

# LIFETIME INCOME – WHAT’S NEXT AFTER LEGISLATIVE CHANGE?

There is new progress on the legislative front, but more is needed to make lifetime income options a reality for DC plan participants.

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Most of the retirement industry is optimistic that some plan sponsor deterrents to offering lifetime income options may soon be removed with new legislative proposals.

On 14 March, I had the good fortune to be part of a Defined Contribution Institutional Investment Association (DCIIA) webinar jointly hosted by its Retirement Income and Public Policy committees. The topic was to provide a legislative update on creating lifetime income for American workers and discuss what may result from proposed legislative changes.

Most of the panelists have been discussing lifetime income issues for the better part of a decade. While we have all enjoyed many engaging discussions about lifetime income, few DC plan sponsors have implemented many lifetime income features. The discussion was timely however, as the Senate and the House Ways and Means Committee have recently introduced proposals to address some necessary legislative changes. Until now, though, there has been “lots of talk, limited action.” Why so little action?



## DETERRENTS FOR SPONSOR ADOPTION

In June 2018, I testified on behalf of DCIIA at the ERISA Advisory Council hearings focused on potential solutions for generating lifetime income for participants. As part of preparing for those sessions, DCIIA surveyed plan sponsors and DCIIA members. 68% of plan sponsors and 63% of industry participants indicated they would like to have annuity products within the DC plan with a safe harbor.

Other than noting the general support for creating income options, I was also keenly interested in the perceived deterrents to incorporating lifetime income products or services into DC plans. The first deterrent was the absence of a safe harbor. Other deterrents included such issues as the generally high cost structures of annuities, complexity—for both participants and plan sponsors—and, of course, plan-sponsor risk.

## WILL LEGISLATION PAVE THE WAY?

The recent legislative proposals have led to renewed hope that participants will soon be able to access high quality and flexible retirement income solutions. The proposals in general contain three common lifetime income elements:

- An annuity safe harbor to protect plan sponsors from risks associated with offering annuities through an ERISA plan;
- Provisions to make lifetime income products more portable to move with the individual; and
- A proposal to require lifetime income projections of DC-plan account balances.

These proposals clearly address some of the key issues that concern plan sponsors, in particular the annuity safe harbor. But we still do not know how long legislation will take to pass, nor how long the implementation period will be. The key question though is, assuming these proposals do become law, how will plan sponsors react to the changes?

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## NESTING DOLLS

In the public hearing, one ERISA Advisory Council member compared the situation to a Russian matryoshka doll, in which opening one layer of the doll only leads to another, and so on. Although introducing the annuity safe harbor may remove one layer of deterrent, it will reveal additional issues with which plan sponsors must contend. For example, the legislative proposals cover portability to some degree, but significant roadblocks to portability remain.

Other challenges, such as costs, complexity, transferability, recordkeeper integration, and sponsor staff time (most plan sponsor representatives have other jobs to do) remain, and these impediments will require discussion and action. With legislative change, at least those second level (or layer of) discussions can now start.

## OPEN MEPS MAY JUMP-START THE PROCESS

As I wrote in a [recent blog](#), I believe that if open-MEP legislation passes, open MEPs will add lifetime-income assistance as a standard plan-design feature very rapidly. At a minimum they will do what they can to retain retirees' assets in the open MEP. If more plans (or at least the open

MEPs) offer lifetime income features, employer plan sponsors may focus more on offering similar features through their plans, and be incented to overcome remaining, but arguably less significant adoption hurdles.

Clearly, our retirees can benefit from lifetime income options. So we should encourage our policymakers to successfully complete the legislative process sooner rather than later to begin making lifetime income a reality! (Or a more likely reality).

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