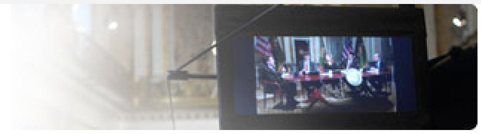
U.S. DEPARTMENT OF THE TREASURY

Press Center



Treasury Issues Guidance to Encourage Annuities in 401(k) Plans

10/24/2014

New option for plan sponsors to include income annuities in default target date fund investment options

WASHINGTON – In order to help retirees manage their savings and ensure they have a stream of regular income throughout retirement, the U.S. Department of the Treasury and the Internal Revenue Service issued guidance today designed to expand the use of income annuities in 401(k) plans. The guidance (Notice 2014-66) makes clear that plan sponsors can include deferred income annuities in target date funds used as a default investment, in a manner that complies with plan qualification rules. This option is voluntary for plan sponsors and participants.

"As boomers approach retirement and life expectancies increase, income annuities can be an important planning tool for a secure retirement," said J. Mark Iwry, Senior Advisor to the Secretary of the Treasury and Deputy Assistant Secretary for Retirement and Health Policy. "Treasury is working to expand the availability of retirement income options for working families. By encouraging the use of income annuities, today's guidance can help retirees protect themselves from outliving their savings."

Many employer-sponsored 401(k) plans offer so-called target date funds as a default investment for participants who do not affirmatively elect a different investment. Target date funds get their name from the fact that their allocation of investments shifts gradually from equities to fixed income as participants approach an intended target retirement year.

A deferred income annuity provides an income stream that generally continues throughout an individual's life but is not intended to begin until some time after it is purchased. This can provide a cost-effective solution for retirees willing to use part of their savings to protect against outliving the rest of their assets, and can also help them avoid overcompensating by unnecessarily limiting their spending in retirement.

Today's guidance provides plan sponsors an additional option to make it easier for employees to consider using lifetime income. Instead of having to devote all of their account balance to annuities, employees use a portion of their savings to purchase guaranteed income for life while retaining other savings in other investments.

Under today's guidance, a target date fund may include annuities allowing payments, beginning either immediately after retirement or at a later time, as part of its fixed income investments, even if the funds containing the annuities are limited to employees over a specified age. The guidance makes clear that plans have the option to offer target date funds that include such annuity contracts either as a default or as a regular investment alternative.

In an accompanying letter, the Department of Labor today confirmed that target date funds serving as default investment alternatives may include annuities among their fixed income investments. The letter also describes how ERISA fiduciary standards can be satisfied when a plan sponsor appoints an investment manager that selects the annuity contracts and annuity provider to pay the lifetime income.

In July, the Treasury Department and IRS issued final rules on the use of longevity annuities – a type of deferred income annuity that begins at an advanced age – in 401(k) plans and IRAs as part of a broader coordinated effort with the Department of Labor to encourage lifetime income and enhance retirement security. Today's guidance is another step reflecting the continuing commitment of the Administration to work in a variety of ways to further bolster retirement security and saving.

For the Treasury/IRS guidance (Notice 2014-66), click here.

###