

# Retirement income

Growing demand could drive innovation and adoption of retirement income solutions.



Participants approaching retirement have many questions. Do I have enough savings to retire? How can I replace my paycheck with my savings? Where can I find help?

They are not alone in this quest to solve the retirement income puzzle. Historically, the marketplace for retirement income services has been dominated by the retail rollover IRA, given its prevalence in the marketplace and the personalized guidance provided by the advisor community. Recently, more and more employers say that they have a responsibility toward their retiring participants, and these employers are actively looking for different retirement income solutions to support retirees in plan. These changes are good for the industry, given the success of DC plans in driving retirement savings.

With an emerging change in mindset from employers, growing demand from

retirees, increasingly supportive legislation, and a continued evolution of products and services, we think that now is the time for broader innovation and adoption of retirement income solutions in the DC marketplace. In fact, we are already seeing the beginnings of this trend.

## A tipping point for adoption

The need for retirement income solutions isn't entirely new, yet savers have been slow to adopt existing solutions. However, the growing demand for retirement income and the confluence of various factors are encouraging signs. The Pew Research Center estimates that 10,000 baby boomers are expected to turn age 65 each day until 2030. Plan sponsors are increasingly aware of this aging workforce, and the income needs of millions of baby boomers entering retirement could be transformative.

# 64%

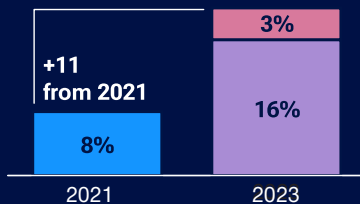
baby boomers who reported moderate to high levels of stress about their retirement savings.

## Evolving from exploration to decisions

(Fig. 1) Data suggest that more plans, consultants, and advisors are taking a position on retirement income.

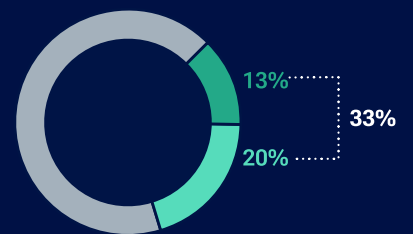
### Percent of clients offering in-plan retirement income solutions

- Currently offer/planning to add
- Currently offer
- Planning to add within the next 12 months



### Percent of consultant and advisory firms with formal ratings for retirement income solutions

- Yes
- No, but we plan to within 12 months



Sources: T. Rowe Price, 2023 Defined Contribution Consultant Study; 2021 Defined Contribution Consultant Study. Please see T. Rowe Price Sources for additional detail on T. Rowe Price studies referenced throughout this material.

Among the respondents to our 2023 T. Rowe Price Retirement Savings and Spending Survey, which surveys a nationally representative group of 401(k) participants, 64% of baby boomers reported moderate to high levels of stress about their retirement savings. Education tools and services crafted to support the retirement income experience could ease their worries about planning for retirement.

The legislative and regulatory environment has also been supportive.<sup>1</sup> While implementation of in-plan retirement income solutions is likely to be gradual, we are already observing more plan sponsors moving from an information-gathering stage to a decision-making stage relative to retirement income. To support this emerging trend, one-third of advisors and consultants who responded to our 2023 DC Consultant Study said that they are already including or intend to include formal ratings systems for retirement income strategies within the next 12 months (Figure 1).

### Retirement income is an experience

People often think of retirement income as a product—specifically, an investment or

insurance product or a mix of both. But at T. Rowe Price, we see products as only a part of the retirement income ecosystem.

Our research shows that a majority of participants lack knowledge of retirement income products. Also, retirees have diverse needs, and different retirement income products solve different problems. Participants need help understanding their various options and which ones best fit their personal situation. The retirement income experience should combine gathering of information about retirement income options, use of advice to make retirement income choices, receipt of income, and ongoing portfolio tracking all in a seamless, simple, and intuitive experience.

While investments are at the heart of retirement income, services and tools (which provide support throughout the retirement journey) are equally important for helping retirees as they transition from saving for retirement to spending in retirement. In our 2023 DC Consultant Study, we asked the respondents to outline which solutions or features may best persuade retired participants to remain in plan. Interestingly, the most persuasive features outlined were not investment- or product-related (Figure 2).

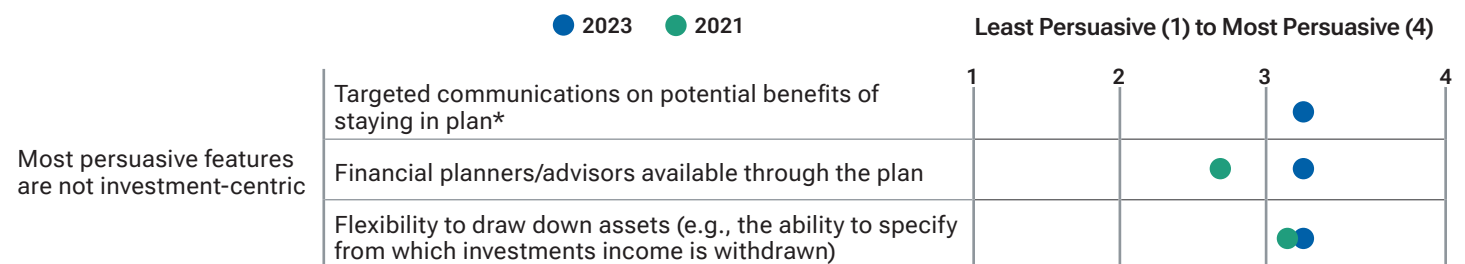


People often think of retirement income as a product...we see products as only a part of the retirement income ecosystem.

<sup>1</sup> The original SECURE Act of 2019 served to accelerate product creation and encourage the launch of innovative solutions to support retired participants who choose to stay in plan. More recently, the SECURE 2.0 Act of 2022 includes provisions that support lifetime income.

### Top features to retain retirees are not investment- or product-related

(Fig. 2) Solutions or features that may persuade retired participants to remain in plan



Sources: T. Rowe Price, 2023 Defined Contribution Consultant Study; 2021 Defined Contribution Consultant Study.  
\*New for 2023. Not included in 2021 study.

Participants also need to factor in other considerations in a retirement income plan, such as Social Security benefits or a pension. Education, tools, products (investment and insurance), and personalized services—including advice, calculators, and insights—can help retirees get the most out of all their retirement savings and should be woven into a single experience.

## What's next?

Retirement income will not be a one-and-done exercise for plan sponsors. For many, the retirement income journey will likely span several years. It will be an iterative process that includes a retiree-friendly plan design and an array of investment and insurance solutions, along with access to advice.

When evaluating product solutions within the plan or comparing the suitability of potential options, we suggest a five-factor framework that considers:

- Level of payments: Are payments sufficient enough to cover retiree spending needs?
- Volatility of payments: How much will payments vary from one period to another?
- Liquidity of balance: Will retirees have access to their assets at any time?
- Longevity risk hedge: Are there safeguards in place to ensure that the retiree is unlikely to outlive his/her assets?
- Unexpected balance depletion: Could saved assets run out prematurely due to market events?

No product can excel in all five dimensions. For example, while a fixed immediate annuity contract provides steady income and is an excellent

longevity hedge, it offers no liquidity.<sup>2</sup> Instead, a mix of products and services that together excel at the dimensions that are most important to participants would be ideal. Consultants and advisors can help plan sponsors choose the right mix of capabilities that work for their participant demographic.

Although retirement income solutions may not be a priority for some plans—such as those with young or transient workforces—we generally expect an uptick in the adoption of these solutions and/or other retirement income capabilities soon. For employers who have identified retaining and supporting retired participants as a priority, the most immediate focus is on trying to recreate a paycheck-like experience.

A managed payout solution can be an excellent place to start for these plans. In our experience, plan sponsors and their consultants typically view the managed payout solution as a noncontentious place to start the retirement income experience, particularly when the strategy is optional and not enabled by default.

As more participants approach retirement age, we expect the following retirement income trends:

- A proliferation of capabilities: Aligned with our five factors for product evaluation, we see continued innovation in product design moving beyond a sole focus on guaranteed solutions. The demand for non-guaranteed solutions for preretirees is high and will continue to grow.
- Improving guidance and advice for the retirement income experience: Retirement income strategies are complex and require the coordination of key decisions such as Social Security, Medicare, taxes, Roth conversion, spending levels, and longevity. We expect to see new resources designed

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<sup>2</sup> Guarantees are subject to the claims paying ability of the insurer. Fixed immediate annuities may be subject to higher fees.

to help participants address income strategies with both in-plan and out-of-plan savings.

- Growth of in-plan resources for retirement planning: Participants seek advisors who can facilitate income planning and can aggregate their assets. As the quality of retirement income guidance and advice increases, we see more participants keeping their assets in plan.

Finally, Social Security is the bedrock of retirement income for most Americans. But according to the 2023 Annual Trustees Report, the Old-Age and Survivors Insurance (OASDI) Trust Fund will be exhausted by 2033, after which the program will only be able to pay 77% of the scheduled benefits. We hope and expect legislators to address this issue sooner rather than later. Any potential changes in the Social Security program could have significant impact on retirees and retirement income planning.<sup>3</sup>

### Considerations for plan sponsors, consultants, and advisors

**Litigation fears:** ERISA litigation has made some fiduciaries wary of offering innovative solutions, such as managed accounts that can incorporate annuities. Industry groups continue to engage legislators to discuss the potential for legislation that could benefit retirees, as well as to protect plan fiduciaries who offer income solutions qualified for in-plan use.

**Concerns about complexity:** When it comes to implementing retirement income solutions, plan sponsors have expressed concerns about:

- the potential cost of recordkeeping infrastructure,
- the portability of investment solutions, and
- educational challenges around potential options.

All this must be considered while also navigating competing priorities, such as looming deadlines for implementing SECURE 2.0 provisions. These challenges present opportunities for advisors and consultants to engage with their clients and provide differentiating value.

**Solutions approach:** Insurance products have dominated the retirement income narrative. While they can play a role in the overall solution, our research shows that plan sponsors and advisors continue to demand diverse solutions. A smart approach that incorporates the right tools and the right strategy can deliver the best outcome for participants.

<sup>3</sup> Source: The 2023 OASDI Trustees Report. <https://www.ssa.gov/oact/TR/2023/index.html>

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