

# How to Address Retirement Income in Investment Policy Statements

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Recent attention paid by the US Department of Labor (DOL) to the adequacy of a participant's account balance appears to have stimulated two different but related debates about how to improve participant outcomes.<sup>1</sup> The first debate concerns how to help participants measure their "retirement readiness" in terms of income replacement at retirement and how to measure the adequacy of the plan as a whole. The second is whether there are retirement income-oriented investment strategies that can better serve participants as an alternative to the traditional strategies typically focused on capital accumulation.

## How Did We Get Here?

In 2010, the DOL issued a Request for Information Regarding Lifetime Options for Participants and Beneficiaries.<sup>2</sup> The DOL noted that DC plan sponsors offer no promise about the adequacy of a participant's account balance at retirement or of the available income stream. It further noted that DC plans typically only make lump sum distributions available. Then, in 2013, the DOL published an Advanced Notice of Proposed Rulemaking that would require DC plans to describe participants' total benefits accrued, including a projected account balance at

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their normal retirement age and a lifetime income stream illustration. The proposed rule would also require DC plans to provide methodologies for calculating these benefits.

With respect to the first debate regarding income replacement at retirement, industry response has been broad. Today, a variety of tools and services are available to measure retirement readiness at the plan level. Some also allow measurement of individual participant retirement readiness, requiring advisors to work one-on-one with participants to evaluate their retirement income needs, projected retirement income based on current resources and contribution rate, and any increase in plan contributions necessary to address any shortfall.

Regarding the second debate, plan sponsors and their advisors should consider measures to address participant retirement readiness and investment options that provide some measure of guaranteed retirement income. Nothing requires plan sponsors to adopt any of these concepts. But from a best practice perspective, these opportunities bear consideration.

## Making IPS Changes

For fiduciaries, care should be taken to ensure conformity with relevant prudent practices. Specifically, advisors and plan sponsors should consider evaluating what changes are required to the Investment Policy Statement (IPS) whenever making

changes to the nature of services or investment vehicles that will be used by a plan sponsor or offered to participants.

The advisor and plan sponsor client should consider adopting IPS provisions appropriate to the new products and services and income-focused investment options to be included in the investment menu.

## Sample Retirement Income IPS Provisions

### **Retirement Readiness**

The investment committee will periodically evaluate the overall retirement readiness of the plan through suitable means and will assist plan participants in evaluating their retirement readiness as measured by their ability upon retirement to replace employment income from investments held in their individual account.

### **Investments Generating Post-Retirement Income**

The investment committee recognizes that it is in the interests of plan participants to have access to investments that offer guaranteed income, inflation-protected income, or other post-retirement income opportunities, such as target date funds with guaranteed income or funds that incorporate the use of TIPS. Accordingly, the committee should evaluate and select appropriate funds that meet these goals, and, upon implementation, participants should be afforded sufficient information and investment education to enable them to make an informed decision.

*Note: These considerations are not legal advice and do not relieve any fiduciary of the responsibility to conduct a thoughtful analysis on each plan. The plan sponsor must also define the criteria that would be specific to the selection and monitoring of new forms of investment vehicles or plan service, and a well-documented due diligence process should precede the selection.*

1. See the DOL's advanced notice of proposed rulemaking (ANPRM) on lifetime income illustrations: [tinyurl.com/dol-anprm-2013](http://tinyurl.com/dol-anprm-2013).  
2. [tinyurl.com/dol-request-2010](http://tinyurl.com/dol-request-2010).

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