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Unlocking the Potential

The Versatility of Nonguaranteed Retirement
Income Products in DC Plans

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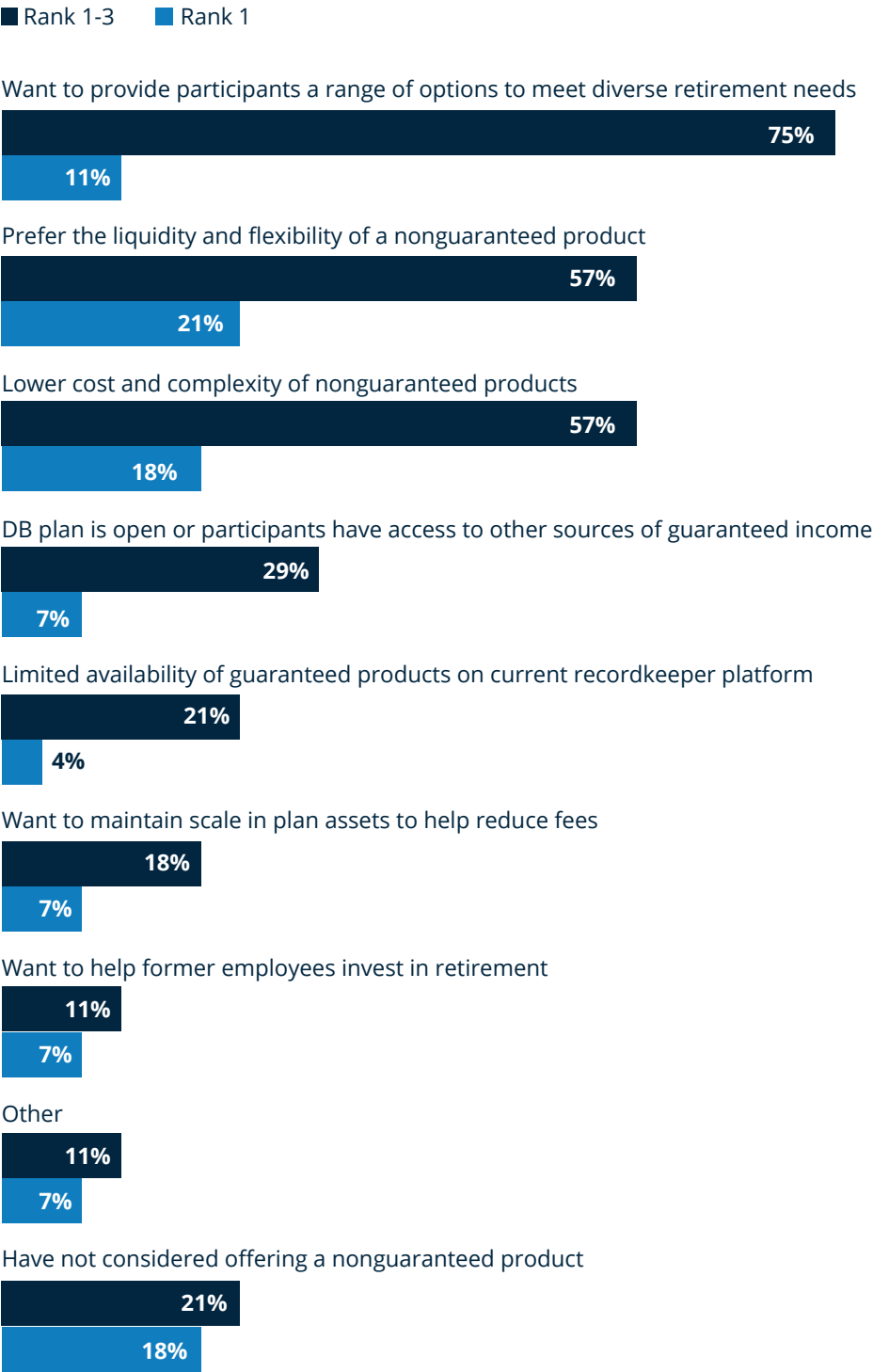
As the clock ticks towards retirement, the pressure on plan sponsors, asset managers, and recordkeepers intensifies, each striving to offer optimal income solutions for plan participants. While nonguaranteed retirement products typically assist plan participants in the accumulation phase, they can also serve a dual function as a retirement income solution or, at the very least, be paired with guaranteed income products to aid participants transitioning into retirement. This paper argues that highlighting the versatility of nonguaranteed retirement income products is an effective way to promote these vehicles.

Based on Cerulli’s 2024 research, plan participants prioritize two key retirement income features: the potential for asset growth even after withdrawals commence (24%) and the ability to withdraw funds at their discretion (23%). The key takeaway is having a solution that can simultaneously accommodate both preferences. In contrast, participants are less inclined (15%) to favor a guaranteed income stream even if the assets are depleted. This data suggests that participants are unlikely to favor forfeiting liquidity in exchange for a guaranteed income stream.

Attitudes concerning retirement income features align with plan sponsor motivations for including nonguaranteed retirement income products in their investment lineups. The 2024 PIMCO US DC Consulting Study underscores plan sponsors’ preferences for products that are liquid, flexible, and simple (see Figure 1). This does not imply that guaranteed retirement income products have no place in an investment lineup. Despite the enduring stigma around annuities, Cerulli’s research reveals that 69% of retirement specialist advisors indicate that an effective in-plan retirement income solution should include a guaranteed component.

Figure 1 | Plan sponsors’ top reasons for nonguaranteed retirement income solutions

Lower cost, less complexity, increased liquidity, and flexibility cited as top reasons



What are the top reasons why plan sponsors have considered or implemented nonguaranteed retirement income solutions? Rank all in order of importance, where 1 = most important. (n=28)

Analyst Note: “Other” includes “Because to have a QDIA its required to pick a multi-asset class option that by the nature of it functions as a nonguaranteed retirement income solution” and “Have not considered offering a nonguaranteed product.”

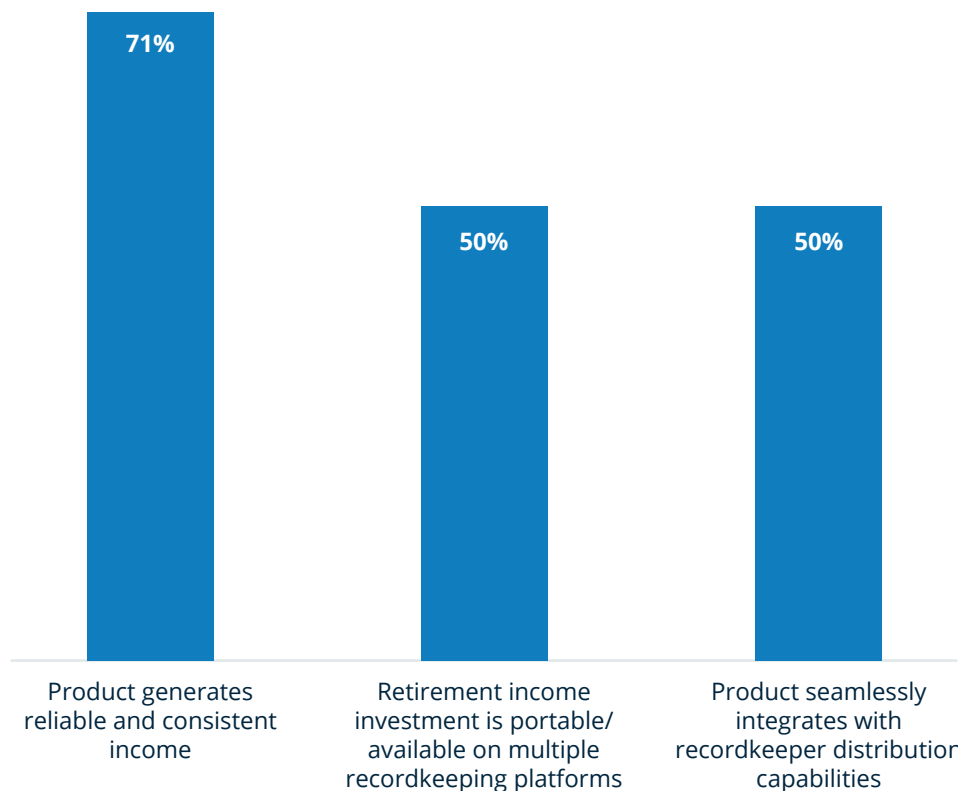
While nonguaranteed products dominate DC plan offerings, plan sponsors recognize that a “suite approach,” combining guaranteed and nonguaranteed retirement income solutions, can comprehensively cater to participant preferences. After all, plan participants are not monolithic. A balanced approach recognizes the diverse needs of participants, with some preferring the security of guaranteed income and others valuing the flexibility of nonguaranteed options. This strategy addresses the ‘sleep-at-night’ factor.

Nonguaranteed retirement income strategies (e.g., target date funds with income vintages) continue to gain significant traction for several reasons, including their long-standing presence within investment lineups and time-tested track records, making them familiar and reliable choices. Additionally, their transparent nature makes them easy for participants to understand. These products can also easily address liquidity requirements. Their availability on recordkeeper platforms, and in some cases, portability across different recordkeepers, further contributes to their widespread adoption.

Corroborating the traction gained by nonguaranteed retirement income strategies, institutional consultants indicate that plan sponsors look for products that generate reliable and consistent income, are portable and available on multiple recordkeeping platforms, and can easily integrate into recordkeeper distribution capabilities (see Figure 2). Given these preferences, PIMCO’s 2024 US DC Consulting Study shows that institutional consultants are likely to recommend positioning target date funds (with income or retirement vintage) (93%) and stable value products (54%) as retirement income options. Personalized solutions and income-focused fixed income funds are also commonly available in plans and can serve as retirement income options for participants.

Figure 2 | Top features for in-plan retirement income solutions

Ability to generate reliable and consistent income, and platform availability, are cited as the most important features



Choose the top three features for guaranteed and/or non-guaranteed in-plan retirement income solutions. (n=28)

Analyst Note: “Other” includes “Flexibility for plan sponsors and participants” and “We don’t believe there are ‘top features’ that all solutions must have, since it really varies based on plan needs. However, we would highlight portability as broadly important across solutions.”

Asset managers and recordkeepers can capitalize on this moment by reframing nonguaranteed retirement products as effective income solutions

Although more than half of plan sponsors (57%) have not considered including a guaranteed retirement income product, institutional consultants state that on the occasion plan sponsors offer guaranteed retirement income products, they do so because they recognize that plan participants want a range of diverse options, or because their defined benefit plan is closed or frozen (see Figure 3).

57%

of plan sponsors have not considered including a guaranteed retirement income product.

PIMCO's 2024 US DC Consulting Study finds that consultants expect income-focused/multisector fixed income (92%), annuities (84%), and stable value (83%) to be the top additions to retirement plan lineups over the coming years. For plan sponsors contemplating guaranteed retirement income products, it's essential to determine whether their recordkeeper can integrate these products or, at the very least, is willing to do so. Cerulli's research shows that only 39% of DC recordkeepers allow participants to convert a portion of their account balance into guaranteed periodic payments. Looking ahead, only 11% of recordkeepers plan to offer this distribution option in the next 12 months. As a result, plan sponsors seeking to offer guaranteed retirement

income products may need to partner with a middleware provider that can help implement these solutions and facilitate distributions.

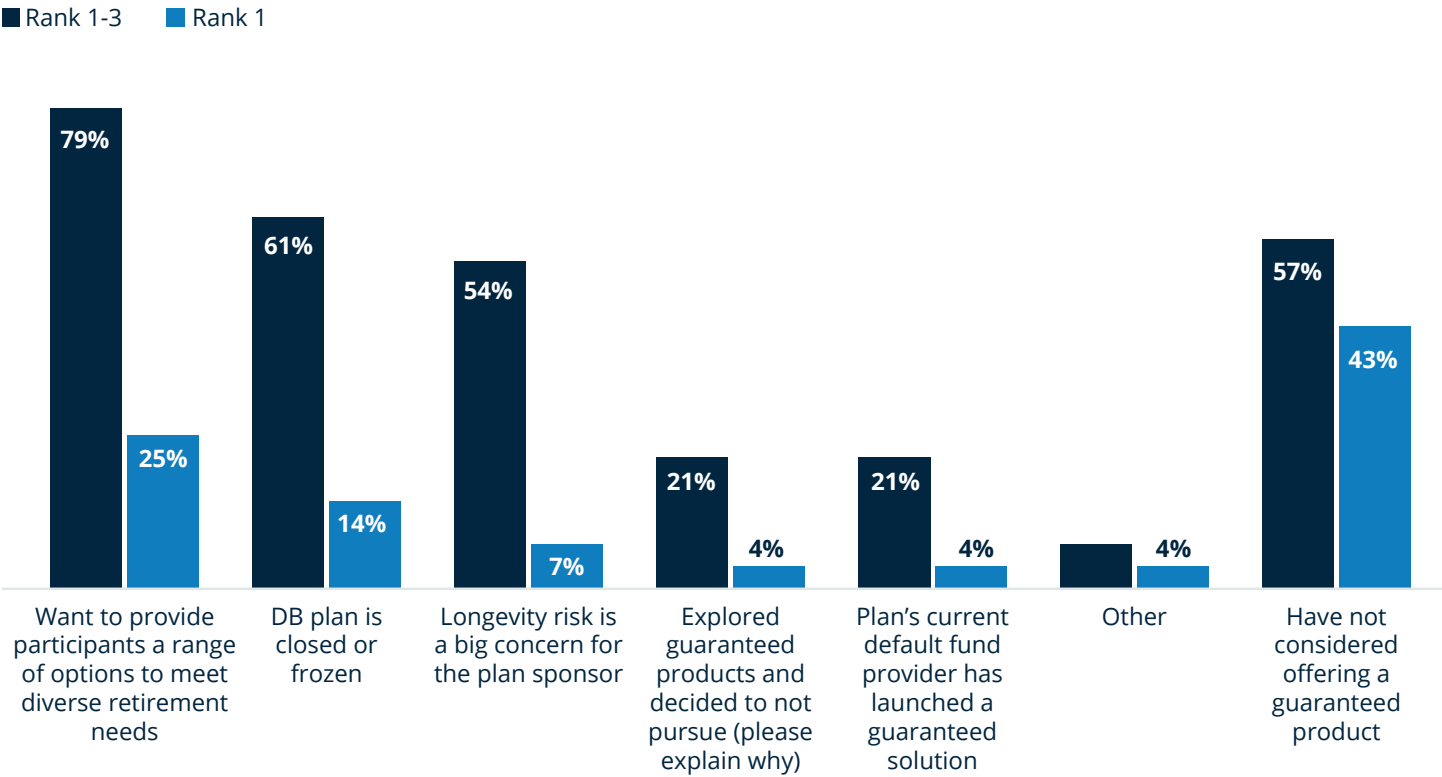
Asset managers do not need to reinvent the wheel to meet the evolving retirement income needs of plan participants. By strategically reframing the messaging around existing nonguaranteed products, they can effectively address participant demands for reliable retirement income solutions. While nonguaranteed retirement products are a mainstay, incorporating guaranteed retirement income products offers a comprehensive approach that caters to a diverse participant base.

39%

of DC recordkeepers allow participants to convert a portion of their account balance into guaranteed periodic payments.

Figure 3 | Plan sponsors' top reasons for guaranteed retirement income solutions

More than half of plan sponsors have not considered offering a guaranteed product; a frozen DB plan or desire to offer a range of options cited as top reasons for using



What are the top reasons why plan sponsors have considered or implemented guaranteed retirement income solutions? Rank all in order of importance, where 1 = most important. (n=28) | Analyst Note: "Other" includes "Too complicated to explain to participants" and "More products are available in the market."



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