

EXECUTIVE BRIEF

Closing the guarantee gap

The retirement security challenge: The guarantee gap

The shift from defined benefit pensions to defined contribution plans has created a significant “guarantee gap” in American retirement security. While defined contribution (DC) plans like 401(k)s have succeeded in helping workers save for retirement, they fall short in helping workers plan for income throughout retirement, leaving workers on their own to navigate complex strategies for making their savings last.

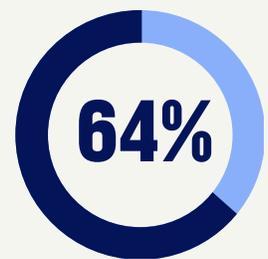
As Nobel Laureate William Sharpe once observed, retirement income planning is “the nastiest, hardest problem in finance.” If it’s a challenge for an economist like Sharpe, imagine the burden on millions of Americans who receive little or no help in managing their savings in retirement.

This challenge has become increasingly important as over 30 million Baby Boomers are now reaching retirement age, expecting to live 30+ years in retirement, far longer than the average expected 20 years when DC plans were first instituted. Meanwhile, Social Security provides only 40% of pre-retirement income on average and, absent further reform, faces projected benefit cuts as early as 2033, potentially reducing all retirees’ guaranteed lifetime income. The projected benefit cuts will result in an increase in the percentage of retirees at risk for a decline in their standard of living.



Social Security projects
benefit cuts as early as 2033.

The implications are substantial: nearly two-thirds (64%) of Americans worry more about running out of money than death, and failure to protect against outliving retirement savings is a top financial regret of more than one-third of retirees. The current environment presents an urgent need for action, as the largest wave of retirements in American history coincides with Social Security’s financial challenges that could leave millions without adequate guaranteed lifetime income.



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The solution

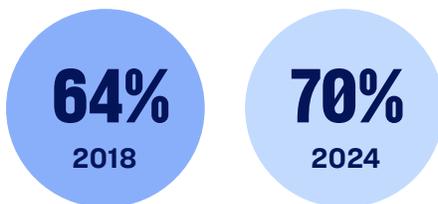
To close the guarantee gap, DC plans must be transformed from their primary focus on accumulating retirement savings to a comprehensive retirement security focus in which workers can plan to make their savings last throughout their lives in retirement. This transformation can only be accomplished by additional DC plan reforms that provide workers the same degree of help in planning for income throughout retirement that they currently receive in seamlessly saving for retirement.

Chief among the needed reforms is encouraging DC plans to provide a menu of qualified payout options (Q-PONs) that could include guaranteed lifetime income, systematic withdrawals, and managed payout options. In addition, more can be done to encourage the offering of guaranteed products in the default investments that retirement plans offer. Finally, DC plans should be encouraged to provide all workers the option to invest in protected, guaranteed lifetime income solutions for all or some of their account balances. These and other essential reforms are further described below under the heading *Critical policy priorities going forward*.

Recent legislative accomplishments

Breakthrough reforms for annuities in DC plans

Notable progress has been made through the SECURE Act and SECURE 2.0 Act in addressing barriers to guaranteed lifetime income solutions and expanding DC plan access. These important reforms have increased DC plan access by approximately 10% since 2018, with auto-enrollment driving participation rates up to 95%.



Reforms have increased
DC plan access.

The most significant reforms for annuities in DC plans from these new laws include strengthening the regulatory safe harbor available to fiduciaries in selecting an annuity provider, which addresses liability concerns and removes a key barrier to offering annuities in DC plans. The legislation also required guaranteed lifetime income illustrations of participant account balances, showing the monthly income they would receive if their savings were paid out as an annuity at retirement. This helps workers better understand the value of their savings, their retirement readiness, and longevity risk, addressing the widespread problem of longevity illiteracy where only 12% of adults demonstrate strong understanding of life expectancy planning.

Additional major reforms include enhancements to Qualified Longevity Annuity Contracts (QLACs), elimination of tax disincentives for partial annuitization and portability of in-plan annuities through IRA rollovers to preserve income guarantees.

Expanded access and savings opportunities

Important access and savings expansions include permitting increased deferral rates for workers automatically enrolled in DC plans and mandatory automatic enrollment in new plans and automatic escalation in deferral rates. The legislation also provided eligibility for long-term part-time workers who work at least 500 hours annually for two consecutive years, recognizing the changing nature of work arrangements.

The reforms also addressed the gap in smaller employers' offering retirement plans to their workers due to resource constraints and liability concerns through enhanced tax credits covering up to 100% of start-up costs, and codification of Multiple Employer Plans (MEPs), Pooled Employer Plans (PEPs), and Group of Plans arrangements in which employers can band together to offer cost-effective retirement benefits.

Critical policy priorities going forward

While the SECURE Act and SECURE 2.0 Act have addressed significant barriers to guaranteed income solutions in DC plans, as well as to access to and increased savings in DC plans, the job is not yet done. The following section provides some recommended reforms, many of which have been introduced in this and prior congresses:

Essential reforms for guaranteed income solutions

Despite recent progress, more can be done to address the lack of income solutions in retirement plans. One of the most essential reforms would be to encourage DC plan sponsors to provide participants a menu of income solutions at retirement. These qualified payout options (Q-PONs) could include guaranteed lifetime income, systematic withdrawals, and managed payout options, just to name a few.

This would ensure that workers have access to the tools they need to convert their savings into sustainable retirement income, addressing the current system where most workers simply receive a lump sum and must navigate complex retail solutions on their own.

Requiring DC plans to provide all workers the option to invest in protected, guaranteed lifetime income solutions will help those workers build larger balances and generate income to sustain them during their retirement years.

Expanding qualified default investment alternatives ("QDIAs") to include various forms of annuities would make guaranteed income solutions accessible to workers who might not otherwise consider them. Research shows that defaults have substantial power in shaping retirement outcomes, and this reform would harness that power to improve retirement security.

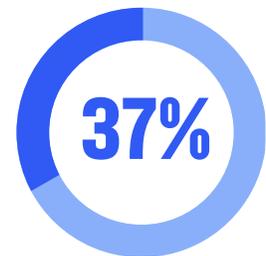
Different workers have different risk tolerances and retirement goals, and a one-size-fits-all approach to guaranteed income solutions fails to serve the full spectrum of American workers, so we should also look at ways to expand access to other types of lifetime income products (e.g., QLACs and variable annuities).

Enabling in-service rollovers for workers aged 50 and older would permit those nearing retirement to begin guaranteed income planning even when their current plans lack annuity options, providing a bridge solution while employers consider adding these features to their plans.

Access expansion and workforce evolution

Extending access to collective investment trusts (CITs) in 403(b) plans would allow millions of public sector and non-profit employees to have access to the same investment options as those in the for-profit 401(k) space. CITs also provide a unique opportunity to embed lifetime income products into target date funds. While the SECURE 2.0 Act made necessary changes to the Internal Revenue Code to eliminate the disparity in treatment for 403(b) plan participants, amendments to federal securities law are still required to complete the process and provide these workers with the same cost-effective investment options available to private sector employees.

Adults rely on gig work as primary income but lack retirement benefits.



Further increasing workers' access to DC plans is critically important, particularly by requiring all but the smallest employers to maintain retirement plans, while incorporating guaranteed income solutions from the outset. Enabling gig worker participation in PEPs would address the reality that 37% of adults rely on gig work as primary income but lack access to workplace retirement benefits. Technology and desire for autonomy and flexibility have driven the continued rise in the gig workforce, yet these workers remain largely excluded from the retirement security system.

Education and incentive reforms

Important education and incentive reforms include requiring DC plans to provide retirement income education covering life expectancy at retirement, financial risks, and Social Security optimization. Longevity literacy is important to making sound financial retirement planning decisions. Research shows providing retirees with objective information about their longevity increases their regret about not buying lifetime income by 42% overall; thus demonstrating the value of education in improving retirement decision-making.

The demand for guaranteed lifetime income and recommended reforms' implementation considerations

Strong market demand for guaranteed income

Worker and employer interest in guaranteed lifetime income solutions demonstrates strong market demand for these reforms.

Nearly 70% of workers express interest in in-plan annuity options, preferring to make smaller contributions to a guaranteed lifetime income product over time rather than large lump-sum purchases at retirement.

This preference aligns well with the structure of DC plans and the payroll deduction system that has proven so successful for retirement savings. Younger participants, particularly those ages 40–49, are especially interested in this option, recognizing the value of starting guaranteed income planning early in their careers.

 **70%** of workers express interest in in-plan annuity options.

Employers share this interest, with 72% expressing interest in target date funds with guaranteed lifetime income, and 40% of plan sponsors actively considering adding annuities to their DC plans.

Employers are increasingly interested in retaining retiring workers' savings in the DC plan after retirement as a way of maintaining pricing efficiencies through economies of scale, and offering annuities through the DC plan serves this interest as workers are more likely to leave their funds in plan if offered favorable investment options.

Reason for strong market demand: Protection against financial risks in retirement

Annuities address seven important retirement risks that threaten financial security:

1. Outliving savings
2. Over-saving due to uncertainty about longevity
3. Expensive medical and long-term care costs
4. Market volatility and interest rate risk
5. Financial fraud targeting older adults
6. Cognitive decline affecting financial management
7. Social Security inadequacy

Nearly half of retirees (46%) hesitate to spend their savings for fear of running out of money in retirement, while guaranteed lifetime income offers a "license to spend," making it easier to enjoy retirement. Almost one-half (48%) of retirees are concerned about making complicated financial decisions as they get older due to cognitive decline, and guaranteed monthly payments alleviate many budgeting mistakes. These comprehensive protections explain why 93% of annuity owners report feeling secure about their financial future, compared to widespread anxiety among retirees without guaranteed income. Retail annuity owners cite achieving peace of mind in retirement (88%), generating retirement income (81%), and protection against poor investment performance and inflation (74%) as primary motivations for their annuity purchases.

93%

of annuity owners report feeling **secure about their financial future.**

Implementation timeline considerations

The need to implement the recommended reforms to close the guarantee gap is heightened by the convergence of increasing life expectancy, peak Baby Boomer retirements, and the need to supplement Social Security payments.

These recommended reforms will transform DC plans from savings-focused vehicles into a comprehensive retirement security system in which workers can plan to make their savings last throughout their lives in retirement.

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About TIAA

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1 As of June 3, 2024. Based on data in PLANSPONSOR's 2024 DC Recordkeeping Survey, #1 by total 403(b) assets and #1 by 403(b) ERISA plans.

2 As of December 31, 2024, TIAA paid out \$5.9B in total annuity income. This figure represents all annuity income, including guaranteed and additional amounts, for all of TIAA's annuity products.

3 As of June 30, 2025, assets under management across Nuveen Investments affiliates and TIAA investment management teams are \$1,441 billion.

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