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No Consensus on SECURE

Late in 2019, Congress gave the defined contribution (DC) industry a bit of a surprise and last-minute holiday present (or stocking full of coal, depending on how you look at it) in the SECURE Act, which passed the House on December 17, the Senate on December 18, and was signed into law by the President on December 20.

After years of stops and starts, RESA, and other proposals, few expected significant retirement legislation to materialize in 2019, and the possibility seemed even more remote as the year wore on. In webinars, committee meetings, and study groups, experts reported little to no likelihood of legislation.

Well, we've had a lot of surprises lately.

So, despite the distractions of 2020, the industry is now addressing the possibilities that SECURE raises in terms of easing the path for in-plan guaranteed investment income options via safe harbor protections and portability. The Act also lays the groundwork for a new focus on income by requiring illustrations of how an existing account balance will translate into an income stream.

Over the past several weeks, my team and I have held a series of in-depth interviews with leading industry organizations and voices. What we found was a surprising lack of consensus about whether — and to what degree — SECURE effectively will achieve the goals of improving in-plan income generating solutions. We spoke with individuals from recordkeepers that offered different constructs of income solutions, and people who represented different constituencies and viewpoints across the financial services industry.

"It's the most significant piece of legislation since the PPA (Pension Protection Act)," more than one individual proclaimed. We also heard, "SECURE is not a revolutionary game changer," and "The premise that the SECURE Act is going to suddenly open flood gates is absurd."

Still the conversations shared some common themes. Everyone agrees that SECURE is at the very least "a good start" in facilitating the evolution of DC plans from primarily accumulation vehicles to income-generating engines.

Each conversation referenced the importance of behavioral finance in furthering the use of DC plans to create retirement income. Enabling income as a qualified default investment alternative (QDIA), in tandem with auto plan features, is viewed as integral to moving participants past inertia. The necessity of re-framing conversations and positioning — moving from investment/accumulation/account value to income/peace of mind — also resonated.

The idea of visualization — a result of SECURE's requirement that DC balances be illustrated in terms of an income stream — also generated conflicting opinions. The "level playing field" illustration that will be framed by DOL guidelines is going to "change the national conversation," according to one participant. Another claims it's not nearly enough, unless accompanied by projections of account growth over time and with continued contributions. The illustration may "force" individuals to think in terms of income, encouraging them to save more; or, showing the transition from a "large" balance into a "smaller" stream might discourage individuals from even *trying* to save.

Opinions on safe harbor and portability also run the gamut. They will give much needed impetus for sponsors to adopt income options ... don't do enough to solve for systemic and operational difficulties ... or simply wrap words around solutions that already do exist in the industry.

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Now is a critical time, when consumers will need help from the financial services industry to save for and achieve their retirement goals.

In terms of household income, Americans' retirement confidence dropped in 2020 to a similar extent (Figure 3). Despite earning different amounts, high-, middle-, and low-income workers all show a decline in confidence compared with the years preceding the pandemic.

The seismic disruption in the lives of Americans in the wake of the COVID-19 pandemic has also disrupted a trend of increasing retirement confidence going back to at least 2013. Now is a critical time, when consumers will need help from the financial services industry to save for and achieve their retirement goals. No matter how modest or grand these goals are, retirement confidence is a measure of optimism for the realization of dreams — dreams that many Americans spend a lifetime working to achieve.

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SECURE also aims to increase access to workplace savings for more workers by allowing non-affiliated employers to join forces in a new take on the concept of "open MEPS" with a Pooled Employer Plan (PEP), creating a new role in the space for a Pooled Plan Provider (PPP, or P3). As a "bonus question," we asked whether PEPs will be game changers in the battle to increase retirement plan access to more workers. We also asked whether they will further open up the opportunities for an in-plan income market. The response field varies here as well. Income solutions may be a good way for a MEP/PEP to differentiate itself … there's no connection yet … MEPs/PEPs are game changers … MEPs/PEPs are *not* game changers.

Providing a forum for industry voices — listening to and presenting the rich and various thoughts and positions in our industry on developments such as SECURE — is a fundamental part of the Secure Retirement Institute's value proposition (and one of the more interesting aspects of my job here). The SECURE Act focuses on many possible solutions for many aspects of the retirement challenge for employers and individuals. There are no clear solutions for such complex challenges, but understanding the opinions and views about how SECURE affects the industry gives us a framework for our efforts and analysis moving forward. This provides a foundation on which the industry can build, as it transitions into implementation and — we hope — improving savings access and income solutions for workers.

For More Information

To access the full report of the high-level findings and comments from this study, see *DConversations: Income Solutions in Defined Contribution Plans*, on limra.com.