

Lifetime income solutions

What actions are employers taking to reduce employees' longevity risk?

23%

of plan sponsors

offer lifetime income solutions,
and nearly **20%** are
planning or considering them.*

*Source: 2016 Willis Towers Watson Lifetime Income Solutions Survey

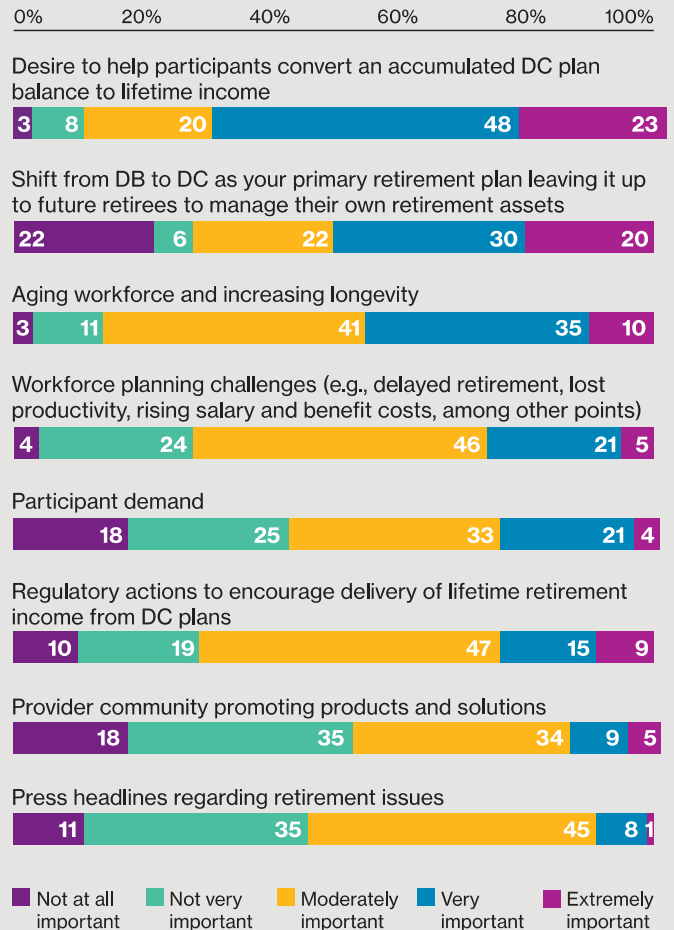
Based on our experience, there is growing evidence that many employees are not financially ready for retirement, and plan sponsors are increasingly concerned about the gravity of this lack of preparedness. There are a number of reasons why employees may not be very advanced in their plans to secure a solid retirement with a dependable income stream:

- Multiple financial obligations employees face that make planning for retirement difficult
- A lack of knowledge or a feeling of being overwhelmed by complex retirement products and investment choices
- An overreliance on Social Security as a major source of retirement income
- Debt or an inability or unwillingness to change lifestyle
- A late start in saving for retirement compounded by longer life spans and increasing health care costs

Whatever the reason(s), retirement income planning is an increasingly important piece of the safety net that employees need to help ensure their financial well-being is secure. Employees are being asked to take more responsibility for their retirement saving, including participation in their defined contribution (DC) plans. In part, this reflects the growing number of employers that are moving employees from defined benefit (DB) to DC plans.

In March and April 2016, Willis Towers Watson conducted the Lifetime Income Solutions Survey of almost 200 HR, benefit and finance executives at large and midsize U.S. organizations to learn more about what actions employers are taking to address employees' longevity risk. We found that of those plan sponsors that have already adopted, or are considering or planning to adopt lifetime income solutions that protect against outliving financial resources by creating regular income in retirement, 50% cited the shift from DB to DC as a very important or extremely important influencer. Plan sponsors also indicated a desire to help participants convert an accumulated DC plan balance to lifetime income (71%), and an aging workforce and increased longevity (45%) as important influencers (Figure 1).

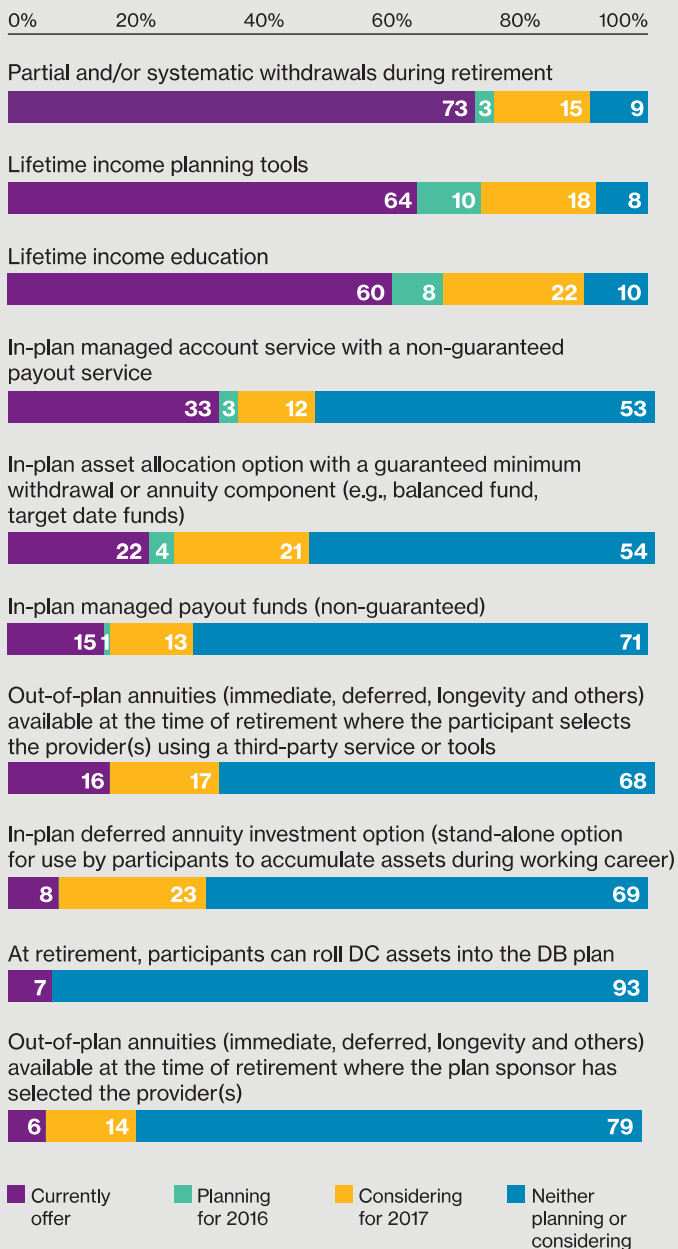
Figure 1. **Top reasons to offer or consider offering lifetime income solutions**



Data based on respondents to the 2016 Willis Towers Watson Lifetime Income Solutions Survey that have already adopted, or are planning or considering lifetime income solutions.

Numbers may not add up to 100% due to rounding.

Figure 2. **Types of lifetime income solutions currently offered, planning to offer or considering**



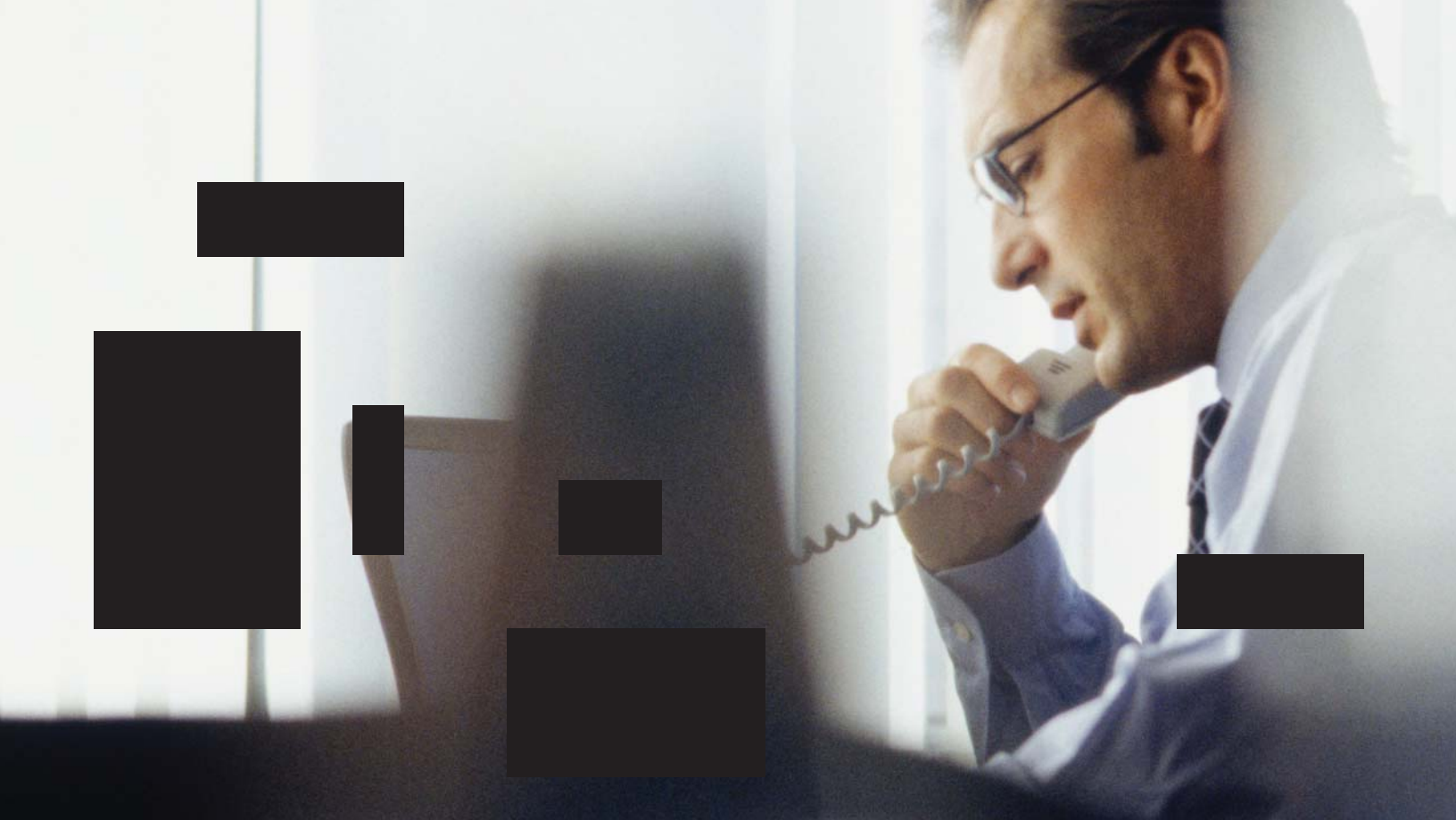
Data based on respondents to the 2016 Willis Towers Watson Lifetime Income Solutions Survey that have already adopted, or are planning or considering lifetime income solutions.

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Some additional key findings from our survey:

- Employers, particularly the HR and benefit functions, are aware of the enormity of longevity risk, and organizations want to help participants access tools that can help them build adequate retirement income.
- Employers are reluctant to use insurance-backed products in DC plans despite their effectiveness in minimizing longevity risk to employees and retirees.
- This reluctance is much greater among sponsors that don't adopt lifetime income solutions.
- Partial or systematic withdrawals, lifetime planning tools and education are the most widely offered lifetime income solutions. Other, more effective solutions are much less frequently made available (Figure 2).

Top barriers cited to implementing lifetime income options include fiduciary risk, cost, and unsatisfactory or untested market options.



A good start

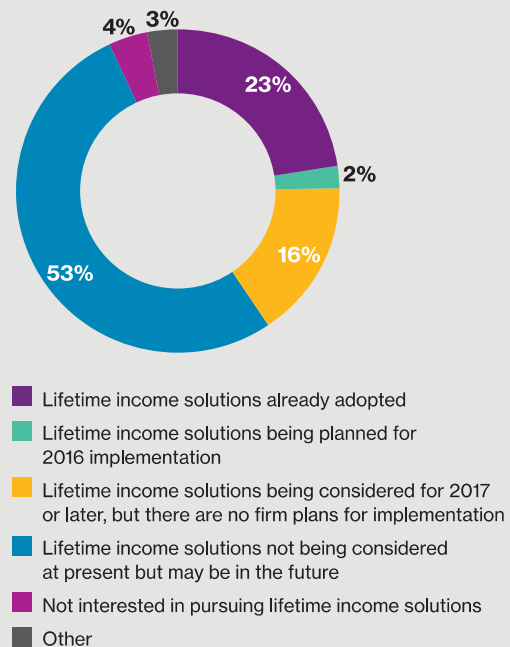
It is an enormous task to ensure that employees have sufficient income in retirement, one that will require a substantial amount of work if plan sponsors want to approach retirement income planning strategically. The need is tremendous, but the good news is that 23% of plan sponsors have already adopted one or more lifetime income solutions, and nearly 20% are either planning implementation in 2016 or considering it for 2017 or beyond (*Figure 3*).

Another hopeful sign is that 55% of all survey participants actively monitor the evolving market for insurance-backed products such as annuities and guaranteed minimum withdrawal benefits that manage longevity risk.

Room to grow

In spite of this strong foundation, there is a lot of room to grow: Over half (53%) of plan sponsors in our survey are not currently considering lifetime income solutions but may in the future, and 4% are not at all interested (*Figure 3*). Additionally, among those that have already adopted a lifetime income solution, a third may look to expand their offerings.

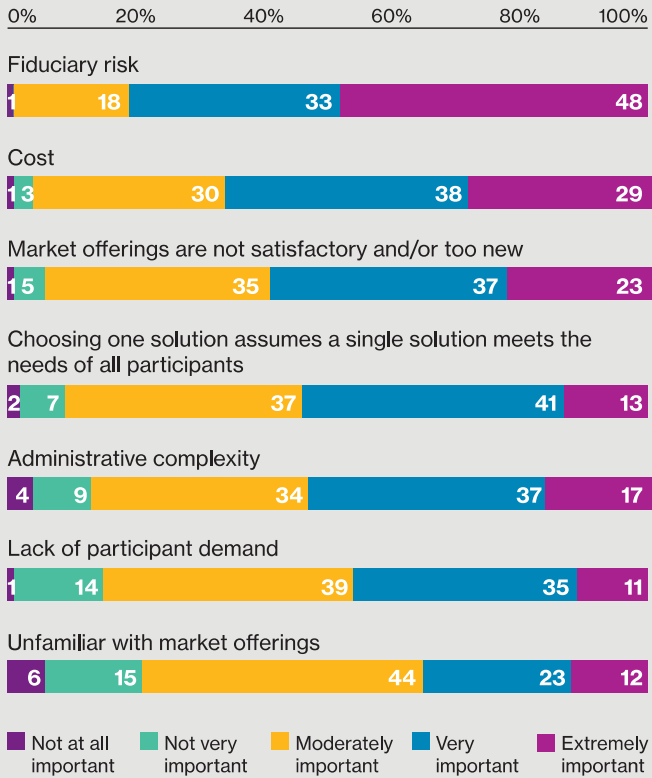
Figure 3. Current status regarding lifetime income solutions



Based on respondents to the 2016 Willis Towers Watson Lifetime Income Solutions Survey.

Numbers may not add up to 100% due to rounding.

Figure 4. Top barriers to offering lifetime income solutions



Data based on respondents to the 2016 Willis Towers Watson Lifetime Income Solutions Survey that are not considering or not interested in lifetime income solutions.

Numbers may not add up to 100% due to rounding.

Barriers

Based on our survey, many plan sponsors are taking a cautious approach to adopting lifetime income solutions. We believe successful integration of these options into retirement plans requires that a plan sponsor be methodical and carefully consider not only the options, but also how to educate participants about the availability and features of these new choices.

However, our survey results indicate that there are major barriers slowing down commitment. Plan sponsors that are not considering or interested in a lifetime income solution selected the following barriers as very or extremely important: fiduciary risk (81%), cost (67%) and market offerings that are not satisfactory or are too new (60%) (Figure 4).

Even so, longevity risk – the possibility of outliving one’s retirement assets – creates an incentive for plan sponsors to offer effective lifetime income solutions.

HR/Benefits functions are the most concerned of all corporate areas about longevity risk, with 65% of all survey participants expressing moderate or extreme concern. Treasury/Investments followed a distant second (39%); executive/workforce planning (33%) is third, and legal/compliance (27%) is fourth. Interestingly, the level of concern among the HR/benefits function by those respondents that have already adopted lifetime income solutions drops 15 percentage points to 50%. An established program that guides plan participants and helps them create regular income in retirement may well be allaying concerns.



Are insurance-backed products the answer to longevity risk?

Although plan sponsors understand how longevity risk can upend retirement income, the majority of all respondents are hesitant to use insurance-backed products in their DC plans. Topping the reasons among all respondents for reluctance are administrative complexities created for the plan sponsor and recordkeeper (79% agree or strongly agree), low plan participant demand (69%), possible portability restrictions and high fees (64% each), and fiduciary risk (63%).

Survey participants that haven't added lifetime income solutions to their DC plan choices are even more cautious and, on average, from between five to 10 percentage points more likely to express concern than adopters. Moreover, the differences are greater still when asked about high fees (30 percentage points greater) and transparency (15 percentage points greater) (*Figure 5*).

More action needed

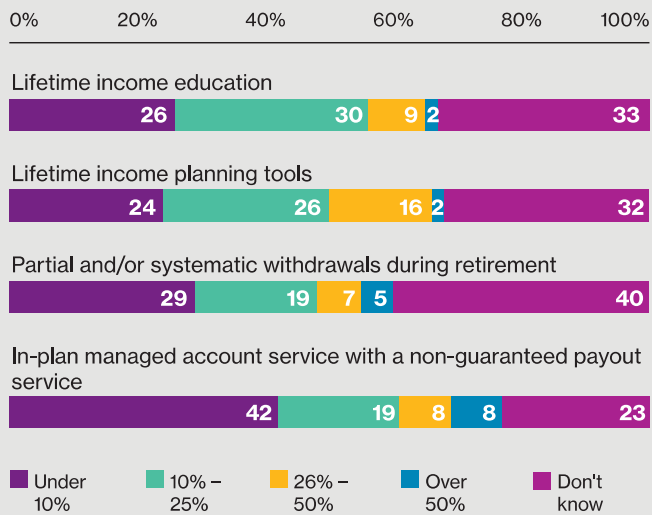
Most plan sponsors already offering, planning or considering lifetime income solutions provide partial or systematic withdrawal during retirement (73%), lifetime income planning tools (64%) and lifetime income education (60%). However, other, more effective solutions are much less prevalent, such as in-plan managed account services with non-guaranteed payouts (33%) and out-of-plan annuities at retirement where the participant selects the provider (16%). More can be done to expand the range of choices available to meet the lifetime income needs of individual participants.

Figure 5. Fees are a significant issue when using insurance to reduce longevity risk



Based on respondents to the 2016 Willis Towers Watson Lifetime Income Solutions Survey.

Figure 6. Participant usage of lifetime income solutions offered



Data based on respondents to the 2016 Willis Towers Watson Lifetime Income Solutions Survey that offer the respective lifetime income solutions.

Future steps

We believe plan sponsors can improve their outreach to participants and their responses to longevity risk by taking the following actions:

- Track usage of lifetime income solutions
- Determine whether lack of knowledge about member usage and low participation are linked
- Reassess the benefits of insurance solutions
- Better engage with DC plan recordkeepers
- Periodically assess whether the use of lifetime income solutions is reducing longevity risk

Our survey results suggest that plan sponsors can seize an opportunity to better determine if and how plan participants are using lifetime income solutions. A range of 23% to 40% of survey participants didn't know the approximate usage by their members of solutions offered (*Figure 6*).

The findings also show that participant usage is low overall, with 25% or less reported for: in-plan managed account services with a non-guaranteed payout service (61%), lifetime income education (56%), lifetime income planning tools (50%), and partial or systematic withdrawals during retirement (48%).

Plan sponsors may also want to consider whether there is a link between their lack of knowledge about members' lifetime income solution usage and low participant usage. Is there an opportunity to engage and energize plan members to use lifetime income solutions within a plan? We feel regular outreach might help.

Plan sponsors and providers of guaranteed insurance-backed products and non-guaranteed investment management choices also need to work toward reducing cost, administrative complexity and fiduciary risks. Based on our experience, by reducing these barriers, plan sponsors may feel more comfortable increasing lifetime income solution choices and employees may be more likely to opt for them.

We feel plan sponsors should also engage with their DC plan recordkeepers to understand which lifetime income solutions are available and to express interest in expanded choice. In recent discussions with 13 leading recordkeepers, Willis Towers Watson learned that few offer a comprehensive array of solutions. Further, we heard that plan sponsor demand for lifetime income solutions remains low, although general interest is growing. Recordkeepers are reluctant to invest in new capabilities until plan sponsor demand increases.

Plan sponsors may also wish to examine whether their fiduciary responsibilities, governance guidelines and risk tolerances allow them to expand on both in- and out-of-plan lifetime income solutions offered. In our recent recordkeeper discussions, we frequently heard that except for education and planning tools, only a small minority of plans were offering participants other solutions that are readily available from recordkeepers. Plan sponsors should seek to understand all the solutions available to them and expand the range of choices wherever possible. If the right conditions are met, would plan participation increase with additional offerings?

Finally, we believe plan sponsors should routinely review their overall DC plan designs to confirm that they support their objectives and priorities. Lifetime income features need to be revisited periodically to determine if they are meeting DC plan participants' needs and to consider whether new offerings would be appropriate.

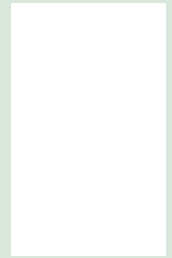
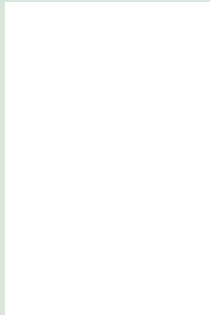
Great need and great opportunity

Where there is great need, there can also be great opportunity. Employees face major obstacles as they try to save for retirement in order to have regular, adequate income that secures their futures. This is particularly true at a time when employers are increasingly shifting from DB to DC plans, life spans have lengthened and competing financial responsibilities make it hard to save for retirement. Plan sponsors look to lifetime income solutions to continue their mission of preparing plan members for life after their work lives.

Employers are reluctant to use insurance-backed products in DC plans despite their effectiveness in minimizing longevity risk to employees and retirees.

About the survey

The 2016 Willis Towers Watson Lifetime Income Solutions Survey was conducted in March and April 2016. The online survey was completed by HR, benefit and finance executives at 196 large and midsize U.S. companies in a wide range of industries.



About Willis Towers Watson

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