



News

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Survey Finds High Level of Interest in Guaranteed Income Options Among Defined Contribution Plan Participants Ages 50 and Older

*Promising Sign of Progress toward Protecting Older, At-risk Participants
From Three Retirement Readiness Risks: Market, Longevity, and Withdrawal*

HARRISON, NY – April 17, 2013 – According to a survey of defined contribution plan participants by Transamerica Retirement Solutions, 65 percent of participants age 50 or older are interested in having a guaranteed income option in their defined contribution (DC) plan; and 43 percent said if they had the choice, they would invest in one now.

However, a sizable portion (40 percent) of participants ages 50 and over said they were “not sure” if they would invest in a guaranteed option, revealing a potential lack of awareness about the desirability of guaranteed retirement income among older participants – the population that can least afford exposure to retirement funding risk.

“In-plan guaranteed distribution options offered by a growing number of defined contribution plans have been designed to mitigate three critical retirement security risks: market, longevity and withdrawal,” said Gerry Katz, senior vice president, Transamerica Retirement Solutions. “Most of these guaranteed options lock in upside gains at predetermined time intervals and guarantee minimum retirement income withdrawals, protected against market risk. Because the income withdrawals are guaranteed for life, participants are also protecting against longevity risk, the risk of outliving their retirement income.”

Mr. Katz added that guaranteed income options may also reduce the likelihood that participants will succumb to the temptation of withdrawing a lump-sum from their retirement plan account for a non-essential purchase, adversely impacting the long-term funding of their retirement. In-plan options can show pre-retiree participants how an accumulated balance is used to generate income.

“It is extremely encouraging to see so many participants aged 50 and older showing interest in these types of benefits,” Mr. Katz said. “But the ‘not sure’ population is of concern. This response could indicate either a lack of understanding of retirement security risks, or uncertainty about how guaranteed income products address these risks. The fact they are unsure reveals the need for more effective communications targeted to pre-retirees.

Surprisingly, the survey found a higher percentage of younger plan participants – those between the ages of 40 to 49 – showing interest in guaranteed income options. In fact, more than three-quarters (78 percent) said they were interested in having a guaranteed option in their DC plan; and another 62 percent indicated that they would invest in it if they had the option now.

“This is very good news,” Mr. Katz said. “The earlier participants begin to think about and plan for their retirement security, the greater the likelihood that they will ultimately be retirement ready.”

The survey also found a general lack of awareness among older plan participants of a plan’s typical distribution options. Nearly 43 percent of participants ages 50 and over said they were not sure what distribution options were available in their defined contribution plan. Moreover, 48 percent of participants age 50 and over said they were not sure if a guaranteed income option was even available in their plan.

Mr. Katz offers a five-step strategy to help plan sponsors educate participants about guaranteed income distribution options.

1. *Review the distribution options currently offered by your plan. Consider whether retirement income solutions that combine guarantees and liquidity may be helpful to participants.*

Plan sponsors can evaluate in-plan income options in the same way they evaluated Target Date Funds when these funds were introduced as a Qualified Default Investment Alternative about five years ago.

2. *Outline risk factors impacting retirement income in participant communications.*

A communications program outlining risks in retirement such as market, longevity and withdrawal risks – and that also demonstrates the relative probability of specific outcomes for participants with varying levels of accumulated saving – may help pre-retirees better understand whether they need to mitigate these risks for their given situation.

3. *Consider an automatic default to an in-plan income option.*

An increasing number of plan sponsors are already offering automatic enrollment and automatic escalation features in their DC plans to help more employees start saving, and then to help them gradually increase their savings rates. Another logical feature to consider is automatic default into an in-plan guaranteed income option, at least for those participants nearing retirement.

4. *Enhance awareness of distribution options.*

As the survey found, even at older ages many participants do not know what distribution options are available, let alone which sequence or combination of these options is most appropriate for them.

Pressed to make a decision at retirement, some participants will opt for a lump sum withdrawal that may not be appropriate for their circumstances. While communications and education can play a role in addressing this problem, plan sponsors may wish to consider an approach that provides for guaranteed income withdrawals on an automatic basis.

5. *Be proactive.*

In communications, emphasize that the date of retirement is the time to implement retirement income decisions, but not the right time to start planning. The right time to plan a course of action may precede retirement by as much as 10 to 15 years, with a review of plans as circumstances change and new solutions become available.

About the Survey

The Transamerica Retirement Solutions guaranteed distribution option survey was conducted online for Transamerica Retirement Solutions by EACH Enterprise in the third quarter of 2012 among 602 active defined contribution plan participants.

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Transamerica Retirement Solutions (Transamerica) is a leading provider of customized retirement plan solutions for small- to large-sized organizations. Transamerica partners with financial advisors, third party administrators, and consultants to cover the entire spectrum of defined benefit and defined contribution plans, including: 401(k) and 403(b) (Traditional and Roth); 457; profit sharing; money purchase; cash balance; Taft-Hartley; multiple employer plans; nonqualified deferred compensation; and rollover and Roth IRA.

Transamerica helps more than three million retirement plan participants save and invest wisely to secure their retirement dreams. For more information about Transamerica Retirement Solutions Corporation, please visit www.trretire.com.

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