401(k) Annuities for ‘Pretty Good’ Lifetime Incomes

By Editorial Staff *Fri, Aug 1, 2025*

Recognizing the longevity gap that's correlated with education, three retirement scholars recommend default income annuities starting at age 67 for participants with only high school diplomas and age 80 for those with college degrees. Such annuities aren't yet permissible as default options in 401(k)s.

It’s been shown that retirees can, on average, squeeze relatively more monthly income out of a given amount of savings by purchasing an income annuity with part of their pre-retirement savings than by choosing not to purchase one.

It’s also been demonstrated that deferred income annuities (DIAs)—annuities that don’t pay out unless or until the owner reaches age 80 or later—are the most efficient way for retirees to insure themselves against the expenses associated with living (or the risk of living) to an extreme old age.

In a recent study from the Pension Research Council at the Wharton School, three economists applied those principles to the design of a hypothetical “pretty good” annuity for retirees from 401(k) plans—an annuity broadly beneficial enough to persuade U.S. lawmakers to permit its use as a “default” investment option in qualified plans.

In the **paper**, “Defaulting 401(k) Assets into Payout Annuities For “Pretty Good” Lifetime Incomes,” Vanya Horneff, Raimond Maurer, and Olivia S. Mitchell, executive director of the Pension Research Council, identified 18 different demographic groups and calculated how much more each would need to save (to produce the same income) if they didn’t avail themselves of either:

- A DIA purchased with 20% of a $250K 401(k) account, with income starting at age 67.
- A DIA purchased with 7% of a $240,000 account, with income starting at age 80.
- A DIA purchased with 4.5% of a $250,000 account, with income starting at age 85.

No single design benefited all 18 types of participants equally. But some clear lessons were learned. College-educated participants, since they live the longer than those less educated, would benefit the most from DIA with payments starting at age 80.

For all genders and education levels, those with low tolerances for risk (meaning they bought bonds with their non-annuitized savings) and low bequest motive (no intention to conserve assets for beneficiaries) benefit the most from the annuity (i.e., received the same income from less savings).

U.S. pension law doesn’t yet allow default DIAs. But with the advent of Qualified Default Investment Alternatives, Qualified Longevity Annuity Contracts, and the “safe harbor” for plan sponsors who want to offer deferred annuities to their participants, the idea is now imaginable.