Lifetime income solutions: Progress, with work ahead

Sponsors of defined contribution (DC) retirement plans have made substantial progress in making DC plans more progressive for participants, in light of traditional defined benefit (DB) plans serving a more limited role for retirement income. Thoughtful plan design has increased participation rates and brought employees into the retirement saving process at earlier points in their careers, making significant improvements to the accumulation phase.

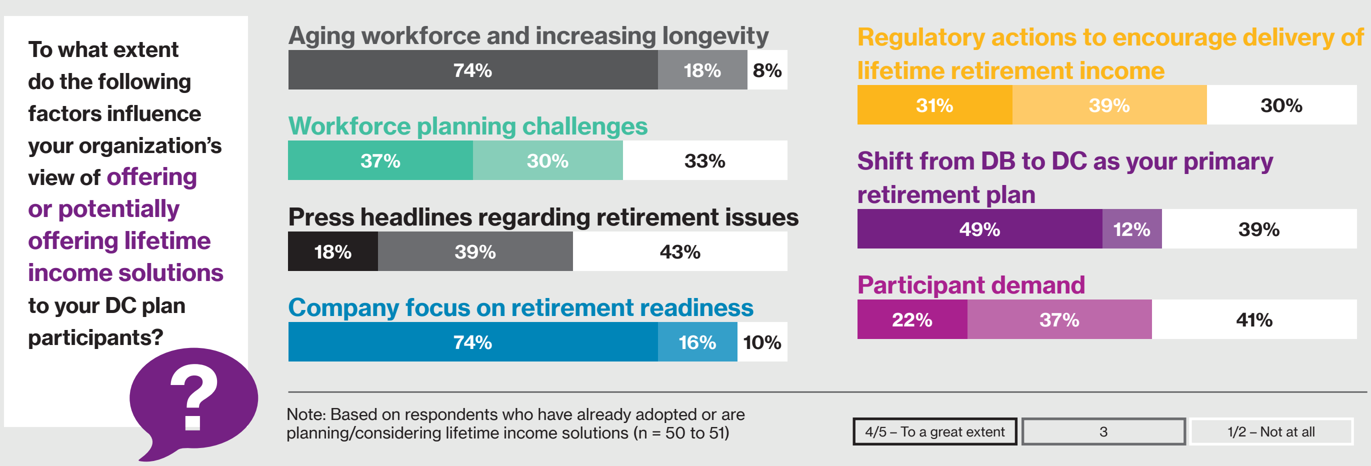
However, both participants and sponsors still have plenty of hard work ahead to address the ultimate goal – to produce income throughout retirement. The industry has taken to calling the remaining effort “the last mile,” although given the scale, complexity and gravity of the challenge, a more suitable image might be the last 10 miles.

Before diving into the findings of the 2019 Willis Towers Watson Lifetime Income Solutions Survey, an important note about the definition of “solution” as it is referred to within the following discussion: Lifetime income solutions, for the purposes of this survey, span the spectrum of options currently available to DC plans, from education only to guaranteed products. Systematic withdrawals are also included as they represent a critical plan design feature and, when combined with other investment or guaranteed components, can create an end-to-end solution.

To measure the progress sponsors and participants are making on extending plan design and investment structure into retirement, we surveyed HR and financial executives at 164 large and midsize U.S. firms, with these results:

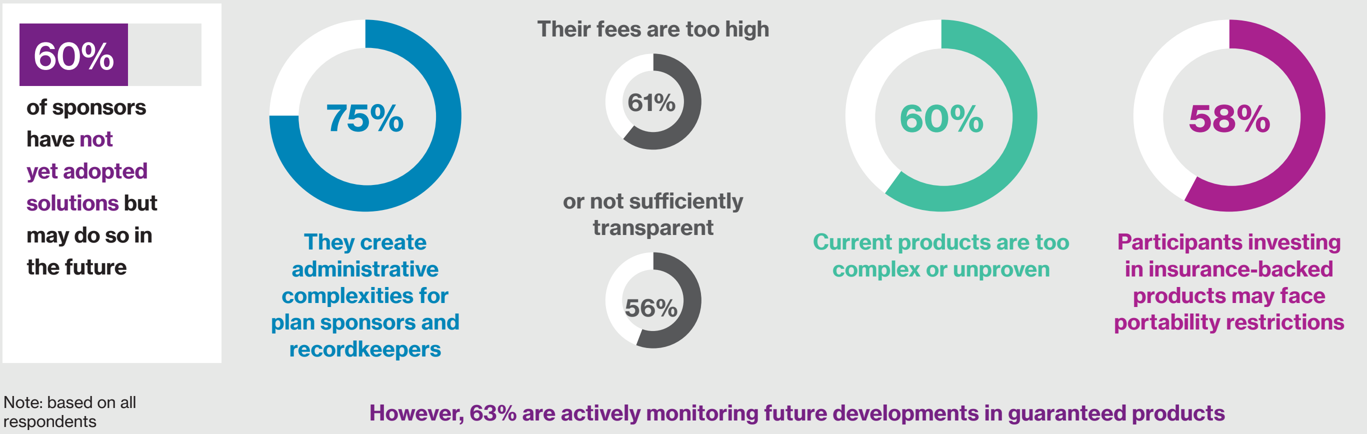
- A significant number of sponsors have adopted, or are considering adopting, lifetime income solutions. They recognize the rising age of the workforce, and participants’ responsibility for their own longevity risk and retirement readiness, as serious issues *(Figure 1)*.[1]
- Adoption of specific solutions for lifetime income is still in the early stages, at just 30% of plans (although it is up from 23% seen in our prior survey in 2016). Most prevalent solutions are systematic distribution arrangements and planning and education tools. Other solutions more effective at producing guaranteed lifetime income, such as insurance-backed products, are offered less frequently.
- An additional 60% of sponsors have not adopted lifetime income solutions but are considering them (or would consider them in the future) *(Figure 2)*. Sponsors have developed points of view on the current range of products and are monitoring their cost and complexity, particularly for solutions with guarantee features.

Figure 1: **Factors influencing lifetime income solution offerings: aging workforce and increasing longevity as well as a company focus on retirement readiness**



[1] Unless otherwise noted, all data points are from the Willis Towers Watson 2019 Lifetime Income Solutions Survey.

Figure 2: **Survey respondents indicate a wide range of concerns about insurance-backed solutions**



Encouraging first steps

Roughly one in three (30%) respondents indicated that their plans had adopted a lifetime income solution. This marks an uptick in implementation from our last survey in 2016, where 23% of respondents had adopted a lifetime income solution. Moreover, many of those plans that have implemented a solution are looking to expand what they offer – 41% in 2019, up from 33% in 2016.

More than half of sponsors surveyed (60%) could possibly adopt lifetime income solutions in the future.

Common rationale

The focus on lifetime income is driven by plan sponsors who are concerned about their employees' longevity in retirement in the absence of traditional DB income. Roughly three-quarters of sponsors that have implemented lifetime income solutions (or are considering doing so) noted longevity as a concern (Figure 1), up from about half in the 2016 survey. Nearly half (49%) pointed to a shift from a DB plan to a DC plan as the firm's primary retirement vehicle as another factor.

These sponsors are also focused on the impact of retirement income on their firms: About three-fourths cite retirement readiness as a reason to offer lifetime income options, while 37% noted challenges in workforce planning.

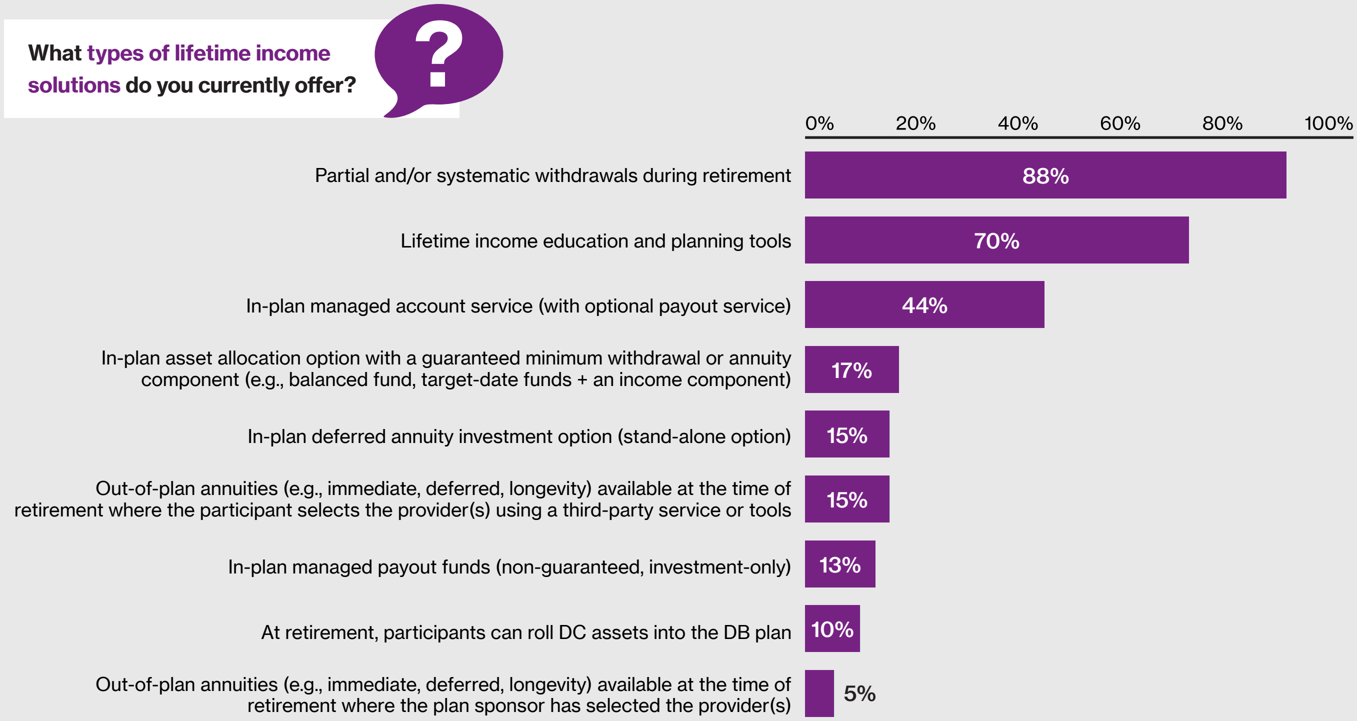
Relatively few within this group (22%) cited demand from participants as a driving factor. That silence may point to the education effort that lies ahead as sponsors build out the "last 10 miles" of their DC plans. After all, participants did not demand target-date funds, but they have proven to be a great solution in building retirement assets.

Offerings are limited

Among the respondents that have implemented some sort of retirement income solutions, offerings are concentrated in a narrow range of options *(Figure 3)*. Partial or systematic withdrawals were most common, at 88% of plans providing solutions. Lifetime education and planning tools were also prevalent, at 70%. Ranking third were in-plan managed account services, at 44%. Seeing greater adoption of flexible distribution policies and planning tools is a signal of positive momentum, but these do not represent complete, stand-alone solutions. Far more can be accomplished with investment solutions currently in the marketplace, with or without guaranteed components. In-plan asset allocation options – target-date funds or balanced funds – with an insurance feature built in, such as an annuity or guaranteed minimum withdrawal benefit, are present among 17% of those that currently offer a lifetime income solution (or 4% of all survey respondents). For sponsors who currently offer lifetime income solutions, 15% make annuities available outside the plan, through third-party tools and services, while another 15% provide in-plan deferred annuities. Similarly small proportions provide in-plan systematic managed-payout funds without a guarantee feature, or enable participants to roll over their accumulated DC assets into the sponsor's DB plan.

Looking ahead, among those that have implemented or are currently considering offering a lifetime income solution, 49% are considering adding guaranteed income options within their plans in 2021 or later, either asset allocation accounts with guaranteed minimum withdrawals or an annuity component. Forty-one percent are considering in-plan deferred annuity investment options, while 31% are evaluating annuity solutions to be offered outside the plan (where the participant selects the provider) and 27% are considering out-of-plan annuity solutions where the sponsor selects the provider.

Figure 3: **Widely available: partial/systematic withdrawals and education and planning tools**



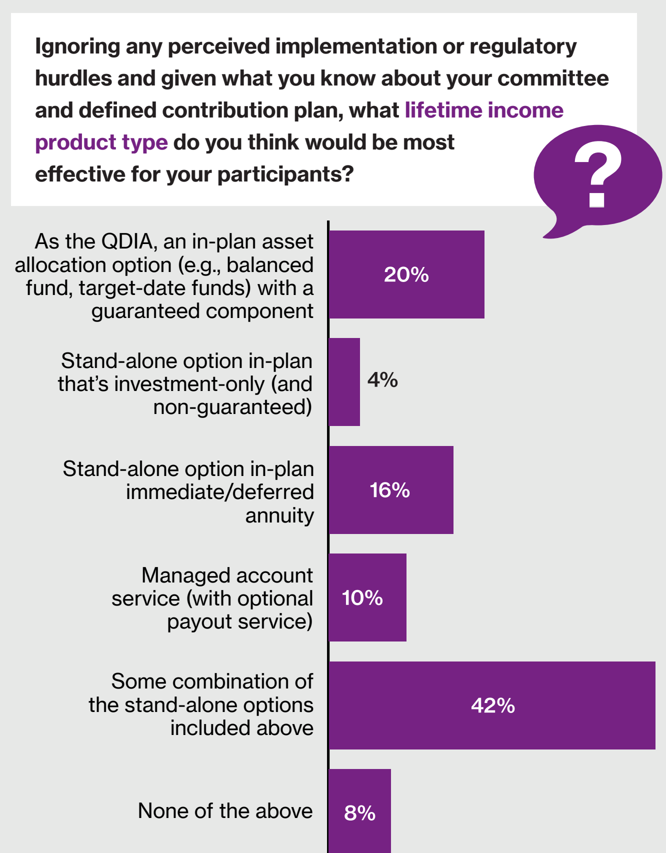
Note: Based on respondents that have already adopted lifetime income solutions.

Sponsors' views of the product universe

Not surprisingly, across the entire survey of 160 sponsors, no consensus existed about the type of product that would be best suited to their participant bases and investment committees. When asked to name the single most effective product, ignoring hurdles on implementation and regulation, 20% cited an in-plan target-date or balanced fund – designated as the qualified default investment alternative (QDIA) and built with a guaranteed component *(Figure 4)*. Sixteen percent voted for a stand-alone in-plan immediate or deferred annuity, while 10% preferred a managed account service and 4% cited an investment-only in-plan option.

Far more sponsors (42%) thought the optimal solution would be a combination of stand-alone options.

Figure 4: **Some combination of the stand-alone options is deemed most effective for participants**



Note: Based on all respondents (n = 160)

Figure 5: **Wide range of concerns about insurance-backed products; overall concerns have declined**

Longevity risk can be addressed using insurance-backed products such as annuities and guaranteed minimum withdrawal benefits. Please indicate the extent to which you agree or disagree with the following statements about the use of insurance-backed products within your DC plan.

	Strongly agree/agree 2015	Strongly agree/agree 2019
Insurance-backed products create new administrative complexities for the plan sponsor and recordkeeper	80%	75%
Demand by participants for insurance-backed products is too low to justify making them available	69%	52%
We are uncomfortable taking on fiduciary risks associated with insurance-backed products	64%	51%

2015: (n = 186 to 192) 2019: (n = 160 to 162)

Note: Based on all respondents

Insurance-backed solutions

Given that retirement income solutions with guaranteed features can be so powerful for providing lifetime income and yet have seen such little uptake so far, we probed the topic with sponsors in detail. In summary, sponsors have many concerns, but the survey gave evidence of a slow thawing in sponsors' views from our 2016 survey *(Figure 5)*.

The top concern over insurance-backed solutions for 75% of sponsors is that they are too complex for sponsors and recordkeepers to administer. Fees also are an important objection, as 61% believe them to be too high and 56% insufficiently transparent. The products themselves also were mentioned by 60% of sponsors as being too complex, as well as being new and not in broad use. About half of sponsors are unwilling to contemplate the additional implied fiduciary risk associated with these sorts of solutions.

From the participant perspective, 52% of sponsors cited low demand for insurance-backed solutions, and 58% were concerned over possible restrictions in portability for departing employees.

All these negatives notwithstanding, 63% surveyed said they are actively monitoring the evolution of insurance products.

Some of these concerns could be addressed through pending legislation. The Setting Every Community Up for Retirement Enhancement Act endeavors to make the annuity safe harbor more palatable for plan sponsors, as well as ease concerns around participant portability and preserving the value of their benefits. Policymaking is uncertain at this time, but the wheels appear to be in motion for more regulatory support for all stakeholders as it relates to lifetime income.

Sponsor rationale for not offering lifetime income solutions

When the last survey was conducted in 2016, the vast majority of sponsors that did not offer or were not currently considering lifetime income solutions cited fiduciary risk as the primary reason.

In the current survey, however, there was a shift in the reasons for sponsors' concerns *(Figure 6)*. Ranked highest was administrative complexity – challenges such as difficult implementation and a potential lack of portability for participants – at 69%, up from about half in 2016. Fiduciary risk is still a significant concern, however, and was noted by 62% of sponsors.

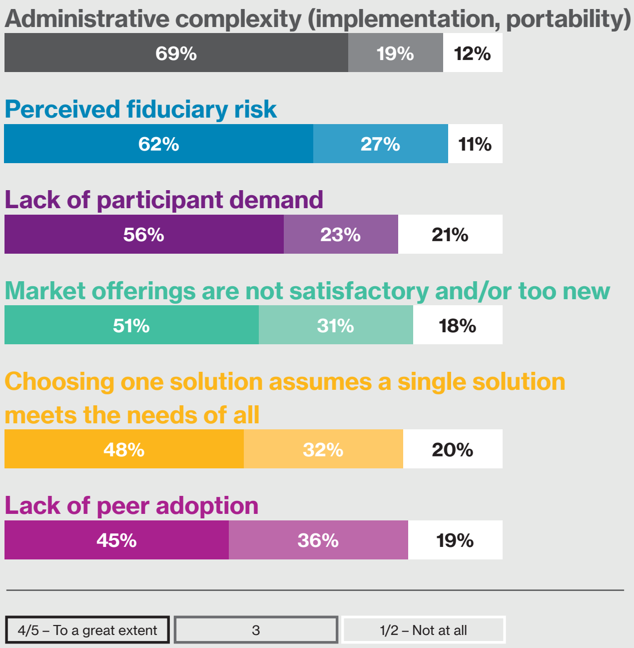
Additional objections came up over dissatisfaction with the available product set, as well as the notion that one solution can meet the needs of all participants. Nearly half of this sponsor group seems to experience "fear of jumping in" and is waiting for wider acceptance by other sponsors.

The last 10 miles: What will trigger greater adoption?

Retirement income solutions are in place at 30% of plans in our survey, up from 23% in 2016, and could be under consideration at another 60%. Perhaps a few plans will hold out, but many in the DC world acknowledge the need for these solutions. Movement is clearly in the right direction, but what developments will drive a major increase in implementation?

Figure 6: **Largest barriers: perceived fiduciary risk and administrative complexity**

To what extent are the following barriers to adopting a lifetime income solution today?



Note: Based on respondents that are neither planning nor considering lifetime income solutions (n = 83 to 84)

Based on the responses, sponsors are seeking support from the industry in several forms:

- From recordkeepers and providers, they are looking for coordination, which would increase portability and allow participants to move freely among employers or investment providers, as well as support greater transparency (78% of sponsors).
- From regulators, sponsors want a safe harbor that lessens the fiduciary burden of overseeing an annuity provider (77%).
- Sponsors also seek safety in numbers and would like to see more plans adopting lifetime income options (57%).
- Sponsors look to providers: 52% want a wider range of guaranteed products, and 33% want to see more investment-only products.

About the survey

The 2019 Willis Towers Watson Lifetime Income Solutions Survey was conducted in May and June 2019. Complete responses to the survey were obtained from HR and finance executives at 164 large and midsize U.S. firms representing a wide range of industries.

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