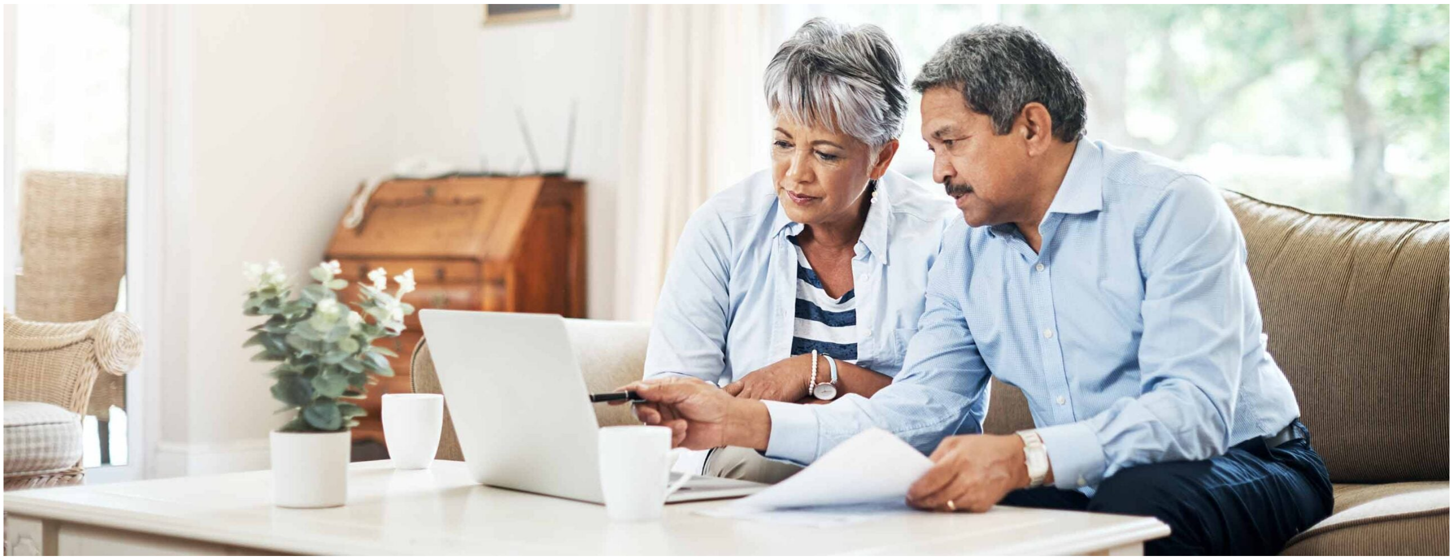

# Personalizing Retirement Income for Plan Participants

Twenty years ago, the role of the defined contribution plan sponsor was to help participants accumulate as much money as possible in their retirement plan. The participant's role was to invest appropriately and be patient. Plan sponsors kept participants focused on maximum accumulation, while working behind the scenes to build a sound retirement plan that the average participant could rely on. Today, that's no longer the case.

"It's not just about accumulation or the typical participant anymore," says Jennifer Doss, senior director of the defined contribution practice at CAPTRUST. "It's about helping each individual plan participant with a decumulation strategy that meets their unique needs, so people are ready and able to draw a steady stream of income from their accumulated savings. It's about personalization."

Accordingly, Doss says her team has seen a swell in questions about how to leverage tools and resources related to the personalization of retirement income planning, including questions about retirement income services and products offered at many recordkeepers and asset managers.

Why is this subject top of mind for plan sponsors? "Participant trends are a big factor," says Michael Sasso, principal and financial advisor on CAPTRUST's institutional retirement plan team. "But also, recent technological advancements and innovative product development are starting to drive interest."

### Retirement Industry Trends

With most of the baby-boomer generation having already met the traditional retirement age of 65, the defined contribution industry continues to see net outflows in participant numbers and assets. Yet a higher percentage of plan participants are staying in plans after retirement.

In fact, the percentage of retiree participants has more than doubled in recent years. According to J.P. Morgan's 2021 "Retirement by the Numbers," the number of participants remaining in their DC plans three years after retirement was more than two times the same data set from only 10 years earlier—42 percent in 2021 versus 20 percent in 2009. These numbers show that more plan participants are using their retirement plans as investment vehicles after leaving the workforce.

"From the participants' point of view, fiduciary oversight from the plan sponsor is a benefit to staying in plan after retirement," says Sasso. "Plus, you'll likely see lower investment management costs than what you are likely to acquire on your own, thanks to the buying power of the aggregate plan assets."

At the same time participants are realizing the benefits of staying in plan post-retirement, employers are realizing how retiree participants can benefit the plan itself. "Plan sponsors are seeing better scale and better pricing power with vendors and investment managers when retirees keep their assets in the plan," says Doss. "Retiree participants tend to have larger balances so preserving those amounts for longer benefits everyone."

**Why Personalize**

Until recently, plan sponsors needed to focus on providing the best possible plan for the highest number of their participants. "They were putting the foundational pieces in place for the future of the industry," says Doss, "but those building blocks were generic by necessity. Mass personalization just wasn't possible."

Now, technological advancements have improved the industry's ability to customize each participant's retirement experience. Those advancements have opened the door for plan sponsors to create holistic retirement income programs. "A few examples," says Sasso, "are managed accounts that can now consider nine or more data points for defaulted participants—versus the prior one to three—plus advanced account aggregation abilities and withdrawal programs for people in the decumulation phase." He also points to better retirement planning and projection tools that are now commonplace across the industry.

Another important trend: More employees now look to their employers for financial wellness and education. They want help both saving and investing well. "Plan sponsors are increasingly interested in learning what they can do to help participants customize their plans and turn accumulated savings into a somewhat predictable stream of retirement income," says Sasso.

"As an industry, our mantra has historically been 'get employees in the plan, get them saving enough, and get them invested well,'" says Doss. "Autoenrollment and qualified default investment alternatives (QDIAs) helped us make huge strides in those areas, but we're still not doing enough for retirement income," she says.

As behavioral economist Dr. Shlomo Benartzi explains on CAPTRUST's "Revamping Retirement" podcast, "Right now, a lot of the tools and the guidance are really geared toward the two percent in [retirement plans] that have million plus." A vocal advocate for automatic features like auto-enrollment, auto-escalation, and auto-invest QDIAs, still, Benartzi says, "I don't think auto features [are] the right solution for decumulation. What's the difference? I think the difference is that, over our lifespan, we do accumulate assets, but we also accumulate differences, which requires more personalization."

**Solutions and Tools**

The best thing plan sponsors can do to support a personalized retirement income planning experience is pay attention to participants' evolving needs. Ask questions, do research, and respond with plan features that meet those needs as they align with your overall employee benefits strategy. "Decumulation planning has to be personalized in order to be effective," says Sasso, "because retirement income is too individualized to solve through product alone."

His advice to plan sponsors: "Start by defining the goals and objectives for your plans, then work backwards into solutions." In other words, start with the end in mind. Here are four solutions and tools plan sponsors should consider.

**1. Education and Advice**

Participants want consistent access to independent third-party advice, and financial wellness support. To meet that need, plan sponsors should tap the expertise of financial advisors, and take advantage of digital features. "Participants need help planning and investing to meet their unique goals for retirement," says Sasso. "They need education, they need access to planning tools, and they need advice from independent experts who are genuinely invested in their success."

Some topics plan sponsors might explore are budgeting in retirement, charitable giving, when and how to take Social Security, the benefits of staying in the plan after retirement, and how much to withdraw to meet specific goals. Plan sponsors should consider offering access to one-on-one guidance, small group sessions, or organization-wide education, depending on the needs of their business.

**2. Withdrawal Options**

It is increasingly rare for plan sponsors to offer only one lump-sum withdrawal option to participants. Instead, systematic withdrawals have become a standard offering from most recordkeepers. Digital tools from these recordkeepers allow participants to explore different withdrawal timelines and payment options, then implement and change their selections over time. Having options around how and when they can withdraw their assets encourages plan participants to stay in plan after retirement.

**3. Guaranteed Options**

Traditionally, conversations about retirement income have focused on annuities, and of course, annuities can be an important resource for participants who are in or nearing retirement. Especially for retirees, they provide valuable protection against market volatility. However, they can be costly and complex to implement and understand.

Some of the newer guaranteed investment products include the use of traditional in-plan annuities but offer more alternatives for customization around their use. They can now integrate with existing asset allocation programs or be offered as standalone options in a plan.

“If you learn that your participants are looking for pension-like income guarantees, you might want to consider these newer annuity options,” says Sasso. “They are currently the only retirement income solution that can meet that goal.”

Another option is out-of-plan annuity placement services, which allow individuals to withdraw and convert a portion of their retirement account balance into an annuity, while still providing access to institutional pricing. These out-of-plan annuity placement services can be a good option for plan sponsors that don’t want to offer annuities in-plan but want to give guaranteed access to participants.

**4. Non-Guaranteed Options**

Non-guaranteed investment options also have emerged to help plan participants create a steady stream of retirement income or achieve their income-focused objectives. This list includes target-date funds, income- or yield-focused strategies, and managed payout funds. Several fund companies also offer income-mandated strategies that focus on producing a specific annual yield.

One important piece to note is that these investment options can be used in combination with systematic withdrawals to further customize the participant investment experience while also establishing a reliable monthly income. “If it’s done well, it should feel like getting a monthly paycheck,” says Sasso.

**5. Managed Accounts**

Managed accounts are another useful tool for plan sponsors that want to provide a personalized decumulation experience, especially managed accounts that include individualized withdrawal advice and Social Security guidance. Although managed accounts were historically used only by high-net-worth individuals, technological advancements have democratized their use.

Today, the typical managed account will evaluate around a dozen data points for an individual participant and create a personalized portfolio designed to meet each person's unique needs and desires regarding retirement income. These accounts can incorporate many of the tools described above, like systematic withdrawal services and in-plan guaranteed investment options. Although they should not be considered a silver bullet for personalization, when implemented as part of a retirement income program that includes one-on-one advice and financial wellness services, managed accounts can be an effective tool for plan sponsors.

**Getting Started**

Retirement income planning should be a holistic service, not a single product offering. To stay responsive to participant trends and take advantage of technological advancements, plan sponsors should consider changes to their DC plans to improve the after-retirement experience for participants and help ensure a smooth transition from accumulation to decumulation, as employees become retiree participants.

"Tools alone won't solve the retirement income problem," says Doss. "The key is understanding that tools must be accompanied by solutions and advice about how to use the tools. Also, not every participant will need or want to use the same tools, which is why a holistic approach to retirement income makes sense for plan sponsors."

"To get started," Doss says, "consult with your plan advisor and recordkeeper; these key partners can help you figure out which options are available and right for your participants and your unique organization."

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