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Guaranteeing a Secure Retirement – A Practical Guide for Selecting DC Plan Lifetime Income Options

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When Congress first passed legislation to create “cash or deferred arrangements” – the original term for 401(k) plans – few people could have predicted that, over the course of a single generation, DC plans would come to dominate the private retirement system. The first generation of DC plans were largely considered supplementary to pension plans and were crude by today’s standards. However, over the years, DC plans have undergone a remarkable transformation as policymakers, employers, and labor organizations have worked to improve outcomes for participants.

Today, more people are participating in DC plans than ever before thanks to the proliferation of automatic enrollment and efforts to expand coverage. DC plans have also become considerably more transparent, professionalized, and efficient. However, most of the systemic improvements have focused on helping participants accumulate assets and not on the distribution phase of the participant life cycle.

As the first generation of savers relying entirely on DC plans begins to retire, there is a growing recognition that many plan participants are at risk of outliving their savings. Although Social Security continues to provide people with a basic level of guaranteed income, it is typically not enough to ensure that people can maintain their standard of living when they retire, whether that retirement is voluntary or involuntary.

To address this concern, an increasing number of DC plan sponsors are considering adding lifetime income investment options to their DC plans. In some cases, sponsors are designating lifetime income options as their plans’ default investment when they want to provide all participants with guaranteed income. Congress has also recognized the problem and tried to remove real or perceived barriers to offering in-plan lifetime income options by passing the SECURE Act. This has resulted in a blossoming of the number and type of lifetime income options available to plan sponsors and participants.

This paper, linked below, is intended to provide plan sponsors and other fiduciaries with a practical guide to help in the selection of lifetime income investments. It first explains what it means to be a fiduciary and then discusses the fiduciary duties in the context of providing lifetime income options within DC plans. Although this paper primarily refers to ERISA and 401(k) plans, the general concepts and considerations

apply equally to non-ERISA DC plans, including church, 457, and 403(b) plans.

We hope this paper is helpful to all DC plan fiduciaries, but it was not written to address the facts or circumstances of any particular plan sponsor or fiduciary. Therefore, it should not be construed as providing legal opinions, tax advice, or investment advice. Readers should consult their legal, tax, and investment advisers before making any decisions with respect to their plans.

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