

# Glossary of terms

This glossary of terms is broken out into two sections, the first a selection of general terms intended to define key language, and the second a selection of terminology centered around due diligence considerations that should be taken into account when working with retirement income solutions.

## General terminology

**Authorized Persons:** Individuals with justification and permission to access plan documents, engage with management, and provide oversight. Examples include plan fiduciaries, staff, regulators asking for documents, and parties to agreements.

**Broadridge Retirement and Workplace:** An organization that promotes a culture of investment fiduciary responsibility and improves the decision-making processes of investment fiduciaries.

**Fiduciary:** From the Latin word *fiducia*, meaning “trust.” Someone who stands in a special relation of trust, confidence, and/or legal responsibility. A fiduciary is held to a standard of conduct and trust above that of a stranger or of a casual businessperson due to the superior knowledge and/or training of the fiduciary. Retirement plan fiduciaries include a named fiduciary who is identified in the plan document and other “unnamed” fiduciaries who take on fiduciary status as a result of their roles in advising or managing the plan.

**Fiduciary Committee:** Though not required by ERISA, a fiduciary committee (also known as an administrative committee or investment committee) is often established by the plan sponsor to assist them in meeting their fiduciary obligations.

**Fiduciary File:** A repository of documents that govern the decision-making of plan fiduciaries. Having a central repository of documents is a best practice that serves to demonstrate faithful performance of fiduciary duties and best practices and to provide secure and ready access to governing documents and records of important decisions made and actions taken by plan fiduciaries.

**Governing Documents:** Though not defined in ERISA, for purposes of these RIS Practices, governing documents shall refer to the plan document, the IPS, the committee charter (or other delegation document) and any other documents established for purposes of directing the plan fiduciaries with respect to how to carry out their obligations in accordance with the plan document.

**Liquidity:** The ability to access and convert assets to cash without a penalty or a market price concession.

**Longevity Protection:** The protection against the risk of outliving one’s assets provided by guaranteed payments for life from an annuity.

**Participant Demographics:** Statistical characteristics of the participant population in the plan, such as age, gender, income, account balances, tenure, turnover, etc. that may be relevant to the types of investments, including retirement income solutions, that may be most appropriate to include in the plan.

**Participant Experience:** Education, user interfaces, and other mediums through which participants engage with retirement plans to learn about and select options and enroll in services.

**Payout Adjustments:** Guaranteed income payments can either remain flat (i.e., level) over the course of a lifetime or they can change depending upon the design of the lifetime income solution. Some adjustments can be selected as an option by the participant at income start (i.e., an annual fixed percentage increase of the payment) or may increase or decrease due to the performance of the investments or other factors.

**Platform Provider:** A company engaged to provide account recordkeeping, third-party administration and/or actuarial services for qualified retirement plans.

**Practice:** Specific actions or skills applied that provide the foundation and framework for a disciplined and prudent investment process. A practice is further defined by criteria that provide the details of the prudent process.

**Retirement Income Solutions (RIS):** Commercially available products and services designed to distribute accumulated plan assets safely, efficiently, and economically to plan participants when they retire. As described in this Prudent Practices for Retirement Income Solutions handbook, there are three types of retirement income solutions: insured income (guaranteed), investment-based income (non-guaranteed), and hybrid income (a combination of insured and investment-based).

**Safe Harbor:** Provisions in a law or regulation that may mitigate fiduciary risk. Safe harbors are voluntary, and the fiduciary must demonstrate compliance with applicable provisions to take advantage of the safe harbor.

**Settlor:** A person who, in administering employee benefit programs, acts with broad discretionary authority. In contrast, a fiduciary must act strictly in accordance with the provisions of the Employee Retirement Income Security Act (ERISA). Settlor functions, include decisions relating to the formation, design, and termination of plans. In the context of retirement plans, the settlor is usually the employer/plan sponsor.

# Due diligence considerations

**Accumulation Protection:** Some guaranteed retirement income solutions include a contractual provision to provide accumulation protection in one of two forms, depending upon product structure. The first would be Account Value protection where there is an interest rate guarantee or a guaranteed floor to the rate of return. The second is a Lifetime Income Benefit protection which accumulates over time prior to the start of income. For example, a Benefit Base Value is a separate value from which a guaranteed withdrawal percentage is applied for a lifetime payment. The value of a Benefit Base can grow in alignment with growth in Account Value or it may depend on a separate calculation. However, if the Account Value were to decline, the Benefit Base will not (assuming there are no transfers out prior to income start).

**Additional Contributions:** A contractual provision in some guaranteed retirement income solutions that permits additional contributions during the benefit payout period (after income distribution has commenced). A closed ended (yes or no) question about the presence of this attribute should be included in the due diligence process used by fiduciaries to compare, select, and monitor retirement income solutions.

**Availability of Data:** The process used to prudently compare, select, and monitor one or more retirement income solutions requires qualitative and quantitative data to meet the fiduciary obligations under ERISA Section 404. Some retirement income solutions providers may make more data available than others. Only solutions for which reasonable access to required qualitative and quantitative data is available should be considered for inclusion in the plan by the Fiduciary.

**Death Benefit:** Some guaranteed retirement income solutions include a death benefit provision to make one or more payments to beneficiaries when an annuity holder passes away. A death benefit provision may apply during the benefit accumulation period (before income distribution), after income distribution has commenced, or both. Death benefit payments may be a lump sum distribution or a contractually defined stream of payments.

**Fees & Expenses – Explicit:** An explicit fee is one that is disclosed in writing and is directly associated with a given product feature. This can come in a variety of forms such as a fund expense or the expense of a lifetime income feature that is charged against assets.

**Fees & Expenses – Implicit:** An implicit fee or expense is a deduction from the rate of return that an insurer targets when setting interest crediting rates. Although not technically a “fee,” a deduction target like this is also called a “spread” which is embedded within a product and is not disclosed. Items included in the target spread may include the amounts to help defray the costs of operating and distributing the product;

investing and managing assets to support guarantees; plan and participant servicing (if applicable); or build capital to absorb risks associated with guarantees and to provide an appropriate return on that capital in light of the insurer’s financial strength aspirations. These amounts are typically realized by the insurer as the actual “spread” between the income the insurer receives on the assets supporting the guarantees and the return (interest crediting rate) the investor receives. Although the insurer accounts for a target spread when setting interest crediting rates, there is no guarantee that the insurer will actually achieve the spread it had targeted. Similar to a bank-issued certificate of deposit, this approach to covering expenses is typically found in a deferred fixed rate annuity used during accumulation.

**Financial Strength Rating:** A forward-looking independent opinion about an insurance company’s financial soundness and ability to pay policies and contractual obligations. Examples of independent ratings agencies include A.M. Best, Fitch, Moody’s, and Standard & Poor’s.

**Minimum Track Record:** Track record refers to the time period for which historical performance information is available. Minimum track record is a specified period of time that the Fiduciary determines is normally necessary to conduct thorough due diligence analysis. The longer the track record, the more data Fiduciaries have to evaluate the performance and consistency of an investment or insurance product. While there is no standard minimum track record, mutual funds are typically evaluated based on their performance over certain time periods, which is often three to five years or more. Rather than exclude new and potentially innovative solutions from the due diligence process, fiduciaries may determine that, based upon the preponderance of other relevant quantitative and qualitative data, it is prudent to include solutions with short track records in the due diligence process.

**Portability:** The ability to transfer a participant’s accrued lifetime income benefit to another recordkeeper or a plan, including an IRA.

**Recordkeeping Support:** Recordkeeping infrastructure provided by a platform provider (defined herein) that is necessary to make a specific retirement income solution available to a plan and its participants. Platform providers typically provide recordkeeping support for a limited number of retirement income solutions providers. Therefore, fiduciaries (defined herein) that are evaluating retirement income solutions should, as part of the due diligence process, conduct an operational assessment to determine whether the plan’s current platform provider can make solutions under consideration available and, if so, whether there are cost or operational changes that may be required. Analysis of the costs and benefits of retaining the current Platform Provider relationship versus moving to a new Platform Provider to provide recordkeeping are part of the due diligence process.

**Regulatory Oversight:** For investment-based retirement income solutions, regulated investments are preferred in the portfolio over unregulated investments ones (e.g., alternative investments and complex strategies lacking marketability, liquidity, transparency, and regulatory oversight). For insured income solutions, state insurance commissions provide primary regulatory oversight; however, variable, and indexed annuities include investment components within the framework of an insurance contract. Fiduciaries evaluating retirement income solutions should understand and be satisfied that solutions under consideration are subject to appropriate regulatory oversight to protect plan participants and beneficiaries.

**Rollover Option:** The ability of the participant to take a distribution and retain their assets and/or accrued lifetime income benefit within another retirement plan or individual account. Some lifetime income rollover options retain the same solution as available inside the plan while others provide a similar replacement.

**Stability of the Organization:** When the Fiduciary is evaluating an investment-based retirement income solution, the fiduciaries should review the stability of the organizations managing portfolio holdings which can refer to several factors, including the tenure of the fund manager, composition and average tenure of the investment team, and the continuity and consistency of the investment strategy itself. When evaluating an insured retirement income solution, the Financial Strength Rating (defined herein) and historic stature and competitive standing in the retirement income solution space should be considered.



Broadridge Financial Solutions (NYSE: BR), a global Fintech leader with \$5 billion in revenues, provides the critical infrastructure that powers investing, corporate governance, and communications to enable better financial lives. We deliver technology-driven solutions that drive business transformation for banks, broker-dealers, asset and wealth managers and public companies. Broadridge's infrastructure serves as a global communications hub enabling corporate governance by linking thousands of public companies and mutual funds to tens of millions of individual and institutional investors around the world. Our technology and operations platforms underpin the daily trading of more than U.S. \$9 trillion of equities, fixed income and other securities globally.

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