

Help for Participants Worried about Outliving Their Retirement Savings



For decades, the 401(k) industry has been laser-focused on helping American workers build wealth for the future by accumulating assets in employer-sponsored defined contribution (DC) retirement plans. Now, as America's workforce ages and Baby Boomers retire in droves, our orientation has shifted to figuring out how to extract those assets from our nation's workplace retirement plans so they last retirees throughout their lifetime.

It's a process known as decumulation, where retirees "spend down" their retirement plan assets to fund their lifestyle in their post-career years. However, it is not simply a matter of tapping their savings and spending

them willy-nilly. Americans are living longer, and as such, the average retirement can span 30 years or more. Thus, careful planning is required to transform plan assets into a sustainable income stream that will last throughout their retirement. The number one challenge for today's retirees? Living well, without outliving their savings.

A majority of participants report that they are stressed about transforming their savings into a consistent retirement income. According to a recent survey from global investment manager BlackRock, 51% of participants believe "it's difficult to know how my retirement savings will translate into monthly income at retirement," and 40% are worried about having to generate their own retirement income.

What's more, 93% of retirement plan participants are looking to their employers for guidance on annual and monthly retirement income, BlackRock found. However, while 86% of plan sponsors report they have taken some action to encourage participants to remain in the plan post-retirement, only 5.6% said they offer investment options designed to help participants support their income needs once they retire.

Clearly, participants want help figuring out their retirement income conundrum, and employers need tools to support that. However, there has been a relative dearth of in-plan lifetime income product offerings. One possible solution on the table is an annuity that's embedded in a DC plan, also called an in-plan annuity. However, plan sponsors' concerns about costs, operational factors, a lack of portability and risk exposure have kept in-plan lifetime income products like annuities out of most DC plans to date.

Another chief concern about in-plan annuities is sponsors' fiduciary risk. Different branches of the government have been back and forth on the fiduciary issues surrounding in-plan annuities during the last few years. In 2014, the IRS issued a statement that target date funds (TDFs) containing deferred annuities would be in line with rules against discriminating in favor of highly compensated employees (HCEs) so long as the plan followed other IRS guidelines. In 2015, the Department of Labor issued formal guidance on plan sponsors' fiduciary duties related to monitoring their annuity provider's financial health.

More recently, there have also been some questions from the Treasury Department about the “official” definition of fiduciary risk and why it is a significant deterrent to offering in-plan annuities. In combination, all of this so-called “guidance” from various government entities has created more questions than it has answers about plan sponsors’ fiduciary role and liability risk in managing and monitoring in-plan annuities. As such, sponsors’ perception is that in-plan annuities are a less-than-ideal solution to help participants create a reliable retirement income.

A Changing Landscape

So what then, if not in-plan annuities? Often, a single event can thrust an industry into uncharted territory, resulting in a paradigm shift that provokes innovation. For example, the recent decision by the United States Fifth Circuit Court of Appeals to vacate the Department of Labor (DOL) fiduciary rule and the DOL’s subsequent announcement that it will not enforce the rule “pending further review” has prompted conversations focused on exploring new retirement income solutions. Congress has been working on a bipartisan retirement savings package that would make it easier to implement lifetime income strategies in DC plans, along with other provisions. Retirement plan executives and asset managers have also turned their attention to the “how” of helping participants draw down their assets in retirement.

Which brings another “how” to the fore: How will offering lifetime income solutions inside of retirement plans impact plan sponsors’ ability to fulfill their fiduciary responsibilities? Many plan sponsors recognize that their fiduciary liability increases the longer an employee remains in a retirement plan. As such, there is clearly a need for investment options and solutions that both meet participants’ needs and enable sponsors to sufficiently fulfill their fiduciary roles. Moreover, the Fifth Circuit court’s decision adds to the murkiness of the relationship between a plan participant and those providing the participant advice on retirement assets.

Thus, establishing an in-plan lifetime income option for retirees is a challenge for sponsors, to be sure. One option available is a target date fund approach that uses an annuity pool as the fixed income allocation. As the participant gets closer to retirement, their share of the annuity allocation grows, and they are provided a stream of guaranteed lifetime income at retirement.

Retirement Income Planning Empowers Participants

For sponsors seeking a solution that empowers participants to determine their retirement income needs and how to make their savings last throughout their lifetime, a retirement income planning tool may offer the right mix of advice-based planning and fiduciary liability protection.

Retirement income planning accounts for all possible factors, including tax laws, withdrawal rules, Social Security, annuities and more, to determine the most effective, efficient annual spending and investing plan for an individual retiree. The goal is to optimize all of a participant’s investments and income sources inside of a customized tool that adjusts each year to accommodate their unique needs, goals and desired lifestyle.

Another benefit of a retirement income planning tool is it allows for scenario planning, which means participants can plug in different “what if” situations — what if they die younger, or live longer, or what if they purchase an annuity, etc. What’s more, such a tool can give participants the ability to anticipate how market volatility can impact their portfolio, and calculate a steady level of monthly income they can count on, despite market fluctuations. It’s one more way to provide peace of mind for participants, so they won’t be faced with a spending shortfall in a given year.

Retirement income planning tools are designed to help allay retirement plan participants' fears of outliving their income by showing them how to maximize their savings to create a lifetime of sustainable income based on their unique lifestyle choices. Furthermore, even if they're working with a financial advisor or institution, having this information means participants are able to come to the table equipped with the knowledge and confidence they need to make more informed decisions about how to spend their retirement assets. That's peace of mind you can't put a price tag on.

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