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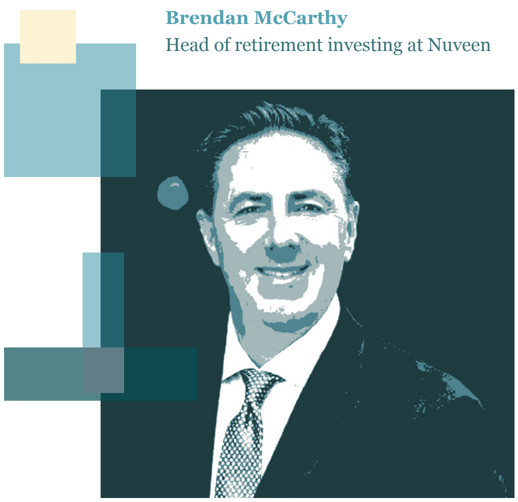
Empowering workers in a changing retirement landscape

What has propelled the shift away from traditional pension plans, and how can employers still support their workers' retirement goals?

A comfortable retirement has long been part of the American Dream. After years of hard work, employees want to slow down and need to count on the stability of their retirement savings to get them through the rest of their lives. Pensions, also known as defined benefit plans, once provided that stability, and workers could retire with confidence, knowing they would receive a guaranteed paycheck for life in retirement.

Brendan McCarthy
Head of retirement investing at Nuveen



Nowadays, this dream can be much harder to achieve. More than half of US workers think they are lagging behind on saving for their retirement.[1] Only 12% of private-sector workers can count on a pension in retirement.[2] That's because many workplaces have shifted towards defined contribution plans, such as 401(k)s. These types of plans can reduce the risk and cost to employers but often leave employees feeling vulnerable and concerned that their savings will not be enough to last throughout their retirement.

This is causing a crisis, warns Brendan McCarthy, head of retirement investing at Nuveen.

> "But at the same time that 401(k) plans were growing, we saw traditional pension plans start to disappear. And unfortunately, today pension plans are a rarity in corporate America, with only 12% of Americans having access to one. This has produced what is starting to be referred to as the 401(k) generation. And that is the first generation in the modern era that is predominantly without any form of guaranteed income other than their Social Security, which for most Americans is unfortunately not enough to cover their essential living needs in retirement."
>
> **Brendan McCarthy**
> Head of retirement investing at Nuveen

Societal shifts and legislation

Pensions have long been part of American lives, with some plans dating back to the Revolutionary War.[3] They provided a guaranteed amount of continual income throughout retirement. But things started to change when Congress passed the Revenue Act of 1978, which included Section 401(k), giving high-earning workers a tax-beneficial option to defer compensation from bonuses and stock options.[4] In 1981, the Internal Revenue Service (IRS) expanded use of the 401(k) to allow contributions from workers' paychecks.[5]

What's more, legislative reform, such as the 1974 Employee Retirement Income Security Act (ERISA) and the 2006 Pension Protection Act (PPA), sought to protect employees by holding employers more accountable for the health of their pension plans.[6] The PPA, for instance, required employers who were guilty of underfunding their pension plans to pay higher premiums.[7] Given the more onerous legislative requirements, corporations sought alternative offerings to pensions. Soon, the 401(k) became many corporate employers' plan of choice, as they opted to sunset their companies' defined benefit plans. Workers have had to assume more of the cost and risk relating to how their contributions were being invested, an added responsibility that not all workers are prepared to handle.

The rise of the 401(k) generation came just as other societal shifts impacted the workplace: macroeconomic factors, demographic changes and an increase in education levels, with more women entering the workforce.[8] The pandemic also redefined where and how many workers do their jobs and saw others working through supply-chain disruptions. Unionization is growing across several industries, and many workers have higher expectations for their benefits.[9]

"Benefits need to adapt to reflect this more modern workforce we are in today," Mr McCarthy explains. "We need solutions that solve the problems facing many industries, without adding complexity."

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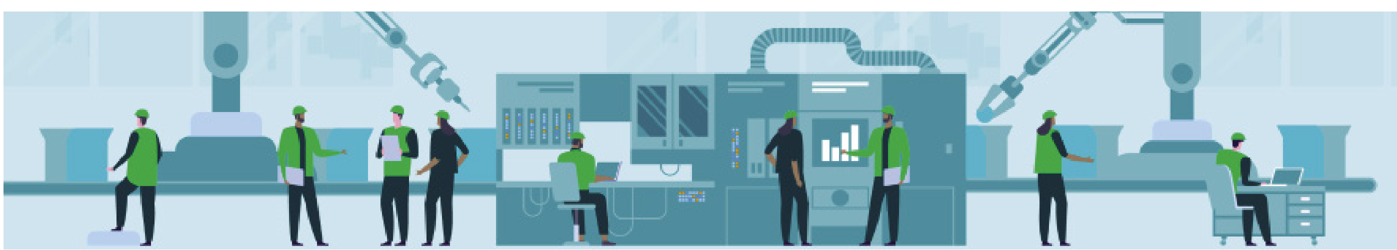
The impact on manufacturing workers

The shift away from pension plans has been especially strongly felt by the manufacturing sector, which is among the top five employers in the United States.[10]



"Every industry has been dealing with this. However, this is especially relevant to the manufacturing industry. This is a sector with historically high levels of defined benefit plans. Additionally, this is a sector that can involve a physical element to the labor requirements. And when I think of my dad, who worked in the service industry his entire career, although he loved his job, he seemed physically drained towards the end of his career, and was very much looking forward to that retirement day."

Brendan McCarthy
Head of retirement investing at Nuveen

Many manufacturing workers want those pension benefits back, as seen in the case of the automotive industry during the recent United Auto Workers (UAW) union strike. UAW reached a tentative deal with the Big Three automakers, but failed to bring back pensions for younger workers.[11]

Indeed, pensions today are a legacy business. Pension plans at the aerospace and security company Lockheed Martin, for example, were frozen and closed between 2016 and 2020. Employees are instead automatically opted into a 401(k) plan, in which Lockheed Martin matches an employee's 401(k) contributions up to a certain percentage of salary.

Paul Colonna
President and chief investment officer for
Lockheed Martin Investment Management

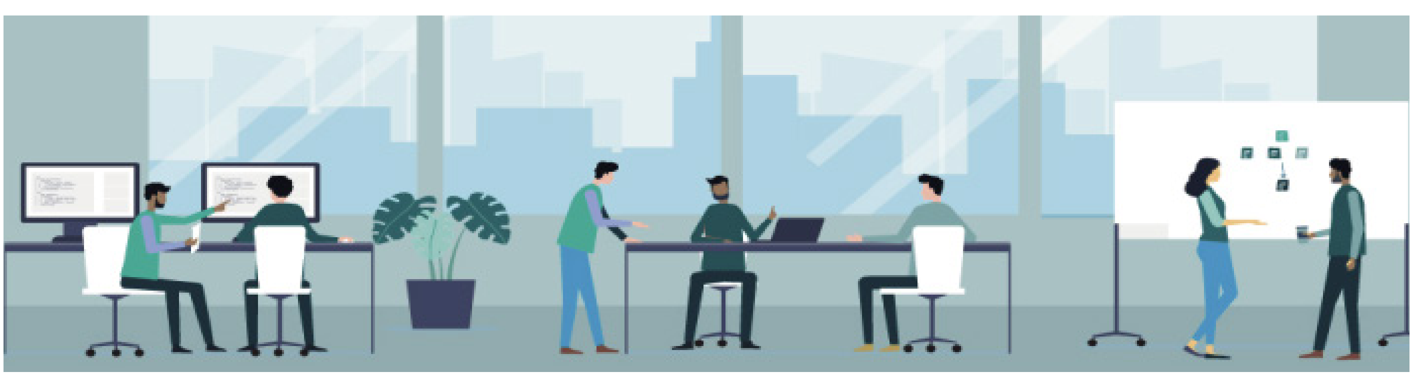
"We're making sure that employees don't get lost in this more self-serve world of the 401(k) plan. We stay connected with our population and make sure we're offering really thoughtful solutions to achieve their retirement goals, and we're here to partner with them throughout that entire journey."

"Our goal is making sure that employees understand and maximize the value of the match," says Paul Colonna, president and chief investment officer for Lockheed Martin Investment Management. "We have a large portion of our workforce close to or maximizing their matching benefits. We're making sure that employees don't get lost in this more self-serve world of the 401(k) plan. We stay connected with our population and make sure we're offering really thoughtful solutions to achieve their retirement goals, and we're here to partner with them throughout that entire journey."

Introducing lifetime income

One potentially helpful feature amid the changing retirement landscape is "lifetime income," offered by fixed annuities that companies can use to provide workers with a guaranteed paycheck for life. These products can be embedded into existing retirement plans, such as 401(k)s, to keep the portability and accumulation benefits that people like about those plans while also providing a guaranteed income stream in retirement.

Making solutions such as lifetime income more mainstream will require partnership among the retirement sector, the government and industries, including manufacturing. The ultimate goal should be to bring back the promise of the American Dream, which includes a stable, comfortable retirement for a lifetime of work.



> "We believe that every hard-working American has the right to a secure retirement. And nowhere is that more true than in the manufacturing industry. I mean, these are workers that work hard their entire career, they look forward to that retirement. And they should be able to, you know, if they've saved enough throughout that career, they should be able to feel comfortable that they will not run out of income in retirement. And it's incumbent upon us, you know, us here at Nuveen, it's incumbent upon the employers, the HR directors, the benefits directors, the CFOs. It's incumbent upon the consultants in our industry, and it's incumbent upon the record keepers. We all need to work together to try to ensure that these workers will have a secure income that they won't outlive."
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> **Brendan McCarthy**
> Head of retirement investing at Nuveen

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