

More employers are adopting lifetime income solutions for DC retirement plans

Willis Towers Watson survey finds employer interest in annuities and other insurance-backed products may pick up steam

ARLINGTON, VA, September 4, 2019 — Amid heightened concern over an aging workforce, increasing longevity and the financial health of their workers, a growing number of U.S. employers are adding lifetime income solutions to their defined contribution (DC) retirement plans, according to the 2019 Lifetime Income Solutions Survey by Willis Towers Watson (NASDAQ: WLTW), a leading global advisory, broking and solutions company.

This year's survey found 30% of employers currently offer one or more lifetime income solutions. That's an increase from 23% in 2016. An additional 60% of sponsors have not adopted lifetime income solutions but are considering them, or would consider them, in the future. Lifetime income solutions include education and planning tools to help participants determine how to spend down accumulated savings during retirement as well as in-plan and out-of-plan options that create steady streams of income from DC retirement plans.

"Employer concern about their employees being financially ready for retirement has never been greater," said Dana Hildebrandt, director of Investments, Willis Towers Watson. "And while many employers are making headway to help workers save more, their efforts to transform individual savings into a consistent flow of income that will last a lifetime remain a work in progress. The increased adoption of lifetime income solutions is an exciting step in the right direction."

When asked why they either adopted or are currently considering adopting lifetime income solutions, three in four respondents (74%) cited concern over an aging workforce and increasing longevity, a sharp increase from 45% in 2016. A similar percentage (74%) cited their focus on retirement readiness, while almost half (49%) cited a shift from a defined benefit plan to a DC plan as their primary retirement plan for adopting a lifetime income solution.

Among those that offer lifetime income solutions, the most prevalent options offered are systematic withdrawals during retirement (88%), lifetime education and planning tools (70%), and in-plan managed account services (44%). Less common are the solutions designed to help participants develop a steady flow of income in retirement, typically involving both an investment and annuity component. Only 17% offer an in-plan asset allocation option with a guaranteed minimum withdrawal or annuity component, while 15% offer out-of-plan annuities at the time of retirement. In-plan deferred annuity investment options are also offered by 15% of these employers.

"While it's encouraging more employers are embracing various lifetime income solutions, it's disappointing relatively few have adopted what the industry sees as more effective income-generating solutions, such as annuities and other insurance-backed products.

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However, employer interest in these options may pick up steam as they better understand the value and associated benefits,” said Hildebrandt.

Indeed, more than four in 10 respondents (41%) that currently offer or are considering offering a lifetime income solution are considering adding an in-plan asset allocation option with a guaranteed minimum withdrawal or annuity component in 2021 or later, while 31% are considering adding an in-plan deferred annuity investment option. About one in four (23%) are considering adopting out-of-plan annuities at the time of retirement.

Interestingly, there was a significant shift in why some plan sponsors are not currently considering lifetime income solutions. More than two-thirds (69%) cited administrative complexities as a barrier to adoption, an increase from 53% in 2016. Conversely, the percentage of employers who cited fiduciary risk as a barrier fell from 81% in 2016 to 62% this year.

“Despite these barriers, we expect more plan sponsors will evaluate the various lifetime income solutions in the marketplace as they continue to help prepare their employees for a financially secure retirement. Employers will need to monitor retirement legislative and regulatory developments around safe harbors and fiduciary liability, which could provide some added level of comfort when considering a lifetime income solution for their participants,” said Hildebrandt.

About the Lifetime Income Solutions Survey

The Willis Towers Watson Lifetime Income Solutions Survey was conducted in May and June 2019. Respondents included HR and finance executives at 164 large and midsize U.S. companies representing a wide range of industries.

About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas — the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.

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