

## Employees want paychecks for life: Pros and cons of guaranteed lifetime income

Annuities and similar products may help address retirement readiness in an aging workforce



People are living longer, which means they may need their retirement savings to last decades. As a result, nearly half (48%) of participants are concerned about outliving their retirement savings.<sup>1</sup> Many Americans don't know how to transform their savings into retirement income.

Guaranteed income offerings can help ease this concern by providing consistent, predictable payments for life. Research shows a majority of 401(k) participants (75%) are “very” or “somewhat” interested in putting some or all of their savings into a guaranteed income option.

Employers are on board, too – 4 in 5 believe employees want guaranteed income products in their retirement plans.<sup>1</sup> However, with new retirement strategies comes opportunities, uncertainty and risks. Here are some of the benefits and risks of in-plan guaranteed income.<sup>2</sup>

### What is guaranteed lifetime income?

Think of it as a “paycheck for life.” Essentially, it is a retirement income strategy guaranteed every month once a 401(k) participant reaches retirement (generally speaking at 65 years old). These investment solutions are gaining in popularity because they are easy for employees to understand, which helps instill more confidence in their retirement outlook.

### Retirement income hurdles

For decades, workplace plans have helped workers save, invest and accumulate as much as possible. Yet, few plans offered a decumulation strategy to provide a steady, predictable flow of retirement income.

Guaranteed income solutions aim to solve three primary participant concerns:

1. **Running out of money:** The average American retiree could potentially outlive their savings by nearly 10 years.<sup>3</sup> Guaranteed income products help address this risk by delivering a steady, predictable lifetime income stream.
2. **Reducing or eliminating early withdrawals:** Taxes and penalties alone may not discourage participants from tapping into their retirement savings early. Guaranteed income products may be a deterrent, as pre-retirement withdrawals will notably reduce retirement income.
3. **Lacking flexibility:** Guaranteed income options can be tailored to an individual's needs, from the type of product to the way they receive payments, who is covered and for how long.

## Key benefits and risks

As with any investment solution that has various pros and cons, guaranteed lifetime income is no different.

### *Advantages include:*

- Potential for increased retirement confidence because participants can more readily project their anticipated retirement income which can help them retire on time
- Enhancing motivation and desire to save because participants will know their real monthly payouts, which may prompt them to save more proactively to reach their goals
- It could help reduce employer healthcare costs since older employees may retire earlier and, thus, exit the health insurance plan
- This strategy may improve your company's competitiveness, boosting recruiting and retention

### *Disadvantages include:*

- Each guaranteed income contract is different and the terms need to be clearly understood
- Contracts may not be ported (moved from one employer to the next)
- Participants must elect guaranteed income far in advance of retirement; this decision typically cannot be reversed
- Payouts may end when the participant dies
- Participants may incur additional costs

## Your fiduciary role

The SECURE Act and pending SECURE Act 2.0 were designed to help Americans save for retirement; and while the law and pending update seek to improve our retirement system, it can be hard to decode.

To boil it down, selecting a guaranteed income provider is still considered a fiduciary duty, so this should be done with care and diligence. Contact us for support.

## Lifetime income illustrations

Another SECURE Act requirement goes into effect this year; lifetime income illustrations will begin appearing on participant statements. These projections may motivate your employees to save, or they could instill a sense of dread if the illustration paints a bleak picture. Either way, this may prompt some employees to knock on your door and ask questions about the company's retirement plan.

Our consultants are skilled at helping public and private organizations better understand their fiduciary responsibilities. Contact **Stu Herskowitz** at **860.856.2071** or [sherskowitz@hhconsultants.com](mailto:sherskowitz@hhconsultants.com) to start a conversation.

<sup>1</sup> Nationwide Retirement Institute, "[2021 In-Plan Lifetime Income survey](#)" September 2021

<sup>2</sup> Employee Benefit Research Institute, "[2021 Retirement Confidence Survey](#)" June 2021

<sup>3</sup> World Economic Forum, "[Investing in \(and for\) Our Future](#)" June 2019

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