

WOMEN WIN AT WORK

as a Result of the New SECURE Act

Given current events and the economic uncertainty facing retirees, it might be beneficial for those nearing retirement age to consider guaranteed lifetime income. The Setting Every Community Up for Retirement Enhancement (SECURE) Act was recently signed into law. It modifies several areas of current retirement rules and includes changes affecting defined contribution (DC) plans that will make it easier for plan sponsors to add a lifetime income option to their DC plans. Providing a lifetime income option through a 401(k) plan may be attractive to plan participants due to potentially lower expenses and lower commissions. In addition, institutional or group pricing combined with unisex rates may be a particularly good benefit for women who elect to annuitize all or part of their account balances through their employers' 401(k) plans.

More Lifetime Income

Typically, lifetime income strategies provided at work through a 401(k) plan must use unisex pricing. This requirement means that women gain a pricing edge when purchasing lifetime income at work versus the retail marketplace. For example, if a participant rolled his/her DC account balance to an IRA and purchased lifetime income in the retail market, a woman would receive a slightly lower monthly benefit than a man at the same age. This result is simply because women generally live longer than men, and insurance companies take that into account when determining the monthly payment. However, in an employer-sponsored retirement plan, the insurance company providing the lifetime income solution must use the same annuity rates for both men and women, resulting in a positive outcome for women. In other words, if annuitizing a portion of their 401(k) balance makes financial sense given their retirement needs, then women win at work.

The illustration shows the expected differences between a male and a female annuity result at age 65. Note that in this example, both the male and female receive higher monthly benefits from an annuity purchased from a 401(k) plan due to no commission assumed on the 401(k) annuity. In addition, the female receives significantly more in total

Total Payments Over Life Expectancy

IRA MALE	 \$134,462	\$543/month
401(K) MALE	 \$135,309	\$546/month
IRA FEMALE	 \$137,510	\$506/month
401(K) FEMALE	 \$148,455	\$546/month

 Retail
  Employer Sponsored

The sample amounts are for illustrative purposes only.

Annuity assumptions: Monthly annuity amounts are based on an account value of \$100,000 at age 65 when the annuity is purchased. Mortality is based on SOA RP2014 table with MP2018 projection, 3% discount rate, 4% commission for retail annuities from the IRA, and no commission for an institutional annuity from the 401(k) plan.

expected payments by about \$11,000 due in large part to unisex pricing and her longer life expectancy. This is a valuable benefit to consider making available to employees of your organization.

Prior to the SECURE Act, few plans offered a lifetime income option. The SECURE Act helps resolve several of the key elements that have prevented plan sponsors from adding a lifetime income option to their 401(k) plans.

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Fiduciary Safe Harbor

Plan fiduciaries have been requesting additional safe harbor guidance on selecting a lifetime income provider for years. Defined contribution plan sponsors were concerned that they would be held liable if an insurance company looked solvent at the time of selection but later failed. The SECURE Act provides new guidance on key factors that must be considered by plan sponsors and plan fiduciaries at the time a provider is selected. If these guidelines are followed, the plan fiduciary will **not** be liable for failure of the insurance company in the future.

As defined benefit pension plans and their guaranteed lifetime income features continue to disappear in the private sector, the annuity safe harbor rules are the best effort yet to provide guaranteed lifetime income options for 401(k) participants. The SECURE Act now provides plan sponsors the fiduciary guidance they've been seeking.

Portability

Another obstacle to adding a lifetime income benefit in a defined contribution plan was the fear that the lifetime income option might incur penalties if distributed or rolled out of the plan after the participant changed employment. The new rule will permit participants to preserve any elected lifetime income options and avoid surrender charges and fees upon distribution to the participant or another qualified plan.

Communication and Education

The SECURE Act also adds a new feature to defined contribution plan statements, which must now include a lifetime income disclosure at least annually. This disclosure will illustrate the monthly lifetime income stream equivalent to the participant's total plan balance, providing vital information for retirement planning. The Act also includes a level of assurance for plan fiduciaries and plan sponsors that there will be no liability under the Employee Retirement Income Security Act of 1974 (ERISA) for providing an estimate of monthly lifetime income.

Plan Sponsors Should Feel More Secure

Overall, passage of the SECURE Act will be seen by many as one of the most significant changes to the retirement landscape in years. Plan sponsors now have the opportunity to enhance 401(k) plans to provide one or more lifetime income options, so participants can choose to create guaranteed lifetime income for themselves and their spouses.

**Contact Pacific Life at (877) 536-4382, option 1,
or GroupAnnuitiesBid@PacificLife.com to learn more about adding
a guaranteed lifetime income option to your current 401(k) plan.**

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