



# Guaranteed Lifetime Income in Defined Contribution Plans

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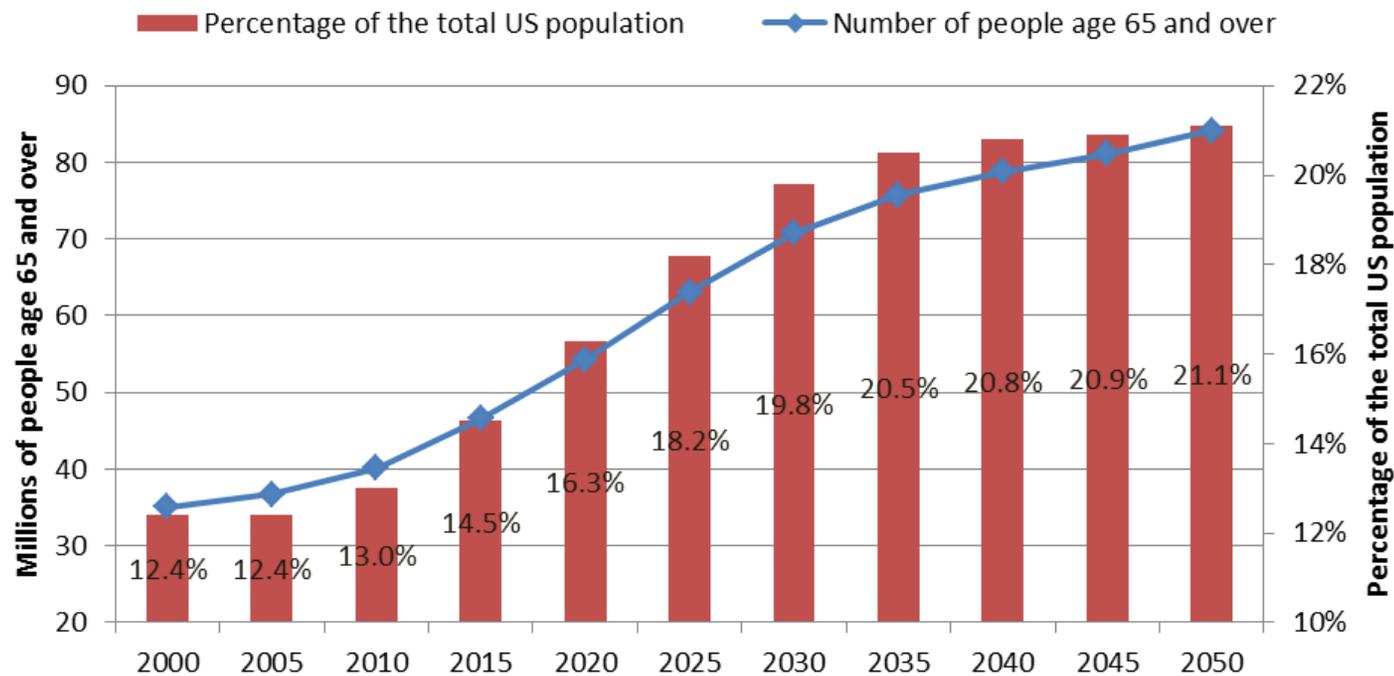
Actuaries' Club of Hartford & Springfield Annual Meeting  
May 21, 2013

# Agenda Topics

- Market Overview
- Key Challenges
- Lifetime Income Solution
- The Future

# Market Overview: Retiree Market Growth

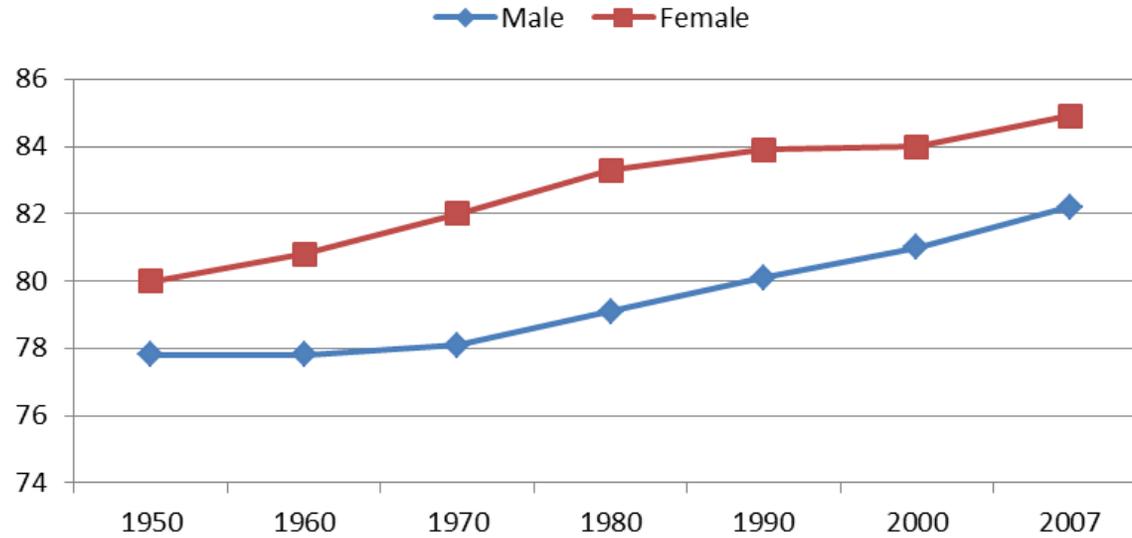
- Roughly 10,000 Baby Boomers are turning 65 every day<sup>1</sup>
- Number of people age 65 and over will reach 80 million by 2035



Source: LIMRA

<sup>1</sup>Pew Research Center

# Market Overview: Life Expectancy Increasing



Source: National Vital Statistics Report, 2011

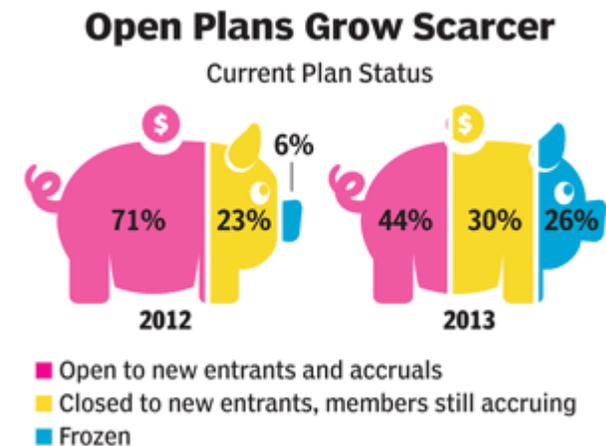
## Number of Years in Retirement \* From Age 65 to Life Expectancy

15 yrs	16 yrs	17 yrs	18 yrs	19 yrs	19 yrs	20 yrs
1950	1960	1970	1980	1990	2000	2007

\* Based on Female Mortality

# Market Overview: Top Participant Concerns

- Outliving their assets
  - 63% chance at least 1 member of a couple will live to age 90<sup>1</sup>
  - 36% chance at least 1 member of a couple will live to age 95<sup>1</sup>
- Inability to meet daily living expenses
  - 65% of people age 45+ said meeting daily expenses in retirement is #1 concern<sup>2</sup>
  - Only 30% of workers had access to a DB Plan in 2010, down from 84% in 1980<sup>3</sup>
  - Social Security projected to run out of money in 2035<sup>4</sup>



Source: CFO Magazine & Cutwater Asset Management

1 Society of Actuaries Annuity 2000 Mortality Tables

2 2009 Hartford Investment and Retirement Research Survey

3 US Department of Labor, Bureau of Labor Statistics; Employee Benefits Research Institute

4 2012 Social Security Trustees Report

# Market Opportunity for Guaranteed Lifetime Income



Source: LIMRA 2012 Retirement Income Reference Book

# Market Overview: In Plan Guarantees

- Increased focus on public policy encouraging lifetime income solutions
  - DOL/IRS RFI in 2010 received 700+ responses
  - SPARK development of standardized data feed for record keepers
  - DOL fee disclosure covering lifetime income options
  - Proposed DOL guidance mandating an income equivalent on participant statements
- Product development is accelerating
- System solutions underway to support in plan guarantees

# Key Challenges

- Fiduciary risk of insurer's financial stability
  - "Safest Available Annuity Standard" does not apply
  - Due Diligence Standard Needed
- Portability
  - Participant leaves employer
  - Plan switches record keeper
- Participant education
  - Awareness of income as a new asset class
  - Shift from accumulation to retirement income planning
  - Integration into modeling tools

# Lifetime Income Alternatives

- End of Plan/Out of Plan Options
  - Guaranteed Income Solutions – Provides access to guaranteed income options, usually fixed income, through shopping service or directly from employer plan.
  - Non-Guaranteed Payout Funds – Provides a drawdown strategy at a designated percentage with no guarantees of principal or income streams generated.
- In Plan Options
  - Fixed Payout Annuities
  - Variable Annuities with GMWBs
  - Variable Annuities with GMIBs
  - Target Date Funds with Fixed Income Allocation
  - Target Date Funds with GMWB wrap

# Comparison of In Plan Lifetime Income Options

	Fixed Deferred Annuity	Guaranteed Minimum Withdrawal Benefit (GMWB)
<b>Product Features</b>	<ul style="list-style-type: none"> <li>▪ Fixed amount of future income</li> <li>▪ Guarantee is certain future lifetime income benefit</li> <li>▪ Cost of guarantee embedded in annuity</li> <li>▪ Liquidity prior to income payments</li> </ul>	<ul style="list-style-type: none"> <li>▪ Two tracked values                             <ul style="list-style-type: none"> <li>○ Account Balance</li> <li>○ Guaranteed Benefit Balance</li> </ul> </li> <li>▪ Income generated via withdrawals</li> <li>▪ Guarantee is a minimum withdrawal benefit for life</li> <li>▪ Fees deducted from ongoing investment returns (141-156 bps)</li> <li>▪ Liquidity via account balance</li> </ul>
<b>Value Proposition</b>	<ul style="list-style-type: none"> <li>▪ Simple pension-like benefit (<i>DB benefit in a DC plan</i>)</li> <li>▪ Certainty of lifetime income amount</li> <li>▪ Portable (<i>Qualified Plan Distributed Annuity</i>)</li> <li>▪ Most Cost Effective</li> </ul>	<ul style="list-style-type: none"> <li>▪ Downside Protection</li> <li>▪ Upside Potential</li> <li>▪ Funds stay invested in equity market (No annuitization)</li> </ul>
<b>Risks Transferred</b> (from ppt to insurer)	<ul style="list-style-type: none"> <li>▪ Longevity</li> <li>▪ Asset (interest rate)</li> <li>▪ Inflation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Longevity</li> <li>▪ Asset (interest rate, equity)</li> </ul>

# LIMRA's Market Survey Results

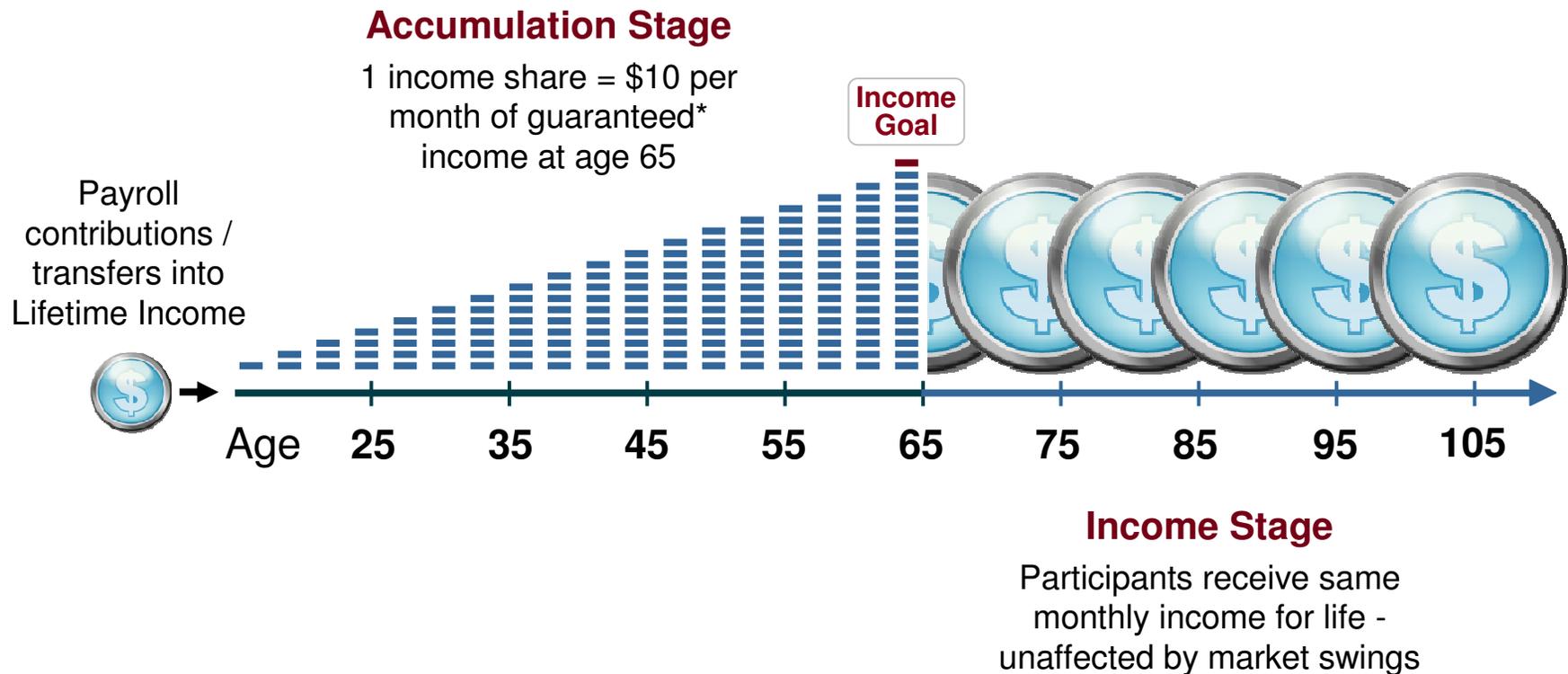
- **Early adoption of in-plan annuities has occurred most often on small retirement plans**

- As of June 2012, 18,700 plans with <\$10M offer in-plan annuities.
- 1,000 mid-sized plans (\$10M -\$199M), and fewer than 100 large & mega plans offer in-plan annuity guaranteed.
- Concern around portability, liquidity, insurer risk and fiduciary liability remain barriers to adoption.

Availability of In-Plan Guarantees		Election Rates* of In-Plan Guarantees	
# of plans that offer in-plan guarantee	19,800	# of PP electing guarantee	19,000
PP in plans that offer in-plan guarantee	1,608,800	PP election rate when available	3%
Asset in plans w/ in-plan guarantee	\$75.4B	Assets election rate	5%
Plans w/ at least one PP selecting guar.	5,200		
Adoption Rate	26%		

\* Election rates are based on total PP and assets in plan, including PP and assets who may not be eligible for the benefit – actual election rate would be higher

# Fixed Deferred Annuity Example: Hartford Lifetime Income

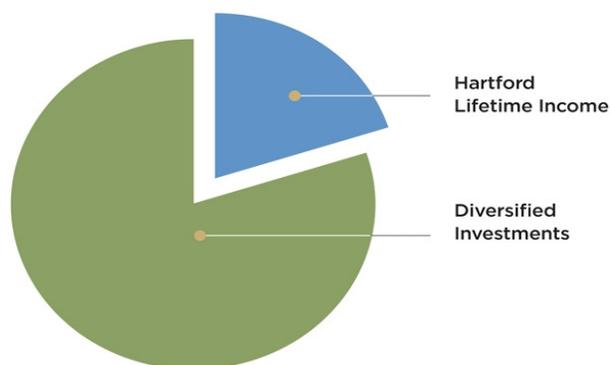


Hartford Lifetime Income<sup>SM</sup> is a group fixed payout annuity issued by Hartford Life Insurance Company  
\*Guarantees are based on the claims-paying ability of Hartford Life Insurance Company.

# Guaranteed Income Asset Class

- A unique asset class designed to be part of a diversified retirement portfolio.
  - Provides predictable, steady income
  - Basic expense coverage for retirement
  - Complement other asset classes by providing lifetime guarantees

**The best of both worlds:  
Certainty. And room for growth.**



# Key Features

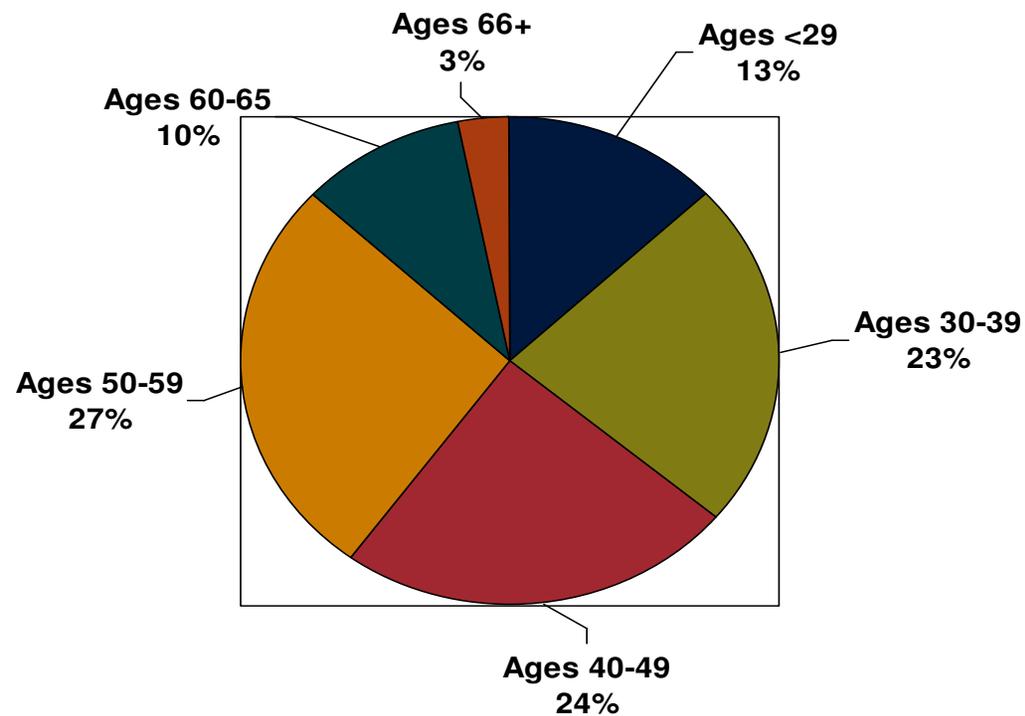
- Flexibility
  - Start, stop or change contribution amount at any time
  - Receive income earlier or later than age 65
  - Joint & survivor and inflation protection options available
- Liquidity available anytime prior to income start
- Death Benefit of cash-out value or lifetime income stream
- Pricing
  - Price varies based on age and interest rates
  - All fees and charges are embedded in share cost
- Lifetime Income benefit is not subject to market volatility

S&P 500 Annual Returns

Year	'10	'09	'08	'07	'06	'05	'04	'03	'02	'01	'00	'99	'98	'97	'96	'95	'94	'93	'92	'91
% return	12.8	23.5	-38.5	3.51	3.6	3.0	9.0	26.4	-23.4	-13.0	-10.1	19.5	26.7	31.0	20.3	34.1	-1.5	7.1	4.5	26.3

# Early Results

- Broad appeal across all age groups
- 60% of participants are under age 50
- Pension-like benefit is resonating



*Based on sales results through March 31, 2013*

# The Future

- Product
  - Increased packaging for easier participant adoption
  - Multiple Insurer Products
    - Guarantee split among several insurers
    - Reinsurance
  - Multiple income options within a plan's investment line-up
    - DB like benefit and GMWB options to appeal to all ages and risk profiles
    - Provides participant choice
- Portability
  - DOL guidance: i.e. expansion of distributable event
  - Standardized income portal for in plan guarantee trading and clearing
    - Products available on standard income portal vs. provider's systems
    - Record keepers can gain access to multiple income products via single application
- Participant Education
  - Focus on Retirement Readiness
    - Outcome based education positioning and tools
    - Income benefit highlighted on statements
  - Income options used as default or employer match

Questions?



We'll help you get there.<sup>SM</sup>

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