employers

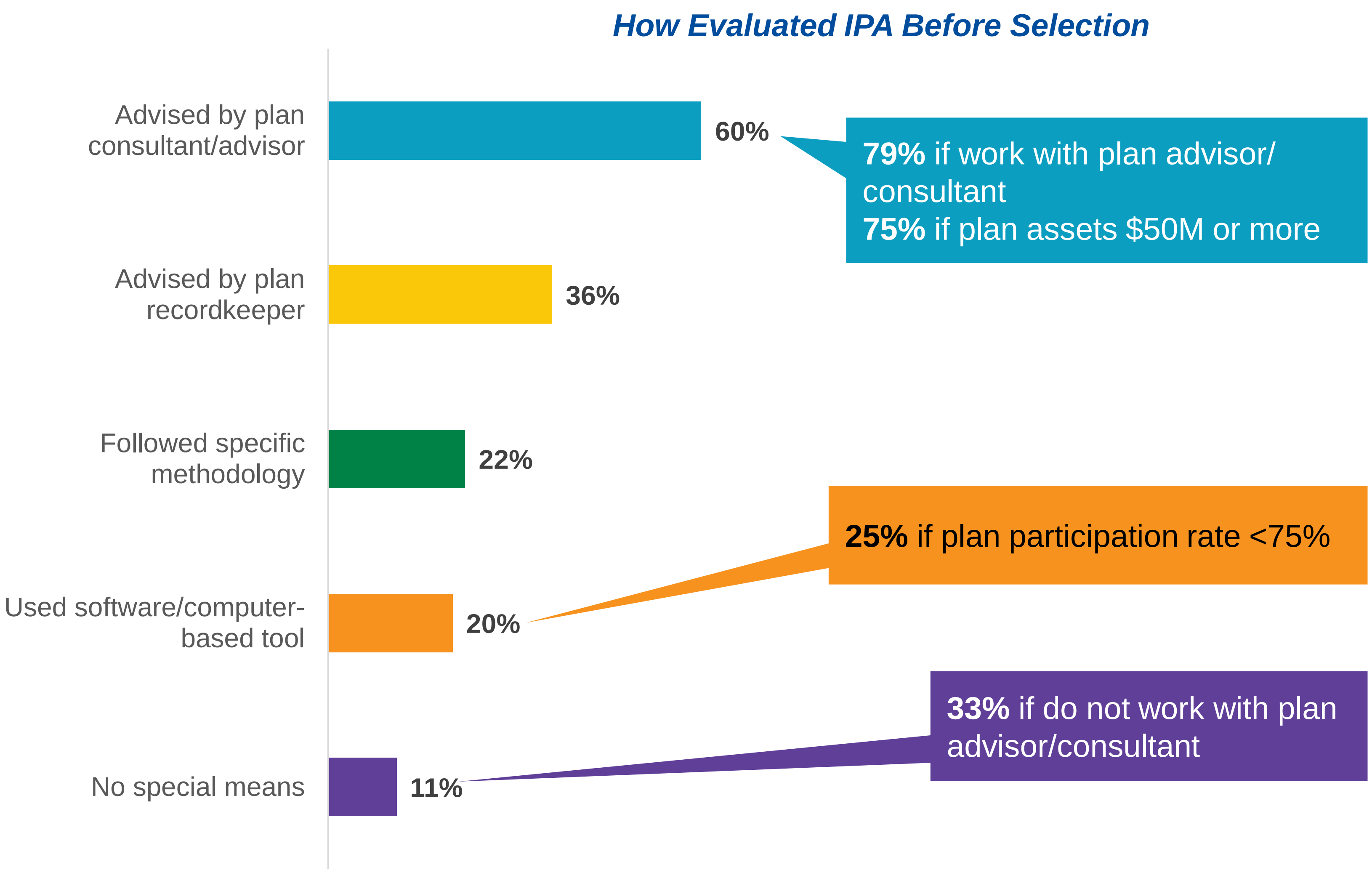
 Based on 357 sponsors of plans without IPAs. Results exclude "Not sure" responses.

In-Plan Annuity Decision — Evaluation

No-IPA Group

As with the IPA group, sponsors in the no-IPA group who have considered adding an IPA were asked how they evaluated IPAs. As would be expected, plan advisor/consultants played a major role, especially for larger plans. If the employer currently works with a plan advisor/consultant, 79 percent of the time, that advisor helped with evaluation of IPAs; among sponsors who do not work with advisors, one third said they took no special means to evaluate, underscoring how important plan advisors/consultants are for evaluation and decisions surrounding IPAs.

The use of software or computer-based tools was uncommon, but a bit more prevalent when plan participation rates were low. As this market develops, we would expect to see more providers of digital tools to help standardize the IPA evaluation process.



Based on 191 sponsors of plans without IPAs who either a) decided to add an IPA, b) decided not to add an IPA, or c) are still considering adding an IPA. Multiple responses allowed.

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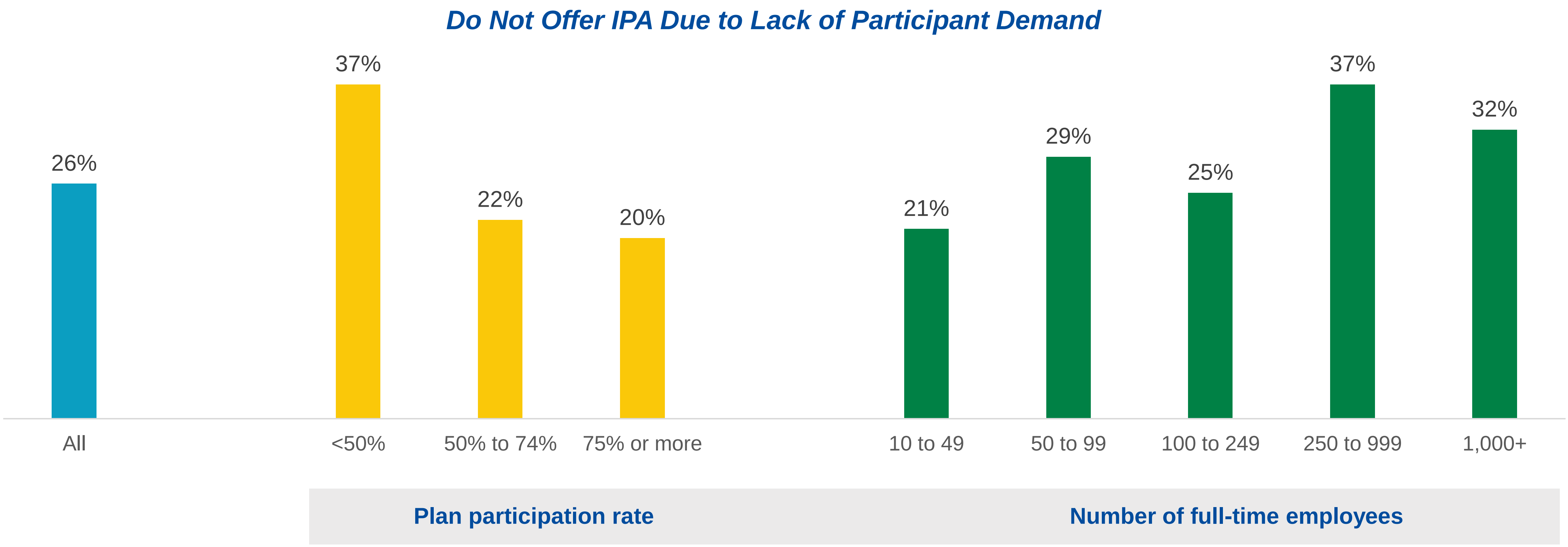
Reasons for Not Offering IPA – Lack of Demand

No-IPA Group

Sponsors of DC plans without IPAs may have many reasons for not wanting to offer lifetime-guaranteed income investment options. When asked to select among a list of 17 reasons for not offering an IPA within the company's DC plan, the most commonly selected reason was perceived lack of demand among employees, mentioned by over a quarter of employers. Perhaps not surprisingly, **plans with lower participation rates are linked to the sense that there is insufficient demand for IPAs among employees. There was also a weak trend with employer size, with larger companies being more likely to say that lack of demand is why they do not offer IPAs.**



 Based on 357 sponsors of plans without IPAs.

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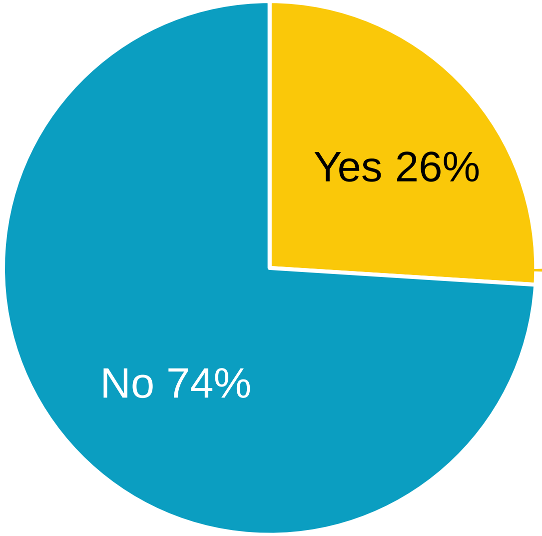
Assessing Employee Demand for IPA

No-IPA Group

Among the sponsors who do not offer IPAs due to lack of employee demand, we asked whether they had assessed the level of demand for IPAs among employees. Among those who *did* assess demand, the methods were about as proportionally common as those used by the IPA group, though the use of "other methods" was lower among the no-IPA group.

A third of these sponsors did not assess demand, at least not specifically, which could point to an opportunity for plan recordkeepers or advisors to recommend assessing employee demand using standardized methods.

Does Not Offer IPA Due to Lack of Employee Demand



Assessment Methods

48% Employee Surveys

29% Focus Groups / Employee Meetings

4% Other Methods

32% Did not specifically assess employee demand

 Based on 357 sponsors of plans without IPAs. For assessment methods, multiple responses allowed.

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Reasons for Not Offering IPA – Product-Based Objections

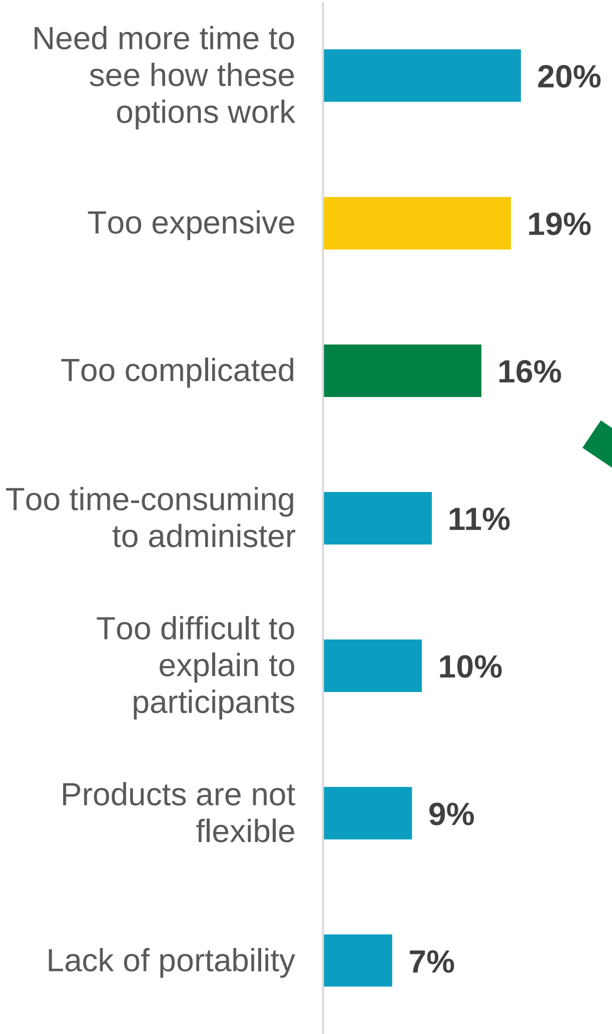
No-IPA Group

“Product-based” objections to IPAs involve criticisms of the IPAs themselves — that they are expensive, complicated, resource-intensive, hard to explain, not flexible and not portable. In theory, these are the reasons that the IPA manufacturers and recordkeepers can most directly address by explaining how their products are not costly, complicated, or hard to understand.

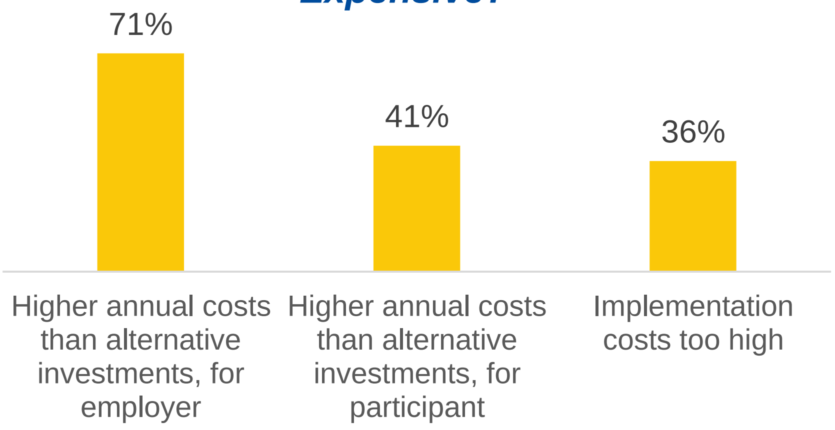
One fifth of the no-IPA sponsors “need more time to see how these options work,” meaning that they are not yet sold on the value of an IPA since they are still relatively new and don’t have a long enough track record.

The 19 percent of sponsors who said that IPAs are too expensive were asked why they are seen as too costly. The bigger issue for these sponsors is the cost to employers themselves, not the cost to participants. There’s also concern about the up-front implementation costs.

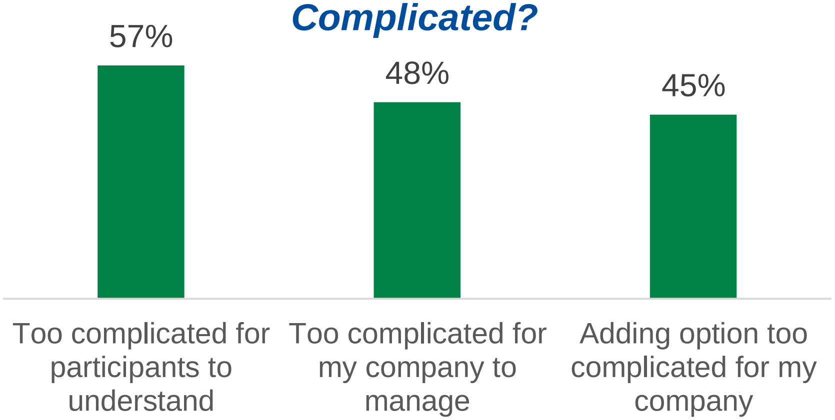
Among the sponsors claiming IPAs are too complex, the majority said that IPAs are too complicated for plan participants to understand. But nearly as many, 48 percent, admitted that they might also be too complicated for the employer to manage, and 45 percent felt the process of adding IPAs would be too complicated.



In What Way Would IPA Be Too Expensive?



In What Way Would IPA Be Too Complicated?



 Based on 357 sponsors of plans without IPAs. Multiple responses allowed.

Reasons for Not Offering IPA — Employer's Role

No-IPA Group

Another key reason for not offering IPAs, mentioned by over one fifth of sponsors, is the belief that retirement income assistance is outside the bounds of what an employer should be doing for employees. Perhaps some of these employers feel an obligation for *current* employees, but not *former* employees. Or maybe they feel that income generation has to be more personalized than what can be offered from an IPA, involving assistance from personal financial professionals.

The age of the plan and the employer are linked to this belief. Older plans and older employers are more likely to have no IPAs in their plans because they feel it is not their role to assist with retirement income.

Do Not Offer IPA Because It Is Not Employer's Role to Help With Retirement Income

 Based on 357 sponsors of plans without IPAs.

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Reasons for Not Offering IPA — All Other Reasons

No-IPA Group

A top reason for not offering an IPA was prioritization — that employers are placing more emphasis on other employee benefits. Although it might be expected that this reason would be more commonly mentioned by smaller employers who have limited staff and resources, it was the larger employers who most often cited it. Conceivably, these large companies may rotate through their benefit offerings on a systematic and scheduled basis.

Fiduciary concerns were mentioned by fewer than 1 in 5 sponsors. SECURE 1.0 and other regulatory changes over the past few years likely have alleviated some of these concerns. Related to fiduciary concern is the fear that the insurance company will fail to meet its promises to pay out income for multiple decades into the future. If that happens, former employees could turn on their former employers with lawsuits. This reason was mentioned a bit more often by MEP plans, and by larger employers and those with a large base of employees age 55 and older.

Even among the no-IPA group, some are considering adding, or even planning to add, an IPA. Sponsors of younger plans and MEP plans were especially likely to indicate that they would be adding an IPA.

The remaining reasons were only mentioned by 10 percent or less of sponsors.

- The belief that income options available outside of the plan are potentially better is not common; in general, it is cheaper per dollar of income generated to rely on institutionally-priced payouts than payouts available in the retail market.
- Lack of availability of IPAs tends not to be a common reason, even though two thirds of these sponsors say their recordkeepers do not offer them.
- Advisors also are not actively recommending against adding IPAs, though that reason was slightly more common among smaller and older employers.

Reason for Not Offering IPA	Overall	Higher Among:
Currently focused on other employee benefit priorities	22%	Employers with 1,000 or more full-time employees (43%)
Fiduciary concerns	17%	
Plan to add an option in the future	13%	MEP plans (26%) and plans <6 years old (24%)
Concerns that insurance company won’t be able to meet its obligations	12%	MEP plans (21%), employers with 250 or more full-time employees (18%), and employers with at least half of their employees age 55 or older (18%)
Income options outside of plan potentially better	10%	MEP plans (21%)
Recordkeeper does not offer	9%	
A plan consultant/advisor recommended against it	8%	Employers with 10 to 49 full-time employees (11%) and plans that are at least 10 years old (11%)
Company offers alternative way for pts to generate income	2%	

 Based on 357 sponsors of plans without IPAs. Multiple responses allowed.

Appendix A — Sample Characteristics

	IPA	No IPA
Age of respondent		
Age 18-34	20%	11%
Age 35-44	42%	23%
Age 45-54	21%	23%
Age 55 or older	17%	43%
Respondent's functional role		
Human resources	51%	40%
Owner/Pres./CEO	21%	14%
Executive/Sr. mgmt.	13%	18%
Accounting/financial	5%	16%
Other role	10%	12%
Offers DB plan		
Yes	42%	10%
No	58%	90%

	IPA	No IPA
Number of full-time employees		
10 to 19	22%	16%
20 to 49	24%	21%
50 to 99	21%	24%
100 to 249	13%	20%
250 or more	20%	19%
Years in operation		
3 to 4	28%	6%
5 to 9	20%	17%
10 or more	52%	77%
Plan type		
401(k)	92%	93%
403(b)	3%	5%
Other type	5%	2%

Based on 209 sponsors of plans with IPAs and 357 sponsors of plans without IPAs.

Appendix B — In-Plan Annuity Characteristics

- 65% are guaranteed lifetime withdrawal benefits (GLWBs), 32% are deferred income annuities (DIAs)
- 85% are embedded within a TDF or other fund
  - 75% within TDF
  - 9% managed accounts
  - 7% actively managed mutual funds
  - 3% money market funds
- 94% allow employer matching contributions
- Median percentage of participants who have contributed to IPA = 55% (average = 53%)
- Median percentage of plan assets within IPA = 45% (average = 47%)
  - Plan assets <$10M = 50%
  - Plan assets $10M-$49M = 33%
  - Plan assets $50M or more = 30%
- How long IPA has been offered in DC plan
  - <3 years = 26%
  - 3 to 5 years = 42%
  - 6 years or more = 32%

 Based on 209 sponsors of plans with IPAs. *Base = IPA is embedded within a fund.

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