Voya Perspectives

Retirement income is the new retirement plan outcome

Uncovering opportunities and solutions to help employees transition retirement savings into retirement income

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PLAN | INVEST | PROTECT

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Redefining retirement means refocusing retirement plan outcomes

The concept of what it means to retire is changing. Driven by the soaring number of baby boomers approaching and entering retirement and accelerated by systemic shifts in the workplace caused by the COVID-19 pandemic, the traditional concept of retiring from work at a target age is being replaced by a more transitional and fluid model that runs the gamut from early retirement to delayed retirement to partial or phased retirement. Retirement decisions also can be drastically impacted when someone needs to plan for and support additional lives - such as aging parents or adult children with disabilities or special needs.

About

10,000

boomers will turn age 65 every day until 2030.[1]

54%

of Americans say they will continue to work in retirement for financial reasons—either to maintain their current lifestyle or to build a safety net for unexpected expenses.[2]

28%

of boomers are planning to delay their retirement.[3]

Regardless of how employees define retirement, or when the process begins, every retiree needs reliable income. The vast majority of private industry workers no longer have access to a defined benefit pension plan for lifetime retirement income. As of March 2020, only 15% of workers had a defined benefit plan.[4] Even among the government and public sectors, where pension plans are more prevalent, benefits have been reduced over the last 10 to 15 years putting more pressure on workers to save in supplemental voluntary retirement plans. And because Social Security may only provide about a third of a worker's pre-retirement income in retirement, employees are having to rely more heavily on the balances in their employer-sponsored defined contribution plans to create the income they'll need for a comfortable retirement.

Employers have an opportunity to help pre-retirees transition their retirement plan savings into an income stream—including guaranteed income—by offering an array of solutions that are easy to understand and implement and that can provide a greater feeling of confidence and financial well-being.

More employers are embracing income solutions

Over the past several decades, the retirement plan industry has regularly introduced new ways for participants to accumulate assets and become more comfortable managing their long-term retirement accounts. The evolution moved from balanced funds to lifecycle funds, to model portfolios, and then into target date funds. This has been helpful for investors focused on growing their retirement account balances. But as participants get closer to retirement and start thinking about converting those assets into an income stream, plan services and investment menus typically fall short on providing income-generating options.

[1] United States Census Bureau; https://www.census.gov/library/stories/2019/12/by-2030-all-baby-boomers-will-be-age-65-or-older.html
[2] Based on the results of a Voya Financial survey conducted through Ipsos on the Ipsos eNation omnibus online platform among 1,005 adults aged 18 or over in the U.S. Research was conducted July 30–31, 2020.
[3] Logica Future of Money Study Fall 2020; © Logica Research
[4] U.S. Bureau of Labor Statistics; March 2021; https://www.bls.gov/opub/ted/2021/67-percent-of-private-industry-workers-had-access-to-retirement-plans-in-2020.htm

Shifting perspectives, along with favorable legislative actions, are motivating employers to consider adding retirement income solutions to their defined contribution plans. The SECURE Act highlighted the importance of income solutions and included three provisions designed to increase the availability of lifetime income options in DC plans:

- Fiduciary safe harbor for sponsors selecting an in-plan annuity/income product and provider
- Portability of lifetime income options to help make those options more appealing to participants
- A new lifetime income estimate disclosure requirement that highlights the reality and importance of lifetime income for participants

A recent Voya survey found that 86% of plan sponsors agree that the SECURE Act has encouraged them to adopt a focus on retirement income in their plan design. In addition, 69% report they offer retirement income planning education (up from 46% in 2018). Among those not currently offering retirement income planning education, 51% say they plan to offer it in the next year.[5]

Key trends driving the need for retirement income guidance

Pre-retirees are stressed and worried about the future

- **58%** of Americans in their 50s worry about Social Security drying up during their lifetime.[6]
- **91%** of workers think it is extremely important to have a guaranteed source of income in retirement.[7]
- **78%** of family caregivers are incurring out-of-pocket costs averaging $7,242 annually, which can impact their own retirement savings and spending plans.[8]

Americans lack money management skills

- **73%** of Americans say they do not have the financial skills to manage their money in retirement.[9]
- **86%** of working Americans either strongly agree or agree that they want help understanding how to generate income in retirement and maintain their current lifestyle.[10]

Rising healthcare costs complicate retirement expense planning

- **65%** of baby boomers have not budgeted for unforeseen healthcare expenses.[11]
- **57%** of working Americans age 55 or over do not know how to estimate future healthcare costs for retirement planning.[10]
- **7 out of 10** people will require long-term care in their lifetimes.[12]

[5] Based on results from 339 online interviews with Plan Sponsors completed by Voya IM in partnership with Brookmark Research in mid-February to early March 2021.
[6] SimplyWise January 2021 Retirement Confidence Index; https://www.simplywise.com/blog/retirement-confidence-index/
[7] Based on the results of a Voya Financial survey conducted through Ipsos on the Ipsos eNation omnibus online platform among 1,004 adults aged 18 or over in the U.S. Research was conducted March 12–15, 2021.
[8] Family Caregivers Cost Survey; https://www.aarp.org/research/topics/care/info-2016/family-caregivers-cost-survey.htmlinsert
[9] Retirement Security Project at Brookings, July 2019; https://www.brookings.edu/wp-content/uploads/2019/07/ES_201907_JohnGaleIwryKrupkin.pdf
[10] Based on results of a Voya Financial survey conducted through AYTM—Ask Your Target Market online research platform between Jan. 18–26, 2021, among n=750 Americans age 18 or over who are full-time employees and actively contributing to their employer-sponsored retirement plan, balanced by age and gender to reflect the U.S. population.
[11] The NHP Foundation, March 2018; https://nhpfoundation.org/documents/FINAL%20RETIREMENT%20CONFIDENCE%20SURVEY%203.20.pdf
[12] Cost of Care Survey. Genworth, 2020. https://www.genworth.com/aging-and-you/finances/cost-of-care.html

The components of a retirement income strategy

Retirement plan participants and sponsors need a plan—not just a product. Voya believes that there is no one-size-fits-all solution. Comprehensive solutions that bring together recordkeeping, investments, technology, communications and risk management will best serve participants nearing or in retirement.

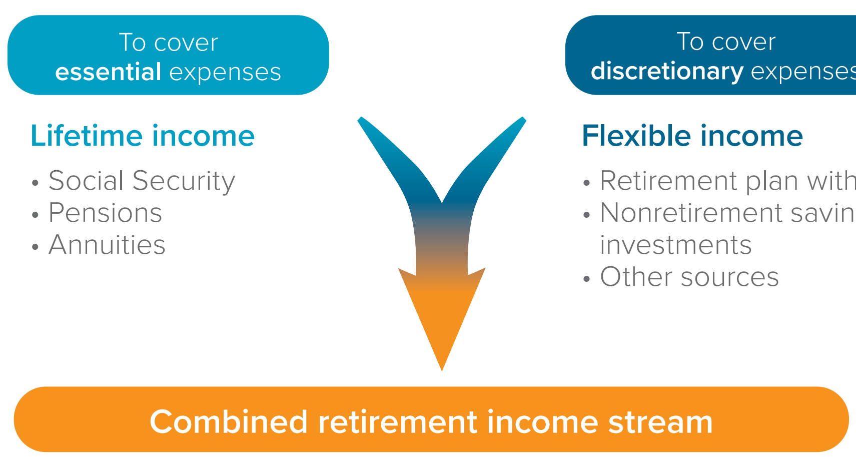
Building a retirement income portfolio

A comprehensive income strategy should include two broad types of income:

- Guaranteed lifetime income provides reliable retirement “paychecks” that are protected against investment risk and guaranteed never to run out for the participant (and sometimes even their spouse or beneficiary). Sources include Social Security, defined benefit pensions, and fixed annuities.
- Flexible retirement income is generated by withdrawals from retirement plans and other sources. Depending on how the accounts are invested, there is the potential for investment growth to help extend the length of time the money is available and to keep up with inflation, as well as the flexibility to alter payment streams to accommodate changing goals and needs. These payment streams are not guaranteed by the government, insurance companies or employers, and there is also the potential for these accounts to decrease in value.

Two income streams flow together

Combining lifetime and flexible income sources provides a balance between certainty and flexibility



Some retirees may be comfortable with one type of income stream or the other, depending on their appetite for risk and their lifestyle choices. But for many, combining the two types offers a balance between certainty and flexibility. Lifetime income can provide some security around essential expenses like housing, food and healthcare. Flexible income can be adjusted as needed to support discretionary expenses like entertainment, travel and gifts, as well as complement any shortfalls from the lifetime income sources.

Here are two examples that illustrate how combining lifetime and flexible income sources can work for retirees with different needs.

Example 1

Joe and Maria are fortunate to both have lifetime pension income. Combined with Social Security, this provides them with a nice cushion of guaranteed income. They can use their flexible income, including systematic withdrawals and managed payout strategies from their personal savings plans, to cover their discretionary expenses.

Joe and Maria
Retired Operations Manager and Teacher

Retirement Income Goal = $6,200
($5,000 essential expenses + $1,200 discretionary monthly expenses)

To cover **essential** expenses

Lifetime income
- Social Security
- Pensions

To cover **discretionary** expenses

Variable income
- Retirement plan withdrawals
- Systematic withdrawals
- Managed payout

Combined retirement income stream > $6,200

Example 2

As a retiree, Nancy needs $3,300 to cover her essential expenses. But since she has no pension, she augments her Social Security benefits with an in-plan variable annuity that provides her with guaranteed lifetime income. She takes systematic withdrawals from her employer's retirement plan and gets income strategy guidance from an advisor through a Managed Account to cover her variable discretionary expenses.

Nancy
Retired Nurse

Retirement Income Goal = $5,000
($3,300 essential expenses + $1,700 discretionary monthly expenses)

To cover **essential** expenses

Lifetime income
- Social Security
- In-plan variable annuity

To cover **discretionary** expenses

Variable income
- Retirement plan withdrawals
- Systematic withdrawals
- Managed account with income emphasis

Combined retirement income stream > $5,000

Adding income options through plan design

Working with a plan's advisor, consultant or third party administrator, plan sponsors can add optimal plan design features and income-oriented investment options to support workforce demographics.

Best practices for plan design continue to evolve. Initially, most plan sponsors, advisors and providers focused on designing plans to maximize participation and accumulation, using features such as automatic enrollment, automatic escalation and optimized employer matching contributions. The next phase in plan design evolution is to ensure the plan utilizes features that support employees as they transition from accumulating to generating a retirement income stream, including:

- **Systematic withdrawals**—allow retirees to create an automated income stream through simple and convenient withdrawals.
- **Expanded investment lineup**—includes income options for retirees, such as managed accounts, in-plan annuities and managed payout funds, which are strategies designed to produce steady monthly income payouts.
- **Intelligent withdrawal solutions**—includes options that integrate a diversified multi-asset fund that balances growth and stability with a technology interface to help retirees create automated income streams specific to their needs and preferences.
- **Qualified Default Investment Alternatives (QDIAs)**—default participants age 50 or over into investment options such as managed accounts, or similar, that will help support their transition from accumulation to drawdown.
- **Rollover in**—allows employees to more easily consolidate assets from prior employer plans to simplify account management and make it easier to calculate withdrawals and required minimum distributions.
- **Partial distributions**—allow retirees more income flexibility by leaving some assets in the plan and transferring a percentage of assets to outside accounts.

These plan design features will help give pre-retirees and retirees reasons to keep their money in the plan rather than taking it all out in a lump sum. Keeping retiree assets in the plan helps maintain the economies of scale the plan attains based on total plan size.

33%

Participants **age 60 or over** were 33% more likely to keep assets in their retirement plans after they retired if their plan offered retiree-friendly payout benefits like systematic withdrawals.[13]

[13] Voya Internal Summary data, May 31, 2021. Note: many factors could have contributed to these results.

Plan features and income products at a glance

For more details and definitions, see the Glossary on page 13.

Feature/Product	Guaranteed or nonguaranteed income	Retirement income stream type	Professional management of withdrawal strategy	Easy access to account value
Systematic withdrawals	Nonguaranteed	Variable. Participant elects withdrawal amounts and has flexibility to change.	No. Participant manages their withdrawals and fund investment selection.	Yes
Managed payout funds	Nonguaranteed	Variable. The fund strives to provide steady monthly payments. Payment rate resets annually.	Yes. Provided by the fund manager.	Yes
Intelligent withdrawal tools	Nonguaranteed	Flexible. The tool provides a recommended withdrawal strategy that can be customized by the participant.	Yes. Tools provide participant with optimal withdrawal strategy.	Yes
Managed account with income emphasis	Nonguaranteed	Variable. Service provides optimal asset allocation and withdrawal strategy for participant.	Yes. Provided by managed account service.	Yes
In-plan annuity—fixed	Guaranteed	Fixed. Payments may increase if Cost of Living Adjustment (COLA) feature is included.	Yes. Provided by insurance company; the income stream is not impacted by investment performance.	No
In-plan annuity—variable (GMWB/GLWB)*	Guaranteed	Fixed minimum has potential to increase payments if account value grows.	Yes. Investments are professionally managed by a fund manager or provided by insurance company.	Yes

* Guaranteed minimum withdrawal benefit/Guaranteed lifetime withdrawal benefit

Guaranteed income from fixed and variable annuities is based on the claims-paying ability of the insuring company.

5 reasons employers should consider implementing retirement income solutions

1

Employees are asking employers for help.

79% of working Americans trust retirement planning services and education offered by their employer.[14]

Employees need education and guidance around shifting from an asset accumulation mindset to an asset drawdown and paycheck replacement mindset. The planning process can get complex when you're trying to determine withdrawal strategies from multiple savings accounts balanced with required minimum distributions and how to maximize Social Security benefits. American workers look to their employers for financial support and guidance for this type of retirement planning.

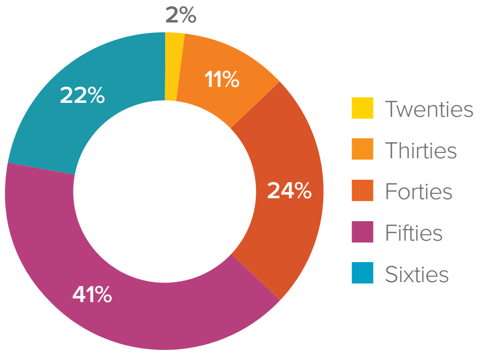
2

Keeping assets in the DC plan helps to manage costs and keep participant expenses low.

63% of assets in 401(k) plans are owned by participants age 50 or over.[15]

Whether a plan's cost structure is based on the amount of assets in the plan or the number of participants in the plan, keeping those numbers up gives the plan economies of scale. Older workers tend to have higher plan balances, and offering lifetime income solutions gives them a reason to keep their savings invested in the plan. Keeping assets in the plan can also potentially reduce costs for the employee, thanks to lower institutional pricing. They may face higher retail investment costs outside of the plan.

Ownership of total 401(k) plan assets by age



[14] Based on results of a Voya Financial survey conducted through AYTM—Ask Your Target Market online research platform between Jan. 18–26, 2021, among n=750 Americans age 18 or over who are full-time employees and actively contributing to their employer-sponsored retirement plan, balanced by age and gender to reflect the U.S. population.
[15] Employee Benefit Research Institute (EBRI); https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_526_401kxsec.4mar21.pdf?sfvrsn=80823a2f_6

3

Employees who don't feel confident about managing their retirement assets often delay retirement, which may increase bottom line employer costs.

$51,000 is the average employer cost of delayed retirement per employee.[16]

There are many advantages to having older employees in the workforce, including experience that can drive more efficient results and institutional knowledge that can be tapped to educate and train younger workers. However, employees who want to retire but delay that decision because they feel they can't afford it may be more distracted by their financial worries and less engaged with their work. They may also be preventing younger employees from moving up in the organization—making it more difficult to retain and attract younger talent.

4

Employees who lack confidence in their own retirement plan and preparedness suffer financial stress, which can negatively affect employee performance.

43% of employees say financial worries have been a distraction at work.[17]

Concern about not having sufficient retirement income causes financial stress, which affects the mental and physical well-being of employees. This impacts their job performance and can influence when they plan to retire. Financial stress is the leading stressor in the workplace—more than all other stressors combined.[18]

5

Expanded retirement benefits help employers attract and retain skilled workers across all ages.

48% of employees say they are more likely to stay with their employer if they are offered retirement income help.[19]

In today's socially conscious environment with fierce competition for talent, employers are challenged with designing benefits programs that address the demands of a multi-generational employee population. Incorporating innovative solutions that allow employees to transition into retirement with a greater feeling of security positions an organization as a benefits leader that cares about the well-being of its employees.

[16] Voya Internal Data. Assumptions: An incremental aggregate cost of $51,000 for every individual whose retirement is delayed by three years. This cost is estimated assuming that a 65-year-old employee is not replaced by a midcareer employee for three additional years, and assumes a flat 31% cost of benefits as per Bureau of Labor average; https://www.bls.gov/news.release/

[17] PwC Employee Financial Wellness Survey, 2018.

[18] PwC Employee Financial Wellness Survey, 2019.

[19] Based on results of a Voya Financial survey conducted through AYTM—Ask Your Target Market online research platform between Jan. 18–26, 2021, among n=750 Americans age 18 or over who are full-time employees and actively contributing to their employer-sponsored retirement plan, balanced by age and gender to reflect the U.S. population.

Voya is helping employers help employees be—and feel—ready to transition to retirement

The importance of participant education, communication and targeted engagement

The retirement journey involves many financial and social choices. Voya understands that pre-retirees need holistic guidance to help them make smart choices as they prepare for and transition into retirement.

> "Participants nearing retirement are wondering if they'll have enough income to support their desired lifestyle throughout their retirement years," notes Jeff Cimini, Senior Vice President, Voya Financial Retirement Product Management. "But they're also concerned about investing strategies, managing Social Security and covering healthcare expenses."

Voya's multipronged approach—called myVoyage—is a fresh, modern and boldly different participant experience consisting of science-based tools, guidance and resources designed to inspire confidence about where each individual stands today and what they need to do next to achieve the future they envision.

The myVoyage personalized experience includes participant advisory services, live financial professionals, digital tools and calculators, plus education and communication through videos, articles, checklists and workbooks. The program utilizes sophisticated behavioral finance learnings, incorporating insights from over 6 million participants, feedback from more than 50,000 plan sponsors and the latest consumer research.

Learn more, by visiting Voya's pre-retiree educational experience voya.com/nearing-retirement

Voya has created resources and services for those who may need to plan for additional retirement income, because they are caring for aging loved ones, or adult children with disabilities or special needs. Visit **voyacares.com/individuals** to access our library of content for special needs financial planning. Also explore our resources for "America's new retirement reality" which features tools, checklists, articles and more for those planning on working later in life (Career Extenders) and those caring for multiple generations (Sandwich Caregivers).

Take your plan to the next level

Now that the SECURE Act has provided sponsors more flexibility around retirement plan income options, including a fiduciary safe harbor for in-plan annuities, savvy employers can better help their employees by addressing one of the greatest challenges American workers face: how to create reliable lifetime retirement income.

Employees are looking to their employers for guidance. And Voya is ready to help employers solve this pressing issue. We continue to roll out innovative retirement income solutions that offer our clients the ability to tailor strategies based on the unique needs of each employer's plan and employee demographics.

Some steps employers can take now:

- [ ] Work with a plan consultant, advisor or third party administrator to understand how retirement income solutions fit within your comprehensive benefits package.
- [ ] Communicate retirement savings balances in the context of estimated monthly retirement income.
- [ ] Offer and promote pre-retiree educational tools and resources to help employees understand how to plan for and transition to and through retirement.
- [ ] Optimize the plan to accommodate retirement income by ensuring it allows for partial distributions and systematic withdrawals for maximum flexibility.
- [ ] Accommodate the different needs of transitioning employees by adding a variety of retirement income options to the plan investment lineup. This can make it more attractive for retirees to keep their assets in the plan.
- [ ] Start with a simple solution today and evolve plan options and default solutions over time.

Key takeaways

- American workers need education, guidance and support to transition their retirement savings into a reliable retirement income stream, and they are looking to their employers to provide this help.
- Employees are stressed about finances and worried they won't have enough income to last through a long retirement, and this can impact workplace productivity.
- Employers should consider adding or expanding retirement income solutions to position their organization as a benefits leader, which will attract and retain talent across all demographics and show that they care about employees transitioning to retirement.
- Solutions available to sponsors range from education, tools and calculators to plan design and in-plan retirement income options. The goal is to make it more likely that older workers will keep their savings in their employer plan throughout retirement.
- There is no one-size-fits-all approach to a retirement income solution. Employers should consider providing several solutions to meet the diverse needs of their employees or start with a simple solution and evolve options and a default solution over time.

Glossary

1. Systematic Withdrawal Option (SWO):

What is it? A distribution option under which a portion of the participant's account is automatically and periodically liquidated and distributed. Typically, systematic withdrawals are set up to pay out monthly, quarterly, semi-annually or annually.

How does it work? A SWO payment is calculated based on a percentage of assets in the participant's account on a certain date—for example, on an annual basis. SWOs provide level payments based on the percentage initially set. That percentage or dollar amount is then withdrawn pro rata from each investment option. The participant has the ability to change their SWO amount. Under a "smart" SWO, the participant works with a financial professional/asset manager to help identify income needs, and payments are recalculated every year based on account performance, meaning payments will fluctuate.

- **Pros** Provides a simple option for a participant to receive periodic, level payments through systematic withdrawals. Under the "smart" option, payments will fluctuate annually based on account performance, but there is less likelihood of running out of money. If there is a balance at the time of death, it would be paid out to a beneficiary.
- **Cons** No guaranteed protection from longevity risk. There is a risk that payments could be reduced over time if the account balance decreases due to market performance or accelerated withdrawals.

2. Managed account with income emphasis

What is it? A managed account typically uses a plan's existing core investment options to create an asset allocation and optimal withdrawal strategy unique to each participant.

How does it work? Managed account services provide professional management for employees near retirement and those seeking to turn their retirement savings into steady income. The participant receives a customizable solution incorporating an asset allocation and optimal withdrawal strategy that can be adjusted based on personal circumstances.

- **Pros** Professional management provides employees with a custom accumulation and income plan based on their unique time frame and risk tolerance. Participants have access to a professional manager for personalized support.
- **Cons** Some participants may be hesitant to hand over control of their account to a professional manager. The service may include additional fees.

3. Managed payout fund

What is it? A managed payout fund is a mutual fund designed to produce steady monthly income payouts by turning investments into an income stream.

How does it work? A managed payout fund strives to provide steady monthly payments to help investors meet their income needs by setting a payment rate that is typically reset annually. These funds are managed to provide not only income and long-term capital preservation, but also long-term capital appreciation.

- **Pros** Provides a participant with a predictable income stream in retirement, while still allowing the participant to access their full account value. If there is a balance at the time of death, it would be paid out to a beneficiary.
- **Cons** No guaranteed protection from longevity risk. There is a risk that payments could be reduced over time if the account balance decreases due to market performance or accelerated withdrawals. These options are relatively new to the marketplace, so they are not yet well known or understood by participants.

4. Intelligent withdrawal tool

What is it? An intelligent withdrawal tool integrates technology that helps participants better understand and optimize their "paychecks" in retirement.

How does it work? An intelligent withdrawal tool combines technology with professional asset management and is designed to generate total returns to support periodic withdrawals in retirement, while minimizing downside risk and maintaining potential for capital appreciation. The intelligent withdrawal tool helps a participant determine how much they can withdraw to meet their individual needs.

- **Pros** Provides a participant with a predictable income stream in retirement, while still allowing the participant to access their full account value. If there is a balance at the time of death, it would be paid out to a beneficiary. The participant has the flexibility to customize the income stream to meet their specific needs. This tool offers a simple yet customized solution that helps participants continue to keep their money in the plan as they begin to withdraw assets in retirement.
- **Cons** Similar to managed accounts, there is no explicit guarantee to protect against longevity risk.

5. In-plan annuity

What is it? An in-plan annuity is an investment product that pays out a fixed or steady income stream, usually over the lifetime of the employee. There are different types of annuities, including fixed, variable, immediate and deferred.

How does it work? A contract with an insurance company allows an employee to convert part of their retirement savings into a "personal pension"—an income stream designed to last the lifetime of the employee (or employee plus spouse). The employee chooses the date to start the income stream. Different provisions are available, including cost of living increases, variable options tied to market performance and guaranteed minimum payouts if the employee dies prematurely. An employee can buy in to the annuity within their employer's retirement plan, either in a lump sum at retirement or gradually during their working years.

Pros

- *For participants:* Guaranteed lifetime income protects against longevity risk and the risk of spending too much/too little, minimizing the fear of running out of money. It allows an employee to diversify their income sources if they use only a portion of their savings to purchase the annuity. Typically, annuity fees can be lower when purchasing in-plan.
- *For plan sponsors:* Gives employees more security and peace of mind by providing lifetime guaranteed income, which can help to alleviate stress in the workplace. It can motivate employees to keep their money in the plan at retirement.

Cons

- *For Participants:* Depending on the type of annuity, the participant may have limited flexibility to change their monthly payment amount and may not have access to the account value in an emergency. Annuity fees can be higher than mutual fund fees because the higher fee is paying for the insurance cost of lifetime income.
- *For plan sponsors:* There is a potential fiduciary risk around the selection of the annuity provider. Annuities can be complex, which makes it harder to educate employees about potential benefits.

Annuities are intended as long-term investments designed for retirement purposes. Withdrawals from an annuity may be subject to an early withdrawal fee, and if taken prior to age 59½, an IRS 10% premature distribution penalty tax will apply, unless an IRS exception applies. Money taken from the annuity will be taxed as ordinary income in the year the money is distributed. With variable annuities, account values fluctuate with market conditions, and when surrendered the principal may be worth more or less than its original amount invested. An annuity does not provide any additional tax deferral benefit, as tax deferral is provided by the plan. Annuities may be subject to additional fees and expenses to which other tax-qualified funding vehicles may not be subject. However, an annuity does provide other features and benefits, such as lifetime income payments and death benefits. **Guarantees are based on the claims-paying ability of the insuring company.**

Ready to take the next step?

Contact your Voya Representative to discuss opportunities for helping your employees be—and feel—prepared for their transition into retirement.

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