

# Implementing an in-plan retirement income solution

In the Loop  
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## Key Insights

- Plan sponsors are reevaluating retirement plan objectives to incorporate both the saving and spending phases as more retiree assets remain in plan.
- Survey data show consistent support for income solutions that help retirees draw down their savings but reveal a lack of conviction in any single product or feature.
- A managed payout solution can be a starting place for plan sponsors to begin their retirement income journey, which is likely to span several years and encompass multiple strategies.



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**M**any defined contribution (DC) plan sponsors are reevaluating their retirement plan objectives to encompass both the saving and spending phases. This evolution in purpose reflects a desire to reposition the plan as not only a savings-oriented vehicle but also as a decumulation platform that supports retired participants. This shift represents a significant change in mindset—one that we believe will be realized and implemented over an iterative and multiyear journey for most plan sponsors.

Philosophically, we believe that reenvisioning the DC plan as it exists today to also accommodate the needs of retired participants will ultimately require a shift toward a retiree-friendly plan design that offers an array of options, including investment and insured solutions, supported by access to tools and advice.

## Where do you start?

For plan sponsors that have identified retaining and supporting retired participants as a priority, the most immediate focus is typically on recreating a paycheck-like experience for retirees. At a conference for DC plan sponsors, T. Rowe Price was asked to share some insights based on our experience as the first target date provider to offer an in-plan trust with a managed payout feature that can provide a retirement income stream through monthly plan distributions.

Given that the topic of in-plan retirement income solutions can be both amorphous and overwhelming, we structured our observations and “lessons learned” by tackling the following three questions:

### 1. What are we trying to solve?

No one needs solutions to problems they don't have, so a good place to start

“  
...plan sponsors are reevaluating their retirement plan objectives to encompass both the saving and spending phases.”

is to identify and fully understand the “problem” that a retirement income solution is expected to solve. In most cases, we believe a managed payout product, supported by complementary participant tools and education, can be a doable first or second step to facilitate a regular and predictable income stream for retired participants. While a managed payout product isn’t likely to be the only answer, it could represent an achievable entry point for plan sponsors to begin their retirement income journey.

## 2. What are plan sponsors looking for?

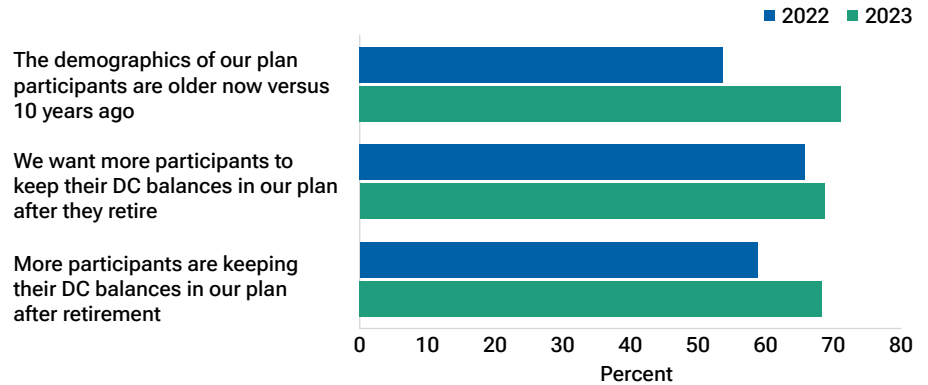
While we believe that solving for in-plan retirement income will be an iterative process that includes a variety of solutions, we currently observe interest in liquid and portable retirement income solutions relative to solutions that include an explicit guarantee.

## 3. What has T. Rowe Price learned from implementing an in-plan retirement income solution in 2019?

A lot! Using our experience as the first target date provider to offer an in-plan trust with a managed payout feature that provides an automatic income stream for retirees as a case study, we will share some lessons from this experience, ranging from the importance of setting expectations to the critical role of the participant experience.

## Plan sponsors are more open to participants staying in plan

(Fig. 1) Plan demographics, plan sponsor sentiment, and plan assets.



Source for 2023 data: T. Rowe Price, 2024 DC Plan Sponsor Considerations and Actions on Retirement Income Study. Q28. Percentages reflect respondents that “strongly agree” or “somewhat agree” with each statement.

Source for 2022 data: T. Rowe Price, 2023 Future of Fixed Income in DC Plans Study. Q7. See Additional Disclosures at the end for more information on the Studies.

## The elephant in the retirement income room

When discussing retirement income, it can be helpful to begin with addressing the elephant in the retirement income room, which is the fact that the retirement industry has been talking about in-plan retirement income solutions for years now, and we still have not seen significant implementation. This observation begs the question, “What makes today different?”

One important structural difference that makes the current retirement income conversation different is that increasingly more plan participants are keeping their assets in plan through retirement.

Figure 1 reflects data from two proprietary DC plan sponsor studies conducted in recent years. Results confirm an aging U.S. workforce and reflect plan sponsors’ growing interest in retaining retired participants in their DC plans throughout retirement. Furthermore, plan sponsors indicate that they are already beginning to see more retired participants keeping their assets in the plan. These results support the need for DC plan sponsors to consider how their participants can best withdraw these savings throughout retirement.

So what do plan sponsors think? In a proprietary survey of DC plan sponsors, nearly one-third of plan sponsors (31%) cited “recognize the need to help participants convert DC plan balances to

## Implications of the original SECURE Act of 2019 (SECURE 1.0) to SECURE 2.0 Act of 2022 (SECURE 2.0)

From a legislative and regulatory point of view, provisions in SECURE 1.0 sought to clarify a fiduciary’s responsibility relative to the selection of an annuity provider and address the growing number of retirees keeping their assets in plan after retirement. While some industry constituents believe SECURE 1.0 did not go far enough to fully assuage plan sponsor concerns about fiduciary liability, it served to accelerate product creation and encourage the launch of innovative solutions to support retired participants who choose to stay in plan. At the end of 2022, SECURE 2.0 became law and it includes provisions that further support lifetime income. While implementation of in-plan retirement income solutions is still likely to be gradual, we are observing more plan sponsors moving from an information-gathering to a decision-making stage relative to retirement income.

retirement income” as the most influential factor driving their interest in exploring or offering retirement income solutions.<sup>1</sup>

Returning to our first question—“*what are we trying to solve?*”—this data tells us that we need to solve, first and foremost, for recreating a paycheck-like experience for retirees.

**Marketplace lacks conviction in any single solution**

Now let’s consider our second question—“*what are plan sponsors looking for?*”—when it comes to in-plan retirement income solutions. Data from the T. Rowe Price 2024 DC Plan Sponsor Considerations and Actions on Retirement Income Study, complemented by results from our 2023 DC Consultant and Advisor Study,<sup>2</sup> offer a view into where the DC marketplace currently stands in terms of demand for a variety of retirement income products and features.

When plan sponsors and consultants were asked to identify which retirement income products and features have the greatest appeal, the results yielded a landscape with little differentiation from one solution to the next (Figure 2). In both surveys, respondents were asked to rate the provided retirement income products or features on a scale of one to four (least to most appealing).

The average plan sponsor ratings were narrowly dispersed, ranging from a high of 2.9 (simple systematic withdrawal) to a low of 2.2 (bond ladder-based investment options and an annuity portal). The average consultant ratings exhibited a relatively wider range with a top-ranked score of 3.4 (simple systematic withdrawal) and a low score of 1.8 (bond ladder-based investment options). These results suggest that the marketplace lacks

**Survey results yield little differentiation across potential solutions**

(Fig. 2) Average ratings from plan sponsors and consultants on retirement income products and features

Retirement Income Products and Features (Ordered by average consultant/advisor score)	DC Consultants and Advisors <sup>1</sup>	DC Plan Sponsors <sup>2</sup>
1. Simple systematic withdrawal	3.4	2.9
2. Managed account (with income-planning feature)	2.8	2.4
3. Target date investment with managed payout feature (non-insured)	2.7	2.6
4. Investment option with managed payout feature	2.3	2.4
5. Target date investment with embedded annuity feature	2.5	2.8
6. Investment that incorporates a partial guarantee	2.2	2.9
7. Deferred income annuity (DIA) or qualified longevity annuity contract (QLAC)	1.8	2.4 <sup>3</sup>
8. Immediate annuity	1.7	2.4
9. Annuity portal (access to out-of-plan annuities)	—	2.2
10. Bond ladder-based investment options	1.8	2.2

Rating: Least Appealing (1) to Most Appealing (4).

<sup>1</sup> Source: T. Rowe Price, 2023 Defined Contribution (DC) Consultant and Advisor Study: This research can be found at [www.troweprice.com/dcio](http://www.troweprice.com/dcio)

<sup>2</sup> Source: T. Rowe Price, 2024 DC Plan Sponsor Considerations and Actions on Retirement Income Study.

<sup>3</sup> Reflects only DIA.

Guarantees are subject to the claims-paying ability of the insurer.

conviction around any single retirement income product or feature.

On a positive note, both DC plan sponsors and consultants and advisors identified a

simple systematic withdrawal capability as the most appealing retirement income product or feature and bond ladder-based investment options as the least appealing.

<sup>1</sup> T. Rowe Price, 2024 DC Plan Sponsor Considerations and Actions on Retirement Income Study.

<sup>2</sup> The third annual T. Rowe Price Defined Contribution (DC) Consultant and Advisor Study was conducted in 1H 2023. The purpose of this study is to capture business and retirement views from the consulting and advisory community and reflects responses from 32 firms with \$6.7 trillion in assets under administration.

## Supporting participants draw down their savings

With the caveat that the results of both surveys yielded similar ratings from one retirement income product or feature to the next, we observed consistent support for solutions that help participants spend down their savings. This is evident in the average scores for systematic withdrawal payments, a managed account with the income-planning feature, and a target date solution with managed payouts.

## Managed accounts as a retirement income solution

A managed account with an income-planning feature captured the second-highest average rating from consultants and advisors.

In contrast, managed accounts received an average rating of 2.4 from plan sponsors. We believe the relative enthusiasm expressed in the consultant rating may be due, in part, to the fact that some of these firms are creating proprietary managed account solutions.

That said, we see the broader DC industry's position on the value of personalization evolving, particularly as participants approach retirement and then throughout retirement. For many participants, decumulation will require a more customized investment solution and personalized experience compared with what sufficed in the accumulation phase, where participants' needs are generally homogenous.

## Some interest in using target date investments to address retirement income

Consultants and advisors placed a target date investment with an embedded managed payout feature (non-insured) as the third most appealing retirement income product or feature (2.7). Plan sponsors also rated a target date investment with an embedded managed payout as relatively

appealing (2.6). We interpret these survey results as prioritizing:

1. the power of the default to serve as many participants as possible and
2. a keen interest in positioning the DC plan to distribute a regular stream of income to retired participants.

Plan sponsor interest in using a target date investment to address retirement income is also evidenced in their rating for a target date with an embedded annuity feature (2.8).

While it may be appealing to leverage the power of the default, embedding an annuity within a target date may result in some participants paying for a feature that they may not choose to use in retirement.

Notably, an investment that incorporates a partial guarantee, received the highest plan sponsor rating (2.9, tied with a systematic withdrawal). Plan sponsors may take this into account as they look for innovative offerings by product providers.

## Standalone annuity products generally ranked lower in terms of appeal

Both the plan sponsor and consultant findings indicate that annuities offered on a standalone basis (i.e., not packaged as part of a multi-asset investment) are generally not identified as appealing relative to other available options. Consultants assigned an average rating of 1.8 for a DIA or QLAC and an average rating of 1.7 for an immediate annuity, suggesting a lower level of interest in standalone annuities.

Plan sponsor results express a lack of conviction for an in-plan annuity or an in-plan DIA (2.4). Notably, the average plan sponsor rating for an annuity portal, defined as access to out-of-plan annuities, was not higher than in-plan annuity products. We hypothesized that out-of-plan annuities could be considered more appealing by plan sponsors, but the data did not confirm that assumption.

## Our managed payout solution

Several years ago, one of our clients came to us seeking to partner on a solution that would help their retired participants convert a lifetime of savings into a stream of income.

The sponsor had a few specific priorities for this solution:

1. Had to be 100% liquid and not locked in
2. Needed to be portable
3. Needed to be easy to communicate to participants
4. Needed to be simple to evaluate and monitor

With these objectives in mind, we collaborated and landed on a managed payout solution that retired participants could opt into. In very simple terms, the managed payout is an additional vintage of the plan's target date suite and is designed to provide a monthly payment based on a 5% annual withdrawal target (adjusted for investment performance over time, as outlined in the next section). According to plan-specific provisions, this feature is only available to fully vested, terminated or retired participants who have attained age 59½ or older (to avoid penalties). In partnership with our client, the in-plan managed payout investment option was implemented in 2019.

## Explaining the managed payout feature

The annual payout amount per unit of investment is based on 5% of the average monthly net asset value (NAV) of the target date trust with the managed payout feature over the trailing five years. We did this to increase the predictability of the year-over-year monthly "paycheck" in retirement and reduce the impact of market volatility on distributions, which—considering the volatile market environment that participants experienced in 2022—is increasingly appealing.

Also, the managed payout was designed to be flexible so that participants can withdraw funds from the target date vintage with the managed payout feature at any time. The amount of monthly payments will automatically adjust based on changes in the number of units owned by the participant.

## Why 5%?

The short answer is our research has shown that people generally underspend early in retirement, often out of fear that they will run out of money. Also, when we did our modeling, we concluded that retirees could be well served by spending more than 4%—the conventional rule-of-thumb payout rate—early in retirement, when they are most likely to enjoy their golden years fully, as opposed to later when they might not physically be able to cross items off their retirement bucket list. It's important to note that the payout rate, which is based on 5% of the average monthly NAV of the investment over the previous five years, is nominal, while the conventional 4% rule is typically adjusted upward every year to account for inflation.

The managed payout follows an endowment model, which means that it can't go to zero. It is always taking 5% of something. This methodology preserves some cushion for unexpected expenses, which we all know are important to plan for—particularly as we emerge from a global pandemic that exposed the financial fragility of many retirement savers. This methodology also allows for a more predictable payout amount with a smoothing mechanism to account for both upside and downside market volatility. This way, we can balance the need to support a meaningful level of income while taking into consideration the market fluctuation and investor aversion to balance depletion.

## Five key lessons and observations

Now, for our third, final, and arguably most informative question: **What has**

### T. Rowe Price learned from implementing an in-plan retirement income solution?

#### 1. It's a feature, not necessarily a new investment.

In conversations with plan sponsors, the managed payout solution is generally seen as a feature they can “turn on,” as opposed to a separate investment outside of the current suite of retirement date investments that would require more extensive monitoring. This has helped more plan sponsors get comfortable with implementation. In many cases, the response we heard from plan sponsors was along the lines of, “Well, why wouldn't I make this feature available to my participants?” For plan sponsors who want to help participants convert a lump sum of savings into a predictable “paycheck” in retirement, a managed payout can be a noncontentious place to start, particularly when participant investment in the managed payout option is optional and not enabled by default.

#### 2. The participant experience is paramount.

The quality of the participant experience is correlated with participant adoption. We spend just as much time on the participant experience and communications as we do on investments.

We have observed the power of participant communications and education crafted to support the retirement income experience. For example, we send communications to participants approaching retirement to educate them on the availability and features of this option for creating an income stream in retirement. These campaigns typically see significantly greater participant engagement compared with nonretirement income-focused communications.

#### 3. Retirement income isn't a top priority for all plans. Is it for yours?

Currently, we have over 50 plan sponsors that have added the managed payout



...the managed payout was designed to be flexible so that participants can withdraw funds ...at any time.

investment option. Note that the managed payout capability was introduced to the DC marketplace in 2019, soon before the world was overtaken by the coronavirus pandemic. Understandably, plan sponsor priorities shifted in response. Beginning in early 2023, more plan sponsors are reengaging with us on the possibility of adding an investment option with a managed payout feature to their plans.

#### **4. Adding a retirement income product or feature will be a slow build.**

Participant adoption of the managed payout investment option has been modest and in line with our expectations. Generally, any plan investment menu option or feature that is not implemented by default will take time to garner participation and adoption. Based on what we've seen in terms of adoption, it might be helpful for plan sponsors to take a stab at defining what success looks like for their committee prior to implementation. This can help level set expectations for participant adoption. Implementing a retirement income solution is a long-term decision and cannot be productively measured over a short time horizon.

#### **5. Getting the whole picture is key to success.**

We observe many participants—particularly those approaching

retirement—engaging with the retirement income estimator that supports the managed payout investment experience. We also offer participants access to a broader retirement income tool that uses data aggregation technology to provide participants the opportunity to add in additional accounts to be able to model a more comprehensive and realistic view of their retirement income. We offer plan sponsors educational campaigns that can be shared with participants to help raise participant awareness around the four potential distribution options they have at separation of service, including staying in plan.

#### **Managed payouts as a doable first step**

This paper focuses on a managed payout solution because we view it as a great starting place for plan sponsors to begin their retirement income journey, which will most likely span several years and encompass multiple strategies. As the results from our plan sponsor and consultant surveys demonstrated, it would be folly to think that we can solve for retirement income with a single solution. We are encouraging plan sponsors to consider building a retirement income ecosystem that includes a plan design able to facilitate

retirement income “paychecks,” a broad array of investments—which may include personalized and/or insured solutions, as well as access to advice.

#### **T. Rowe Price sources:**

**2024 Defined Contribution Plan Sponsor Considerations and Actions on Retirement Income Study:** The survey was fielded November 14, 2023, through December 22, 2023. Data reflects responses from 119 plan sponsors.

**2023 Future of Fixed Income in Defined Contribution Plans Study:** The survey was fielded October 12, 2022, through November 15, 2022. Data reflects responses from 158 plan sponsors.

**2023 Defined Contribution Consultant and Advisor Study:** This study included 45 questions and was conducted from February 14 through March 31, 2023. Responses are from 32 consulting and advisory firms with over 171,000 plan sponsor clients and more than USD 6.7 trillion assets under administration.

## **“Flipping the Switch” for Retirement Income**

As of the writing of this paper, there are more than 50 plans that have “flipped the switch” and are allowing participants the opportunity to opt into the managed payout solution. These plans have approximately \$54 billion in total assets, of which about \$20 billion is invested in target date assets with the managed payout offering.

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