

IRIC

INSTITUTIONAL RETIREMENT INCOME COUNCIL

Transforming Retirement Security: *The Essential Role of Retirement Income Solutions in DC Plans*

Kevin Crain

Executive Director, Institutional Retirement Income Council

Executive Summary

The retirement planning landscape is undergoing a significant transformation, driven by the evolution of Defined Contribution (DC) plans as a primary pillar for retirement savings. As these plans now represent over \$7 trillion in assets, the imperative to address the retirement income gap has never been more pressing. Unlike traditional Defined Benefit (DB) plans, which provide guaranteed lifetime income, DC plans require participants to manage their own savings and investment decisions, often leading to uncertainties about generating sustainable income in retirement.

This shift highlights the need for robust retirement income solutions within DC plans. Integrating these solutions empowers participants to translate their accumulated savings into reliable income streams and mitigates the financial risks of inadequate retirement funding. As life expectancy rises, the risk of outliving savings becomes a reality for many retirees, making incorporating structured income options essential for financial security.

Market dynamics reflect a growing recognition of this need. Recent retirement industry surveys indicate that most plan sponsors and participants prioritize retirement income options as a leading plan design feature. The 2024 JP Morgan Defined Contribution Plan Participant survey reported that 59% of employees believe the employer has a responsibility to help employees with retirement planning. This parallels the report's finding that more than 80% of plan sponsors feel responsible for helping plan participants generate retirement income.

The 2024 DCIIA retirement recordkeepers study about retirement income noted that 56% of plan recordkeepers view retirement income solutions as an important priority. The 2024 PIMCO DC consultants study reported that consultants who work closely to advise plan sponsors see retirement income solutions as a top priority for their plan design work.

Innovative strategies are emerging, including hybrid products that blend guaranteed income with flexibility, enhanced target date funds and managed accounts, annuity supermarkets, and AI-driven personalized planning tools. These developments aim to create a more engaging and comprehensive retirement planning experience.

The current state of retirement income solutions within DC plans can be likened to a baseball game. In product development, we're in the middle innings, with innovative retirement income solutions already well-established and evolving rapidly to address the growing demand for sustainable retirement income. However, recordkeeper adoption of these products remains in the early innings, as technological integration and standardization challenges are still being addressed. Meanwhile, plan sponsors, with the guidance of consultants and advisors, are just now stepping up to the plate in the early innings of adoption. Their growing awareness of the importance of these solutions is shaping a promising but nascent shift toward ensuring that retirees have access to structured income options for greater financial security.

However, industry stakeholders face challenges such as fiduciary responsibilities, the evolution of standardization in income solutions, and the need for effective participant education. By leveraging data analytics, technology integration, and industry collaboration, sponsors can accelerate the adoption of effective retirement income solutions. Ultimately, embracing these strategies is crucial for fostering a secure financial future for millions of Americans navigating retirement.

Introduction

DC plans have become a cornerstone of American retirement savings, with \$7 trillion in assets and over 70 million participants. This significant growth underscores the importance of these plans in facilitating individual wealth accumulation and being a primary pillar for retirement income as DB plans decline in popularity. While DB plans provide a guaranteed income stream for retirees, often based on years of service and salary history, their administrative complexities and singular fiduciary responsibility have led many employers to favor the more flexible, cost-effective, and shared responsibility DC model. As a result, participants in DC plans are increasingly responsible for their retirement savings decisions and outcomes.

This shift places an imperative on retirement income planning. Many retirees face the daunting challenge of transforming their accumulated savings into a sustainable income stream without a guaranteed income source. The risks associated with inadequate retirement income are profound, particularly as life expectancy rises. Retirees may outlive their savings, leading to potential financial instability and a diminished quality of life.

The societal repercussions of insufficient retirement income can be severe. Increased reliance on social security and public assistance programs can strain government resources, ultimately affecting taxpayers. Individuals with inadequate income often experience heightened levels of economic, health, and emotional stress and insecurities, which can manifest in various ways. This reality emphasizes the pressing need for structured retirement income solutions that provide financial security and preserve the dignity of retirees.

As the landscape of retirement planning continues to evolve, industry stakeholders have a unique opportunity to partner to improve retirement income education, planning tools, and solutions within DC plans. By developing innovative strategies to ensure participants can convert their savings into reliable income, we can create a more secure retirement future for millions of Americans.

The Opportunity: Why Retirement Income Solutions Are Gaining Momentum

The momentum behind retirement income solutions is undeniably rising, fueled by significant demographic shifts and economic pressures. As the population ages, more retirees will rely on DC plans for their post-retirement financial security, amplifying the urgency for structured in-plan retirement income options. The evolution of financial wellness has increased employer responsibility for employees' immediate and long-term financial security. The evolution has underscored the necessity for stable and predictable retirement income, prompting employers and employees to seek effective solutions.

Market dynamics reflect a growing recognition of this need. Recent retirement industry surveys indicate that most plan sponsors and participants prioritize retirement income options as a leading plan design feature. The 2024 JP Morgan Defined Contribution Plan Participant survey reported that 59% of employees believe the employer has a responsibility to help employees with retirement planning. This parallels the report's finding that more than 80% of plan sponsors feel responsible for helping plan participants generate retirement income.

The Opportunity . . . Continued

The 2024 DCIIA retirement recordkeepers study about retirement income noted that 56% of plan recordkeepers view retirement income solutions as an important priority. The 2024 PIMCO DC consultants study reported that consultants who work closely to advise plan sponsors see retirement income solutions as a top priority for their plan design work. Innovative strategies are emerging, including hybrid products that blend guaranteed income with flexibility, enhanced target date funds and managed accounts, annuity supermarkets, and AI-driven personalized planning tools. These developments aim to create a more engaging and comprehensive retirement planning experience.

The market has responded to this demand with an innovative array of in-plan retirement income products. Hybrid solutions that blend broader investment portfolios with flexible withdrawal options are becoming increasingly popular, allowing retirees to continue to invest long-term while securing a reliable income stream. Annuity distribution options integrated with counseling tools to help with selection and purchase are gaining traction. Additionally, technological advancements have birthed AI-driven tools that enhance planning effectiveness and participant understanding. These tools provide personalized retirement income and retirement savings investment strategies based on individual circumstances and help demystify complex retirement concepts, fostering a more informed participant base.

Moreover, retirement income solutions have experienced growth. TIAA-Nuveen recently announced that over 1 million DC participants are invested in hybrid Target Date funds, more than doubling in the past year. Assets invested in DC in-plan retirement income products are also growing quickly. Blackrock's Life Path hybrid offering, introduced in 2024, now has \$16 billion invested. Nuveen's suite of hybrid retirement income offerings now has \$35 billion invested.

This surge reflects the industry's shift towards addressing the evolving needs of retirees, ultimately ensuring that they can convert their accumulated savings into sustainable income. By embracing innovation and responding to the pressing demands of the workforce, the retirement planning landscape is poised for continued transformative change.

Building Momentum: Addressing Key Challenges

As the trend of adopting retirement income solutions within DC plans gathers momentum, several key challenges must be addressed in order to accelerate adoption. There is still a prevalent plan sponsor perception that retirement income solutions are complex and may increase administration for plan sponsors and recordkeepers. To reduce plan sponsor concerns, there are opportunities to define fiduciary responsibilities, implement administration and technology standardization, and the imperative of actionable participant education. Each element is critical in ensuring that plan sponsors can make informed decisions to evaluate, select, and monitor retirement income options while enhancing clarity and engagement among participants.

Building Momentum: Addressing Key Challenges Continued

Fiduciary Responsibilities

Plan sponsors face complex fiduciary duties when selecting retirement income solutions. The solutions regarding utilization and other key fiduciary evaluation measures are relatively new. The legal and ethical obligations to act in the best interest of participants can create hesitancy, particularly considering the potential for litigation or reputation damage from missteps. To mitigate these risks, sponsors should establish clear evaluation criteria for retirement income products with the support of industry associations, investment firms, consultants, and insurance entities. Engaging independent third-party assessments can also provide an additional layer of oversight, ensuring compliance with evolving regulations and industry standards. Future regulation further clarifying the fiduciary process and fiduciary roles for plan sponsors for this investment type will also help build confidence.

Standardization Needs

The lack of industry-wide standards has historically hampered the adoption of retirement income solutions. To create a more cohesive framework, stakeholders must work towards unified terminology and disclosure practices. The continued evolution of middleware solutions that enable seamless integration and data exchange among plan recordkeepers can enhance standardization efforts and build momentum for recordkeeper platform integration. Additionally, compliance tools that automate monitoring processes can reduce the administrative burdens of integrating new products.

Participant Education

A significant barrier to adopting retirement income solutions is participant understanding and engagement. Many individuals lack familiarity with the complexities of retirement income planning, which can lead to indecision or reliance on inadequate solutions. To bridge this educational gap, sponsors can leverage interactive video content and gamified mobile applications that simplify retirement concepts, provide easy-to-use planning tools, and make learning more engaging. AI chatbots can further enhance retirement planning. Data integration of other retirement asset pools, personal investments, and social security projections can further personalize and improve the planning and decisions.

By addressing these challenges head-on, plan sponsors can enhance their fiduciary practices and empower participants through education and personalized solutions. This comprehensive approach will pave the way for a more secure and informed retirement planning experience. Ultimately, this will result in greater participant adoption and investment in retirement income options.

Strategies to Accelerate Adoption

To effectively promote the integration of retirement income solutions within DC plans, industry stakeholders must leverage a multifaceted approach encompassing data-driven decision-making, technological integration, industry collaboration, and the empowerment of consultants and advisors. These strategies can enhance the adoption process and improve outcomes for both plan sponsors and participants.

Data-Driven Decision Making

Utilizing data analytics allows plan sponsors to tailor retirement income solutions to the specific needs of participants. For example, predictive analytics can identify demographic trends and individual preferences, enabling sponsors to offer personalized income options that resonate with their workforce. Retirement service providers have successfully implemented data-driven strategies, using insights from participant behavior to refine their income product offerings and improve engagement levels.

Managed Accounts are an example of an investment product that provides personalized savings, investment, and retirement income models based on the amount of information and data the participant provides. Sponsors can adapt their communication strategies by measuring engagement metrics and continuously monitoring educational initiatives to better align with participant expectations and needs.

Technological Integration

The integration of advanced technologies is crucial for the efficient implementation of retirement income solutions. It involves a consortium of plan recordkeepers, investment management firms, insurance entities, and a middleware technology platform. For instance, automated recordkeeping systems with middleware technology can streamline participant data management, while AI-driven tools provide personalized retirement planning assistance.

The DCIIA 2024 study of DC plan recordkeepers reported that 47% view middleware technology as essential for building a robust retirement income participant experience. An example of successful technological integration can be seen in the collaboration between retirement plan providers and fintech companies, resulting in the development of user-friendly platforms that facilitate seamless access to income solutions. By adopting these technologies, sponsors can enhance participant experiences, ensuring that retirees can access various income options tailored to their unique circumstances.

Industry Collaboration

Collaboration among industry stakeholders can significantly accelerate the adoption of retirement income solutions. Establishing cross-functional working groups allows plan sponsors, advisors, consultants, service providers, and industry associations to share best practices and address common challenges collectively. Industry roundtables have successfully brought together diverse participants to discuss strategies and best practices for integrating income solutions. Collaborative research efforts have further informed the design of income products, aligning them with participant and plan sponsor behaviors and needs.

Strategies to Accelerate Adoption Continued

Empowering Consultants and Advisors

Consultants and retirement-designated advisors are pivotal in guiding and advising plan sponsors through the complexities of retirement income solutions. Industry leaders can educate and equip consultants and advisors with targeted training and resources, such as interactive simulations and comprehensive digital libraries, to offer informed recommendations. Industry associations have created certification programs and education modules to ensure that advisors understand retirement income strategies deeply. By empowering these professionals, sponsors can make informed decisions and foster confidence in adopting innovative income solutions.

These strategies collectively create a robust framework for promoting integrating retirement income solutions within DC plans, benefiting sponsors and participants by enhancing retirement security and financial well-being.

Future Outlook

As the retirement income landscape continues to evolve, several emerging trends are shaping the future of retirement income solutions. A notable development is the expansion of hybrid products that combine retirement income solutions with broader investment portfolios. These innovative offerings cater to the diverse needs of retirees, allowing them to secure a reliable income stream while allowing for a diversified investment portfolio. This flexibility is particularly appealing as retirees seek to balance their income needs with the potential for growth in their investment portfolios.

Another significant trend is the expected integration of retirement income solutions with other financial products, such as Health Savings Accounts (HSAs). HSAs represent another primary pillar of retirement security. This integration aims to provide a more holistic approach to retirement planning, addressing not only income needs but also healthcare and long-term care expenses. As financial institutions recognize the interconnectedness of these products, they are likely to develop comprehensive solutions that simplify the retirement planning process for participants.

The acceleration for plan sponsor adoption of in-plan retirement income options is starting. T Rowe Price's 2025 US Retirement Market Outlook noted that plan sponsor interest in adopting retirement income options doubled since 2021. In 2021, 8% of DC plans offered or planned to offer a retirement income option; in 2024, it rose to 18% of plans.

Also, plan sponsor knowledge of in-plan options had significantly increased. The T Rowe report noted that only 19% of DC plan sponsors had "no opinion" about retirement income options. In 2021, it was 59% of DC plan sponsors. Plan sponsors are supportive of participants' "stay in plan" programs.

Future Outlook Continued

The report noted that 69% of plan sponsors support participants staying in the plan post-retirement. Integrating artificial intelligence and data analytics is expected to enhance product offerings, making them more personalized and responsive to individual participant needs. As technology advances, tools that provide tailored retirement planning and income strategies will become increasingly accessible.

Regulatory changes also play a critical role in fostering this growth. Recent guidance from the Department of Labor (DOL) has clarified plan sponsors' fiduciary responsibilities, encouraging them to explore innovative income options while reducing their concern for legal liability. As a result, plan sponsors are more likely to embrace new solutions, recognizing the importance of providing retirees with secure income streams.

The future of retirement income solutions is promising, with emerging trends and innovations paving the way for enhanced financial security for retirees. By embracing these developments and addressing the critical needs of participants, the retirement planning landscape is poised for significant transformation in the coming years.

Conclusion

Integrating retirement income solutions within DC plans is not merely an enhancement to the existing framework but an absolute necessity. As we navigate an evolving retirement landscape marked by the decline of traditional DB plans and increasing life expectancy, the urgency to ensure financial security for retirees becomes paramount. Without structured income options, many retirees face the daunting prospect of outliving their savings, leading to economic instability and a diminished quality of life.

The path forward requires collective action among all stakeholders—plan sponsors, financial institutions, industry associations, regulators, policymakers, and plan participants. By embracing innovation and addressing the challenges associated with integrating retirement income solutions, we can create a robust framework that mitigates risks and empowers plan sponsors to adopt solutions and plan participants to utilize the solutions to achieve financial dignity in retirement. This includes addressing fiduciary responsibilities, establishing industry-wide standards, and enhancing participant education to foster understanding and engagement with retirement income products.

Moreover, leveraging technology and data-driven decision-making can significantly improve the effectiveness of these solutions. Stakeholders must prioritize collaboration, share best practices, and align on common goals to ensure that retirement income solutions are not only accessible but also tailored to meet retirees' diverse needs.

As we look to the future, integrating retirement income solutions in DC plans and providing personalized fully integrated retirement income projections will be critical to building a sustainable and secure retirement system. By taking decisive action today, we can ensure that millions of Americans can confidently retire, knowing they have the financial resources necessary and have taken the appropriate actions to maintain their independence and quality of life. The time for proactive engagement by employers, employees, and the retirement services industry is now.