Lifetime Income Illustrations – Interim Final Rule (IFR)

BACKGROUND

On December 20, 2019, ERISA section 105 was amended by section 203 of the Setting Every Community Up for Retirement Enhancement Act of 2019 (the "SECURE Act"). Employee Benefits Security Administration issued an IFR which requires plan administrators of ERISA defined contribution plans to express a participant's current account balance, both as a single life annuity and a qualified joint and survivor annuity income stream. These two income stream illustrations, which must be on the same pension benefit statement, will help participants better understand how the amount of money they have saved so far converts into an estimated monthly payment for the rest of their lives, and how this impacts their retirement planning.

ANNUAL DISCLOSURE

The two lifetime income stream illustrations on participants' pension benefit statements:

(a) must be furnished to participants at least annually; and

(b) include:

- the value of a participant's account balance as of the last day of the statement period;
- such account balance expressed as a lifetime income stream payable in equal monthly payments for the life of the participant (single life annuity); and
- such account balance expressed as a lifetime income stream payable in equal monthly payments for the joint lives of the participant and spouse as a qualified joint and survivor annuity (QJSA).

A sample illustration:

Account balance As of [Date]	Monthly Payment at 67 Single Life Annuity)	Monthly Payment at 67 (Qualified Joint and 100% Survivor Annuity)
$125,000	$645/month for life of participant	$533/month for life of participant $533/month for life of participant's surviving spouse

ASSUMPTIONS FOR CONVERTING ACCOUNT BALAMCE INTO LIFETIME INCOME STREAM

Plan administrators must prepare lifetime income illustrations using the annuitization methodology set forth in the IFR. Plan administrators, or their service providers, generally must consider four relevant factors when converting a participant's account balance into lifetime income streams.

1) The date the payments would start, referred to as the "**commencement date**," and the participant's age on such date.

   The assumed annuity commencement date is the last day of the statement period. The required illustrations must assume the participant is age 67 on the commencement date, regardless of the participant's actual age. If, however, the participant is older than age 67, the plan administrator shall use the participant's actual age as of the last day of the statement period.

2) The **marital status** of the participant.

   The participant is assumed married and that the participant's spouse is the same age as the participant and requiring the survivor annuity percentage to equal 100% of the monthly payment that is payable during the joint lives of the participant and spouse.

   By requiring both illustrations, participants (whether married or not) can better understand how a survivor benefit, if they are married at retirement and choose an annuity, could impact the amount of the participant's (and spouse's) monthly lifetime payment.

3) The **interest rate** that will be applied for the applicable mortality period.

   Plan administrators must assume a rate of interest equal to the 10-year constant maturity Treasury (CMT) securities yield rate for the first business day of the last month of the period to which the benefit statement relates.

4) The expected **mortality** of the participant and spouse.

   Plan administrators convert participants' account balances assuming mortality "as reflected in the applicable mortality table under Code section 417(e)(3)(B) in effect for the last month of the period to which the statement relates. Code section 417(e)(3)(B) provides a unisex mortality table that is created and published by the Internal Revenue Service (IRS).

ADDITIONAL CONSIDERATIONS

1) Insurance Load

   Converting participants' account balances into the required lifetime income streams will not include an "insurance load." Insurance Load describes the difference between the market price of lifetime income and the price of actuarially fair lifetime income. A load factor refers to the extra amount that an insurance company may charge for a product given extra expenses and costs beyond the basic charges. An insurance load may include, for example, an allowance for an insurance company's profits, costs of insuring against systemic mortality risk, costs of holding cash reserves, advertising costs, the cost of anti-selection (if not accounted for in the mortality table), or other operating costs.

2) Inflation Adjustment

   It is not required for an assumed adjustment to the required lifetime monthly payment illustrations for inflation. Consequently, only a fixed nominal annuitized income stream is illustrated.

3) Term Certain or Other Features

   A number of annuity features and products exist, the treatment of which currently is not required, for example guaranteed lifetime withdrawal benefits (GLWBs), also referred to as guaranteed minimum withdrawal benefits (GMWBs), terms certain, and other optional riders that may accompany annuities.

EXPLANATIONS OF LIFETIME INCOME STREAM

it is essential that pension benefit statements include brief, understandable explanations of the assumptions underlying the illustrations.

1) Regarding "**commencement date**" and "**age assumptions**", the plan administrator may use the following model language:

   "The estimated monthly payments in this statement assume that payments begin [insert the last day of the statement period] and that you are [insert 67 or current age if older] on this date. Monthly payments beginning at a younger age would be lower than shown since payments would be made over more years. Monthly payments beginning at an older age would be higher than shown since they would be made over fewer years."

2) Regarding a "**single life annuity**", the plan administrator may use the following model language:

> *"A single life annuity is an arrangement that pays you a fixed amount of money each month for the rest of your life. Following your death, no further payments would be made to your spouse or heirs."*

3) Regarding a "**qualified joint and 100% survivor annuity**". the plan administrator may use the following model language:

> *"A qualified joint and 100% survivor annuity is an arrangement that pays you and your spouse a fixed monthly payment for the rest of your joint lives. In addition, after your death, this type of annuity would continue to provide the same fixed monthly payment to your surviving spouse for their life. An annuity with a lower survivor percentage may be available, and reducing the survivor percentage (below 100%) would increase monthly payments during your lifetime, but would decrease what your surviving spouse would receive after your death."*

4) Regarding "**marital status**" assumptions, the plan administrator may use the following model language:

> *"The estimated monthly payments for a qualified joint and 100% survivor annuity in this statement assume that you are married with a spouse who is the same age as you (even if you do not currently have a spouse, or if you have a spouse who is a different age). If your spouse is younger, monthly payments would be lower than shown since they would be expected to be paid over more years. If your spouse is older, monthly payments would be higher than shown since they would be expected to be paid over fewer years."*

5) Regarding "**interest rate**" assumptions, the plan administrator may use the following model language:

> *"The estimated monthly payments in this statement are based on an interest rate of [insert rate], which is the 10-year constant maturity U.S. Treasury securities yield rate as of [insert date], as required by federal regulations. This rate fluctuates based on market conditions. The lower the interest rate, the smaller your monthly payment will be, and the higher the interest rate, the larger your monthly payment will be."*

6) Regarding "**mortality**" assumptions, the plan administrator may use the following model language:

> *"The estimated monthly payments in this statement are based on how long you and a spouse who is assumed to be your age are expected to live. For this purpose, federal regulations require that your life expectancy be estimated using gender neutral mortality assumptions established by the Internal Revenue Service."*

7) Regarding "**monthly payment amounts**". the plan administrator may use the following model language:

> *"The estimated monthly payments in this statemen are for illustrative purposes only; they are not a guarantee."*

8) Regarding "**the actual monthly payments that may be purchased with the amount specified**", the plan administrator may use the following model language:

> *"The estimated monthly payments in this statement are based on prevailing market conditions and other assumptions required under federal regulations. If you decide to purchase an annuity, the actual payments you receive will depend on a number of factors and may vary substantially from the estimated monthly payments in this statement. For example, your actual age at retirement, your actual account balance (reflecting future investment gains and losses, contributions, distributions, and fees), and the market conditions at the time of purchase will affect your actual payment amounts. The estimated monthly payments in this statement are the same whether you are male or female. This is required for annuities payable from an employer's plan. However, the same amount paid for an annuity available outside of an employer's plan may provide a larger monthly payment for males than for females since females are expected to live longer."*

9) Regarding "**the monthly payment amounts are fixed amounts that would not increase for inflation**," the plan administrator may use the following model language:

> *"Unlike Social Security payments, the estimated monthly payments in this statement do not increase each year with a cost-of-living adjustment. Therefore, as prices increase over time, the fixed monthly payments will buy fewer goods and services."*

10) Regarding "**the monthly payment amounts required are based on total benefits accrued, regardless of whether such benefits are nonforfeitable**," the plan administrator may use the following model language:

> *"The estimated monthly payment amounts in this statement assume that your account balance is 100% vested."*

11) Regarding "**account balance**", the plan administrator may use the following model language:

> *"If you have taken a loan from the plan and are not in default on the loan, the estimated monthly payments in this statement assume that the loan has been fully repaid."*

MODEL DISCLOSURE

Plan administrators may integrate these eleven inserts into their existing pension benefit statements in any manner or format determined to be appropriate by the plan administrators. This flexibility is limited only by the general requirement that the integrated benefit statement must be written in a manner calculated to be understood by the average plan participant. Exhibit A provides a copy of the DOL's full model disclosure that may be used to satisfy the requirements. This full model disclosure includes all of the substance of the eleven inserts collectively as a single document to supplement or append to an existing benefit statement. Exhibit B is a copy of the model disclosure for Plans That Offer Distribution Annuities.

SPECIAL RULES FOR IN-PLAN ANNUITIES

To the extent that an accrued benefit is or may be invested in a lifetime income stream[1], the assumptions shall permit plan administrators to use the amounts payable under such lifetime income streams as a lifetime income stream equivalent." Special rules for plans that offer distribution annuities, deferred annuities, or both are described below.

(1) Plan with Distribution Annuities
For plans that offer such annuities through a contract with a licensed insurance company, the plan administrators, in their own discretion, are allowed to base the two mandatory lifetime income illustrations on the insurance contract terms, instead of on the otherwise mandatory assumptions set forth in paragraph (c) of the IFR — "Assumptions for converting an account balance into lifetime income streams" (page 2 above.)

However, there are limitations to this optional substitution. Illustrations still must:

- show two lifetime income streams — a single life annuity and qualified joint and survivor annuity,
- assume the first payment is made on the last day of the statement period, that the participant is age 67 (unless older) on such date, and has a spouse the same age,
- use unisex mortality experience,
- reflect the survivor's benefit percentage specified in the contract, if less than 100%, and
- accompanied by clear and understandable explanations of the assumptions underlying the illustrations.

[1] ERISA Section 105(a)(2)(D)(iii) - https://www.law.cornell.edu/uscode/text/29/1025

(2) Plans with Participants That Purchased Deferred Annuities
During the accumulation phase, some plans offer participants the ability to purchase deferred income annuities (DIAs). DIAs allow participants to purchase, or to make ongoing contributions toward the current purchase of, a future stream of retirement income payments that is provided by an insurance company. The payments are deferred to a selected retirement age (or even later in the case of certain DIAs, such as qualifying longevity annuity contracts (QLACs))

For any portion of a participant's accrued benefit that has been used to purchase a DIA, the plan administrator is to ignore applicable assumptions and disclosure requirements in

- paragraphs (c) of the IFR — "Assumptions for converting an account balance into lifetime income streams" (page 2 above,) and
- paragraph (d) of the IFR — "Explanation of lifetime income streams" (page 3 through 6 above.)

Instead, disclose the amounts payable under the DIA in accordance with requirements in paragraph (e)(2)(ii) of the IFR, which states the following information must be disclosed about such lifetime income payments:

(A) The date payments are scheduled to commence and the age of the participant on such date;

(B) The frequency and the amount of such payments payable as of the commencement date in paragraph (e)(2)(ii)(A) of this section, as determined under the terms of the contract, expressed in current dollars;

(C) A description of any survivor benefit, period certain commitment, or similar feature; and

(D) A statement whether such payments are fixed, adjust with inflation during retirement, or adjust in some other way, and a general explanation of how any such adjustment is determined.

To avoid confusion or double counting the value of the DIA, the value of a DIA is excluded from the participant's account balance.

SAFE HARBOR

Section 203 states that "[n]o plan fiduciary, plan sponsor, or other person shall have any liability under this title solely by reason of the provision of lifetime income stream equivalents which are derived in accordance with the assumptions and rules [prescribed by the Secretary] and which include the explanations contained in the model lifetime income disclosure [prescribed by the Secretary]."

Finally, a plan administrator is not precluded from including lifetime income stream illustrations on the benefit statement in addition to the Safe Harbor illustrations, as long as such additional illustrations are clearly explained, presented in a manner that is designed to avoid confusing or misleading participants, and based on reasonable assumptions.

Please refer to the IFR on the DOL website for complete detail

IFR: https://www.dol.gov/sites/dolgov/files/ebsa/temporary-postings/pension-benefit-statements-lifetime-income-illustrations.pdf

Fact Sheet: https://www.dol.gov/sites/dolgov/files/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/pension-benefit-statements-lifetime-income-illustrations.pdf

EXHIBIT A: Model Benefit Statement Supplement

Statement Period: [Insert beginning and ending dates]

This statement provides you with information about how much monthly income you could collect at retirement based on your current account balance. The estimated monthly payments in this statement are for illustrative purposes only; they are not a guarantee. Having this information now may help you plan how much money to save for your retirement.

Your account balance is [insert statement balance] as of [insert last day of statement period]. Below are estimates of how much money you could receive each month if you were to receive payments in one of the following two payment forms:

1. A single life annuity is an arrangement that pays you a fixed amount of money each month for the rest of your life. Following your death, no further payments would be made to your spouse or heirs.

If you receive payments in this form, we estimate you would receive [insert single life annuity amount] per month starting at retirement.

2. A qualified joint and 100% survivor annuity is an arrangement that pays you and your spouse a fixed monthly payment for the rest of your joint lives. In addition, after your death, this type of annuity would continue to provide the same fixed monthly payment to your surviving spouse for their life.

If you receive payments in this form, we estimate you would receive [insert qualified joint and 100% survivor amount] per month starting at retirement and, after your death, your surviving spouse would receive [insert qualified joint and 100% survivor amount] per month.

An annuity with a lower survivor percentage may be available, and reducing the survivor percentage (below 100%) would increase monthly payments during your lifetime, but would decrease what your surviving spouse would receive after your death.

The following information is to help you understand these estimated monthly payments.

• The estimated monthly payments in this statement assume that your account balance is 100% vested and, if you have taken a loan from the plan and you are not in default, the loan has been fully repaid.

• The estimated monthly payments in this statement assume that payments begin [insert the last day of statement period] and that you are [insert 67 or current age if older] on this date. Monthly payments beginning at a younger age would be lower than shown since payments would be made over more years.

Monthly payments beginning at an older age would be higher than shown since they would be made over fewer years.

• The estimated monthly payments for a qualified joint and 100% survivor annuity in this statement assume that you are married with a spouse who is the same age as you (even if you do not currently have a spouse, or if you have a spouse who is a different age). If your spouse is younger, monthly payments would be lower than shown since they would be expected to be paid over more years. If your spouse is older, monthly payments would be higher than shown since they would be expected to be paid over fewer years.

• The estimated monthly payments in this statement are based on an interest rate of [insert rate], which is the 10-year constant maturity U.S. Treasury securities yield rate as of [insert date], as required by federal regulations. This rate fluctuates based on market conditions. The lower the interest rate, the smaller your monthly payment will be, and the higher the interest rate, the larger your monthly payment will be.

• The estimated monthly payments in this statement are based on how long you and a spouse, who is assumed to be your age, are expected to live. For this purpose, federal regulations require that your life expectancy be estimated using gender neutral mortality assumptions established by the Internal Revenue Service.

• The estimated monthly payments in this statement are the same whether you are male or female. This is required for annuities payable from an employer's plan. However, the same amount paid for an annuity available outside of an employer's plan may provide a larger monthly payment for males than for females since females are expected to live longer.

• The estimated monthly payments in this statement are based on prevailing market conditions and other assumptions required under federal regulations. If you decide to purchase an annuity, the actual payments you receive will depend on a number of factors and may vary substantially from the estimated monthly payments in this statement. For example, your actual age at retirement, your actual account balance (reflecting future investment gains and losses, contributions, distributions, and fees), and the market conditions at the time of purchase will affect your actual payment amounts.

• Unlike Social Security payments, the estimated monthly payments in this statement do not increase each year with a cost-of-living adjustment. Therefore, as prices increase over time, the fixed monthly payments will buy fewer goods and services.

EXHIBIT B: Model Benefit Statement Supplement —

Plans That Offer Distribution Annuities

Statement Period: [Insert beginning and ending dates]

This statement provides you with information about how much monthly income you could collect at retirement based on your current account balance. The estimated monthly payments in this statement are for illustrative purposes only; they are not a guarantee. Having this information now may help you plan how much money to save for your retirement.

Your account balance is [insert statement balance] as of [insert last day of the statement period]. Below are estimates of how much money you could receive each month if you were to receive payments in one of the following two payment forms:

1. A single life annuity is an arrangement that pays you a specified amount of money each month for the rest of your life. Following your death, no further payments would be made to your spouse or heirs.

If you receive payments in this form, we estimate you would receive [insert single life annuity amount] per month starting at retirement.

2. A qualified joint and survivor annuity is an arrangement that pays you and your spouse a specified monthly payment for the rest of your joint lives. When one spouse dies, monthly payments continue to the surviving spouse for their life.

If you receive payments in this form, we estimate you would receive [insert monthly payment amount] per month starting at retirement. If you die first, your spouse will receive [insert X %] of the monthly payment payable during your life. If your spouse dies first, you will receive [insert Y %] of the monthly payment.

The following information is to help you understand these estimated monthly payments.

• The estimated monthly payments in this statement assume that your account balance is 100% vested and that, if you have taken a loan from the plan and you are not in default, the loan has been fully repaid.

• The estimated monthly payments in this statement assume that payments begin [insert the last day of statement period] and that you are [insert 67 or current age if older] on this date. Monthly payments beginning at a younger age would be lower than shown since payments would be made over more years. Monthly payments beginning at an older age would be higher than shown since they would be made over fewer years.

The estimated monthly payments for a qualified joint and survivor annuity in this statement assume that you are married with a spouse who is the same age as you (even if you do not currently have a spouse, or if you have a spouse who is a different age). If your spouse is younger, monthly payments would be lower than shown since they would be expected to be paid over more years. If your spouse is older, monthly payments would be higher than shown since they would be expected over fewer years.

• The estimated monthly payments in this statement are based on an interest rate offered by [insert name of insurer] under a contract with the plan. This rate may fluctuate. The lower the interest rate, the smaller your monthly payments will be, and the higher the interest rate, the larger your monthly payments will be.

• The estimated monthly payments in this statement are based on how long you and a spouse who is assumed to be your age are expected to live. Life expectancy is estimated by using mortality assumptions adopted by [enter name of insurance company].

• The estimated monthly payments in this statement are based on prevailing market conditions and other assumptions. If you decide to purchase an annuity, the actual payments you receive will depend on a number factors and may vary substantially from the estimated monthly payments in this statement. For example, your actual age at retirement, your actual account balance (reflecting future investment gains and losses, contributions, distributions, and fees), and the market conditions at the time of purchase will affect your actual payment amounts. The estimated monthly payments in this statement are the same whether you are male or female. This is required for annuities payable from an employer's plan. However, the same amount paid for an annuity available outside of an employer's plan may provide a larger monthly payment for males than for females since females are expected to live longer.

• [Unlike Social Security payments, the estimated monthly payment amounts in this statement do not increase each year with a cost-of-living adjustment. Therefore, as prices increase over time, the fixed monthly payments will buy fewer goods and services] OR [The amounts shown in this statement will increase over time based on [insert general explanation of how any adjustment is determined, e.g., to reflect inflation, a cost-of-living adjustment, etc.]