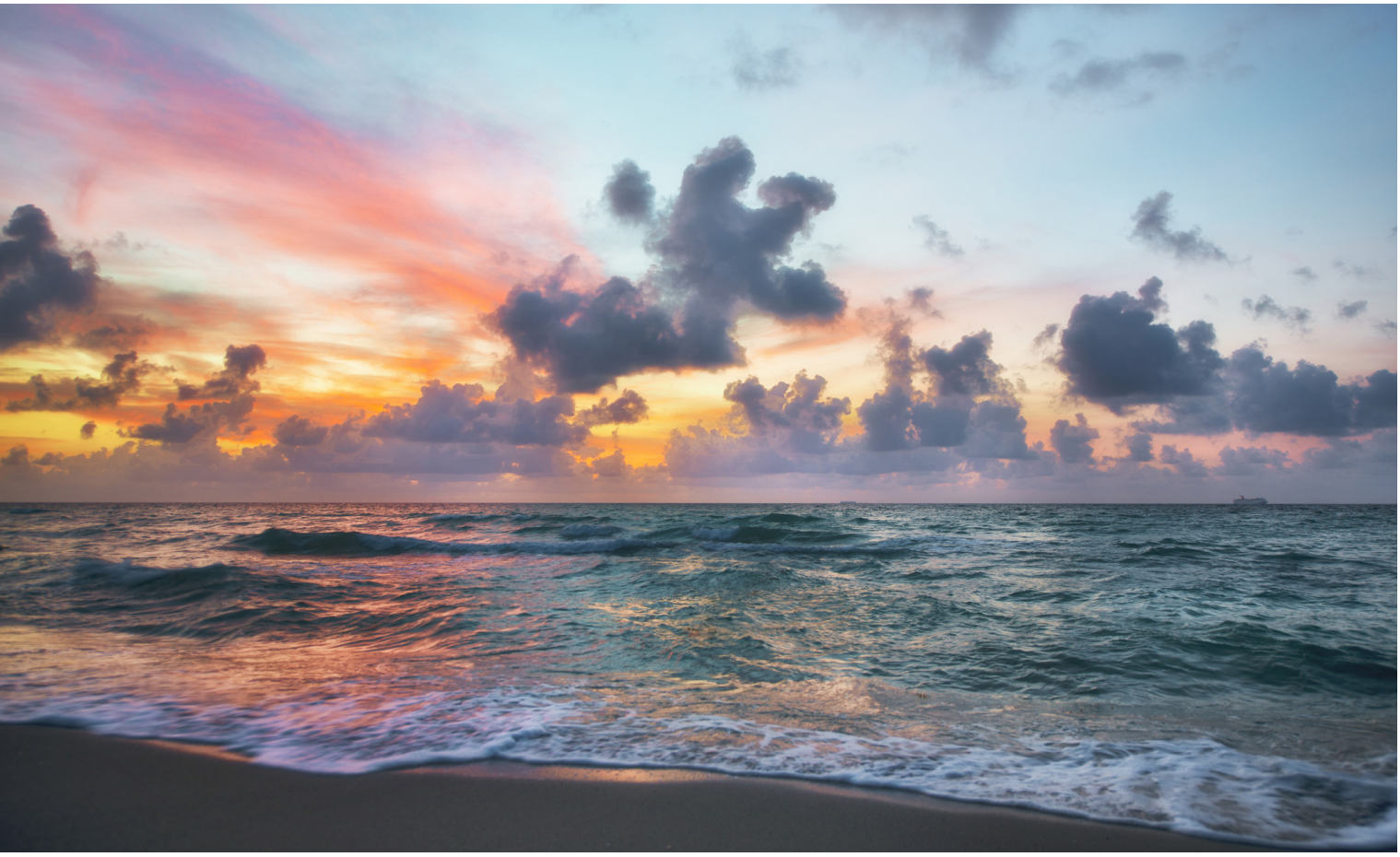
LIVING WITH LIFETIME INCOME

ASSESSING THE IMPACT ON PARTICIPANT BEHAVIOR BY THE NUMBERS



As baby boomers continue to exit the workforce, shifting the mind-set of defined contribution (DC) plan participants from retirement savings to retirement income is a hot topic.

The focus is changing from savings to spending—and determining how boomers can make their money last over a retirement that could span more than 30 years.

Some plan sponsors—and their financial advisors and consultants—are waiting for more direction before addressing this issue in their plans. But many are taking action now, and others already have.

The AB Lifetime Income Strategy (LIS) is an in-plan default option that combines a target-date portfolio with a guaranteed withdrawal benefit at retirement to generate an income stream for participants.

Younger participants are assigned a diversified target-date portfolio that generally features more growth assets. As they get closer to retirement—starting at about age 50—those assets are gradually shifted to a secure income strategy that invests in a balanced portfolio of stocks and bonds. This is a guaranteed withdrawal benefit that generates an income stream in retirement.

LIS IS DIFFERENT FROM OTHER GUARANTEED INCOME-FOCUSED PLANS:

- **Participants are guaranteed the ability to withdraw a minimum percentage of income from their portfolios, regardless of how markets perform or how long they live**
- **If market conditions deplete the accumulated assets, multiple insurers continue making the income payments**
- **Participants never lose control of their assets, can withdraw more than the guaranteed amount if needed and can pass on any remaining balance to their beneficiaries after death**

AB LIFETIME INCOME STRATEGY

A Custom Glide Path with an asset allocation designed for the plan's specific demographics and design philosophy instead of the typical glide path exposure to growth assets

Guaranteed Income via lifetime withdrawal benefits issued by multiple insurers; the account value remains accessible throughout retirement and balances pass to beneficiaries upon death

Flexibility that enables participants to personalize their target retirement age and insurance level, as well as purchase more secure income as they get closer to retirement

SEVEN YEARS OF DATA

74,000
active participants in plans with LIS as default option

25,000
participants in LIS

7,500
participants securing income to protect $1.2B in assets

CAN LIFETIME INCOME STRATEGIES REALLY LEAD TO BETTER OUTCOMES?

To answer this question, AB reviewed seven years of proprietary data from large DC plans that use the AB Lifetime Income Strategy (LIS) as the default option.

The objective: to assess whether a lifetime income strategy improved success measures or created better outcomes for participants. We assessed three areas: **savings rates, engagement rates and retainment rates.**

SECURE INCOME IMPROVES SAVINGS RATES

The earlier that participants start saving—or increasing their savings—the higher their balance is likely to be over time. But does offering a lifetime income solution help participants focus on turning savings into income? And do they increase their savings rates as a result?

The AB Lifetime Income Strategy offers all participants a target-date portfolio combined with a guaranteed withdrawal benefit at retirement that generates lifetime income. As participants move closer to retirement, their assets are gradually shifted into a secure income strategy that's invested in a balanced portfolio of stocks and bonds.

Our analysis shows that participants in LIS who haven't started securing income yet save at a rate of 7.4%*. Those who have started securing income save at a rate of 8.9%, which is a 20% improvement. In other words, participants who have assets in the Secure Income Portfolio—those who are closer to retirement and securing lifetime income—generally save at higher rates than other participants.

We suspect that the biggest reason for this savings disparity is perspective—the shift from viewing savings not as a lump sum but as a guaranteed income stream at retirement. This change in perspective happens as participants begin securing income, and it's powerful enough to change behaviors.

Lifetime Income Strategy Assets		
Savings Rate without Secure Income	Savings Rate with Secure Income	Savings Rate Change
7.4%	8.9%	1.5% (a 20% Improvement)

*Average of combined data across plans
As of 12/31/2018

ENGAGED SAVERS ARE BETTER SAVERS

Does engaging participants make a difference? Participant communications about benefits won't mean a thing unless the participant engages with the plan to understand how the benefits apply to them.

Plan sponsors use the rate of participant engagement (use of a call center, visits to a website and actions taken, or completion of numerous benefit estimates) to measure success. There's a good reason for measuring engagement: Participants who are more engaged and more interested in their retirement savings plan tend to save more. And saving more leads to better outcomes.

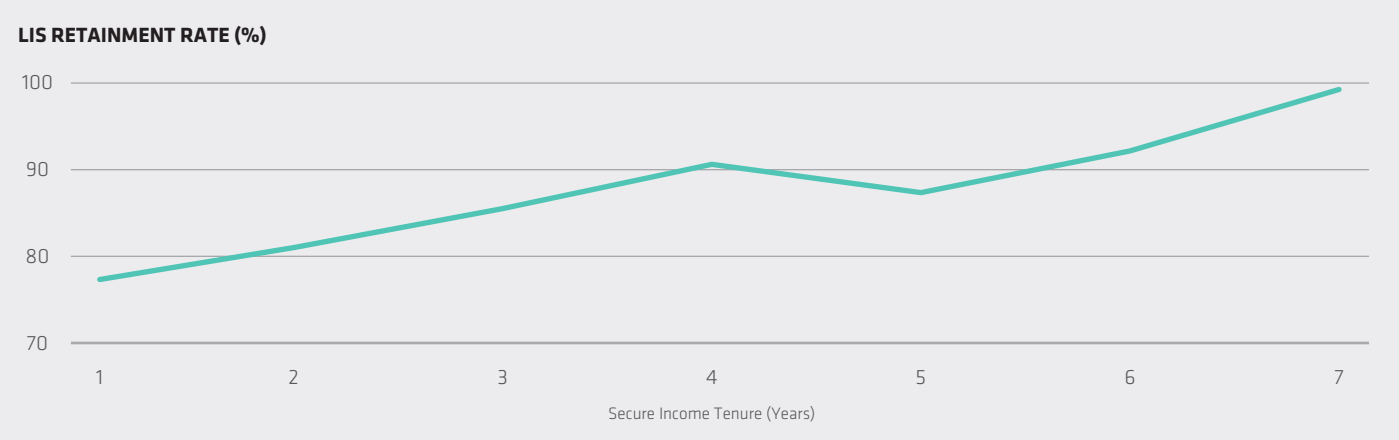
Our analysis found that LIS participants who were engaged saved at a rate of 8.7%. That rate is 12% higher than for those who were not engaged. Older participants who were engaged and had started securing income saved at a rate of 9.7%, still 10% higher than those who had not engaged with the Strategy.

Participant Subsets	Savings Rates (Engagement)	Savings Rates (No Engagement)
Participants in the Lifetime Income Strategy	8.7%	7.8%
Participants with assets in the Secure Income Portfolio	9.7%	8.8%

THE RETAINMENT RATE: YOU'VE GOT TO BE IN IT

Savings rates and engagement rates reveal a lot about a plan, but if participants don't stay in the Strategy, they won't get the full benefit of their investment. That's why the retainment rate matters: knowing what percentage of participants stay in the Strategy once they've started to invest in secure income provides another measure of whether including a lifetime income strategy impacts behavior.

Based on our data, 77% of participants are still in the Strategy after one year of building a secure income balance. After seven years, retainment soars to 98%. We believe that participants who have more tenure with secure income are more likely to stick around for two reasons: 1) they see exponential growth in their guaranteed income and 2) they're closer to retirement and more likely to engage.



SUMMING THINGS UP

These results offer encouraging evidence that a lifetime income strategy can provide a powerful boost to retirement outcomes for DC plan participants—and to plan success. As we implement lifetime income in other plans, we'll continue to test and verify the initial findings:

- **Participants with money in the Secure Income Portfolio save 20% more**
- **Engagement spurs participants to save more—in some cases much more**
- **The longer participants invest in secure income, the longer they stay in LIS**

As we see it, the most important step in realizing the benefits of a lifetime income solution is the first step—taking action now to add it to your plan. Many plan sponsors are already taking that step or are planning to.

Once a solution is in place, it's critical to reinforce the value of lifetime income by helping participants connect now to later. That means visualizing retirement savings not as a lump sum but as a future secure income stream. It's a visualization that becomes even more powerful when participants are actually building assets in the Secure Income Portfolio. For participants near and in retirement, that means helping them visualize the income their savings will provide. For younger participants, it means helping them connect their savings rate and future income stream to encourage even more saving over time.

LEARN MORE

CONTACT US AT ABDCRESOURCES@ALLIANCEBERNSTEIN.COM FOR INFORMATION ON HOW YOUR PLAN CAN BENEFIT FROM OUR LIFETIME INCOME SOLUTION.

A WORD ABOUT RISK

The Lifetime Income Strategy's component portfolios including the Secure Income Portfolio are only available in your 401(k) plan and are not offered for sale to the general public. Each component portfolio is a separate account that invests in a set of underlying investment components. Separate accounts are not mutual funds and are not required to file a prospectus with the SEC. Interests in these components are not deposits of AllianceBernstein Trust Company, LLC or any AllianceBernstein affiliate and are not insured by the Federal Deposit Insurance Corporation (FDIC). The Lifetime Income Strategy is exempt from investment company registration under the Investment Company Act of 1940, and purchases and sales of interests in the Lifetime Income Strategy are not subject to registration under the Securities Act of 1933. Management of the Lifetime Income Strategy, however, is generally subject to the fiduciary duty and prohibited transaction requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA), and the related rules and regulations of the US Department of Labor. AllianceBernstein provides asset allocation advice and other services for the Lifetime Income Strategy.

The return and account value of the Lifetime Income Strategy's underlying component portfolios will fluctuate and may be worth more or less than the original amount contributed, including at your retirement date. However, any decreases in value of the component portfolios caused by market performance will not reduce any associated lifetime income.

Investments in the Lifetime Income Strategy are not guaranteed against loss of principal—account values may be more or less than the amount invested—including at your retirement date. Investing in the Lifetime Income Strategy does not guarantee sufficient retirement income.

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