

IslerDare_{PC}

Your workplace, our insight

Employee Benefits Update September 10, 2020

DOL Releases Interim Final Rule on Lifetime Income Illustrations

Executive Summary

To better enable participants to assess their retirement readiness, the Setting Every Community Up for Retirement Enhancement Act of 2019 (the “SECURE Act”) requires defined contribution retirement plans, such as 401(k) and 403(b) plans, to provide two “lifetime income illustrations” on participants’ annual benefit statements. On August 18, 2020, the Department of Labor released an [interim final rule](#) (the “IFR”) outlining the requirements and assumptions for these lifetime income illustrations, and providing liability protection for plan fiduciaries under certain circumstances. These rules will require coordination with plan recordkeepers and vendors, many of whom already have robust decision support tools available for plan participants.



Assumptions for Calculating Lifetime Income Streams

The lifetime income illustrations will show the value of a participant’s account balance converted to two lifetime income stream equivalents – one a single life annuity (an “SLA”) and the second a qualified joint and survivor annuity (a “QJSA”). The IFR sets the assumptions plan administrators must use to convert participant account balances into the SLA and QJSA.

Assumed Commencement Date and Account Balance: Plan administrators must calculate examples of monthly payments as if the payments begin on the last day of the benefit statement period, without any projections for future contributions to the participant’s account, investment earnings or adjustments for inflation. The examples must assume that participants are 100% vested in their accounts and, if there is an outstanding plan loan that is not in default, that the loan has been repaid.

Assumed Age and Marital Status: Plan administrators must assume participants are age 67 as of the assumed commencement date, or, if a participant is older than 67, use the participant’s actual age. The administrator also must assume all participants have a spouse of the same age, regardless of a participant’s actual marital status or a spouse’s actual age, and that the QJSA survivor benefit is 100% of the monthly payment amount during the joint lives of the participant and spouse.

Assumed Interest Rate: Plan administrators must use the 10-year constant maturity Treasury rate as of the first business day of the last month of the benefit statement period to calculate the monthly payment amounts. However, the DOL requested comments as to whether other interest rates, such as the applicable federal rate (AFR), may be acceptable.

Assumed Mortality: Plan administrators must use the gender neutral mortality table found in Section 417(e)(3)(B) of the Internal Revenue Code, which is generally used to determine lump sum cash-outs from defined benefit plans. The DOL also requested comments as to whether alternative mortality tables may be acceptable.

Participant Disclosure Language and Liability Protection

The annual benefit statements must explain the assumptions used to provide the lifetime income illustrations, and the IFR provides model language that will satisfy this requirement. In addition to explaining the assumptions described above, the annual benefit statements must include other information, such as a statement that the assumed monthly payments are illustrative only, and not guaranteed; that a variety of factors could affect the participant’s actual monthly payment amounts; and an explanation of SLAs and QJSAs.

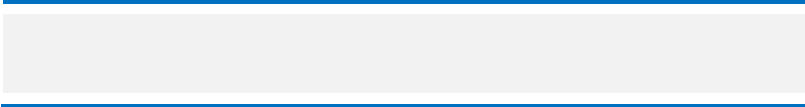
The IFR provides some liability protection under certain conditions. Specifically, if plan administrators use the model assumptions included in the IFR and provide participants with the model language (or substantially similar language), then plan fiduciaries, sponsors, and administrators generally will not be liable in the event a participant’s actual monthly payments are less than the payments shown in the illustrations. The IFR contains special assumptions and model disclosure language for plans that offer in-plan distribution annuities and/or deferred income annuities that provide participants with specified dollar amounts at retirement.

Next Steps

The lifetime income illustration requirements set forth in the IFR will go into effect one year after its publication in the Federal Register; however, the DOL intends to issue a final rule before the IFR’s effective date. Although the final rule may contain some modifications from the IFR, plan sponsors should begin to work with their recordkeepers to ensure they are able to comply with the final lifetime income illustration requirements.



To discuss the lifetime income illustration requirements addressed in this Employee Benefits Update, or any other employee benefits matters, please contact any member of our Employee Benefits and Executive Compensation Group below.



IslerDare PC
Your workplace, our insight

1945 Old Gallows Road
Suite 650
Vienna, VA 22182
(703) 748-2690

411 East Franklin Street
Suite 203
Richmond, VA
(804) 489-5507

Andrea I. O'Brien
aobrien@islerdare.com

Vi D. Nguyen
vnguyen@islerdare.com

Jeanne Floyd
jfloyd@islerdare.com

Ashley Hedge
ahedge@islerdare.com