

The benefits of lifetime income

How can lifetime income ease workers' anxieties over retirement savings—and give employers an edge?



Retirement plans have long been a way for Americans to save for a secure future. But as life expectancy grows, so does uncertainty about how to afford life well into retirement. By 2060, life expectancy in the United States is expected to reach an all-time high of 85.6 years.¹

Brendan McCarthy
Head of retirement investing at Nuveen



Coupled with the loss of traditional pension plans, increased longevity means that many Americans are at risk of not being able to meet their essential living needs in retirement. To ease this burden, employers need to rethink their retirement plan offerings. They need solutions that offer long-term security for their workers.

This is where “lifetime income,” a solution that offers a pension-like guarantee in retirement, can help. There is a wide spectrum of retirement income strategies. But many employees are unaware of how lifetime income works and how simple it can be to set up, says Brendan McCarthy, head of retirement investing at Nuveen.

“I think the biggest challenges are really a general lack of awareness and maybe some historic confusion around these products. I think it’s important for employers and consultants today in that industry to understand that the solutions that are coming to market today are much different than, you know, maybe a retail annuity, or maybe some of the annuity solutions that were, tried to enter the market maybe 20 years ago. They’re much simpler. They tend to embed inside of an existing product. They’re lower-cost, and one of the key things is they’re portable, they’re very easily liquid at the participant level and can be moved and/or rolled over. And that you can still retain that annuity structure. So I think, you know, the biggest thing right now is just general awareness that these products are different than the ones that might have tried to come into the market years before and they’re very easily implemented into your 401(k) plan offering.”

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Protections for employees and employers

According to Mr McCarthy, lifetime income can be embedded into existing retirement plans such as 401(k)s, combining the flexibility of such plans with the guaranteed income of a pension.

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“In a 401(k) plan with lifetime income options built in, employees continue to save the same way,” Mr McCarthy points out. “But at retirement, they’ll have that option of converting a portion of those savings into something that provides income for life, a retirement paycheck. Even if a person lives to 120 years old, he or she will not run out of income to cover essential living needs.”

In addition to the benefits lifetime income offers employees, employers also have greater protection thanks to the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019, which provides sponsors with a “safe harbor” that shields them from liabilities.² This means that companies have a greater incentive to offer these low-cost annuities to their employees.

Recruiting edge

As global competition across industries intensifies, companies are putting more emphasis on workplace benefits such as flexible or hybrid schedules, enhanced parental/caregiver leave, and advanced diversity, equity and inclusion (DEI) programs.³ Retirement benefits are also key to attracting and retaining talent. Lifetime income can provide security for workers worried about retirement, while offering a benefit to employers, who do not have to worry about pension liabilities. Mr McCarthy says this provides a win-win situation for employers, who need to attract and retain key talent, and for workers, who want to plan for a stable, secure retirement.

Retirement benefits are at the heart of any robust employee benefits package. For aerospace and security company Lockheed Martin, creating an ideal benefits package is about providing quality over quantity. “We have a strategy of simplification to drive employees to holistic solutions like target date funds, as opposed to saying, ‘Here’s 100 options, go construct a diversified portfolio that will get you to retirement,’ ” says Paul Colonna, president and chief investment officer for Lockheed Martin Investment Management. “We’re being prescriptive around how we think an employee experience should be and helping them with that.”

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Although workers make the final decision on how they fund their 401(k)s, Lockheed Martin treats the saving for retirement process as a partnership that helps employees manage thinking through scenarios such as diversifying asset classes, lowering volatility, and making sure to have growth assets early in their career and income-producing assets later. Research indicates that the less anxiety employees feel about their retirement journey, the more productive and focused they are at their core job, Mr Colonna says. “While they’re here, we’re saying, ‘You guys focus on what you’re doing day-to-day and we’ll focus on your retirement outcomes.’ ”

Lockheed Martin does provide an option for guaranteed income, but so far there is not a high level of participation. Mr Colonna says there is a lot of nuance around current annuities and guaranteed income plans, especially when it comes to pricing, which can be hard for participants to understand.

A fairer workplace

Yet, as new types of guaranteed income offerings hit the market, there’s potential that they will be simpler and easier to understand for employees to feel more comfortable opting into them. Implementing lifetime income plans could also help reduce inequities in the workplace and in retirement. While 401(k) plans can be beneficial, they are unevenly distributed. Nearly half of private-sector workers (rising to 53% of African Americans and 64% of Hispanics) lack retirement plans.⁴



“Fostering manufacturing diversity must not be limited to recruiting diverse talent and mandating organization-wide trainings. Organizations must also focus on building an inclusive culture and actively dismantling oppressive systems. This will foster growth opportunities and pathways to careers, and embrace these values at every level of the organization. Organizations can show how serious they take DEI by offering lifetime income products to help close the retirement gap and help solve America’s retirement crisis.”

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Head of retirement investing at Nuveen

Women retire with 30% less income than men.⁵ Households with lower education levels also generally have less savings for retirement.⁶ These disparities continue across age groups. Of the 76m baby boomers reaching retirement age, about half lack adequate retirement plans.⁷ And, unlike previous generations, younger workers typically do not receive a pension at retirement. Lifetime income can be one tool among many others to improve DEI efforts and level the playing field in an organization.

“Organizations cannot have a robust talent strategy without a robust DEI strategy,” Mr McCarthy says.

During a time of great change in the workplace and shifting demographics that mean longer lives, lifetime income offers a path to protecting both employees and employers, and addressing inequalities at work and beyond.

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References

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