



CASE STUDY

On the Road to Retirement Income

State Universities Retirement System (SURS) of Illinois

Creating a better experience for defined contribution (DC) plan members is the goal of every plan sponsor. With that in mind, the State Universities Retirement System (SURS) of Illinois put careful thought and concerted effort into the recent series of strategic enhancements.

The upgrades included streamlining administration from two recordkeepers to one, developing a simpler core investment menu and creating a new optional deferred compensation plan. But the most notable enhancement was a new in-plan default investment strategy focused on generating guaranteed retirement income.

Key Objectives

- Provide an easy and automatic default investment solution that enables members to receive a steady income stream in retirement
- Ensure flexibility for members to grow their retirement income but also access their funds if needed
- Improve cost efficiencies and deliver better pricing through scale
- Create consistent income replacement messaging across different channels (website, statements, forms, etc.) to help shift members' focus from accumulation to income
- Shift from an accumulation focus to an income replacement focus and reduce longevity risk so members don't outlive their savings
- Provide clarity to members on how their account balance translates into retirement income

SURS saw retirement income as a key requirement because of the unique needs of its employees (known as members). This diverse employee group spans professors and teachers to clerical and facilities staff across 61 institutions of higher education across the state. SURS members aren't eligible for Social Security. They select between two defined benefit (DB) plans and a core DC plan when they are hired. For most members, that selection is their sole source of retirement income.

The Challenges

Before undertaking the redesign, SURS noted a few key issues with plan structure.

First, because SURS members aren't eligible for Social Security*, the DC plan would be their primary retirement income source. Second, the plan had limited distribution options at retirement: members could either use 100% of their account balance to buy a traditional annuity—an irrevocable decision that requires the complete surrender of their funds—or take a lump-sum distribution and forfeit any earned retiree healthcare benefits.

Faced with these options, more than half of SURS members withdrew their funds from the RSP at retirement to manage their own investments or hire someone to do it. In other words, the available options didn't meet all members' longer-term retirement needs. With these issues in mind, SURS sought to add flexibility to the savings accumulation and decumulation phases with a new default investment option. It had to be easy and automatic, helping members maintain a standard of living along with retirement security, without giving up control of their account balances.

Traditional fixed annuities force members to give up access to savings they'd spent a lifetime building, so SURS pursued a solution that allows members to keep control of their balances and avoid forfeiting earned benefits. The implicit fees of traditional fixed annuities can also be confusing to members, so SURS wanted an option with a transparent and explicit cost structure.

Once stakeholders learned more about a type of annuity called a guaranteed lifetime withdrawal benefit, they collectively agreed that it was the most suitable approach to retirement income, and that making the solution a default option was a great way to expand its reach among members. For SURS, the Lifetime Income Strategy (LIS) checked those important boxes and brought a DB-like benefit to the DC plan.

"We had a number of the preconceived notions about various solutions, but once we dug a bit deeper, we got comfortable with some of the sticking points, which included complexity, cost and control. Ultimately, a focus on income was important because we want our DC plan to feel like a DB benefit and bring that to life for members," said Mayer.

*Federal Social Security does not cover SURS employees eligible for and participating in SURS. SURS does not contribute to the Social Security system and no Social Security taxes are withheld from earnings.

†As of March 31, 2021

Plan Profile

- State Universities Retirement System (SURS)
- 61 employers/institutions of higher education across Illinois
- Approximately 23,000 members (including retirees and former and active employees) in the SURS Retirement Savings Plan (RSP)
- 80,000 total members who can access the optional deferred compensation plan
- Diverse demographics: members range from professors and teachers to clerical and facilities staff
- US \$3.5 billion† in plan assets in the RSP



Providing a retirement income solution for SURS members became a priority for us because our members aren't eligible for Social Security, so the plan would be their primary source of retirement income, and our existing option offered limited options for the distribution of savings.

—Suzanne M. Mayer, chief benefits officer and interim executive director at State Universities Retirement System (Illinois)

The Solution

SURS conducted extensive due diligence in search of a transparent, cost-effective solution that could address members' critical issues. Ultimately, SURS decided to partner with AllianceBernstein to provide members with the Lifetime Income Strategy as the in-plan default investment option—a flexible, custom lifecycle solution with a guaranteed retirement income feature.

By adopting LIS, SURS migrated from a longtime savings focus to a focus on improving retirement outcomes. LIS meets SURS's objective of helping members build retirement wealth during their working years and offering the opportunity to secure income at retirement.

With LIS, members gained flexibility and control to help them maintain a standard of living and retirement security while still being able to access their account balance. Members can also keep assets in the plan after retirement and obtain in-plan guidance during that time. With the unique features of LIS—the option to adjust retirement age, secure income level and savings rate, *and* the ability to maintain control of the account and pass any remaining assets to beneficiaries upon death—plan members have the tools to navigate their own unique situations.

LIS simplifies retirement planning, giving SURS members a single investment option that helps them save for retirement

during their working years while at the same time seeing how that savings translates into retirement income in real time. LIS helps reduce market risk and point-in-time risk by allowing members to secure guaranteed lifetime income over a 15-year period before retirement, with the ability to “check in” on their future income and make adjustments if needed. The solution is designed to capture market growth and provide protection from market downturns, with members paying an asset-based premium only on assets that are secured, taking place gradually in the lead-up to retirement.

Annuities are complex, so SURS prioritizes communication and education to help members understand how LIS works and its benefits—regardless of their financial or investment backgrounds. Members are given access to user-friendly tools and comprehensive, simple, clear materials to help them make informed decisions. The SURS benefits team continuously works with members to ensure that they understand the solution and how it can work for them. A primary goal is ongoing innovation in how to communicate and educate members about the benefits the plan has to offer.

Aligning a Retirement Income Solution with Members' Needs

Member Needs



- Focus on income in retirement and wealth accumulation
- Flexibility to take advantage of in-plan benefits
- A default solution for members who don't want to be “hands-on”
- Flexibility and control over account balances at all stages of life

Benefits of LIS



- Hands-off default solution
- Compatible with in-plan benefits
- Keeps asset control with members even at retirement (liquid and portable)
- Beneficiaries receive remaining account balance at death
- Multi-insurer design for better pricing and stability
- Account balance that retains growth potential
- Design flexibility, customization and ongoing enhancements to serve needs today and tomorrow

The Results

Given the long time horizon LIS serves, the results of the enhanced plan will continue to be monitored and analyzed. However, the initial outcomes appear to be very positive by all measures, including favorable reactions from plan members cited by the SURS benefits team.

Here are some of the key metrics SURS is monitoring to evaluate LIS going forward:

- **Longevity:** retention in the default solution post-launch
- **Performance:** higher balances and higher income
- **Usage:** activations/engagement

Industry Recognition

In addition, SURS's commitment to communications has been recognized by a first-place Eddy Award from *Pensions & Investments* for its communication efforts in promoting the redesign of its RSP. SURS was a finalist for the 2021 PLANSPONSOR Plan Sponsor of the Year award and was a 2021 winner of the Excellence and Innovation Award sponsored by *Pensions & Investments* and the Defined Contribution Institutional Investment Association (DCIIA).

Highlights

93%

stayed in the default post-launch

All member balances were directed to the SURS Lifetime Income Strategy at launch and since then 93% of members remain in LIS

~\$600 mil.

in asset growth

LIS assets have grown from US\$2.2 billion to US\$2.8 billion as a result of contributions, positive LIS performance and increase in guaranteed income. Additional growth may be attributed to a higher equity exposure enabled by LIS design

99%

of members set to receive secured income payment at retirement

98% of members have secured their account full at 100%

88%

of members experienced an increase in guaranteed income

88% of eligible members with assets in the secure income portfolio experienced an increase in guaranteed income on their birthday as a result of positive performance and additional contributions

~800

setting changes

Members are taking advantage of the flexible settings within the solution; ~400 have personalized their target retirement age

96%

of members are projected to experience an increase in guaranteed income

96% of eligible members with assets in the secure income portfolio are projected to experience an increase in guaranteed income

Timeline of Events

The amount of time between considering plan changes and implementing those changes varies from plan to plan and is based on many different factors. Here is a general timeline of the process SURS followed.

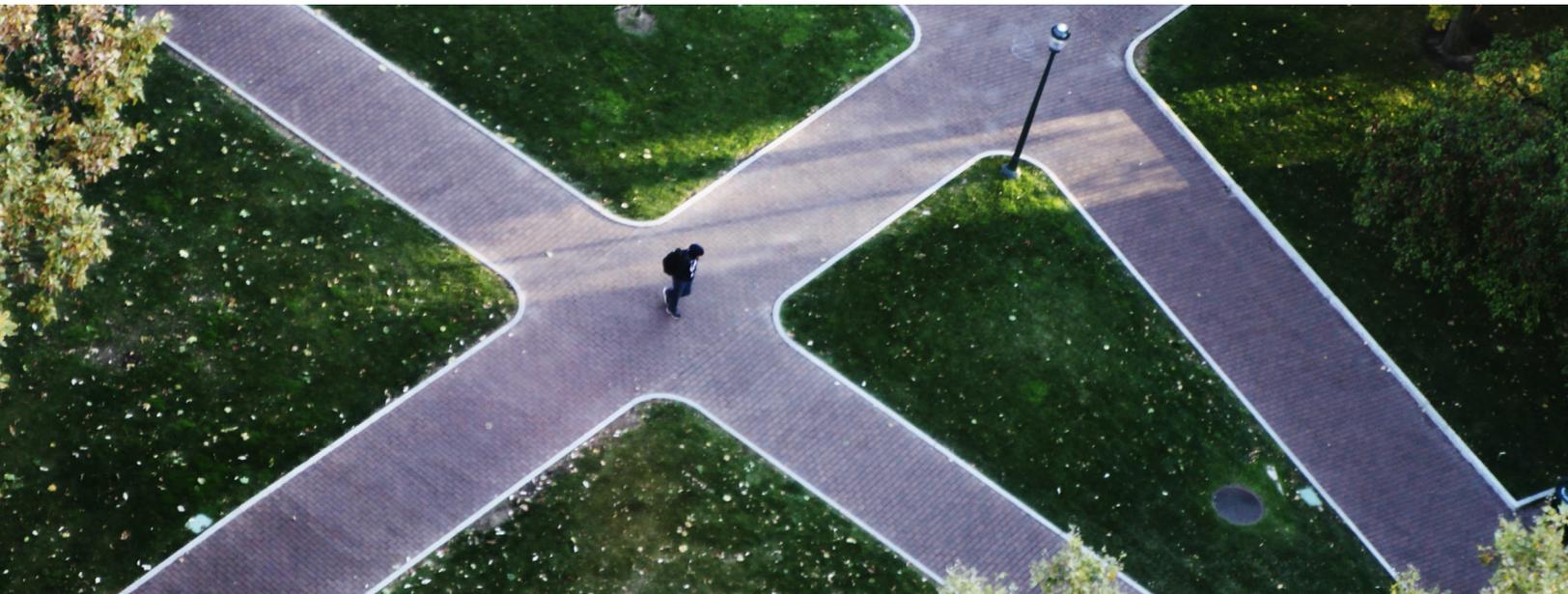
- **Mid-2018**
Retirement income solution discussion commenced
- **Early 2019**
RFP solicitations
- **September 2019**
SURS chooses AB as its retirement income provider
- **January 2020**
Investment lineup selected/
asset allocation models created
- **July 2020**
Member communication campaign deployed
- **September 2020**
Enhancements go live
- **Now**
Ongoing review of plan success and results

The Conclusion

DC plan participants are living healthier, longer lives, and they're increasingly focused on making sure they have the means to live the retirement they envision. This has amplified demand for retirement solutions that provide income certainty, predictability and flexibility.

SURS, recognizing this need among its plan members, has taken a major step toward providing the right balance of these needs by adopting the Lifetime Income Strategy as its retirement income solution. Instilled with a commitment to improve retirement outcomes for members, SURS provides a guaranteed income option that gives members visibility today into how their savings will translate into future retirement income. LIS empowers members to adjust their retirement savings and income trajectory while they still have time.

Of course, the retirement income conversation doesn't end at implementation. It's an ongoing conversation between the SURS benefits team and members: How is the strategy working? How is it helping them? And how does it need to evolve along with members' needs? And for plan sponsors, such a solution can be a powerful tool for monitoring and managing their workforce. A retirement income solution like LIS can improve the way members save for retirement, providing confidence that comes from knowing they can retire on their own terms.



To start the conversation on retirement income, contact us at ABDCresources@AllianceBernstein.com or visit the Lifetime Income Strategy section of www.alliancebernstein.com.

A WORD ABOUT RISK

The following descriptions of risk are associated with investments in the Lifetime Income Strategy.

Allocation Risk: Allocating to different types of assets may have a large impact on returns if one asset class significantly underperforms the others.

Capitalization Size Risk (Small/Mid): Small- and mid-cap stocks are often more volatile than large-cap stocks—smaller companies generally face higher risks due to their limited product lines, markets and financial resources.

Commodity Risk: Commodity-linked investments may experience greater volatility than investments in traditional securities. The value of commodity-linked investments may be affected by financial factors, political developments and natural disasters.

Credit Risk: A bond's credit rating reflects the issuer's ability to make timely payments of interest or principal—the lower the rating, the higher the risk of default. If the issuer's financial strength deteriorates, the issuer's rating may be lowered and the bond's value may decline.

Derivatives Risk: Investing in derivative instruments such as options, futures, forwards or swaps can be riskier than traditional investments, and may be more volatile, especially in a down market.

Diversification/Focused Portfolio Risk: Portfolios that hold a smaller number of securities may be more volatile than more diversified portfolios, since gains or losses from each security will have a greater impact on the portfolio's overall value.

Foreign (Non-US) Risk: Non-US securities may be more volatile because of political, regulatory, market and economic uncertainties associated with such securities. Fluctuations in currency exchange rates may negatively affect the value of the investment or reduce returns. These risks are magnified in emerging or developing markets.

Inflation Risk: Prices for goods and services tend to rise over time, which may erode the purchasing power of investments.

Interest-Rate Risk: As interest rates rise, bond prices fall and vice versa—long-term securities tend to rise and fall more than short-term securities.

Leverage Risk: Trying to enhance investment returns—by borrowing money or using other leverage tools—magnifies both gains and losses, resulting in greater volatility.

Liquidity Risk: The difficulty of purchasing or selling a security at an advantageous time or price.

Market Risk: The market values of the portfolio's holdings rise and fall from day to day, so investments may lose value.

REIT Risk: Investments in real estate can decline due to a variety of factors affecting the real estate market, such as economic conditions, mortgage rates and availability. REITs may have additional risks due to limited diversification and the impact of tax law changes.

OTHER IMPORTANT INFORMATION

The Lifetime Income Strategy's component portfolios including the Secure Income Portfolio 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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