SIMPLIFYING LIFETIME INCOME IN 401(k) PLANS: A PRACTICAL APPROACH FOR ADVISORS

BY TAMIKO TOLAND

For decades, 401(k) plans have helped Americans build retirement savings, but they've fallen short on one critical front: converting those savings into dependable income for life. Defined contribution plans have evolved to use defaults to ensure consistent savings, but workers are too often on their own when it comes to figuring out how to make their savings last through retirement.

This is a concern that over half of both Baby Boomers and Gen-Xers express, according to ALI's 2025 PRIP study.

Though we consistently hear that people want guaranteed income, many don't know much about annuities in the first place, much less how to purchase one on their own. While many individuals do buy annuities, a huge gap remains, particularly among those who don't work with a financial advisor.

Employers now recognize the opportunity to add an annuity as a valuable benefit for workers. A retirement plan that increases retirement confidence can reduce costs by:

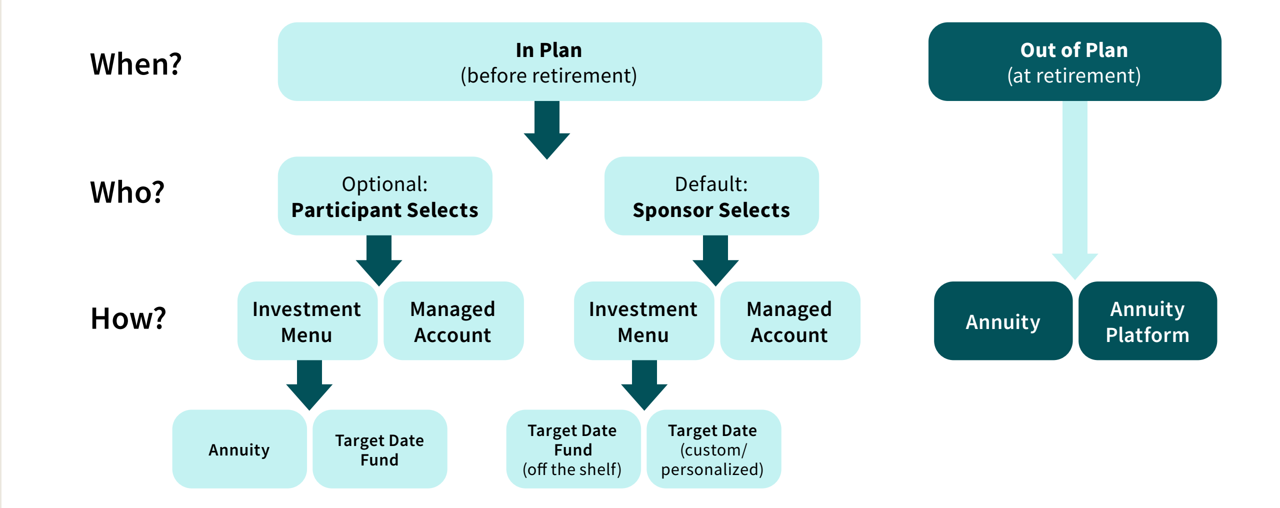
- Attracting and retaining workers, especially within industries where pension benefits are common but the employer no longer offers pensions for new hires;
- Enabling retirement-age workers to retire when they want and not delay out of fear of outliving their savings;
- Encouraging consolidation of participant assets in the plan, which helps take advantage of pricing leverage.

But this is still new territory for many plan advisors and the word "annuity" raises concerns about complexity and fiduciary responsibility, especially for those familiar with the dizzying array of retail annuities.

However, times have changed: today's product design, recordkeeping technology, and regulatory clarity make it much easier to integrate annuities and solutions that use them into a plan. Lifetime income remains a rare bipartisan policy priority, all-but-ensuring incremental legislative improvement. And plan sponsors are increasingly "income-curious," looking to learn more about the options that are available to them.

At the very least, retirement plan advisors recognize the need to study up themselves to better educate their plan sponsor clients, but they're also eager for a simpler way to evaluate lifetime income solutions. Here, I describe a high-level process that filters the available solutions to focus on specific options. You can find a more detailed treatment in my white paper, "Lifetime Income in 401(k) Plans: A Top-Down Consideration Framework."

In a nutshell: start with basic structural questions, narrowing down the options to find a few that warrant full due diligence.



Decision Tree for Retirement Plan Fiduciaries

WHY START FROM THE TOP

It's easy to easily fall down the rabbit hole of product specifics, but that's just the wrong place to start when it comes to the solutions available in 401(k) plans. Ultimately, product details are important, but plan structure should guide the first steps of the process.

After all, if a plan doesn't want to add a solution as a default investment, there's no point in doing a deep dive on products that can only be used that way. Instead, you can distill the query into three straightforward questions:

1. WHEN?

Will the plan offer lifetime income **during accumulation** or only **at retirement**?

- **During accumulation:** Payroll contributions go toward lifetime income guarantees, often within a target date fund or managed account. These solutions may replace part of the bond allocation with a fixed annuity or add an income guarantee.
- **At retirement:** At retirement, participants can create guaranteed lifetime income through a the purchase of an annuity—often a single premium immediate annuity (SPIA)—or use a platform that offers multiple annuity choices.

2. WHO?

Will lifetime income be offered as a **default** or only by **participant choice**?

- **Default:** Embedding an annuity inside or alongside a target date fund or managed account increases participant awareness of the possibility of lifetime income. Importantly, defaults don't force participants to use the annuity for income—they still choose whether to turn on guaranteed lifetime income at retirement.
- **Participant-selected:** The participant can actively select an annuity from the investment menu, but experience shows few participants choose it without strong education and engagement. Lifetime income may also be available through a managed account service that isn't used as a default but offers more structure and guidance.

3. HOW?

How will the annuity be delivered inside the plan?

- As part of a **target date investment**
- Within a **traditional managed account**
- As a standalone **menu option**

After answering these questions, the universe of solutions narrows significantly, and you can focus due diligence on the subset of products that aligns with the plan's design preferences.

THE NEXT STEP: WHAT FORM OF LIFETIME INCOME?

Though this framework addresses only structural choices and not annuity-related ones, there is a critical product decision that may be unfamiliar to many plan sponsors: the form of guaranteed lifetime income.

At the product level, there are two ways annuities provide guaranteed lifetime income: annuitization and the guaranteed lifetime withdrawal benefit (GLWB). Below are a few highlights of both. For those seeking more detail, Michael Finke and I address this in greater depth in another Retirement Income Institute Brief for the Alliance for Lifetime Income by LIMRA ("Institute Brief"), "How In-Plan Annuities Enable Participants to Turn Savings into Income."

1. ANNUITIZATION

- Works like a pension: participants exchange some savings for guaranteed income for life, often in the form of a monthly paycheck.
- The certainty of payment can help protect retirement income plan from cognitive decline and fraud, the topic of this Institute Brief, "Aging, Cognitive Decline, and Financial Decision-Making."
- Secondly, it can simplify administration of assets from the plan.
- Can include spousal and death benefit options.

2. GUARANTEED LIFETIME WITHDRAWAL BENEFIT (GLWB)

- Participants keep account ownership but receive a guarantee that they can withdraw a set percentage for life, even if the account goes to zero.
- Offers flexibility to take extra withdrawals, though this can reduce or void the guarantee.

EMBRACING LIFETIME INCOME

For many retirement plan advisors, annuities are new territory that represent both opportunity and challenge. But you don't need to master annuity mechanics to guide a plan sponsor through a conversation about lifetime income.

Despite their perceived complexity, a decision tree like the one presented here shows that the conversation can start with top-down questions. Without going deep on annuities, only a handful of products will fit, especially when considering availability on a given recordkeeping platform.

At this point, if you're not ready to perform due diligence on your own, you can always bring in a specialist for help across the finish line.

Several myths are worth addressing:

"Defaults lock people in."

Even default solutions in retirement plans preserve participant choice; no one is forced to use guaranteed lifetime income in retirement.

"Annuities are too complicated."

The basic proposition of annuities, guaranteed lifetime income, is simple and appealing—and the products designed for use in retirement plans are simpler for participants than many retail annuities.

"Participants won't use it."

The consensus is that adoption will ultimately stem from defaults. But see above: even defaults preserve choice. Therefore, simple education and participant experience are critical in turning theory into participant action. Retirement planning should incorporate both guaranteed and non-guaranteed sources to create a retirement paycheck that resonates with most participants, as we know from another Institute Brief, "Participant Attitudes Toward Guaranteed Income in a Defined-Contribution Plan."

CONCLUSION

Retirement plans have long focused on accumulating savings, but participants also need to turn those savings into income. A 2024 Institute Brief, "The Peak 65® Zone Is Here—Creating a New Framework for America's Retirement Security," underscores the need to modernize the retirement system for current and future generations.

Drawdown strategies are an absolute must, but many retirees want to enhance Social Security with an additional guaranteed income source. Lifetime income solutions are no longer "too hard" to bring into 401(k)s.

For advisors, the key is not to get lost in the weeds of product minutiae but to guide sponsors through a simple decision tree approach. With that foundation, evaluating products becomes manageable, and fiduciaries can add real retirement security without overwhelming complexity.

The momentum is clear: participants want lifetime income, regulators support it, and product innovation makes it possible. The time is right for advisors to help sponsors take the first step.

AUTHOR

Tamiko Toland is a leading industry expert on annuities. Her thought leadership focuses on simplifying the complex topic of lifetime income, both within the retail and retirement plan markets. She leverages decades of experience for strategic initiatives and businesses through her consulting practice and as founder of the 401(k) Annuity Hub and co-founder of IncomePath.

For more than two decades, Tamiko has tracked trends and key issues on retirement income, addressing all audiences. She has held leadership roles at TIAA, Strategic Insight, and Cannex Financial Exchanges, the annuity data and analytics firm.

Tamiko's introduction to annuities began as a trade reporter for Annuity Market News. She regularly shares her perspectives for the news media and speaks at industry and client conferences and webinars.