

Adding retirement income options to a DC plan menu



Blazing a new trail

Client case study

The organization

A global food and beverage company with substantial business operations in the U.S. that had frozen the majority of its defined benefit (DB) plans over the past decade and fully transitioned to defined contribution (DC) plans for most new hires in 2016. In addition, the demographic of the company's U.S. employee base had changed considerably in recent years, due to several high-profile mergers, acquisitions and sales. The net result was that the company's DC plan was now the primary vehicle for providing retirement income for most of its U.S. employees.

Because of this, the organization's U.S. benefits team felt strongly that it needed to provide retirement support for participants during decumulation as well as the accumulation phase. With longevity on the rise and an increasing amount of studies revealing that retirees tend to underspend the assets they've accumulated during retirement, the team believed it was imperative to focus on helping its employees achieve better financial security during retirement.

The challenge

Leaders of the U.S. benefits team were aware of the fact that personal retirement preferences among plan participants varied across the board. They knew they needed to give participants a reasonable amount of choices regarding retirement income options—but at the same time, the team didn't want to overwhelm participants by offering too many choices.

In addition, the company had historically been fairly conservative when it came to its retirement-plan offerings—and providing retirement income was not something many other organizations were doing at the time. The benefits team knew that in integrating these solutions into its DC plan, the company would be taking on a calculated risk that was at odds with its usual "let-others-do-it-first" approach. The team ultimately decided that helping their employees enjoy retirement without fear of outliving their savings was a tradeoff worth making, especially once the investment committee was educated on the importance of addressing participants' retirement income needs.

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The solution

We worked with the organization to add three different retirement income options to its DC plan menu, each of which addressed the different needs and preferences of plan participants on a broad level. We did this by following a three-step process consisting of:

1. Obtaining buy-in from the investment committee on the need for retirement income options, and approval to investigate potential solutions
2. Evaluating the different types of retirement income strategies available in the marketⁱ
3. Evaluating manager and product specific characteristics


The process involved working with staff members to educate them on the types of retirement products in the market— including immediate annuities, variable annuities with guaranteed withdrawal benefits (GLWB), target- date funds with embedded guarantees, managed payout funds and income- focused fixed income funds—and the risk benefits embedded in each. We also worked with the benefits team to assess both the qualitative and quantitative factors of the various product types, such as flexibility/personalization, liquidity, operational complexity, stress-testing, cost, income-generating ability, and probability of success in meeting the investment committee’s income replacement objectives.

Ultimately, the three different retirement income solutions we recommended to the investment committee were approved to be added to the company’s U.S. DC plan menu. The three solutions are:

1. A target-date fund (TDF) with an embedded immediate annuity. This is the QDIA (qualified default investment alternative) option that will replace the company’s current TDF. This option is intended for the participants in the plan who prefer that their investment portfolios and asset allocations are managed by financial professionals.

Including an allocation to retirement income for all defaulted participants was one of the defining successes of this project, with the company doubling down on its mission to ease retirement anxiety among employees by venturing into newfound territory. In order to obtain approval from the investment committee for this option, we worked tirelessly alongside benefits team leaders to demonstrate that this choice was the most effective way to allow participants to effectively draw down their retirement assets. Importantly, the option allows for participants to opt out before annuitizing—a key feature that addresses the need for flexibility.

2. An income feature within a managed account program. For participants using the managed account service, this income feature provides non-guaranteed, steady monthly payouts in retirement and advice on making important retirement decisions, such as Social Security optimization.
3. An annuity purchasing platform for participants who desire full flexibility in managing their portfolios. This solution allows participants to customize an annuity to fit their specific income replacement goals from a retirement income annuity marketplace, which offers competitively bid annuity products from multiple insurance companies.

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Results

The company is currently exploring how best to integrate the three retirement income solutions into its platform, with final implementation of these features into its DC plan scheduled for 2022. Above all, the organization is one step closer to fulfilling its goal of helping employees enjoy a more financially sound retirement. As an investment solutions provider dedicated to democratizing access to financial security, we’re proud to have partnered with them in this effort.

ⁱ Tran, L.; Verdeyen, H; “Income is the outcome. A review of lifetime income solutions” Russell Investments 2020

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This case study represents a unique situation faced by a global food and beverage company seeking to provide retirement income options for DC plan participants. Case studies are problem-solving stories. We select a situation that is indicative of problems clients in this category are facing. The recommendations described do not represent a standard strategy or set of recommendations made for all advisory clients with similar issues. Each client has unique requirements, challenges, and constraints, and our advisory solutions are tailored to each client's specific needs. Every client's situation, experience and needs are different, and Russell Investments does not imply that the solution herein is appropriate for any other client.

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