**Retirement Trends to Watch in 2023**

As larger numbers of Americans near retirement age, a renewed focus on retirement income is expected.

*Reported by*

*MICHELLE RICHTER*

As 2022 nears its close, many of us in the retirement income industry are planning for an eventful 2023.

SECURE 2.0, a proposed package of retirement security legislation that would add enhancements to its sibling bill — the Setting Every Community Up for Retirement Enhancement Act of 2019 — enjoys wide bipartisan support; as such, many industry observers predict it may pass, just as its sibling did, attached to a year-end spending bill.

This legislative focus on enhancing retirement income access for more Americans could not come at a more critical juncture: Facing equity markets plagued by volatility, an interest-rate environment increasing rapidly from all-time lows and what some perceive as runaway inflation, today’s soon-to-be retiree faces unprecedented challenge in securing protected income that will last as long as they may.

We all should be concerned about the challenges this population faces, since 2024 is the year for Peak65: the year in which, according to the Alliance for Lifetime Income, the largest number of Americans ever will turn 65, a traditional retirement age.

Some retirement industry trends responsive to the above that have been developing through 2022, and that we can expect to continue into 2023, include:

1. **Lower retirement savings rates than the prior year, driven by households coping with surprise high inflation**. According to a study recently published by Allianz Life, 54% of Americans report either reducing or fully discontinuing retirement saving because of the impact of suddenly spiking inflation on their daily household expenses. This suggests lower industry inflows than in years prior. Industry observers hope for a taming of inflation in 2023 that allows Americans to resume their normal savings habits, and for provisions within SECURE 2.0 to enable more access to qualified savings plans for Americans now lacking this access.
2. **Increased plan sponsor interest in retirement income solutions, due to the desire to keep participants in plan through retirement.**Retirement income industry optimists had entered 2020 with the expectation that SECURE’s passage would quickly pave the way for consideration of Guaranteed Retirement Income Contracts (in-plan annuities). Then in March 2020 came COVID-19, and so ensued a several-years-long disruption to normal as we knew it. As we have emerged into our new normal, SECURE’s impact is just now being felt by sponsors and their advisers. Interest in evaluating income derived from plan is rising within the plan fiduciary community. This trend is driven not only by SECURE’s passage, but by administrative economics. According to PIMCO’s 2022 US DC Consulting Survey, 76% of plan sponsors advised by surveyed consultants now prefer to keep assets in plan through retirement, a material trend reversal from just a few years ago. In order to successfully retain assets through, not merely to, retirement, plans must accommodate income-producing products and services for retired participants.
3. **Even more new products to enter the market.**The pace of product development in the DC insured solution space has been frenetic since SECURE’s passage. Expect this trend to continue. Recordkeepers, middleware providers, other service providers and insurance companies have been making material advancements towards benefit portability, increasing their confidence in being able to deliver plan-and-consumer-friendly products and services to this community. Many providers intend to launch their second (in some cases, even third!) post-SECURE income product iteration in 2023 as industry participants test the market for which product and service types might ultimately prove most appealing with sponsors and participants.
4. **The launch of tools, services and curricula enabling fiduciaries to compare income solutions.**American Century has recently launched an annuity comparative tool in Beta version that can be used by advisers/consultants who have access to outside data sources to supply inputs. Broadridge Fi360, which has launched a consortium of retirement income providers to establish an industry-agreed comparative framework, is another likely candidate to launch a comparative tool. It is expected that NAPA will soon launch a retirement income certificate program for plan fiduciaries. Don Trone’s Center for Board Certified Fiduciaries has already launched an annuity-oriented certification program for plan fiduciaries. These trends are very important for advisers and consultants to watch, in part because this author has heard from several fiduciary advocates that in the not-too-distant future, they intend to communicate their perspective that non-consideration of income solutions could be viewed as constituting a fiduciary breach. As a protective measure against this possibility, this author recommends that in 2023, plan fiduciaries consider two actions:
	1. Consider documenting having made a prudent decision to either explore retirement income this year or to postpone such an evaluation to the year following, and document why this decision was made.
	2. Consider documenting the method by which SECURE-mandated lifetime income illustrations are made on participant statements. Will the safe harbor method be used? If not, how does the plan prefer to illustrate this calculation? If yes, will the plan provide access to a marketplace where the form of immediate annuity that underlies the calculation in the safe harbor is made available to participants? If not, how does the plan want to address questions already coming in from participants responding to 2022 statements regarding how they lock in this number that is illustrated on their statement at least once annually?
5. **Increasing demand for plan-derived income to be driven by near-retiree plan participants.**Driven not only by asset-to-income translation appearing on their (typically Q2) statement, participant interest in lifetime income is growing. A recent Schroders survey reveals that when asked what they seek in a retirement income option, the most popular reply from DC participants is lifetime income, desired by 52% of those surveyed. Partial annuitization (or partial account investment into a deferred annuity with lifetime withdrawal benefits), especially for use in guaranteeing coverage of basic expenses in retirement, frequently polls as an appealing investment approach amongst participants.

For all the reasons cited above, 2023 can be expected to be a year in which plan sponsors, advisers/consultants and participants experience a renewed focus on retirement income. With more product, service and educational resources becoming available in our space, retirement income prevalence in DC is expected to increase materially over the next several years. All members of our community would be well-advised to get up to speed on this market soon, as it is advancing rapidly, and none of us benefits from being left behind by the after-effects of a tsunami.

*Michelle Richter is the executive director of the Institutional Retirement Income Council.*

*This feature is to provide general information only, does not constitute legal or tax advice and cannot be used or substituted for legal or tax advice. Any opinions of the author do not necessarily reflect the stance of Institutional Shareholder Services Inc. (ISS) or its affiliates.*