

How in-plan annuities can increase participants' retirement readiness

As employer-provided retirement plans expand their offerings to meet the needs of growing and diverse workforces, participants are no longer simply looking for a tax-advantaged savings vehicle that becomes available at retirement. Instead, participants increasingly are seeking an income stream that will allow them to live comfortably throughout retirement while not outliving their savings.

Nearly three-in-four participants are interested in a solution that is allocated to guaranteed lifetime income as they near retirement.¹ This creates an opportunity for sponsors to enhance their offerings to meet this need, and in-plan annuities can be a big part of the solution. Thus, it is important for sponsors to help plan participants understand the benefits of these annuities—while also dispelling the misconceptions.



want a retirement plan that provides options designed to help generate income in retirement.³

What are in-plan annuities?

An in-plan annuity takes some of the accumulated assets from a 401(k) plan and transfers them to an investment vehicle that can be converted into a lifetime income stream at the point of retirement. This vehicle can be packaged into a target date-like structure, where the allocation to an annuity is built into the overall glidepath of the retirement plan.

There are various types of annuities that present several ways for participants to meet their objectives, from preserving liquidity to mitigating longevity risk.

COMPARING RETIREMENT INCOME OPTIONS²

EMPHASIZES LIQUIDITY			EMPHASIZES LONGEVITY RISK PROTECTION		
Systematic withdrawal	Managed payout funds	Guaranteed minimum withdrawal benefit (GMWB)	Deferred fixed annuity	Deferred income annuity	Qualified longevity annuity contract (QLAC)
Method of withdrawing funds from an investment account; payments are not guaranteed.	Professionally managed investments such as a mutual fund or collective investment trust (CIT), that provide regular income payments to investors; payments can fluctuate and aren't guaranteed.	Guarantees a specified withdrawal percentage from the participants' accumulated balance from an underlying investment portfolio. Once the total balance is depleted, the provider pays a guaranteed payout for life.	Provides guaranteed returns during accumulation and guaranteed lifetime income during retirement.	Provides guaranteed income at a future date; can be a variable or fixed annuity. Payment amounts from variable annuities are not guaranteed and will rise or fall based on investment performance.	A fixed annuity that provides income payments at a postponed future date, typically 5, 10 or 20+ years post-purchase, in exchange for a higher payout rate after 80 years of age.

Any guarantees are backed by the claims-paying ability of the issuing company.

What are the benefits of in-plan annuities?

In-plan annuities can be an efficient way for participants to access guaranteed income in retirement, particularly when they are packaged in a familiar target date fund structure. And, because these annuities are part of an employer-sponsored retirement plan and receive institutional pricing, they can offer significant cost savings over the retail annuities that are otherwise available to individual investors. In-plan annuities can also help manage some retirement-related risks participants face.

From the company's perspective, in-plan annuities may positively contribute to workforce management goals, as participants who have chosen a lifetime income benefit may be more confident in their savings and more likely to retire "on time."

Annuities can provide income to help pay for retirement expenses and manage some risks participants may face.

RISK: LIVING LONGER



Chance that one partner of a couple aged 65 will live to 95⁴

If the goal of a retirement plan is to have savings that lasts throughout retirement, an annuity is in line with that goal. With an in-plan annuity, participants and their spouse/partner have access to dependable income for life.



Individuals who depleted their balance within 5 years after taking a lump sum from their retirement plan⁵

RISK: MARKET FLUCTUATION



Drop in the stock market from 2008–2009⁶

There can be significant risk to withdrawing money in a down market, but an annuity can add stability to a portfolio during market fluctuations by providing guaranteed savings or income. An allocation to a fixed annuity is guaranteed to increase every day, protecting savings as retirement approaches. A variable annuity's income can rise or fall over time, and any increases can help counter inflation.

RISK: MANAGING INVESTMENTS AS WE AGE



May have dementia caused by Alzheimer's.⁷

This sobering statistic underscores the need to provide help to retirees as they age—particularly for something as important as their retirement investments. In-plan annuities are set up to deliver regular payments as long as a participant lives, typically with little to no management. This dependable monthly income can help ease participants' concerns of managing investments and withdrawals as they age.

Dispelling the myths about in-plan annuities

Despite their benefits and risk mitigation features, annuities are, at times, misjudged. Given the demand among participants and the opportunities for plan sponsors, it is important to separate myth from reality to fully promote the merits of annuity investing.

MYTH ✘	REALITY ✔
Annuities are much more expensive—due to high and hidden fees—than other options	Compared to traditional retail annuities that ramp up costs with added features, employer-provided in-plan annuities are engineered to be cost-effective and adaptable, offering a range of options for growth, income and diversification potential.
Exercising the option to receive lifetime income is limited to only at retirement	Some annuity products allow for multiple elections for lifetime income over time. For example, participants can annuitize a portion of their balance at retirement then wait several years to annuitize more after retirement.
Annuities are not competitive with other withdrawal options	Annuities are the only investment vehicle with a guaranteed stream of lifetime income, and they offer many attractive features and optionality. For example, annuitants can assign a spouse or partner to receive the income and can select a guaranteed payment period that continues payments to a beneficiary upon the annuitant's passing.
Annuities don't provide good payouts	There are many annuity options available, and many payout options offer flexibility in how to use them in an overall financial plan.
It's all or nothing with annuities: they require using retirement savings	A personalized plan can combine monthly income from annuities, Social Security benefits and other sources of retirement income. Income from partial annuitization can help cover essential expenses, allowing for discretionary spending from other sources of savings.
Annuities have a negative impact on estate value	Participants have multiple options when choosing lifetime income, which can include payout options for a joint annuitant and/or a selected beneficiary to provide for an estate benefit.

Contact us at retirement@nuveen.com or visit nuveen.com/lifetimeincome for more information.

Endnotes

1 TIAA 2022 Retirement Insights Survey.

2 This generic comparison represents only a sample of features typically included in the product types represented when used in the institutional retirement plan market and does not attempt to articulate all options that may be available to purchasers of these products.

3 PLANADVISER, "Retirement Income Evolution," July 13, 2022.

4 Based on TIAA dividend mortality tables as of 01 Jan 2023 with TIAA Traditional, a type of deferred fixed annuity like the TIAA Secure Income Account.

5 "Paycheck or Pot of Gold" Metlife, April 2022.

6 The Balance, "Stock Market Crash of 2008," November 2018.

7 Alzheimer's Disease Fact Sheet, www.nia.nih.gov, May 2023.

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