

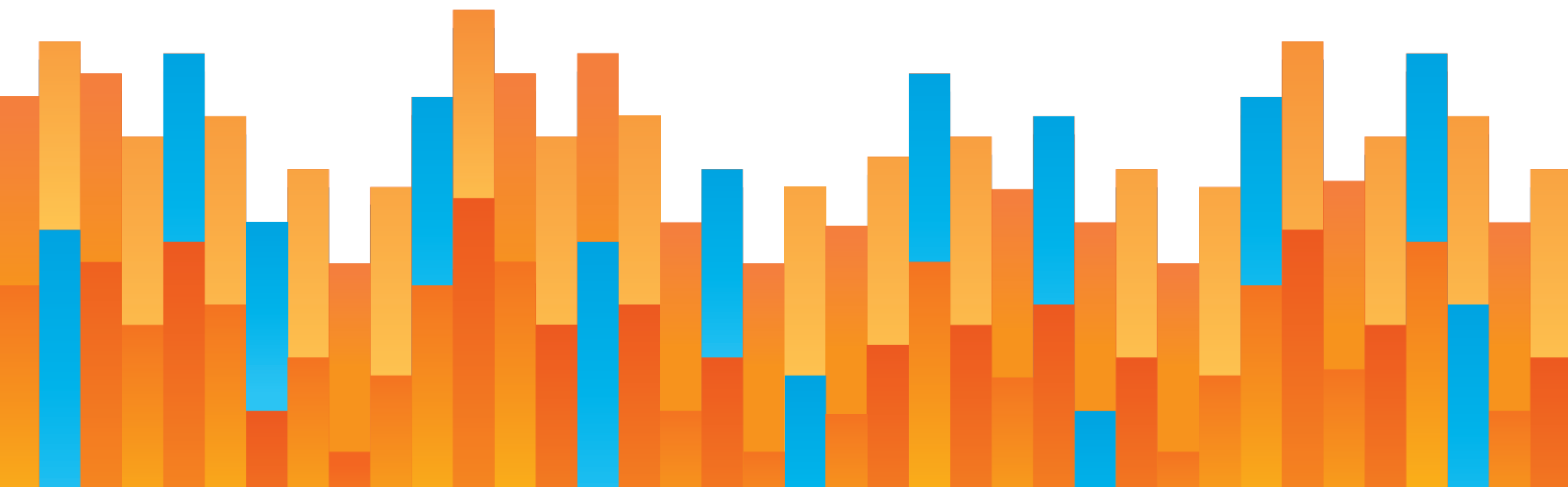


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ADOPTION AND EVALUATION OF LIFETIME INCOME PRODUCTS FOR PUBLIC SECTOR DC PLANS: A FRAMEWORK FOR POLICYMAKERS AND FIDUCIARIES

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EXECUTIVE SUMMARY

Public sector defined contribution (DC) plans play a critical role in providing retirement security for an increasing segment of state and local government employees. However, most public sector DC plans do not have lifetime retirement income options that efficiently address longevity and investment risks to participants. While individuals can purchase lifetime income options on their own upon retirement, very few plans offer an in-house lifetime retirement income product, which—if structured correctly—could provide a more cost-efficient and functional option for public employees.

This issue brief provides an analysis of how lifetime retirement income features are currently used in public sector DC plans and identifies the rationale for why providing these features is an advantageous policy. It outlines a best-practices framework for public sector DC plan sponsors to evaluate and select annuity options. The framework addresses the need for plan sponsors to order decision-making, focusing first on establishing retirement income objectives for the plan, next selecting a lifetime income structure to meet those objectives, and lastly selecting the most suitable product set based on the federal SECURE Act's fiduciary safe harbor under ERISA Section 404(e) for annuity contracts that provide guaranteed benefits for life to participants and beneficiaries in DC plans. This framework, which focuses on the primacy of setting retirement income objectives, represents a prudent approach to mitigating risks and aligns with public sector retirement benefit policy goals. The framework addresses common objections, compares product types, and provides a structured due-diligence process to prioritize adequate lifetime income while considering costs, participant needs, and administrative feasibility. By following this framework, sponsors can enhance participant outcomes, reduce longevity risk, and fulfill benefit policy objectives.

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PART 1

INTRODUCTION

The framework outlined in Reason Foundation’s Personal Retirement Optimization Plan recommends that public sector defined contribution (DC) retirement plans prioritize lifetime income as a primary objective.¹ However, the reality is that many of these plans do not offer lifetime retirement income as a form of distribution or do so in an inefficient manner, leaving retirees vulnerable to financial insecurity. The reasons for this vary, but primarily it is because lifetime retirement income has never been prioritized as a core objective.

This issue brief directly addresses the reasons for not including lifetime income solutions in these plans and challenges misconceptions and objections. It establishes a foundation for understanding the necessity and value of annuities and offers a formalized approach for fiduciaries and administrators of public sector DC plans to evaluate and select appropriate and cost-effective lifetime income solutions.

1.1

UNDERSTANDING THE ROLE OF PLAN SPONSORS IN DESIGNING A DC PLAN’S RETIREMENT INCOME FEATURES

State or local governments act as the creator, sponsor, and “settlor” of DC plans by establishing terms and benefit objectives through legislation. Fiduciaries and

¹ Richard Hiller, Rod Crane, and Anil Niraula, *The Personal Retirement Optimization Plan: An Optimized Design for State and Local Government Employees*, (Los Angeles: Reason Foundation, January 2023).

administrators are responsible for implementing—not designing—the plan as set by the sponsor. Often, sponsors fail to clearly define benefit objectives, leading plan administrators and fiduciaries to overlook lifetime retirement income features or use them ineffectively.

Through this framework, plan sponsors and fiduciaries will be able to:

- Assess the rationale for including lifetime income features, focusing on benefit policy objectives that prioritize the delivery of adequate lifetime retirement income;
- Respond to objections to including lifetime income features;
- Become informed about the different ways of including lifetime retirement income features in their plans;
- Compare lifetime income solutions against drawdown or distribution options without lifetime income features, such as managed withdrawals over life expectancy; and
- Implement a fiduciary process—both quantitative and qualitative—for selecting and monitoring lifetime income solutions that best align with established benefit policy objectives.

Using this framework, policymakers will enable the DC plan to fulfill its central objective: providing safe, secure lifetime income to participants in a cost-effective and risk-managed manner.

Although not directly applicable to governmental plans, the proposed evaluation and fiduciary process is designed to align with the requirements set forth in the Setting Every Community Up for Retirement Enhancement (SECURE) Act 2.0 and the Department of Labor (DOL) safe harbor standards under the Employee Retirement Income Security (ERISA) Section 404(e) for lifetime income annuity products.

PART 2

THE IMPERATIVES FOR INCLUDING LIFETIME RETIREMENT INCOME AS A DC PLAN OBJECTIVE

The main rationale for adding in-plan annuities to core DC plans is the ability to address the risk of depleting a DC account before death, often referred to as portfolio failure or ruin. Depletion risk arises from a combination of interconnected factors discussed below that can erode savings faster than anticipated during retirement, with some studies showing these risks result in 10%-40% failure rates for fixed withdrawal strategies over 30-40 years, underscoring the value of diversification, flexible spending, or annuitization to mitigate depletion.²

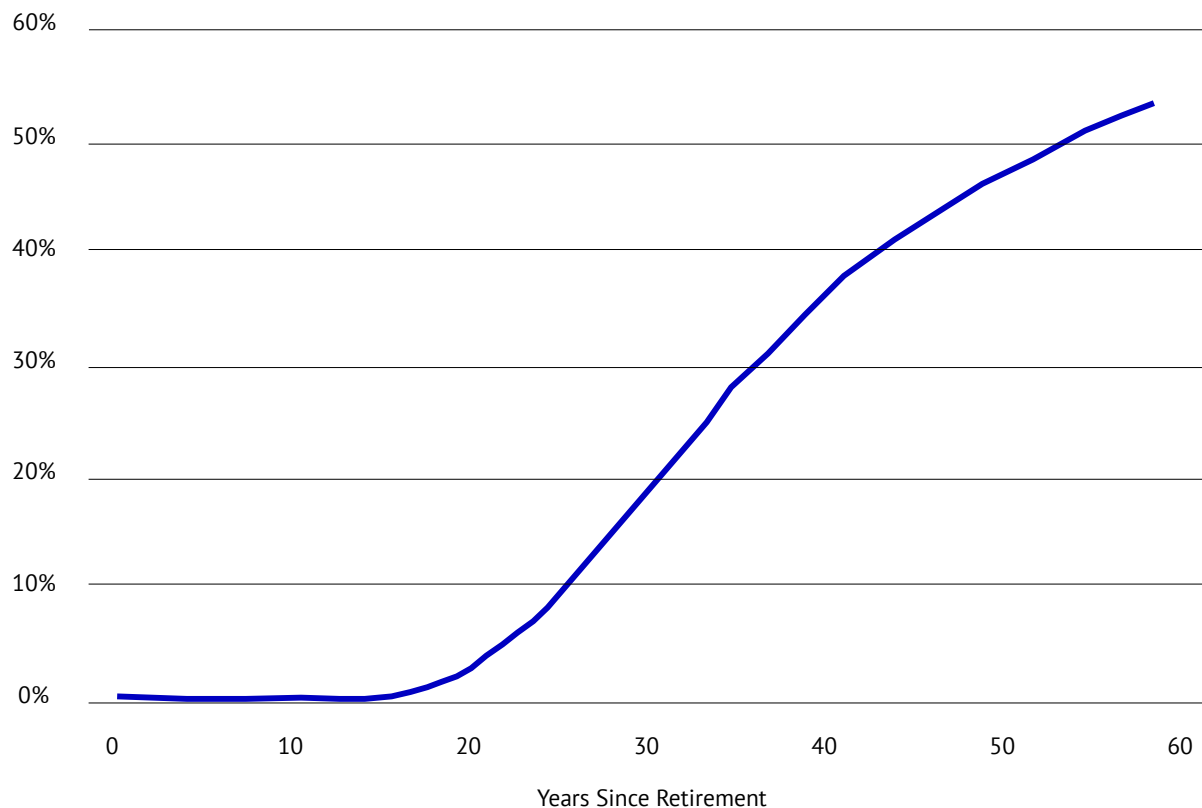
Longevity Risk: The danger of outliving one's savings is illustrated by the simple example in the chart below: if one withdraws 4% annually from a \$100,000 balance, it is possible to exhaust those funds in approximately 25 years, with about a 10% cumulative likelihood of depletion by age 90 based on conservative investment return calculations using standard Monte Carlo methodologies without severe market shocks taken into account. According to the Social Security Administration, about one in three American women and about one in five American men who reach age 70 will live to age 90. For a married male-female couple

² "The Safe Withdrawal Rate Series," Weblog Post, Early Retirement Now, 7 January 2026. www.earlyretirementnow.com/safe-withdrawal-rate-series/ (17 March 2026).; Wade D. Pfau, "An International Perspective on Safe Withdrawal Rates: The Demise of the 4 Percent Rule?" *Journal of Financial Planning* (December 2010). 52-61.; Wenliang Hou, *How Well Do Retirees Assess the Risks They Face in Retirement?*, (Boston: Center for Retirement Research at Boston College, 2022).

both age 65, the probability that at least one spouse reaches age 90 is 50%. The average life expectancy after reaching age 90 is about four to five years.³

FIGURE 1: CUMULATIVE PROBABILITY OF DC BALANCE DEPLETION

Shares of retirees whose account balance has reached zero by each year of retirement.



Investment Risk: Investment risk in retirement primarily stems from market volatility, interest rate fluctuations, and sequence-of-returns risk, all of which can significantly impact retirement income adequacy. During the retirement (decumulation) phase, poor investment performance, especially early in retirement, can deplete savings faster when withdrawals are taken from a shrinking portfolio, reducing the sustainable income over a retiree's lifetime. This risk is compounded by longevity, as outliving one's assets becomes more likely without guarantees. Strategies like systematic withdrawals (e.g., the 4% rule) offer flexibility but carry a notable probability of shortfall, whereas lifetime income solutions

³ "Actuarial Life Table," Social Security Administration, Period Life Table, 2022, as used in the 2025 Trustees Report, www.ssa.gov/oact/STATS/table4c6.html (17 Apr 2026).

such as annuities transfer investment and longevity risks to a third-party insurer, providing greater certainty of adequate income regardless of market conditions.

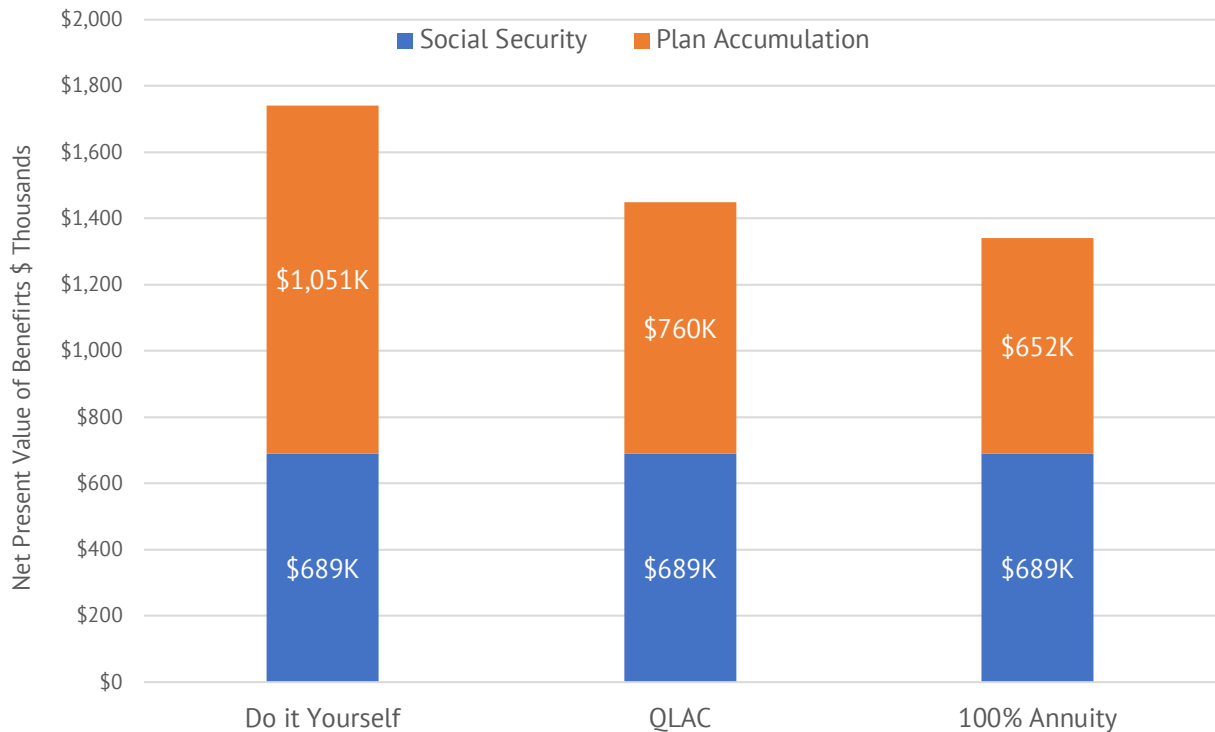
Unexpected Expenditure Risk: Higher-than-expected expenditures can deplete retirement savings faster than expected. Examples include unplanned medical costs, home repairs, or family support. These further strain resources by forcing larger draws that compound losses during volatile periods.

Cost Efficiency: Annuities offer notable cost efficiencies over DIY systematic withdrawals, such as the 4% per year rule. Annuities allow higher effective payout rates, primarily through mortality credits and longevity risk pooling. The DIY 4% distribution rule of thumb would allow a \$4,000 annual withdrawal for a \$100,000 account. In comparison, a standard single life annuity will allow higher effective payout rates—often 7.5%–7.7% (\$7,500–\$7,700 annually per \$100,000 for a 65-year-old in December 2025)—without the 10%–20% risk of depleting savings by advanced ages. In-plan or group annuities further enhance efficiency versus retail annuities by leveraging institutional pricing, larger pooled purchases, and reduced administrative/commission fees (often no direct participant charges), resulting in better terms, higher payouts, and lower overall costs while maintaining fiduciary oversight and portability.

Another favorable consequence of mandatory or default lifetime income options is that they can reduce the amount of savings needed to fund the target lifetime retirement income stream. A Reason Foundation study found that using a fixed-income annuity would reduce required savings by 38% compared to the savings needed for a retiree to achieve the same level of longevity risk protection.⁴

⁴ Hiller, Crane, and Niraula, *The Personal Retirement Optimization Plan: An Optimized Design for State and Local Government Employees*.

FIGURE 2: COST COMPARISON (AGE 67-95) OF DO-IT-YOURSELF, QUALIFIED LONGEVITY ANNUITY CONTRACTS (QLACS), AND ANNUITY METHODS FOR LONGEVITY PROTECTION



	Do it Yourself Plan	QLAC (28% less in accruals)	100% Annuity (38% less in accruals)
Total	\$1,740,000	\$1,449,000	\$1,341,000
Plan Accumulation Scenarios	\$1,051,000	\$760,000	\$652,000
Social Security	\$689,000	\$689,000	\$689,000

Declining Financial Literacy: Another factor supporting the inclusion of annuity products in a core DC plan is the reality of declining financial literacy with age. In an important recent study published in March 2025 in the *Journal of the Economics of Ageing*, the authors tested and established baseline financial and health literacy of more than 1,000 older adults. They then followed these same adults over a period of 12 years (with an average of six reassessments per person) to determine the change in financial and health literacy over time. While initial literacy scores averaged about 70% (based on a 32-question assessment), they declined by approximately 1% per year, ending at a score well under 60%.⁵

⁵ Patricia Boyle, Olivia S. Mitchell, Gary R. Mottola, and Lei Yu, "Declining financial and health literacy among older men and women," *Journal of the Economics of Ageing*, 30 (March 2025).

The study determined that women are more likely to suffer adverse consequences in their declining financial literacy because of increased life expectancy, even though the rate of decline was consistent with that of men. People with lower initial financial literacy scores were also at greater risk of poor financial decisions than those with higher initial scores.

In the context of the subject of this paper, the very idea of having to make income-related decisions every year as a retiree ages is fraught with peril. The risk of running out of income and being unable to pay bills increases significantly over time. Additionally, retirees are increasingly vulnerable to exploitation by predatory actors in the financial world who may be pushing high-cost, high-risk, or other products that are inappropriate for the aging individual in need of income stability.

The inclusion of in-plan annuity products would serve to introduce a plan participant to income-producing vehicles at an earlier age, even if such a product was not utilized in the asset accumulation phase of the individual's tenure. At retirement, the participant can convert some or all of their accumulated assets into lifetime income. This would effectively reduce, or even eliminate, the risk of future declines in financial literacy, at least as far as retirement income is concerned.

With financial literacy starting at an already relatively low level, combined with the rapidly increasing age of the population, the reality of declining financial literacy among older adults cannot be ignored. While a toolbox of means to address this problem may be necessary and available, pre-empting the most serious consequences (i.e., running out of money) could be achieved by simply including income-focused products in retirement plans.

Societal Welfare Risk: Inadequate or depleted retirement savings in core DC plans can impose substantial costs on taxpayers through increased reliance on means-tested social welfare programs. When retirees outlive their savings, many turn to public assistance such as Medicaid (for health care and long-term services), Supplemental Security Income (SSI), Supplemental Nutrition Assistance Program (SNAP), and housing subsidies, shifting the burden from personal resources to federal and state budgets. Promoting lifetime income solutions in DC plans helps mitigate this by reducing longevity risk and the likelihood of taxpayer-funded safety net support.

PART 3

LIFETIME INCOME DISTRIBUTION FEATURES IN STATE DC PLANS

The landscape of lifetime retirement income options in government-sponsored DC plans is highly varied, reflecting differing priorities in plan design, fiduciary considerations, and legislative frameworks. Among the 24 state DC and hybrid DB/DC plans reviewed (13 standalone DC plans and 11 hybrids), practices range from no support for lifetime income (leaving participants to manage decumulation independently) to more-structured approaches that embed annuities or guarantees during accumulation or facilitate purchases at retirement on group or retail bases.⁶⁷ This diversity underscores the challenge of balancing accumulation-focused growth with decumulation security, with some states leveraging in-plan mechanisms for guarantees and others relying on external options or none at all.

Each of the 24 plans was assessed based on how it incorporates annuity products, the methods and timing for accessing retirement income, as well as the extent to which participants are involved in directing their retirement income.

⁶ See Appendix A for details on approaches to providing retirement income from existing government employee DC plans.

⁷ Cash Balance plans were excluded from this analysis because, despite offering participants a nominal (bookkeeping) DC-style individual account rather than an actual investment account, they are essentially considered defined benefit pension plans.

- **None – Participant Managed:** No plan-provided retirement guarantees or assistance with managing lifetime income needs. Like any retiree with a lump sum, a participant may roll over funds to an external IRA or account, followed by independent purchase of a retail annuity from any provider, with no plan facilitation.
- **Out-of-Plan Retail Annuity (Plan Facilitated):** Access to individual/retail annuities (customizable, potentially higher-cost) via a plan-sponsored shopping platform or recordkeeper service that compares quotes from multiple insurers.
- **Out-of-Plan Group Annuity:** Annuities selected by the plan and purchased outside the plan trust through rollover or transfer but at group/institutional rates, often facilitated through the plan's recordkeeper or a group contract (e.g., via a preferred insurer partnership).
- **In-Plan Accumulation Annuity:** Annuities (fixed or variable) built into the core investments, within target-date funds or Collective Investment Trusts (CITs). The annuities have an accumulating value with market exposure and investment guarantees. Typically selected by plan fiduciaries (e.g., retirement system boards and consultants) at institutional/group pricing for lower costs and simpler designs and administered by the plan's recordkeeper or insurer.
- **In-Plan – Guaranteed Withdrawal Annuity:** Includes Guaranteed Lifetime Income Benefit (GLIB) and Guaranteed Lifetime Withdrawal Benefit (GLWB) type products with riders on variable annuities or other funds providing lifetime withdrawals without full annuitization or longevity insurance protection. This category is a type of accumulation period solution distinct from other Integrated Accumulation Annuity products due to structural and functional differences.
- **In-Plan/Self-Insured Retirement Trust Annuity:** The plan sponsor maintains an in-plan annuity reserve trust or a separate annuity trust (e.g., that used for an existing DB pension plan) that acts as the insurer to provide lifetime income annuities during decumulation via internal pooling similar to and in some cases part of a DB pension trust. The annuity reserve trust assumes the investment and mortality risks associated with the income guarantees.

The table below lists the retirement income approach used by each of the 24 DC plans in each category. Where state plans use more than one approach, the table will reflect multiple entries for that plan:

TABLE 1: RETIREMENT INCOME WITHDRAWAL APPROACHES USED BY GOVERNMENT-SPONSORED DC AND HYBRID PLANS

Category	Primary DC Plans	Hybrid DB/DC Plans
None – Self-Managed (10 plans)	Michigan SERS, Montana PERS DCRP, North Dakota PERS DC, Oklahoma Pathfinder, Utah URS Tier 2 DC	Michigan MPSERS, Oregon PERS IAP, Pennsylvania SERS/PSERS, Tennessee TCRS, Utah URS Tier 2 hybrid
Out-of-Plan Retail Annuity - Plan Facilitated (2 plans)	Alaska PERS/TRS, Colorado PERA DC	No plans
Out-of-Plan Group Annuity (6 plans)	District of Columbia 401(a) DC, Florida FRS Investment Plan, Indiana PERF/TRF DC, South Carolina SORP	Indiana PERF/TRF hybrid, Virginia VRS
In-Plan Accumulation Annuity (3 plans)	District of Columbia 401(a) DC, South Carolina SORP 401(a) (1 vendor)	Rhode Island ERS
In-Plan Guaranteed Withdrawal Annuity (2 plans)	District of Columbia 401(a) DC, South Carolina SORP (3 vendors)	No plans
In-Plan/Self-Insured Retirement Trust Annuity (5 plans)	Ohio OPERS Member Directed Plan, Ohio STRS DC	Georgia ERS ORP Hybrid, Ohio PERS/STRS Combined Plans, Washington Plan 3

PART 4

ADDRESSING COMMON OBJECTIONS TO LIFETIME INCOME OPTIONS IN DC PLANS

While lifetime income annuities offer a way to convert DC plan assets into guaranteed retirement income streams, plan sponsors, consultants, and participants often raise concerns about their integration. Below, we address each common objection to highlight how modern annuity designs, regulatory protections, and plan innovations can mitigate drawbacks, particularly in public sector contexts where fiduciary standards are governed by state laws rather than ERISA.

TABLE 2: COMMON OBJECTIONS TO OFFERING LIFETIME INCOME OPTIONS IN DC PLANS

Objection	Argument	Response
Using annuities in DC plans violates fiduciary principles	Standard trust law requires investments with expected returns commensurate with individual risk; annuities may cause “forfeiture” for those who die early, so fiduciaries cannot select them.	This misstates applicable trust law. Plan sponsors (as grantors) can set lifetime income maximization as the plan’s objective. When annuities serve that purpose, no conflict exists—failure to offer them would be the violation. SECURE 2.0 and DOL safe harbors explicitly support fiduciary-compliant annuity inclusion.
Investment expenses for annuities are too costly and lack transparency	Annuities lack explicit expense ratios; costs (mortality, admin, guarantees) are embedded in spreads or charges and can be much higher than CITs or passive funds. Compounding reduces long-term growth.	For accumulation-focused plans, annuities may appear expensive. For retirement income-focused plans, unique benefits (principal protection, minimum crediting rates, longevity pooling) justify costs. In-plan group annuities offer institutional pricing (often 0.5%–1% added fees), competitive on a risk-adjusted basis. Fiduciaries can still evaluate using cost-efficiency metrics: risk-adjusted returns, payout rate benchmarks, competitive bidding—not just expense ratios. In-plan options are less costly than retail annuities.

Objection	Argument	Response
Commercial annuities are less cost effective than standard DB plans	DB plans are more efficient due to collective risk pooling, professional management, lower costs, no profit motive, and reduced adverse selection.	Large DC plans achieve comparable returns using custom funds/CITs (differences <10–30 bps). ⁸ Competitive group annuity bidding delivers strong payout rates (often 5%–7% for age 65), superior to self-managed drawdown. Deferred/QLAC (Qualified Longevity Annuity Contracts) options further improve efficiency. Some DB efficiency claims are due to skewed benefits to long-tenured employees via early retirement subsidies and forfeitures due to longer vesting; DC annuities can provide similar longevity protection without full annuitization that is usually required by DB plans.
Annuities can reduce portability of benefits and flexibility for payout options	Surrender charges, withdrawal restrictions, and post-annuitization lock-ins limit portability and complicate management when changing jobs.	Modern group annuities offer reduced/no surrender charges and allow pre-annuitization rollovers. Partial annuitization and hybrid features (e.g., GMWB) preserve lump-sum access and adjustable payouts while securing lifetime income. Assets in annuity are not forfeited; participants simply gain a dedicated retirement income source.
The fiduciary risk for picking the wrong insurance company is too high	Complex selection/oversight, insurer solvency risk (e.g., Executive Life, AIG), illiquidity, expense opacity, and potential litigation from defaults or mismatched defaults raise significant liability.	Fiduciary risks are manageable. SECURE Act safe harbor (private plans) and state guaranty associations (public plans) reduce liability. Multi-insurer platforms diversify risk; rated insurer defaults are historically rare. Recordkeepers integrate annuities into defaults/advice frameworks, offering flexibility. The greater risk is leaving participants exposed to longevity, sequence, and market risk without lifetime income protections.
Annuities are too complex to administer and communicate with participants	Complex features (especially variable/GMWB) confuse participants, reduce engagement, and make liquidity vs. longevity trade-offs hard to explain.	The claimed complexity is overstated and manageable. Modern recordkeepers provide guidance, simplified illustrations (like DOL lifetime income disclosures), and behavioral framing (“insurance against outliving savings”). Technology handles administration seamlessly. Annuities are often easier for unsophisticated participants to grasp than self-directed withdrawal strategies in later life. SECURE 2.0 supports streamlined partial annuitization.
Annuities remove assets from the DC plan reducing investment efficiencies	Annuitization transfers assets to insurers, shrinking plan assets, eroding scale, and raising per-participant fees.	In-plan accumulation-phase annuities (e.g., Custom Target Date Funds with fixed annuities, GLWBs, QLACs) keep assets in the plan longer and mitigate scale reduction concerns. Prioritizing plan investment cost scale over participant retirement security contradicts a lifetime income objective, and group in-plan annuities typically offer 20%–30% better pricing, fiduciary oversight, and better outcomes than retail or shopping-service options.
Low demand for lifetime income solutions from participants	Annuitization rates remain <10% despite availability; participants prefer liquidity and do not value longevity protection.	Low uptake often reflects accumulation-focused designs, poor education, and behavioral biases—not lack of need. Demand rises with better framing, plan marketing, nudges, targeted education, and defaults. ⁹ Growing plan sponsor interest and evolving products indicate increasing adoption. If sponsors don’t treat the DC plan as a true retirement plan, participants won’t either.

⁸ Josh B. McGee, *Defined-Contribution Pensions are Cost-Effective*, (Center for State and Local Leadership at the Manhattan Institute, 2015).; Keith Brainard and Alex Brown, *Issue Brief: State Hybrid Retirement Plans*, (National Association of State Retirement Administrators, September 2025).

⁹ Abigail Hurwitz, *Using Behavioral Insights to Increase Annuitization Rates*, (Economic Studies at Brookings, June 2019).

PART 5

A STEP-BY-STEP FRAMEWORK FOR POLICYMAKERS AND PLAN SPONSORS FOR THE DESIGN AND PRODUCT SELECTION OF LIFETIME INCOME FEATURES IN DC PLANS

The following is a four-step process recommended for the design and integration of lifetime income features into DC plans:

STEP 1: ADOPT A FORMAL STATEMENT ABOUT LIFETIME INCOME OBJECTIVES

Plan sponsors need to take the time to decide the general purpose and objectives of their DC plans, and make specific declarations on whether and how the plan should offer participants the choice of guaranteed lifetime retirement income as a distribution option. If lifetime income is a priority, then the enabling legislation should explicitly say so. Formal benefit policy statements help ensure plan administrators operate the plan with lifetime income as a primary objective and limit fiduciary legal liability risks. A typical policy statement could be as follows:

“The primary objective for the plan is to help eligible employees achieve an adequate and secure income for life in retirement.”

Additional legislative enabling language should address the specific lifetime income structures and products to be used (see the prior section on the different ways plans implement lifetime income features) and the broad selection methodology for plan fiduciaries and administrators. See also the model DC plan language as a suggested starting point.¹⁰

STEP 2: ASSESS THE LEVELS OF ACCEPTABLE ADMINISTRATIVE COMPLEXITY AND FIDUCIARY MANAGEMENT RISK

Plan sponsors should also consider the impact of initial and ongoing administrative complexity, as well as the fiduciary management risks and requirements, for each approach. Table 3 provides a comparative analysis of the different approaches using a numerical scoring scale (1-5) associated with each method of incorporating (or not incorporating) retirement income features into a DC retirement plan. Plan sponsors should choose an approach that fits available administrative and fiduciary management resources and expertise that can reasonably be used.

TABLE 3: COMPLEXITY OF VARIOUS METHODS USING LIFETIME INCOME FEATURES

Category	Admin. Complexity (0-5)	Reasons for Complexity Level
None – Participant Managed	0	Initial Effort: No setup required beyond standard plan operations, as participants handle everything independently post-rollover. Ongoing Effort: Plan administrators provide no support or oversight for annuities. Fiduciary Responsibility: Fiduciaries have no duty related to annuity selection or management, avoiding liability for external choices.
Out-of-Plan Retail Annuity (Plan Facilitated)	1	Initial Effort: Involves setting up a shopping platform or recordkeeper service, including vendor selection and integration. Ongoing Effort: Requires maintaining the platform, updating quotes, and providing participant education. Fiduciary Responsibility: Fiduciaries must ensure the platform is fair and compliant (using state fiduciary standards), but no direct endorsement of products reduces deeper liability.
Out-of-Plan Group Annuity	2	Initial Effort: Plan must select and negotiate with preferred insurers for group rates, involving RFPs and contracts. Ongoing Effort: Facilitation through recordkeeper, monitoring partnerships, and handling rollovers. Fiduciary Responsibility: Fiduciaries oversee selection process prudently, but since purchases are outside the plan, liability is limited compared to in-plan options.

¹⁰ Reason Foundation’s Pension Integrity Project, *A Legislative Template for a Modernized Public Sector Defined Contribution Plan*, (Los Angeles: Reason Foundation, July 2025).

Category	Admin. Complexity (0-5)	Reasons for Complexity Level
In-Plan Accumulation Annuity	3	<p>Initial Effort: Fiduciaries select annuities for integration into investments (e.g., target date funds), requiring due diligence, legal reviews, and plan document amendments.</p> <p>Ongoing Effort: Involves continuous monitoring of insurer performance, participant communications, and administrative integration with recordkeeper.</p> <p>Fiduciary Responsibility: Includes risk related to selection, monitoring, and portability, increasing potential liability for guarantees and expenses.</p>
In-Plan – Guaranteed Withdrawal Annuity	4	<p>Initial Effort: Similar to accumulation annuities, with added complexity in evaluating GLIB/GLWB riders and integrating into plan funds.</p> <p>Ongoing Effort: Requires tracking benefit bases, handling withdrawals, and educating participants on features without full annuitization.</p> <p>Fiduciary Responsibility: Fiduciaries bear responsibility for rider terms, fees, and market risk protections, with potential scrutiny on value provided.</p>
In-Plan/Self-Insured Retirement Trust Annuity	4-5	<p>Initial Effort: Complex if establishing a new separate annuity reserve trust and actuarial setup for pooling. Less initial effort if using an existing DB pension annuity trust.</p> <p>Ongoing Effort: Managing investment risks, mortality pooling, and annuity payments internally, akin to running a DB plan component. Using a DB pension annuity trust leverages existing capabilities.</p> <p>Fiduciary Responsibility: Plan sponsor assumes insurer-like risks, with full fiduciary oversight for funding, assumptions, and longevity guarantees, exposing to significant liability.</p>

STEP 3: CHOOSE THE DESIRED STRUCTURAL APPROACH TO BE USED FOR PROVIDING THE DESIRED LIFETIME INCOME CONSISTENT WITH THE STEP 2 DECISIONS

Plan sponsors should specify in the enabling legislation the basic structure for incorporating lifetime retirement income into the plan design. The structural approaches are summarized in the following table, along with a summary description of how each approach supports financial security in retirement. Plan sponsors should understand how different annuity structures behave under different market conditions in terms of the lifetime income that is delivered. Table 4 shows how lifetime income from annuities changes under different long-term interest rates used by insurers. Higher rates = higher payouts; lower rates = lower payouts. The lifetime income estimates in the table assume optional annuitization, but with strong plan endorsement for annuitization. See Appendix B for the assumptions, sources, and methodology of the lifetime income estimates.

TABLE 4: COMPARISON OF POTENTIAL INTEREST RATES AND BENEFIT BASED ON ANNUITY STRUCTURES

Structural Approach	Summary	Level of Support for Financial Security in Retirement	Likely Monthly Lifetime Income for 65-year old per \$100k Invested for Low, Medium, and High Market Annuity Purchase Rates
None – Participant Managed	No plan-provided guarantees or assistance. Participant rolls over funds to an external IRA and independently purchases a retail annuity from any provider.	Relies entirely on the participant's initiative and choices. No plan-level guarantees or facilitation, potentially leading to suboptimal outcomes or no annuitization.	<ul style="list-style-type: none"> • Low Market: \$450-\$500 (5.40%-6.00%) • Medium Market: \$500-\$575 (6.00%-6.90%) • High Market: \$600-\$700 (7.20%-8.40%) Ranges reflect baseline retail variability tied to interest rates (e.g., highs in 2025-2026 ~7.8%, lows in 2020~4.7%); high adverse selection and fees limit upside compared to group/in-plan options.
Out-of-Plan Retail Annuity (Plan Facilitated)	Access to customizable retail annuities via a plan-sponsored platform or service that compares quotes from multiple insurers but purchased outside the plan.	Provides some support through facilitation and comparison tools, helping participants select annuities. Manages by offering easier access but does not guarantee outcomes or handle selection within the plan. Supports financial security by enabling informed purchases.	Similar to retail: <ul style="list-style-type: none"> • Low Market: \$450-\$500 (5.40%-6.00%) • Medium Market: \$500-\$575 (6.00%-6.90%) • High Market: \$600-\$700 (7.20%-8.40%) Potentially slightly better due to competitive quotes. Ranges reflect retail variability with minor sponsor facilitation improvement in participant uptake. Adverse selection and fees keep it baseline, lower than group/in-plan efficiencies.

Structural Approach	Summary	Level of Support for Financial Security in Retirement	Likely Monthly Lifetime Income for 65-year old per \$100k Invested for Low, Medium, and High Market Annuity Purchase Rates
Out-of-Plan Group Annuity	Annuities selected by the plan at group/institutional rates, purchased outside the plan via rollover, often through a preferred insurer partnership or recordkeeper.	Plan selection of options and facilitation at lower costs. Supports financial security through better pricing and plan oversight, though still outside the plan trust.	Higher than retail: <ul style="list-style-type: none"> • Low Market: \$475-\$525 (5.70%-6.30%) • Medium Market: \$525-\$600 (6.30%-7.20%) • High Market: \$625-\$725 (7.50%-8.70%) Ranges show 5%-10% increase over retail from group pricing and mitigated selection.
In-Plan Accumulation Annuity	Fixed or variable annuities integrated into core investments like target date funds or CITs, with accumulating value, market exposure, and guarantees. Selected by fiduciaries at institutional pricing, administered within the plan.	Manages and supports effectively within the plan. Fiduciaries handle selection and oversight, providing guarantees during accumulation and decumulation. Enhanced financial security through lower costs and seamless integration.	Higher than other out-of-plan structures: <ul style="list-style-type: none"> • Low Market: \$500-\$550 (6.00%-6.60%) • Medium Market: \$550-\$625 (6.60%-7.50%) • High Market: \$650-\$750 (7.80%-9.00%) Benefits from institutional pricing and plan efficiencies. Ranges reflect 10%-15% over retail via integration. Embedded design reduces adverse selection risks.
In-Plan Guaranteed Withdrawal Annuity	Includes GLIB/GLWB riders on variable annuities or funds, offering lifetime withdrawals without full annuitization. Distinct accumulation solution with structural differences.	Manages decumulation risk partially through guaranteed withdrawals, supporting income security but without complete longevity pooling or full annuitization. Provides flexibility and some protection against market volatility.	Moderate to lower income than other in-plan structures: <ul style="list-style-type: none"> • Low Market: \$350-\$400 (4.20%-4.80%) • Medium Market: \$375-\$450 (4.50%-5.40%) • High Market: \$425-\$525 (5.10%-6.30%) Ranges ~25%-35% below full annuities due to partial guarantees/fees but less variable because of the product design that protects against low markets.
In-Plan/Self-Insured Retirement Trust Annuity	Plan sponsor maintains an annuity reserve trust acting as insurer, providing lifetime annuities via internal pooling, similar to DB plans, managing investment and mortality risks.	Fully manages and supports; plan takes on risks, offering strong financial security through internal guarantees and pooling, akin to traditional pensions.	Similar to In-Plan Accumulation Annuity with potential for higher income amounts depending on structure: <ul style="list-style-type: none"> • Low Market: \$475-\$575 (5.70%-6.90%) • Medium Market: \$525-\$650 (6.30%-7.80%) • High Market: \$625-\$800 (7.50%-9.60%) Plan sponsor eliminates insurer profits and fees. Ranges vary by structure (internal small DC only pool results are at lower end with higher income if a larger DB with large pool is used). No profits can add 5%-20% efficiency, with large pooling minimizing adverse selection risk.

STEP 4: SELECT AND MONITOR ANNUITY PRODUCTS AND PROVIDERS

Although public sector DC plans are generally exempt from the Employee Retirement Income Security Act of 1974 (ERISA), the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 and SECURE 2.0 Act of 2022 provide valuable guidance that can be adapted as best practices. These laws, which amend the Internal Revenue Code (IRC), apply to governmental plans in areas like tax qualification, required minimum distributions (RMDs), and annuity features, fostering a supportive environment for integrating lifetime income solutions. For instance, SECURE 2.0 enhances annuity portability, expands Qualified Longevity Annuity Contracts (QLACs), and removes RMD barriers for certain annuities, allowing public plans to offer more-flexible options without tax penalties.

While ERISA's fiduciary standards do not bind public plan sponsors, state laws often impose similar duties of prudence, loyalty, and care. Adopting the U.S. Department of Labor's (DOL) fiduciary safe harbor under 29 CFR § 2550.404a-4 (as updated by SECURE Acts) can help demonstrate compliance with these state obligations, mitigate litigation risks, and promote participant financial security. This process involves selecting insurers and products prudently, documenting decisions, and ongoing monitoring, tailored to public sector constraints like procurement rules and transparency requirements. Specifically, the recommended methodology is proposed as a best practice and adheres to the regulatory safe harbor standards established in 2008 (29CFR 2550.404a-4) as reaffirmed by the DOL following the reversal of the July 2025 proposal to remove the 2008 safe harbor, as announced on August 12, 2025.¹¹

5.4.1 Insurer Suitability Analysis

Public plan fiduciaries (e.g., retirement boards or committees) should begin by evaluating potential annuity providers using criteria analogous to ERISA's safe harbor under SECURE Act Section 404(e). This includes confirming the insurer's state approval to issue annuities, strong financial ratings from agencies like A.M. Best, Moody's, or S&P (e.g., A- or better), and no recent insolvency history or regulatory actions. Fiduciaries may rely on the insurer's written representations regarding its financial stability and compliance with state insurance laws, as permitted under the safe harbor, to streamline due diligence.

¹¹ Employee Benefits Security Administration, "Selection of Annuity Providers-Safe Harbor for Individual Account Plans; Withdrawal," Federal Register, 12 Aug 2025.

5.4.2 Engage Independent Experts

Consult third-party advisors, such as actuaries or consultants experienced in public plans, to assess insurer solvency and contract terms. This is particularly useful for governmental sponsors, who may need to comply with public bidding or RFP processes.

- Evaluate Contract Terms: Ensure terms are reasonable relative to benefits, including competitive costs, portability (e.g., allowing transfers to another plan or IRA without surrender charges, as facilitated by SECURE 2.0 Section 204), and integration with the plan's recordkeeping system.
- Document the Process: Maintain records of the rationale for selection, including trade-offs (e.g., higher ratings vs. slightly higher fees), to demonstrate prudence under state fiduciary standards.
- Initial Screening: Aim for three to five providers to compare, focusing on those with experience in public sector plans to align with governmental transparency and accountability.

5.4.3 Quantitative Product Analysis

Once insurers are vetted, plan sponsors need to compare annuity products quantitatively to ensure value for participants. With the help of plan advisors, this can be done using benchmarks such as projected lifetime income per \$100,000 of account balance, adjusted for the plan's intended target benefits and demographics (e.g., age 65, single-life or joint-survivor). It is also useful for the annuity vendor to use Monte Carlo simulations to model varied market scenarios, longevity distributions, and interest rate fluctuations. The following are examples of comparing some annuity products using projected lifetime income amounts:

- Fixed Annuity: ~\$6,000–\$7,500 annually.
- Guaranteed Lifetime Income Benefit (GLIB)/Guaranteed Lifetime Withdrawal Benefit (GLWB): ~\$5,000–\$6,000 annually.

Other potential quantitative analysis areas include:

- Fee Transparency: Require full disclosure of all costs, including administrative (0.3%-0.5%), mortality/expense (0.5%-1%), and investment management fees. Compare these fees to external benchmarks, like the 10-year Constant Maturity Treasury rate plus a spread (e.g., 2%-3%) for reasonableness.

- Scenario Testing: Analyze how payout rates may evolve with market changes and require providers to disclose historical rate adjustments. Consider different forms (e.g., single-life vs. joint-survivor, which may reduce payouts by 10%-15%).
- Efficiency Metrics: Assess cost efficiency by dividing projected income by total fees; prioritize products with high Money's Worth Ratios (e.g., >0.9).¹²

5.4.4 Qualitative Product Analysis

The quantitative review should be complemented with an examination of qualitative factors to ensure alignment with the plan's structural approach (e.g., in-plan vs. out-of-plan annuities) and participant needs.

- Product Attributes: Evaluate product fit based on stability (fixed annuities for no market risk), longevity protection (QLACs for deferred income), flexibility (variable annuities or GLWBs for partial withdrawals), and complexity (e.g., GLIBs' fees vs. simplicity of fixed options).
- Participant-Centric Considerations: Factor in age-related declines in decision-making capacity, emphasizing "peace of mind" from early annuitization. Surrender charges should be disclosed and, ideally, be low or waived for portability and compliance with federal ERISA disclosure rules.
- Plan Integration: As noted previously, the product set should be assessed for administrative feasibility, including compatibility with recordkeepers and the potential to educate participants about risks such as liquidity loss or volatility.
- Consistency with Plan Objectives: Products that support plan objectives should be prioritized.

¹² The Money's Worth Ratio (MWR) is a metric used to evaluate the value-for-money of an annuity or lifetime income product. It measures the present value of the expected future payments received by the annuitant (discounted at a market interest rate, typically using high-grade corporate or Treasury bond yields) divided by the premium paid to purchase the annuity.

- An MWR of 1.0 means the annuity is actuarially fair: the expected payouts exactly equal the premium in present-value terms.
- An MWR greater than 1.0 indicates the annuity is a "good deal" (the annuitant gets more value than the cost, often due to mortality credits from pooling longevity risk).
- An MWR less than 1.0 (common in retail annuities) reflects embedded costs such as insurer profits, commissions, administrative expenses, and adverse selection buffers, meaning the annuitant receives less in expected value than the premium paid.

5.4.5 Ongoing Monitoring and Review

Post-selection, plan sponsors should establish a regular monitoring process to maintain prudence, including:

- **Insurer Reviews:** Reassess insurer financial health (financial strength, capital and surplus levels, regulatory actions and complaints, changes in contract terms or guarantees, and changes in state guarantee association coverage limits), product performance, participant usage rates, and complaint levels. Replace providers if ratings drop or costs become uncompetitive.
- **Metrics for Success:** Track annuitization rates, payout sustainability, and alignment with benchmarks. Use participant feedback surveys to gauge satisfaction.
- **Documentation and Reporting:** Update records annually and report to the fiduciary board, ensuring transparency as required by public sector governance.

5.4.6 Participant Communications and Education

Effective implementation requires clear, accessible communications, drawing from SECURE 2.0's emphasis on lifetime income illustrations (e.g., on benefit statements comparing annuities to lump sums).

- **Disclosures:** Provide compliant explanations of options, risks (e.g., market volatility, inflation, liquidity), and benefits.
- **Education Tools:** Offer seminars, calculators, and materials highlighting how annuities address longevity risk, tailored to public employees' needs.

PART 6

SUMMARY AND CONCLUSION

Public sector defined contribution (DC) plans, whether standalone or as components of hybrid DB/DC structures, exhibit a fragmented approach to providing lifetime retirement income. Among the 24 plans reviewed, 42% offer no structured lifetime income features at all (None-Self Managed), leaving participants to manage decumulation risk independently through withdrawals or external retail annuity purchases. Another 29% facilitate out-of-plan group annuities, while 17% provide in-plan retirement trust annuities, and smaller shares use integrated accumulation annuities (4%) or guaranteed withdrawal benefits (4%). This variation highlights a persistent gap: most plans prioritize accumulation over decumulation security, despite clear evidence that longevity and sequence-of-returns risks can result in unreasonably high risk that retirees will exhaust their plan's retirement savings in the plan under common withdrawal strategies.

In-plan or group solutions consistently deliver higher effective retirement income and greater cost efficiency through institutional pricing, mortality pooling, and reduced fees compared to retail or self-managed approaches.

For policymakers and fiduciaries, the imperative is clear: explicitly adopt lifetime income as a core plan objective and implement a structured, prudent process for evaluating and offering appropriate solutions. By prioritizing guaranteed income features—supported by SECURE Act safe harbors, DOL guidance, and emerging best practices—public DC plans can better fulfill their mission of providing secure, adequate retirement income. Doing so not only mitigates participant exposure to outliving assets but also aligns with broader public

policy goals of reducing reliance on public assistance in old age and promoting financial stability for state and local government retirees. The framework outlined in this brief offers a practical path forward to achieve these outcomes while managing fiduciary risk and administrative complexity.

APPENDIX A

STATE DC PLANS RETIREMENT INCOME FEATURES

TABLE A1: STATE DC PLANS RETIREMENT INCOME FEATURES

State DC Plan	Category	Notes	Sources
Alaska PERS/TRS DCR 401(a)	Out-of-Plan Retail Annuity (Plan Facilitated)	Offers multiple annuity payout options at retirement (e.g., single life, joint & survivor, period certain), administered through the plan's recordkeeper.	Alaska Division of Retirement and Benefits (DRB) DCR Plan materials; PERS/TRS DCR distribution options PDF. ¹³
District of Columbia 401(a) – Primary DC only	Multiple categories: In-Plan Accumulation Annuity; In-Plan Guaranteed Withdrawal; Out-of-Plan Group Annuity	Offers a Fixed Income Annuity guaranteed investment product on the menu, a GLIB guaranteed lifetime income option, a QLAC, and traditional fixed annuity options.	DC Department of Human Resources (DCHR) 401(a) Retirement System overview; general GLWB references in plan context. ¹⁴
Colorado PERA 401(a) – Primary DC only	Out-of-Plan Retail Annuity (Plan Facilitated)	Supports immediate fixed annuities and Qualified Longevity Annuity Contracts (QLACs) via external marketplace (e.g., Blueprint Income), with plan facilitation for rollovers/purchases.	Colorado PERA announcements and PERAPlus 401(k) plan overview. ¹⁵

¹³ “Alaska PERS/TRS DCR Plan Payment Options,” Alaska Division of Retirement and Benefits, www.drb.alaska.gov/docs/materials/PERSTRSDCRdistributionoptions.pdf (17 Apr. 2026).

¹⁴ “401(a) & 457(b) Retirement Plans Annual Report – Fiscal Year 2024,” Government of the District of Columbia. ; Retirement Income Solutions,” DCRetire.com, District of Columbia, www.missionsq.org/dcretire/investing/dc-retirement-income-solutions.html (17 Apr. 2026).

¹⁵ “Annuity Rollovers for Colorado PERAPlus and DC Plan Participants,” Blueprint Income, Colorado PERA, www.blueprintincome.com/copera/ (17 Apr. 2026).

State DC Plan	Category	Notes	Sources
Florida FRS Investment Plan – Primary DC only	Out-of-Plan Group Annuity	Allows purchase of lifetime annuities (fixed or deferred) from private insurers (e.g., MetLife) using account balance at retirement, with group-like pricing options similar to the pension plan.	Investment Plan Summary Plan Description and distribution options. ¹⁶
Indiana PERF/TRF- Primary DC option	Out-of-Plan Group Annuity	Enables annuitization of DC balance into lifetime monthly payments from plan-selected providers (e.g., MetLife) or other insurers.	Indiana Public Retirement System (INPRS) announcements and PERF plan details. ¹⁷
Michigan SERS 401(k) – Primary DC Plan	None-Self Managed	No in-plan or facilitated annuities; distributions are lump sums, installments, or rollovers. Participants handle lifetime income needs outside of the plan via rollovers for retail annuity purchase.	State of Michigan 401K Plan document. ¹⁸
Montana PERS DCRP 401(a) – Primary DC option	None-Self Managed	No in-plan or facilitated annuities; distributions are lump sums, installments, or rollovers. Participants handle lifetime income needs outside of the plan via rollovers for retail annuity purchase.	Montana Public Employees' Retirement Administration (MPERA) DCRP overview. ¹⁹
North Dakota PERS DCRP 401(a) – Primary DC Plan	None-Self Managed	HB 1146 (2025) permits in-plan and out-of-plan annuities, but no provider selected or options implemented as of 2026. Distributions: lump sum, periodic installments (exhaustible), or rollover. Lifetime income is participant-managed (e.g., via independent retail annuity purchase).	North Dakota Public Employees Retirement System (NDPERS) retirement guide and distribution options. ²⁰
Ohio OPERS Member-Directed Plan 401(a) – Primary DC option	In-Plan/Self-Insured Retirement Trust Annuity	Allows annuitization of account balance into lifetime monthly benefits through the separate Annuity and Pension Reserve Fund (APRF) used by the DB and DC plans for annuity payments.	Ohio Public Employees Retirement System (OPERS) Member-Directed Plan details. ²¹
Ohio STRS DC – Primary DC option	In-Plan/Self-Insured Retirement Trust Annuity	Allows annuitization of account balance into lifetime monthly benefits through the separate Annuity and Pension Reserve Fund (APRF) used by the DB and DC plans for annuity payments.	Ohio State Teachers Retirement System (STRS) DC Plan overview. ²²

¹⁶ “The Florida Retirement System Investment Plan,” Florida Retirement System, www.myfrs.com/FRSPro_InvestPlan.htm#income (30 Apr. 2026).

¹⁷ “Your DC Balance Can Fund Lifetime Retirement Income,” Indiana Public Retirement System, www.in.gov/inprs/destinationretirement/posts/your-dc-balance-can-fund-lifetime-retirement-income/ (30 Apr. 2026).

¹⁸ State of Michigan 401K Plan,” 1 Jan. 2014.

¹⁹ “The State of Montana Public Employee Defined Contribution Plan,” Montana Public Employees’ Retirement Board, 1 July 2025.

²⁰ “Summary of 2025 Legislation: HB 1146 Bill related to the closure of the NDPERS Main Defined Benefit Plan,” North Dakota Public Employees Retirement System, www.ndpers.nd.gov/about/summary-2025-legislation (30 Apr 2026).

²¹ “Section 145.23 | Creation of funds,” Ohio Revised Code, codes.ohio.gov/ohio-revised-code/section-145.23 (30 Apr 2026).

²² “Service Retirement and Plans of Payment: For members enrolled in the Defined Contribution Plan,” STRS Ohio, 2026.

State DC Plan	Category	Notes	Sources
Oklahoma Pathfinder 401(a)/457(b) – Primary DC Plan	None-Self Managed	Statute permits board consideration of lifetime income/annuities, but no options authorized or implemented. Distributions: deferral, lump-sum/partial, periodic payments (exhaustible until depleted), or rollover. Lifetime income must be self-managed (e.g., independent retail annuity after rollover).	Oklahoma Pathfinder Distribution Guide. ²³
South Carolina SORP 401(a) – Primary DC option	Category varies for each of the 4 vendors: <ul style="list-style-type: none"> • Corebridge: In-Plan Guaranteed Withdrawal • Empower: In-Plan Guaranteed Withdrawal • TIAA: In-Plan Accumulation Annuity • Voya: In-Plan Guaranteed Withdrawal 	Multiple annuity payment options are available through selected service providers with TIAA providing integrated accumulation annuities, and the rest offering some form of a Guaranteed Lifetime Income Benefit (GLIB) product.	South Carolina Optional Retirement Program (SORP) details. ²⁴
Utah URS Tier 2 401(k) options – Primary DC or part of Hybrid DB/DC	None-Self Managed	No in-plan, group, or facilitated annuity options. Distributions: lump sum, partial withdrawals, periodic payments (exhaustible), or rollover. Lifetime income must be self-managed (e.g., independent retail annuity purchase after rollover).	Utah Retirement Systems (URS) Tier 2 DC Plan overview. ²⁵

²³ “Pathfinder Distribution Guide,” Oklahoma Pathfinder.

²⁴ “State Optional Retirement Program,” South Carolina Public Employee Benefit Authority, www.peba.sc.gov/state-orp (30 Apr 2026).

²⁵ “Tier 2 Defined Contribution Plan,” Utah Retirement Systems, www.urs.org/Content/Members/Tier2DC (30 Apr 2026).

APPENDIX B

ASSUMPTIONS, SOURCES, AND METHODOLOGY FOR LIFETIME INCOME ESTIMATES TABLE

This appendix provides a detailed summary of the assumptions, sources, and methodology used to derive the lifetime income estimates in Table 4. Estimates are approximate, conservative, and based on a 65-year-old annuitant for comparability. All figures represent monthly income per \$100,000 invested in a single premium immediate annuity (SPIA) or equivalent, expressed as ranges across low, medium, and high market scenarios to account for interest rate variability over the long term (2000-2026). Annual rates are calculated as $(\text{monthly income} \times 12 / \$100,000) \times 100\%$.

Key Assumptions:

- Annuitant Profile: Single life payout for a 65-year-old, gender-neutral average (midpoint between male/female quotes, e.g., females ~3%-5% lower due to longer expectancy). No additional features like period certain, joint life, or inflation adjustments, which would reduce payouts by 10%-20%.
- Market Scenarios:
 - Low Market: Bond yields <3% (e.g., 2016-2021 conditions), leading to baseline retail payouts ~4.5%-5.5% annually.
 - Medium Market: Yields 3%-4% (e.g., 2010-2015), with ~5.5%-6.5% rates.

- High Market: Yields >4% (e.g., 2000s or 2023-2026), yielding ~6.5%-8.5% or higher.
- Interest rate sensitivity: +1% yield increases payouts ~10%-15%; modeled using historical correlations.
- Adverse Selection and Participation: Voluntary DC plan with participant choice; proactive promotion (education, endorsements, nudges, defaults, incentives) assumed to boost uptake to 20%-50%, mitigating selection effects (reducing payout impact to 2%-10% vs. 7%-15% in passive scenarios). Healthier/longer-lived opt-in skews pools, but promotion dilutes this.
- Cost and Efficiency Adjustments:
 - Retail: High fees (1%-2% loads/commissions).
 - Group/Institutional: 0.5%-1% savings.
 - In-Plan/Self-Insured: 5%-15%+ efficiencies from no profits; internal (small pool) adds conservatism (5%-10% buffer), while DB-leveraged (large pool) minimizes (2%-5% adjustment).
- GLWB Specifics: 4.75%-6% withdrawal rate on benefit base (assumed equal to account value at baseline); partial longevity protection, not full annuitization.
- General: Implicit mortality tables (e.g., Annuity 2000 or RP-2014); no state taxes or impaired risk enhancements (+10%-20% possible). Assumes plan sponsor is governmental (non-ERISA), with DB synergies for self-insured.

Sources:

Estimates aggregate data from multiple credible sources:

- Market and Historical Data: ImmediateAnnuities.com (real-time/historical SPIA quotes, e.g., 2020 lows ~\$450-\$550, 2025-2026 highs ~\$650-\$800); CANNEX (institutional vs. retail comparisons, 2014-2022 variability ~20%-40%); Thrift Savings Plan (TSP) annuity rates (1%-6% interest indices translating to similar payout trends).
- Research and Studies: Center for Retirement Research (CRR) at Boston College (adverse selection impacts, 7%-15% reductions in voluntary markets; money's worth ratios [MWR] ~0.8-1.0+); Annuity.org and TIAA reports (group efficiencies ~5%-10% uplift; self-insured/DB comparisons showing 10%-20% gains from pooling); NBER/U.K. annuity analyses (selection effects halving costs in compulsory vs. voluntary).

- Public Plan Examples: CalPERS/CalSTRS (large-pool DB efficiencies, effective rates 8%-9.5%); PBGC/IRC §417(e) for lump-sum equivalents.
- GLWB-Specific: Thrivent, NY Life, Equitable, Morningstar (rider rates 4.75%-6% at age 65).
- Validation Benchmarks: Society of Actuaries Annuity Factor Calculator; MIT Economics on mortality/discounts.

Methodology:

1. Baseline Derivation: Start with retail SPIA averages from sources (e.g., \$450-\$700 monthly across scenarios), using life-only payouts. Compute MWR = present value of expected payouts / premium, discounted at AA corporate bond rates (e.g., 3%-5%) with mortality projections.
2. Category Adjustments:
 - Scale baselines upward for efficiencies: Retail/facilitated (minimal, +1%-3%); Group (+5%-10% for institutional rates); In-Plan Accumulation (+10%-15% for integration); GLWB (fixed 4.75%-6%, ~25%-35% below SPIAs due to fees/partial protection); Self-Insured Internal (+5%-10%, conservative for small pool); DB-Leveraged (+10%-20%, minimal selection via scale).
 - Subtract for adverse selection: 2%-10% midpoint reduction (lower with promotion); higher in retail/out-of-plan (self-selection) vs. in-plan (embedded nudges).
 - Apply market variability: Proportional scaling based on historical swings (e.g., high market +30%-40% over low, per CANNEX trends).
3. Self-Insured Differentiation: Internal uses plan-specific pooling (e.g., 10k-100k members, +5%-10% efficiency but 7%-10% selection buffer); DB-leveraged assumes state-wide scale (millions, nearing MWR 1.0+, 2-5% buffer).
4. Aggregation and Sensitivity: Averages from multiple quotes; sensitivity testing for rates ($\pm 1\%$ yield $\rightarrow \pm 10\%$ -15% payout) and mortality improvements (e.g., +1 year expectancy $\rightarrow -3\%$ -5% payout).

Validation Steps for Peer Review:

An actuary can validate by:

1. Obtaining current quotes from CANNEX/ImmediateAnnuities.com for baseline.
2. Recalculating MWR using discount rates (e.g., Moody's Aaa) and tables (RP-2014 projected).
3. Running sensitivity analyses (e.g., +10% participation reduces selection by 3%-5%).
4. Comparing to public DB benchmarks (e.g., CalPERS annuity calculators) for self-insured.
5. Using software for Monte Carlo simulations on longevity/investment risks.

These estimates are for illustrative purposes; actuals vary by insurer ratings, state, and plan details.

APPENDIX C

SAMPLE BENEFIT POLICY STATEMENT FOR [PLAN NAME] DEFINED CONTRIBUTION RETIREMENT PLAN

Purpose and Objective:

The [Plan Name] Defined Contribution Retirement Plan (the “Plan”), established by [Plan Sponsor Name] (the “Plan Sponsor”), is designed to provide participants with the opportunity to accumulate retirement savings and, as a primary objective, to offer participants the choice of guaranteed lifetime retirement income as a distribution option. The Plan Sponsor recognizes that a secure retirement requires not only wealth accumulation but also the ability to convert savings into a reliable stream of income that participants cannot outlive. To this end, the Plan is structured and shall be administered to prioritize the availability of guaranteed lifetime income products and solutions as a key component of the Plan’s distribution options, in alignment with the fiduciary standards of ERISA and applicable regulations.

Fiduciary Directive:

The Plan Sponsor directs all Plan fiduciaries, including but not limited to the Plan’s trustees, administrators, and investment fiduciaries, to operate and administer the Plan and its associated trust in a manner that supports the primary objective of providing participants with access to guaranteed lifetime retirement income options. Fiduciaries shall ensure that the Plan’s design, investment options, participant communications, and

distribution processes are consistent with this objective, while adhering to ERISA's standards of prudence, loyalty, and diversification, as well as the requirements of the SECURE Act 2.0 and relevant DOL guidance, including the safe harbor provisions for selecting annuity providers under 29 CFR § 2550.404a-4. Compliance with DOL and SECURE Act 2.0.

In furtherance of this objective, the Plan shall incorporate lifetime income features in accordance with the following regulatory frameworks:

1. DOL Fiduciary Safe Harbor for Annuity Selection (29 CFR § 2550.404a-4): Fiduciaries shall select guaranteed lifetime income products, such as annuities, by following a prudent and documented process to evaluate the financial stability and claims-paying ability of annuity providers. The Plan Sponsor and fiduciaries shall rely on the DOL's safe harbor provisions to mitigate liability risks associated with the selection of annuity providers, ensuring that such selections are made with due care and in the best interests of participants and beneficiaries.
2. SECURE Act 2.0 Provisions: The Plan shall comply with SECURE Act 2.0 provisions, including but not limited to:
 - Portability of Lifetime Income Options (Section 204): The Plan shall facilitate the portability of lifetime income products, allowing participants to transfer such benefits to another eligible retirement plan or IRA without incurring surrender charges or penalties, where feasible.
 - Lifetime Income Disclosures (Section 203): The Plan shall provide participants with annual lifetime income disclosures illustrating the estimated monthly income their account balance could generate if converted into an annuity, consistent with DOL regulations.
 - Removal of Barriers to Lifetime Income Products (Section 109): The Plan shall ensure that qualified default investment alternatives (QDIAs) and other investment options do not preclude the inclusion of lifetime income features, as permitted under SECURE Act 2.0.
3. Fiduciary Oversight and Monitoring: Fiduciaries shall establish and follow a prudent process for the ongoing monitoring of lifetime income products, including periodic reviews of the provider's financial stability, contract terms, and participant outcomes, consistent with ERISA's fiduciary standards.
4. Protection Against Liability Risks: By prioritizing guaranteed lifetime income as a primary objective, the Plan Sponsor seeks to align the Plan's operations with the evolving needs of participants in achieving retirement security. The Plan Sponsor and fiduciaries shall be protected from liability to the fullest extent permitted under ERISA and the DOL's safe harbor provisions when selecting and monitoring lifetime income

products, provided that such actions are undertaken with prudence, diligence, and in the sole interest of participants and beneficiaries. The Plan Sponsor shall maintain documentation of all fiduciary processes related to the selection, implementation, and monitoring of lifetime income options to demonstrate compliance with ERISA and applicable regulations.

5. Participant Education and Communication: The Plan Sponsor directs fiduciaries and administrators to provide participants with clear, accessible, and regular education regarding the availability and benefits of guaranteed lifetime income options. Such communications shall include, but not be limited to, explanations of annuity products, the risks and benefits of lifetime income solutions, and the role of these options in achieving retirement security. Education efforts shall comply with DOL requirements for lifetime income disclosures and be tailored to enhance participant understanding and informed decision-making.

Implementation and Administration:

The Plan's fiduciaries and administrators shall take all necessary steps to implement this policy, including:

1. Amending the Plan document, as needed, to incorporate lifetime income options as a distribution feature.
2. Evaluating and selecting lifetime income products that align with participant needs and fiduciary standards.
3. Integrating lifetime income options into the Plan's investment and distribution frameworks.
4. Ensuring that Plan operations, including recordkeeping and participant services, support the availability and administration of lifetime income features.

This Benefit Policy Statement is effective as of [Insert Date] and shall remain in effect until amended or superseded by the Plan Sponsor. The Plan Sponsor reserves the right to modify this policy as necessary to comply with changes in applicable law, regulations, or participant needs.

ABOUT THE AUTHORS

Roderick Crane is an authority on public sector retirement benefit programs with expertise in the design, administration, and governance of defined benefit, defined contribution, deferred compensation, and retiree health plans sponsored by states, local governments, public higher education, local governments, and special districts. During his 32 years of experience, Crane has worked as legal counsel to a state legislative retirement oversight committee, a retirement benefits and fiduciary consultant for two national retirement consulting and actuarial firms, and directed the public sector market strategy for one of the largest defined contribution financial services firms in this country. Crane has been an active participant in the public retirement industry through his participation and leadership in national public sector retirement associations. He has written extensively on the proper design and funding of public pension, defined contribution, and retiree health benefit programs. Crane also has expertise regarding federal tax and workplace laws as they apply to public and private sector 401(a), 401(k), 457, and 403(b) arrangements, prefunded retiree 105(h) health reimbursement accounts (HRA), as well as fiduciary and governance requirements that apply to plan sponsors and boards of trustees.

Richard Hiller is a financial service executive who brings his Fortune 100 experience to the Pension Integrity Project as a Senior Fellow. Prior to founding Retirement Policy Consulting, LLC he had a distinguished 35-year career with TIAA. During his tenure there he influenced financial services-related legislation through congressional testimony and relationship building. He has also testified before many state legislative committees regarding pension design and reform. Hiller specializes in defined contribution-based plan designs that incorporate income features and strong risk management. His work includes influencing public and private higher educational systems nationwide as well as state and local governments.

