



Statement for the Record

*By*

WorldatWork

*Before the*

Special Committee on Aging

Hearing on Lifetime Income Options

June 16, 2010

WorldatWork commends the Senate Aging Committee for holding this hearing on the importance of securing a lifetime stream of income for the American workforce. WorldatWork members are human resources professionals who design and administer programs — including retirement plans — to attract, motivate and retain employees. These members believe there is a powerful exchange relationship between employer and employee, as demonstrated through the WorldatWork Total Rewards Model. Total rewards involve the deliberate integration of five key elements that effectively attract, motivate and retain the talent required to achieve desired organizational results. The five key elements are: compensation, benefits, work-life, career development and recognition.

Employers are committed to helping their employees save adequately for their retirement years; a 2009 WorldatWork study found that 91% of respondents provided a defined contribution plan for employees, and 94% of those provided an employer match. Retirement plans are also a win-win for employers and employees as, according to a 2007 WorldatWork study, the vast majority of companies offering both defined benefit and defined contribution plans report they have a moderate or high impact on their ability to attract and retain a talented workforce.

In order to respond to the Department of Labor's recent request for information on lifetime income options for participants and beneficiaries in retirement plans, WorldatWork conducted a snapshot survey in March 2010 of members in order to gauge what current employer practices were regarding lifetime annuity options. A total of 64 members and nonmembers participated, and of those respondents: 53% currently offer a lifetime annuity option with: their defined benefit plan (33%); with their defined contribution plan (11%); or with both their defined benefit and defined contribution plans (9%). Of the 47% who do not offer a lifetime annuity payout option, 14% are considering adding an annuity payout option in the future.

Among those companies that did not offer lifetime annuities, the most common reason was a lack of participant demand (29%), followed by 401(k) or other qualification rules (21%) and administrative issues (17%). Of the respondents who offer a lifetime annuity payout option, a majority (52%) cited wanting to provide a way for employees to secure a lifetime income stream from their retirement savings as the primary reason for offering such an option. Based on the results of this survey, the barriers to offering lifetime annuities are in the regulations surrounding annuities and a lack of demand on the participant side. Those employers who do offer annuities do so because they recognize their value in providing a lifetime income stream.

Responses from a focus group also conducted on this topic mirrored the findings from the survey. The advantages that the focus group members identified centered on securing lifetime income streams for their employees and enhancing the employer-employee exchange relationship ("Annuities seek to offer protection against longevity risk. Guaranteed income from an annuity provides a steady stream of income to the participant."). The disadvantages that the focus group members identified centered on the administrative costs for employers, the increased fiduciary risk, lack of participant interest, and cost of current annuity products ("I do not believe that participants will recognize or value this option.").

In conclusion, employers are committed to helping employees save for retirement and to help them have access to streams of income throughout their lives. WorldatWork looks forward to continuing to work with the Committee, and we stand ready to provide further expertise and information when called upon.