RETIREMENT INCOME
RESEARCH BRIEF

Income is the new outcome

The collective state of retirement income after three decades of research

TIAA Institute

Contents

Executive summary

Workplace retirement savings plans help workers save for retirement, but they fall short in helping workers plan for and manage their savings to provide income throughout their retirement.

Workers are left on their own to decide how to pay themselves and manage retirement's financial risks, such as running out of money, investment losses alongside a need for liquidity, financial exploitation, and costly long-term care needs. The shortcomings of workplace retirement savings plans, low **longevity literacy** and misconceptions about **annuities** leave workers and retirees ill-equipped to plan for and navigate the myriad complex strategies and retail solutions for retirement income. Longer lives, projected Social Security cuts and the apex of retiring **baby boomers** have highlighted and exacerbated the problem.

Recent legislative reforms and actions by financial services providers, plan sponsors and employers have started to educate workers about the importance of planning for income in retirement and make it easier for workers to receive a portion of their savings in the form of guaranteed income for life. Legislative reforms include required **guaranteed lifetime income illustrations**, fiduciary safe harbors for offering annuities in plans and new rules for required minimum distributions (**RMDs**). Financial services providers, plan sponsors, and employers have developed and added to workplace retirement savings plans new investment and distribution options to help workers prepare for income in retirement.

It's time to further leverage legislative reforms and events by adopting a holistic approach to retirement planning. Employers, plan sponsors and financial services professionals must educate workers, provide in-plan solutions, support further legislative reforms and reframe the retirement security conversation from purely saving and investing to protecting their savings and planning for income through retirement. Income is the new outcome.

Note: The terms and abbreviations highlighted in bold throughout this brief correspond to entries in the glossary at the end of this paper.

Workers are largely left on their own at retirement and must determine how to pay themselves and protect against financial risks, including outliving their savings.

30.4 million
baby boomers approaching retirement age

Introduction

We've come a long way in the last half century—from distinct sequential life stages of work and retirement, workplace pensions, and relatively short lives in retirement to living longer and bearing the primary responsibility for funding retirement. Americans are now working and retiring differently.

Workplace retirement savings plans, auto enrollment and escalation provisions, and qualified default investment alternatives (**QDIAs**)—such as target date funds (**TDFs**) and **managed accounts**—have succeeded in helping workers save and invest for retirement. However, workers are largely left on their own at retirement and must determine how to pay themselves and protect against financial risks, including making their retirement savings last their lifetime.

The shortcomings of workplace retirement saving plans in helping workers prepare for financial security in retirement are exacerbated by three primary developments. First, a huge wave of retirements has begun as 30.4 million baby boomers, who started their career just after the advent of workplace retirement plans, will all turn 65 in the next few years.[1] Second, workers retiring today can expect to live a longer life in retirement than prior generations. When the workplace retirement saving plan system was first instituted,[2] individuals weren't expected to live more than 20 years in retirement.[3] Today, living more than 30 years in retirement isn't uncommon and comprises multiple phases in terms of health and activity. Third, Social Security, established to ensure a minimum guaranteed income through retirement for Americans, faces upcoming benefit cuts and is no longer a certainty.

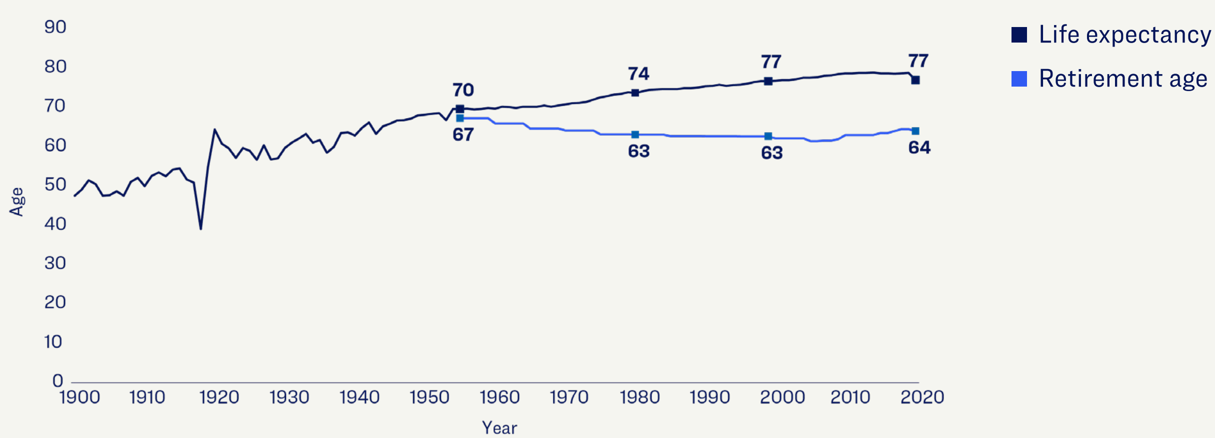
We need to reframe the approach to retirement security and help individuals prepare for a financially secure life by offering informed ways to receive their retirement savings as guaranteed income for life. Income is the new outcome.

Increased longevity and its impact on retirement and retirement planning

Increase in life expectancy

Life expectancy has risen by 17 years since the Social Security program was first implemented in the United States 90 years ago.[4] However, the retirement age (at which individuals are eligible for full benefits) has increased by less than two years since the program's inception,[5] and many retire before full eligibility and earlier than expected.[6] As a result, people are living longer in retirement (See Figure 1), especially as remaining life expediency at age 67 has continued to increase.[7]

FIGURE 1. LIFE EXPECTANCY FROM BIRTH, 1900 TO 2021, AND MEDIAN RETIREMENT AGE



Sources: Center for Disease Control and Prevention and National Vital Statistics System Annual Reports, 2019 – 2021. https://www.cdc.gov/nchs/products/nvsr.html.

U.S. Bureau of Labor Statistics, Trends in retirement age by sex, 1950 – 2005, published July 1992. https://www.bls.gov/opub/mlr/1992/article/trends-in-retirement-age-by-sex-1950-2005.html.

American Enterprise Institute, The Average US Retirement Age Increased over the Past 30 Years, published May 5, 2022. https://www.aei.org/research-products/report/the-average-us-retirement-age-increased-over-the-past-30-years/.

Planning for increased longevity

Living longer in retirement complicates retirement planning. Not only must individuals now plan to fund a longer retirement horizon but must also increasingly plan for multiple phases of retirement—from one in good health defined by the pursuit of activities and possibly continued work to a period of ill health. Decisions must be made about where and how to spend retirement and how to generate income for the longer retirement horizon.

Life expectancy has increased by 17 years in the past 90 years.

Financial risks in retirement

In many respects, planning for a financially secure retirement is like climbing a mountain. Retiring, like reaching the summit, is not the end of the journey. The next phase is generally more treacherous and uncertain, making the planning even more difficult. The most significant financial risks to consider are:[8]

Running out of money
People often fail to adequately plan for a longer life in retirement because they're unaware of their life expectancy at retirement age. Instead, they rely on genetics as a determination of life expectancy despite healthier lifestyles and medical advancements.

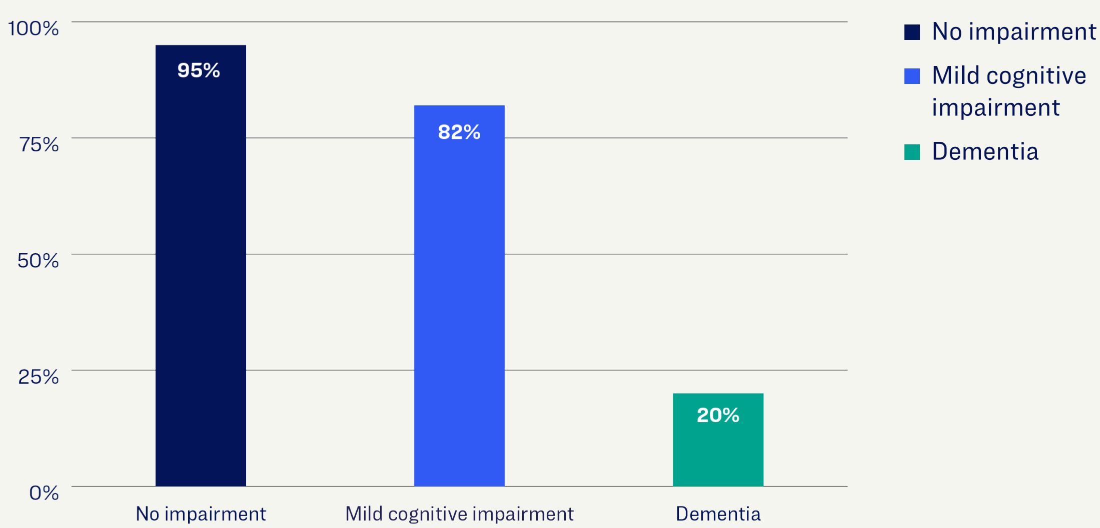
Not spending hard-earned money for fear of running out
Concern about running out of money results in many not fully enjoying their savings in retirement.[9]

Needing long-term health care
Longer lives increase the chances of contracting Alzheimer's disease and other costly chronic conditions, and medical advancements have prolonged the length of time living with such diseases or otherwise needing expensive long-term care.[10]

Experiencing stock market volatility and downturns and interest rate risk near or in retirement
While historical analysis supports continued stock market gains over time, many individuals risk liquidating their equity investments to generate income during market downturns. In addition, many who rely heavily on investments in fixed-income products (such as bonds) near or in retirement will see the value decline in a rising interest rate market. Individuals in TDFs have large exposure to bond funds in retirement due to the age-based **glide path**.

Dealing with financial fraud
Older adults are vulnerable to financial mismanagement as well as financial scams and exploitation[11] primarily because of diminished mental capacity that often comes with age. Scammers and fraudsters target older adults because of their accumulated wealth, trusting nature[12] and often social isolation. Financial fraud in the United States for those age 60 and older increased by 33% from 2010 to 2020. The incidences of financial fraud is expected to grow, although the actual number is likely under-reported.[13] (See Figure 2)

FIGURE 2. PERCENT OF ADULTS CAPABLE OF MANAGING THEIR FINANCES



Sources: TIAA Institute, Exploring the Prevalence, Risk Factors, and Financial Consequences of Fraud: Evidence from the Health and Retirement Study, published Mar. 31, 2018. https://www.tiaa.org/public/institute/publication/2018/exploring-prevalence-risk-factors-and-financial-consequences-fraud.

FINRA Investor Education Foundation, Financial Fraud And Fraud Susceptibility In The United States, published Sept. 2013. https://www.finrafoundation.org/sites/finrafoundation/files/2024-10/financial-fraud-and-fraud-susceptibility_0_0.pdf.

Gerontological Society of America, The Hidden Financial Dimensions of Cognitive Decline and Caregiving, published Nov. 2021. https://www.geron.org/News-Events/GSA-News/CEO-Blog/hidden-financial-dimensions-affect-people-with-cognitive-decline-and-their-care-partners-report-says.

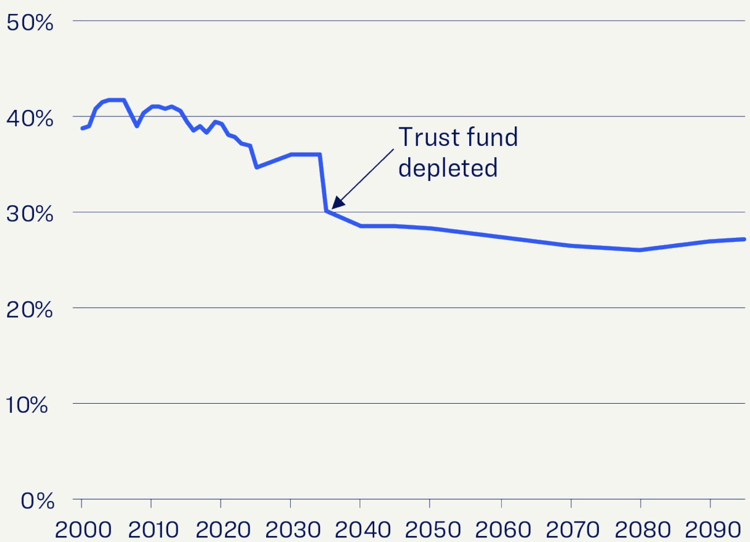
Center for Retirement Research, Cognitive Aging and the Capacity to Manage Money, published Jan. 17, 2017. https://crr.bc.edu/cognitive-aging-and-the-capacity-to-manage-money/.

Anticipating inadequacy of Social Security benefits and projected benefit cuts

Social Security provides lifetime retirement income, replacing about 40% of pre-retirement income—much less than the 70% often considered necessary for a comfortable retirement.[14] Concerningly, these benefits are projected to be cut. According to the Social Security Administration's 2024 Report, by 2033 Social Security Trust Fund reserves will only be able to pay 79% of scheduled benefits.[15] Without reform, the projected benefit cuts will result in an increase in the percentage of retirees at risk for a declining standard of living, from 23% today to 38% in 2035.[16] The cuts will impact all retirees by reducing the percentage of their retirement income that's guaranteed for life by the government. (See Figure 3)

Social Security benefits projected to pay only 79% of scheduled benefits by 2033.

FIGURE 3. REPLACEMENT RATE FOR THE MEDIUM EARNER AT AGE 65 FROM EXISTING TAX REVENUES, 2000–2095



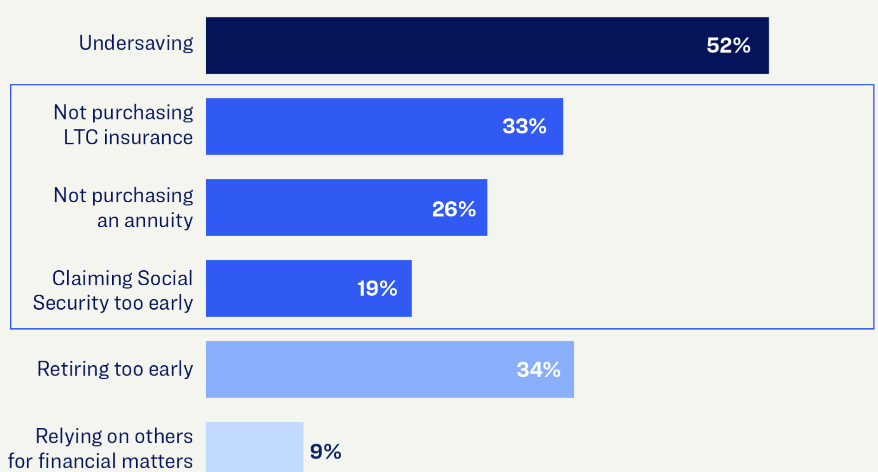
Sources: TIAA Institute, Preparing for retirement reforms: Potential consequences for saving, work, and retirement plans, published Oct. 1, 2021. https://www.tiaa.org/public/institute/publication/2021/preparing-retirement-reforms-potential-consequences-saving-work-and-retirement-plans.

Center for Retirement Research, Social Security Financial Outlook: The 2022 Update in Perspective, published June 2022. https://crr.bc.edu/wp-content/uploads/2022/06/IB_22-9.pdf.

Insights on challenges and attitudes to retirement income planning

Financial goals leading up to and in retirement. Despite the challenges of increased longevity and changing attitudes to retirement, the good news is saving for retirement consistently ranks among the top three financial goals for workers of all ages.[17] However, protecting against the risk of outliving savings in retirement isn't a stated goal, despite ranking among the top three financial concerns. Failure to protect against the risk of losing or outliving retirement savings is a top financial regret of more than one-quarter of retirees in a recent survey.[18] (See Figure 4)

FIGURE 4. TOP FINANCIAL REGRETS OF OLDER AMERICANS

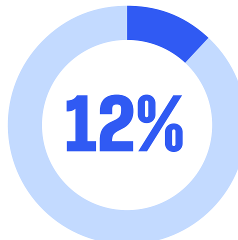


Source: National Bureau of Economic Research, Financial Regret at Older Ages and Longevity Awareness, published Nov. 2022. https://www.nber.org/system/files/working_papers/w30696/w30696.pdf.

Reasons workers don't take action to protect their savings from financial risks in retirement. To help workers plan for financial security through their retirement, we must first understand the reasons they don't take action:

Lack of longevity literacy

Planning, saving and preparing for retirement is a complex process. People who understand how long they can expect to live at retirement age (**longevity literacy**) exhibit better financial behaviors and outcomes, and they report their lifestyle in retirement meets or exceeds their pre retirement expectations. However, most Americans lack that knowledge. A recent report revealed only 12% of adults demonstrate strong longevity literacy, compared with 31% showing weak longevity literacy.[19] (See Figure 5)



Only 12% of adults demonstrate strong longevity literacy.

FIGURE 5. LONGEVITY LITERACY AND RETIREMENT OUTCOMES

Typically find it very easy to make ends meet	Lifestyle meets or exceeds pre retirement expectations	Very confident about having enough money to live comfortably throughout retirement
40% of those with strong longevity knowledge	**83%** of those with strong longevity knowledge	**40%** of those with strong longevity knowledge
23% of those with weak longevity knowledge	**63%** of those with weak longevity knowledge	**25%** of those with weak longevity knowledge

Source: TIAA Institute and GFLEC, *TIAA Institute-GFLEC Personal Finance Index*, published Apr., 1, 2022. https://www.tiaa.org/public/institute/publication/2022/2022-tiaa-institute-gflec-personal-finance-index.

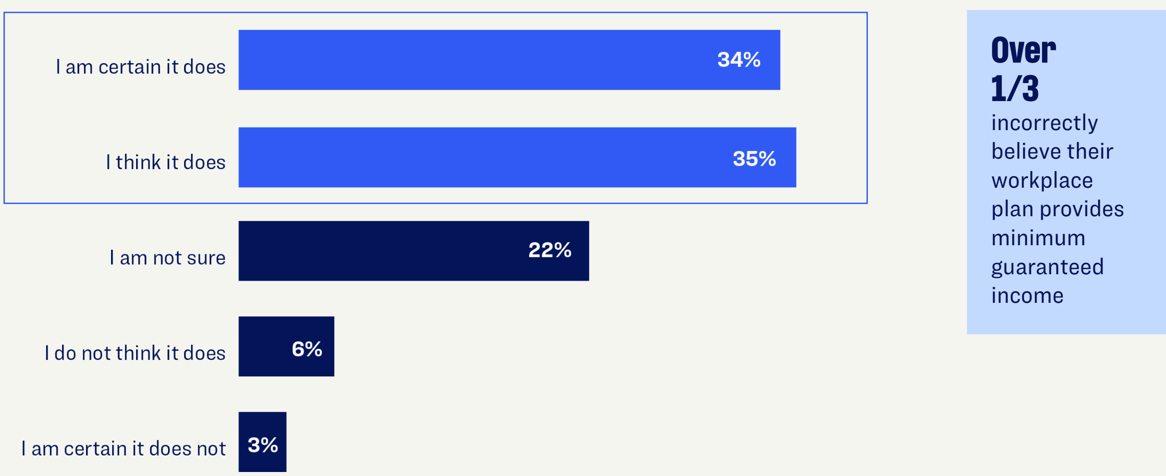
Lack of solutions or guidance regarding paydown options

While the auto and default features of workplace retirement savings plans help overcome workers' passivity in saving for retirement and to some extent lack of financial literacy, no parallel features and few options (if any) are available to help with planning for income in retirement. Instead, workers are left on their own to decide to comprehend how to pay themselves throughout retirement. While recent reforms facilitate offering annuities in plans, employers' and plan sponsors' lack of understanding remains a top barrier to adding annuities within a workplace retirement savings plan.[20]

Misconceptions about workplace retirement savings plan benefits and investments

These misconceptions are in part due to a lack of financial literacy, but some warrant special mention. A recent report[21] found more than one-third of young adults believe their workplace retirement savings plan provides minimum guaranteed income in retirement, which demonstrates a serious lack of understanding of the nature of these plans as accumulation vehicles. This misunderstanding can hurt their retirement security by making it harder to fully appreciate the financial risks of their investments and plan effectively for income in retirement. (See Figure 6)

FIGURE 6. PERCENT OF YOUNG ADULTS THAT KNOW WHETHER THEIR RETIREMENT PLAN PROVIDES A GUARANTEED MINIMUM INCOME



Source: TIAA Institute, Young adults, their attitudes and outlook toward retirement and the future, published June 1, 2023. https://www.tiaa.org/public/institute/publication/2023/young-adults-their-attitudes-and-outlook-toward-retirement-and-the-future.

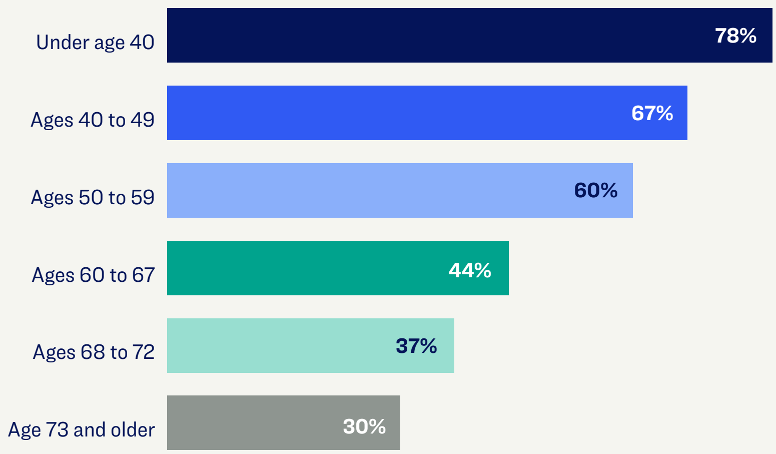
Lack of awareness of, and misconceptions about, guaranteed lifetime income products

Common and incorrect assumptions about annuities include:

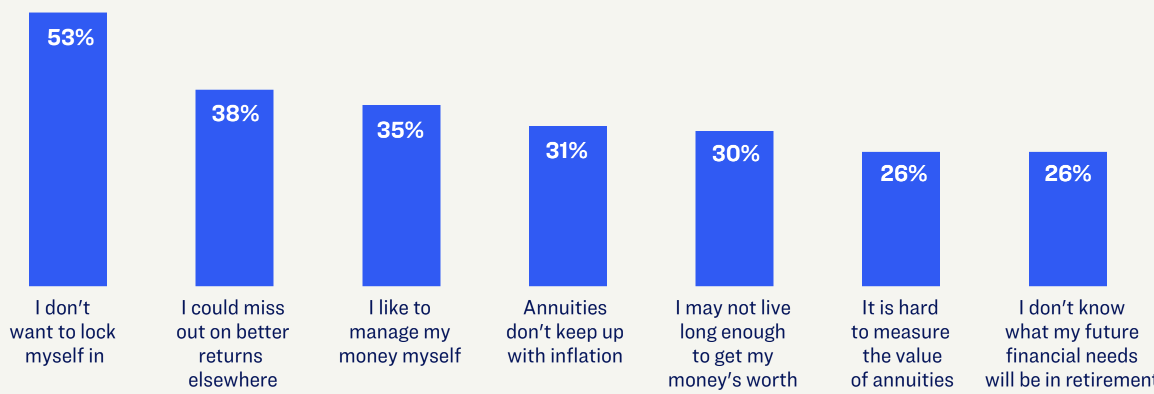
- Annuitization is an all-or-nothing proposition, and converting just a portion of retirement savings into guaranteed lifetime income isn't possible[22]
- If the annuity holder dies prematurely, that person's beneficiaries won't receive anything
- Annuities don't keep up with inflation, and assets in the annuity don't benefit from market gains
- Annuities lock the holder into fixed payments with no flexibility
- The value of annuities isn't clear

FIGURE 7. WHAT MIGHT PREVENT YOU FROM ANNUITIZING?

For those who do not know about annuities, "I don't know enough about them"



For those who know about annuities



Source: TIAA Lifetime Income Survey

Overcoming behavioral challenges to annuitization

Uncertainty about a desired lifestyle in retirement
Retirement has many unknowns, but the need for income is not one.

No confidence or interest in fully retiring
Those lacking confidence in their ability to retire may plan to continue working. Many younger workers don't view retirement as an absolute event but instead view work and leisure as a continuum.[23] Individuals in both cases are left without a plan if they need to stop working before they're ready.

Timing of decision to purchase an annuity during a down or bear stock market
Waiting until retirement to choose how to receive income comes with the risk of having to liquidate savings invested in equities in a down market, which many will be reluctant to do. Instead, workers should consider funding an annuity over time to guarantee a consistent level of income in retirement.

Reliance on RMD rules or rules of thumb as the default income plan
Many may rely on the RMD rules or the 4% systematic withdrawal rule of thumb as the default for converting a portion of their retirement savings into income without considering without considering the risk of declining withdrawals in later years to due increased longevity.[24]

Recent reforms and other developments that facilitate converting retirement savings into lifetime income

Recent legislative reforms and evolution of financial service solutions have started to educate workers about longevity risk and help them prepare for guaranteed income through retirement. Here are a few of the most significant reforms:

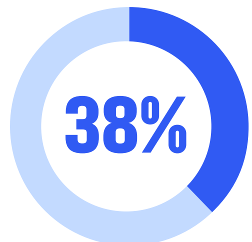
The **SECURE Act's**[25] guaranteed lifetime income illustration requirement shows participants' accounts in the form of the monthly income they'd receive if their savings were paid out in the form of an annuity at retirement. This illustration helps workers better understand the value of their retirement savings and their life expectancy at retirement.

The SECURE Act's fiduciary safe harbor in selecting an annuity provider facilitates the offering of annuities in workplace retirement savings plans.[26]

SECURE 2.0 Act[27] increases the portion of plan participants' retirement savings that can be used to buy a qualified longevity annuity contract (**QLAC**)[28] and considers the QLAC value with other retirement savings when calculating RMDs. Combining the QLAC and RMD can lower a retiree's taxable income and potentially reduce Medicare premiums if it moves the retiree into a lower tax bracket.[29]

TDFs and managed accounts may provide plan participants the option of converting a portion of their assets in the TDF or managed account into guaranteed lifetime income.

72% of employers interested in offering target date solutions with guaranteed income



of employers say guaranteed lifetime income is most lacking in workplace plans.

Employers are increasingly open to offering in-plan annuities. According to a recent survey, 38% of employers indicated access to guaranteed lifetime income is most lacking in workplace retirement savings plans, and 72% of employers expressed interest in offering target date solutions geared toward guaranteed lifetime income.[30] Employers are increasingly offering in-plan annuities as a way of retaining retiring workers' savings in the workplace plan.[31] Retaining the assets of the growing wave of baby boomers retiring with large balances helps the plan maintain pricing efficiencies through economies of scale. Workers are more likely to leave their funds in plan if offered favorable investment options,[32] such as an annuity.

SUPPLEMENT: EXPERT VOICE

Want to know when you can retire?

Why do we save for retirement?

It sounds like a simple question with an obvious answer: We save (or at least most of us do) so we can maintain our standard of living after we retire. We save so we will have money to spend on the goods and services we need to live comfortably.

But notice what is not included in this answer—a number.

In all the years I've been asking this question, no one has ever said the point of retirement is to have $1 million at age 65—even though much of Wall Street promotes this very concept. That's because "the number," the amount of wealth we're supposed to accumulate, is not the real goal. It's an intermediate step toward what really matters, which is creating a secure and happy retirement. It's not even a real measure: After all, how much is enough when the number of years you'll live in retirement (your longevity) is unknown?

Guaranteed lifetime income helps solve the longevity problem. Stocks and bonds are good for growth. But according to six decades of academic research, we're likely to be better off when annuities play a significant role in retirement plans, providing a predictable stream of income that never runs out. It shows that income, not wealth, is the outcome that matters most for financial security and peace of mind.[1]

I am the son of two high school teachers. My dad taught social studies, and my mom taught office skills such as typing and shorthand. My parents never earned a lot, but they were savers. They clipped coupons. I wore hand-me-down clothes. Thanks to their saving habits, my parents built up a decent nest egg.

A few years before I entered my PhD program, my parents retired. They were in their mid-50s. They needed to figure out how much they could spend each month, and to do that they had to guess how long they would live.

Mom and dad are now healthy, self-sufficient 84-year-olds. Had they planned for only 25 years of retirement, they could have spent more, but they would have outlived their money. Instead, they lived frugally—too frugally I'd argue. Their biggest fear was running out of money. They never wanted to be a burden to me or my siblings.

When I started graduate school, the subject of retirement planning resonated with me, and it led to a 25-year career in research and education. Here's what I've learned:

- Having enough guaranteed lifetime income to cover basic needs provides financial security and peace of mind. Our well-being does not come from how much money is in our account on a given day. It comes from having the money we need when we need it. If we all knew how long we had to live, it would be easy to toggle back and forth between wealth and income. We don't.

Jeffrey Brown, a TIAA trustee, is Dean and Josef and Margot Lakonishok Professor at the University of Illinois's Gies College of Business. He also serves as a fellow at the TIAA Institute.

It's about what you'll spend, not what you've saved.

- We have a retirement system built around wealth (unfortunately). There's a disconnect between what we want from retirement and how we've been told to get there. We obsess about how much money we will have the day we retire, when what we really need to know is how much money we can spend each month. Policymakers feed this obsession. The government endorses the use of default investment options based solely on how they facilitate wealth accumulation. The IRS requires a minimum rate at which you must withdraw, without considering whether you will have enough money left at older ages. Regulators impose fiduciary duties to diversify investment options and keep expenses low but no duty to consider lifetime income.
- Converting savings to income is psychologically difficult when you've spent your life defining success by how much money you have. The human brain is hard-wired to look for mental shortcuts. These shortcuts are often valuable—hear a growl in the bushes, and nobody sticks around to see if it's a bear or a possum—but they sometimes mislead. And one of those sometimes involves retirement planning. In psychology, the word "framing" is used to describe how decisions can be influenced by mental shortcuts instead of facts and outcomes. About 15 years ago, I partnered with researchers from Harvard University and Brookings Institution to test the impact of a wealth frame versus an income frame when thinking about retirement. We explained a savings account and a life annuity and gave respondents a choice. In half the test cases, we used words like "spend" and "payment" to get them focused on consumption. Within this group, seven in 10 people chose the life annuity over the savings product. For the other half, we provided identical information but used words like "invest" or "earnings" to get them thinking about wealth instead. When we framed the choice this way, only two in 10 chose a life annuity over a savings product.[2]

People should view guaranteed lifetime income as a glass half full: "I am never going to run out of money no matter how long I live."

Instead, we have conditioned them to think of guaranteed income as a glass half empty: "I used to be a millionaire, but now I live on a fixed income."

What can we do to fix this?

1. **One option is to try to educate.** I am an educator, and I almost always believe more education is a good thing. But I am also a social scientist who cares about data and evidence. And what I can tell you is that educating our way toward secure retirements will not be enough.
2. **We must also focus on product design and plan architecture.** Think about the powerful influence automatic enrollment has had on savings rates. If we built lifetime income into our plans and products—making lifetime annuities a default option in 401(k)s, for instance—people could have happier, more secure retirements.
3. **The third thing we can do**—one that can be implemented right away—is **shift our communication strategy away from a relentless focus on wealth**. We should stop obsessing over "the number." We should stop making account balances the yardsticks of success. We should maybe even stop talking about whether someone has "saved enough" for retirement.

   Instead, we should be talking about how much future income we have provided ourselves. About how we have ensured that we can maintain our standard of living. About what we have done to guarantee that we will not run out of money in retirement.

Income is the outcome. It's a powerful frame. It's time we put it to use for good.

1 Brown, J. R. (2014, March). Income as the Outcome: How to Broaden the Narrow Framing of U.S. Retirement Policy. Risk Management and Insurance Review, American Risk and Insurance Association. (Vol. 17(1) pages 7-16.)

2 Brown, J. R., Kling, J., Mullainathan, S. & Wrobel, M., Framing Lifetime Income (2013, May). NBER (Working Paper No. w19063.)

The way forward: Opportunities to help turn retirement savings into guaranteed income for life

Now is the time for employers and financial services providers to take advantage of the recent reforms and other developments to help the wave of retiring baby boomers and future retirees plan beyond saving for retirement to achieve financial security throughout their life in retirement. Suggestions include:

Improve the longevity literacy of workers and retirees by accompanying the required guaranteed lifetime income illustration with further education about life expectancy at retirement, factors that can increase life expectancy and financial risks in retirement. According to recent research, providing workers with objective probabilities of their longevity more than doubled the regret expressed about not having purchased an annuity.[33] Online calculators can help plan participants model changes to the guaranteed lifetime income illustration amount by varying their deferral rates and expected retirement age.

Include guaranteed products, such as annuities, both in and as a distribution option from workforce retirement savings plans. Doing so will help workers transition financially into retirement and assist employers in retaining assets in plan.[34] Offering annuities selected by the retirement savings plan fiduciary at institutional pricing will also combat retirees' indecision when faced with the complexity and overwhelming number of retirement income strategies in the retail market.

Reframe the conversation about retirement security from purely saving and investing to planning for income through retirement. Research shows that reframing discussions about annuity products as a consumption product instead of an investment product resulted in individuals being 2.5 times more likely to choose an annuity.[35] (See Figure 8)

FIGURE 8. FRAMING LIFETIME INCOME

Consumption frame

Focus on what can be spent

VS.

Investment frame

Focus on risk and return

PEOPLE CHOOSE ANNUITIES

2.5x more when given a consumption frame

Source: National Bureau of Economic Research, Framing lifetime income, published May 2013. https://www.nber.org/system/files/working_papers/w19063/w19063.pdf.

Discuss annuities as part of an overall retirement income strategy. Doing so can facilitate workers' decision-making and address misconceptions about annuities and workplace retirement savings plan features:

- Workplace savings plans aren't pension plans providing guaranteed lifetime income.
- Annuitization of a portion of retirement savings is possible. When presented as a partial strategy, individuals are 1.5 times more likely to annuitize.[36]
- The evolution of annuities has led to options and riders to address the concerns and preferences of individuals regarding premature death, inflation, market gains, flexibility, and accelerated payouts for specific purposes—such as funding long-term care needs.

FIGURE 9. FRAMING LIFETIME INCOME

When presented as a partial strategy **1.5x** more likely to annuitize

Source: TIAA Institute, Designing and framing annuities, published Jan. 31, 2013. https://www.tiaa.org/public/institute/publication/2013/designing-and-framing-annuities

- An annuity's value is guaranteed protection against major financial risks in retirement, such as running out of money, market declines and rising interest rates, and losing savings due to financial fraud.[37] (See Figure 9)

Shift the dialogue to emphasize that no single solution is absolute, and a combination of strategies and solutions can be tailored to best meet an individual's needs and goals, including a strategy for claiming Social Security and compensating for possible future benefit cuts. A growing body of economic research indicates that a strategic balance of guaranteed lifetime income and systematic withdrawals—tailored to individual needs, risk preferences and market conditions—is the key to optimal retirement outcomes.[38]

Support further legislative reforms to ensure guaranteed lifetime income options are available through workplace retirement savings plans, including:

- Requiring workplace retirement savings plans to provide participants with the option of receiving distribution of all or part of their retirement savings in the form of an annuity.
- Permitting annuities and managed accounts containing annuities to qualify as QDIAs.[39]
- Expanding in-service rollover options by allowing individuals age 50 and older to roll over their savings into an annuity. This would permit workers nearing retirement to start planning for guaranteed income in retirement even if their current workplace plan doesn't provide an annuity option.[40]
- Extending to 403(b) workplace retirement savings plans the same ability that 401(k) plans have to invest in collective investment trusts (CITs).[41] CITs are a cost-effective and flexible alternative to mutual funds in a workplace retirement savings plan and can be structured as a TDF with an embedded in-plan annuity.

Compelling need for further research

The need for the workplace retirement savings plan to provide income through retirement isn't going away, nor are the suggested solutions finite. We're at the nascent stage of this evolution, and further research is warranted to track the efficacy of recent changes and highlight additional needs. Here's an initial list:

1. Track the percentage and types of retirement income solutions provided in or as a distribution option from workplace retirement plans, as well as the types of tools used to help plan participants prepare for income in retirement. Additionally, track the use of the above by plan participants, including among demographic lines (race, gender, ethnicity, age and income).

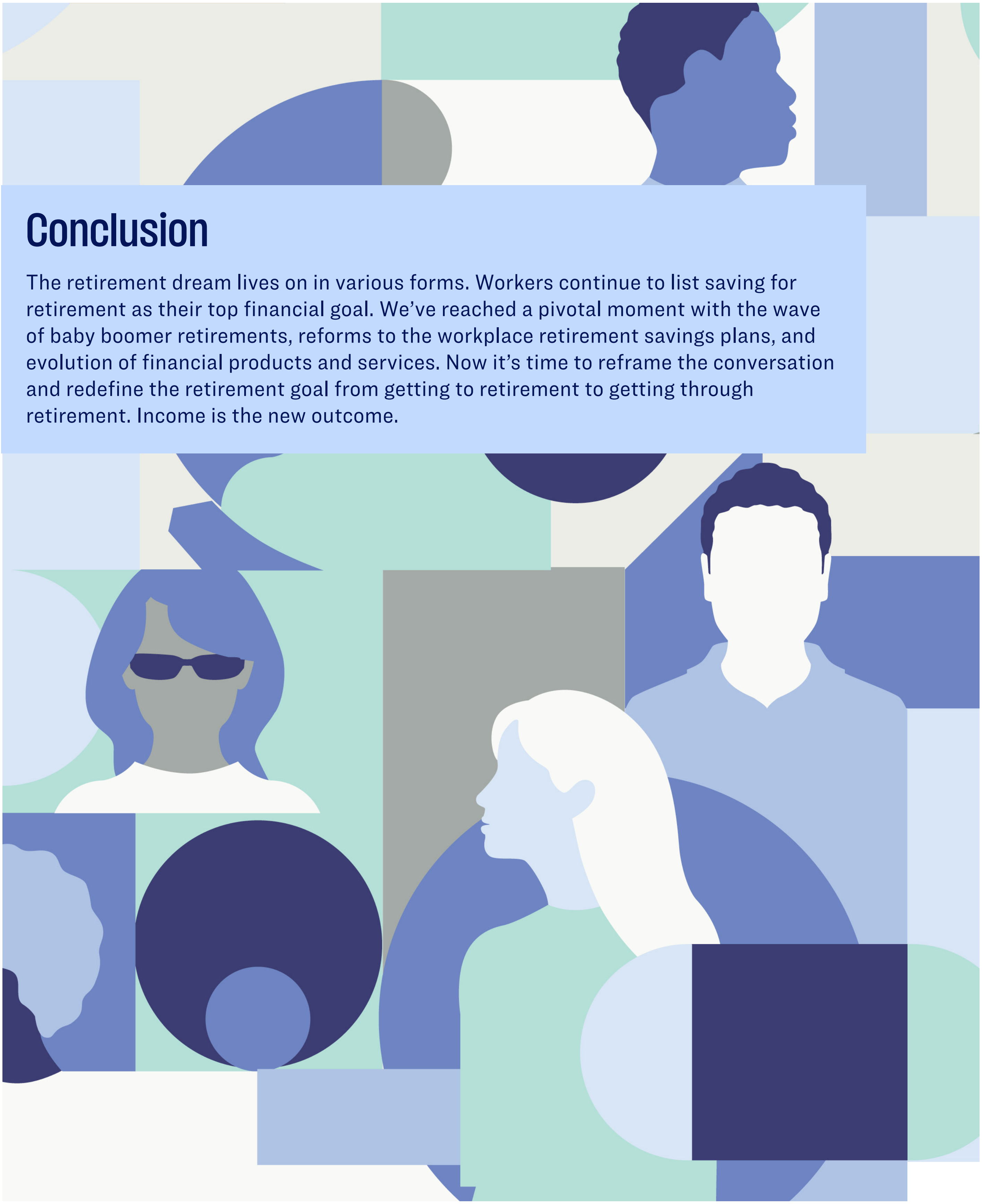
2. Survey plan participants and retirees to measure the impact of workplace retirement savings plan changes to help prepare for and manage income in retirement on:
   - their longevity literacy
   - their retirement security confidence
   - the likelihood of remaining with their current employer
   - the likelihood of keeping all or a portion of their savings in the workforce retirement savings plan upon retirement

   Also survey plan participants and retirees on preferred methods of education and planning tools (in person, phone, website or webchat, calculators and other digital tools, etc.). Track the above along demographic lines (race, gender, ethnicity, age and income).

3. Survey plan sponsors and employers to track their willingness to add annuities in and as a distribution option from workplace retirement plans, and the impact of doing so on retention of assets in plan upon retirement of plan participants.

Conclusion

The retirement dream lives on in various forms. Workers continue to list saving for retirement as their top financial goal. We've reached a pivotal moment with the wave of baby boomer retirements, reforms to the workplace retirement savings plans, and evolution of financial products and services. Now it's time to reframe the conversation and redefine the retirement goal from getting to retirement to getting through retirement. Income is the new outcome.



Glossary

Annuities: Insurance products providing a wide set of guaranteed investment and income options in which the guaranteed investment return or income in retirement is backed by an insurance company. As an investment, an annuity provides a guaranteed return— as a form of retirement income, it provides a guaranteed income amount. Annuities come in several types with varying attributes and benefits.[42]

Baby boomers: The generation born between 1946 and 1964. The apex of or peak baby boomers are those born between 1959 and 1964.

CITs: Collective investment funds are pooled investment vehicles maintained by a bank or trust company available only in certain qualified retirement plans. The regulatory regime of CITs makes them a cost-effective and flexible alternative to mutual funds in workplace retirement savings plans.

Glide path: An age-based formulaic rule used to determine the allocation between equities and fixed income, and it's often used to decide on investments in a TDF.

Guaranteed lifetime income illustrations: A SECURE Act requirement that workplace retirement savings plans annually provide plan participants with an account statement showing their balance in terms of the amount paid monthly if the savings were paid out in the form of an annuity at retirement (age 67).

Longevity literacy: A n understanding of how long people tend to live upon reaching retirement age. Longevity literacy is particularly important to retirement income security, which requires planning, saving and preparing for a period uncertain in length.

Managed accounts: Professionally managed investment accounts offering a broader range of investments than mutual funds, including annuities.

SECURE Act: The Setting Every Community Up for Retirement (SECURE) Act of 2019 was approved to enhance and expand retirement savings options for individuals and improve access to workplace retirement savings plans.

SECURE 2.0 Act: Enacted in 2022 to build upon the SECURE Act to increase retirement savings and simplify retirement plan rules, and for other purposes.

TDFs: Target date funds are m utual funds compris ed of several underlying funds that decrease equity exposure and increase fixed income exposure as the participant ages in accordance with the glide path.

QDIAs: Qualified default investment alternatives are safe- harbor investments in which plan fiduciaries can invest participant assets absent of participant investment direction. TDFs and managed accounts are QDIAs. They were authorized by the Pension Protection Act of 2006 to remove an impediment to automatic enrollment.

QLACs: Qualified longevity contracts can be purchased with qualified retirement funds, such as those held in a qualified workplace retirement savings plan. A QLAC is a type of deferred annuity providing guaranteed lifetime income to start at a future date—typically at life expectancy.

RMDs: Required minimum distributions are minimum amounts an individual must withdraw from qualified retirement accounts, such as a workplace retirement plan, each year.

Workplace retirement savings plan: Any defined contribution plan, such as a 401 (k), 403(b) or 457 plan, into which employees may defer a portion of their income on a tax-preferred basis. The employee deferrals and any employer contributions to the employee's account are generally invested either at the employee's direction or on the employee's behalf. Upon termination of employment or retirement at the earliest, the participant will receive the balance in their account, which is based on employee deferrals and employer vested contributions plus or minus investment gains or losses.

Endnotes

1 Robert Shapiro and Luke Stuttgen. *The Peak 65 Economic Impact Study*. Retirement Income Institute, Apr. 2024.

2 Workplace retirement savings plans were authorized in 1978, but were first introduced into the workforce after regulations were promulgated in 1981. (Revenue Act of 1978. Public Law 95-600, 1978.)

3 Felicitie C. Bell and Michael L. Miller. *Life Tables for the United States Social Security Area 1900-2100*. Actuarial Study No. 120, 2005.

4 Gayle L. Reznik, Kenneth A. Couch, Christopher R. Tamborini and Howard M. Iams. "Changing Longevity, Social Security Retirement Benefits, and Potential Adjustments." *Social Security Bulletin* 81:3, Aug. 2021.

5 In 1935, when Social Security benefits were first instituted, individuals were eligible for full retirement benefits at age 65. The eligibility age for receipt of full Social Security benefits was raised to between 66 and 67 for those born between 1937 and 1959, while those born after 1960 are eligible for full benefits at age 67. (Social Security Administration. *Retirement Benefits*. Publication No. 05-10035, Jan. 2025.

6 Jeffrey M. Jones . "More in U.S. Retiring, or Planning to Retire, Later." Gallup, Jul. 22, 2022.

7 Wettstein, G., and Yimeng, Y. (2024). "How has the variance of longevity changed over time?" TIAA Institute, *Research Dialogue* No. 221, Dec. 2024.

8 Greenwald Research. *2021 Retirement Risk Survey: Report of Findings*. Society of Actuaries Research Institute, Feb. 2022.

9 David Blanchett and Michael Finke . "Guaranteed Income: A License to Spend." Research Paper #028-2024. Retirement Income Institute, May 2024.

10 Alzheimer's Association. *2024 Alzheimer's Disease Facts and Figures: Mapping a Better Future for Dementia Care Navigation*. 2024.

11 Lauren Hersch Nicholas, Kenneth M. Langa, Julie P. W. Bynum, Joanne Hsu. "Financial Presentation of Alzheimer Disease and Related Dementias." *JAMA Internal Medicine* 181:2, Feb. 1, 2021.

12 Vijeth Iyengar, Dipayan Ghosh, Tyler Smith and Frank Krueger. "Age-Related Changes in Interpersonal Trust Behavior: Can Neuroscience Inform Public Policy?" *NAM Perspectives*, Jul. 1, 2019.

13 Marguerite DeLiema, Martha Deevy, Annamaria Lusardi and Olivia S. Mitchell . "Exploring the Prevalence, Risk Factors, and Financial Consequences of Fraud: Evidence from the Health and Retirement Study." PRC WP2018. Pension Research Council, Jan. 2018; Rachel E. Morgan and Susannah N. Tapp . *Examining Financial Fraud Against Older Adults. National Institute of Justice Journal*, Mar. 1, 2024.

14 Top Ten Facts about Social Security, Center on Budget and Policy Priorities (May 2024); *Alternative Measures of Replacement Rates for Social Security Benefits and Retirement Income*, Andrew G. Biggs, Glenn R. Springstead, Social Security Bulletin, Vol. 68, No. 2 (2008)

15 Social Security and Medicare Boards of Trustees . "A Summary of the 2024 Annual Social Security and Medicare Trust Fund Reports." Accessed Mar. 4, 2025.

16 Alicia H. Munnell . "Social Security's Financial Outlook: The 2022 Update in Perspective." Issue in Brief 22-9. Center for Retirement Research at Boston College, Jun. 2022.

17 TIAA. "TIAA 2022 Retirement Insights Survey: Executive Summary." Apr. 2022; Jeanne de Cervens, Surya P. Kolluri, Anne Ollen, David P. Richardson and Emily Watson. *Young Adults, Their Attitudes and Outlooks Toward Retirement and the Future*. AgingWell Hub at Georgetown University and TIAA Institute, May 2023.

18 Abigail Hurwitz and Olivia S. Mitchell. "Financial Regret at Older Ages and Longevity Awareness." Working Paper 30696. National Bureau of Economic Research, Sep. 2023.

19 Strong longevity literacy is an understanding of how long 65-year-olds live on average, as well as the likelihood of living to an advanced age versus the likelihood of dying relatively early. Longevity literacy is assessed by the ability to answer three questions regarding the average number of years individuals live upon reaching age 65, the likelihood among 65-year-olds of living to at least age 90 and the likelihood among 65-year-olds of not living beyond age 70. Low longevity literacy is demonstrated by the lack of that understanding. (Paul J. Yakoboski, Annamaria Lusardi and Andrea Sticha. *An Unrecognized Barrier to Retirement Income Security: Poor Longevity Literacy*. TIAA Institute and Global Financial Literacy Excellence Center, Aug. 2023.

20 The top two barriers for employers and plan sponsors that plan to offer annuities in workplace savings plans are a lack of understanding among decision makers (39%) and complexity (39%). For those not planning to offer annuities in their workplace retirement saving plan, lack of understanding (43%) is the No. 1 barrier. (TIAA. *Building a Better Retirement 2024*. 2024.

21 AgingWell Hub at Georgetown University and TIAA Institute. *Young Adults.*

22 John Beshears, James J. Choi, David Laibson, Brigitte C. Madrian and Stephen Zeldes. "What Makes Annuitization More Appealing?" *Journal of Public Economics* (116, pp. 2 – 16), Aug. 2014.

23 AgingWell Hub at Georgetown University and TIAA Institute. (2023). Young Adults.

24 Jeffrey R. Brown, James M. Poterba and David P. Richardson . "Trends in Retirement and Retirement Income Choices by TIAA Participants: 2000–2018." Journal of Pension Economics and Finance (24, pp. 47–68), May 10, 2023.

25 Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act). Public Law 116-94. 133 Stat. 3164. Section 203. (2019).

26 The SECURE Act provides fiduciary safe harbor that deems a fiduciary to satisfy the prudent person requirement when selecting an annuity provider.

27 SECURE 2.0 Act. Public Law 117-328, 136 Stat. 4459. (2022).

28 Qualified longevity annuity contracts are deferred annuities that start providing income at a later date — typically at life expectancy.

29 Sections 202 and 204 of the SECURE 2.0 Act.

30 “TIAA 2022 Retirement Insights Survey.”

31 36% of plan sponsors surveyed are actively seeking to retain retiree assets in plan—up from 14% in 2015. (PIMCO. PIMCO Defined Contribution Consulting Study. Apr. 2021.

32 Pew Charitable Trusts. Pew Survey Explores Consumer Trend to Roll Over Workplace Savings Into IRA Plans. Issue Brief, Sep. 2021.

33 Hurwitz and Mitchell, “Financial Regret.”

34 John Beshears , James J. Choi , David Laibson , Brigitte Madrian and Stephen P. Zeldes. “Designing and Framing Annuities.” TIAA-CREF Institute. Trends and Issues, Feb. 2013.

35 Jeffrey R. Brown, Jeffrey R. Kling, Sendhil Mullainathan and Marian V. Wrobel. “Framing Lifetime Income.” Working Paper 19063, National Bureau of Economic Research, May 2013.

36 Designing and framing annuities, Beshears, J. and Choi, J., Madrian, B, Laibson, D. and Zeldes, S. (February 2013). Brown, et al . “Framing Lifetime Income.”

37 Annuities limit access to future payments provides protection against financial fraud.

38 Sudipto Banerjee , Berg Cui , Andrew Jacobs Van Merlen and Nelson Leitao . “Drawdown with Annuities Can Balance Retirement Income and Liquidity.” In the Spotlight, Oct. 2024. T. Rowe Price; Gaobo Pang and Mark Warshawsky . “Evaluating the Role of Life Annuities in Retirement Income Strategies with Stochastic Simulations.” Working Paper. ACLI Research, Oct. 8, 2024; Amy C. Arnott , Christine Benz, Jason Kephart and Tao Guo. The State of Retirement Income: 2024. Morningstar, Dec. 11, 2024; Wade Pfau. “The 4% Rule and the Search for a Safe Withdrawal Rate.” Forbes, Apr. 19, 2016.

39 Lifetime Income for Employees (LIFE) Act was introduced in the 118th Congress by Reps. Donald Norcross (D-N.J.) and Tim Walberg (R-Mich.). (H.R. 3942, 2023.)

40 Retirement Simplification and Clarity Act was introduced in the 118th Congress by Reps. Jimmy Panetta (D- Calif.) and Darin LaHood (R-Ill.) (H.R. 10467, 2024).

41 Retirement Fairness for Charities and Educational Institutions Act of 2025 was introduced in the 119th Congress by Reps. Frank Lucas (R-Okla.), Josh Gottheimer (D-N.J.), Bill Foster (D-Ill.) and Andy Barr (R-Ky.) with a companion bill in the Senate by Sen. Katie Britt (R-Ala.). (H.R. 1013, 2025.)

42 Insured Retirement Institute. “Annuity Basics.” Accessed Mar. 4, 2025.

Contributors

Jeanne de Cervens
Retirement and Financial Security Expert

Surya P. Kolluri MBA, MS, CRPC
Head
TIAA Institute

David P. Richardson
Managing Director
Head of Research
TIAA Institute

Brent J. Davis
Senior Economist
TIAA Institute

About the TIAA Institute

The TIAA Institute helps advance the ways individuals and institutions plan for financial security and organizational effectiveness. The Institute conducts in-depth research, provides access to a network of thought leaders, and enables those it serves to anticipate trends, plan future strategies, and maximize opportunities for success.

To learn more, visit tiaainstitute.org.

Join the conversation online:
@TIAAInstitute

4452774

TIAA Institute

(05/25)