Helping workers achieve a secure retirement requires more than educating them about saving and staying on track. Another important role for plan sponsors is trying to ensure workers understand their options as they move into retirement.

Visit www.ifebp.org/RetirementSecurity for additional resources as well as the International Foundation’s full report on how plan sponsors can help participants and their families achieve a secure retirement. This is the final article in a series of six sharing what the Foundation has learned from research on this topic.
For employers and plan sponsors that want to take a more active role in promoting the retirement security of workers and their families, there are five interrelated goals, discussed in previous articles in this series:

1. Help workers determine their retirement needs and where they stand.
2. Get workers enrolled and saving for retirement.
3. Help workers make prudent investment choices.
4. Help workers stay on track to meet their retirement objectives.
5. Support those near retirement to make the transition.

This final article discusses what employers and plan sponsors can do to accomplish the fifth goal—Help workers close to retirement make the transition.

How workers move into retirement has a major impact on their future financial well-being. Decisions on when and how to retire affect (1) when they stop saving for retirement, (2) the income they receive from both workplace and government benefit programs and (3) when and how they start drawing on retirement savings. There are specific actions employers and plan sponsors can take to help those near retirement understand the options available and make informed decisions. It is not enough to provide a statement of the benefits and generic retirement information.

Help Preretirees Assess Different Retirement Scenarios and Risk Management Strategies

Many aspects of retirement planning are not fully understood by preretirees. After all, most individuals make the decision to retire only once in a lifetime. Poor choices can't always be corrected, and the consequences may affect retirees—as well as their life partners—for the rest of their lives. The right choices can also be the difference in whether individuals are able to pass some of their assets to others as part of an estate.
Plan sponsors must make a concerted effort to ensure those closest to retirement have a realistic, comprehensive plan that takes into consideration different life scenarios. See the sidebar “Preretiree Checklist” for issues that should be addressed.

Offering a mix of programs and services to help workers assess different retirement scenarios and options is usually the best choice. Some employers provide preretirement seminars for workers who are 5-10 years from retirement. Print worksheets, online modeling tools and one-on-one meetings with a financial advisor are among the other tactics that can be used depending on the characteristics, needs and preferences of the workers. For plan participants who feel comfortable making their own decisions, independent study materials may be the right approach.

Create Opportunities for Transitional Employment

For individuals who have insufficient funds set aside, working past the typical retirement age may be critical. Other people want to continue working on a part- or full-time basis just to stay active. To help these employees, employers may want to consider modifying workplace practices and policies to permit a gradual transition into retirement. Organizations may benefit from these policy changes as much as or even more than the employees if employees near retirement have knowledge and skills that are in short supply.

Whether phased retirement is a formal program or an informal arrangement, it might include any one or a combination of the following features:

- Retraining or updating worker skills
• Employees working on a reduced or modified basis as they approach retirement
• Assigning work more suitable to older workers (e.g., less stressful or physically demanding)
• Permitting employees to collect some portion of their retirement benefits while continuing to work
• The reemployment of those who have retired
• Employer-provided health care coverage.

Offer Lifetime Income Options and Guidance

In the early years of defined contribution (DC) plans, the bulk of the attention was directed at accumulating sufficient retirement resources. Today, there is a growing realization that more consideration must be given to *decumulation*—managing and spending DC retirement accounts after retirement. Like the accumulation of plan assets, decumulation requires plan participants to make complex decisions involving the unknown—their future health, longevity, return on investments, inflation, etc. An increasing number of defined benefit (DB) plan participants are facing similar choices as more of these plans now offer retirees a one-time lump-sum payout as an alternative to a monthly payment for life.

For workers who want to turn retirement savings into a guaranteed stream of income, a diverse selection of retirement income generators (RIGs) is now available with features that continue to evolve. The sidebar “What Is a Retirement Income Generator?” provides a brief introduction to the three different approaches to generating retirement income. Each RIG has pros and cons—and the income retirees receive significantly depends on the strategy chosen. No single lifetime income choice is appropriate for all individuals. Unfortunately, the options for generating an income stream after retirement are so complicated that too many individuals choose nothing. Plan sponsors can help overcome this barrier by providing participants with a limited menu of prescreened options for decumulation.

Lifetime income choices may be offered from inside or outside a retiree’s savings plan. With an in-plan option, assets are held by the plan as either invested assets or group annuity contracts. Retirement income is paid from plan assets to retirees, and the underlying assets are included for government reporting. For example, a DC plan might offer a fixed monthly or quarterly payout feature.

With an out-of-plan option, the plan sponsor facilitates the transfer of participant assets to a financial institution such as an insurance company, mutual fund company or brokerage firm that generates retirement income for the retiree. The sponsor identifies these institutions and publicizes their availability to plan participants. Once assets have been transferred, the sponsor has no relationship with the retiree and assets aren’t included in government reporting. The financial institution invests the assets and delivers the income to the retiree.

When selecting which options to offer, plan sponsors are in a strong position to negotiate group pricing to deliver more income and/or protect the remaining wealth of participants at a better rate than individuals would be able to get on their own via the retail market. A competitive bidding process for the selection of annuities from insurance companies can increase the annuity income of retirees by as much as 5% to more than 20% for the same amount of savings.\(^1\)

The one exception is annuities for males purchased through DC plans. Federal law requires these annuities be priced on a unisex basis that doesn’t adjust for the fact that on average, women outlive men. For this reason, males with a DC plan may be able to purchase single life annuities at a lower price outside their workplace retirement plan than within their plan.

The options plan sponsors provide should reflect the needs of participants. A combination of options may be the best route for some retirees.

Plan sponsors may want to permit workers to select a mix
What Is a Retirement Income Generator?

A retirement income generator (RIG) is a strategy that turns all or part of a worker’s accumulated assets into income after retirement. There are three basic approaches for generating income from an employer-sponsored retirement plan and/or individual savings. Each method can be implemented using a variety of financial instruments and/or tactics.

Investment Earnings

Invest the assets, leave the principal intact and spend just the interest and dividends received on the assets. Realized capital gains typically are reinvested but are available to be spent if needed.

While this may be an appropriate strategy for those who want to leave funds to their heirs, very few retirees have sufficient money set aside to generate the income they will need without dipping into principal at some point during retirement. Individuals must also have the knowledge and willingness to manage their investment portfolio or seek the assistance of professional management.

Systematic Withdrawals

Invest the assets, then use a structured approach to draw down the principal and investment earnings so there will be a lifetime income stream. A common strategy is withdrawing a fixed dollar amount (with or without adjustments for inflation) or a fixed percentage of assets. The latter often is referred to as a 4% withdrawal program, but the percentage should be adjusted to factor in variables such as the retiree’s age, anticipated market returns and investment volatility. A 4% withdrawal rate assumes a relatively aggressive investment portfolio that includes stocks. For retirees heavily invested in fixed income vehicles such as bonds and certificates of deposit (CDs) that provide a lower return, a rate of 2.5% or even lower might be more realistic. With systematic withdrawal, some retirees may manage their assets on their own while others employ the services of a professional manager.

A downside to this approach is that poor investment returns or high longevity can cause the invested assets to be depleted during the retiree’s lifetime; there is no guaranteed income stream.

On the plus side, retirees are able to maintain some control over the funds—a feature not available when an annuity is purchased.

Annuity Purchase

This option transfers some savings (and longevity risk) to an insurance company that guarantees a lifetime income. A common strategy is for retirees to annuitize what they estimate they will need for basic living expenses, which leaves other assets available for large purchases and emergencies.

Annuities are the only one of these three RIGs that can guarantee a retiree (and, if desired, a retiree’s partner) a monthly income payment for life. Available for purchase before, at or after retirement, annuities can come with a broad variety of guarantees and features that may result in higher fees or lower retirement income.

of options so they are not forced to commit 100% of their assets to one strategy. Sponsors might also consider allowing participants to purchase annuities throughout retirement. Retirees might keep some of their savings invested in equities so they can benefit from the higher expected rate of return on stocks versus fixed income assets early in their retirement. Gradually, they could reduce their investment in equities and increase the amount that is annuitized. They might make a small annuity purchase each year, gradually replacing the phased withdrawal of assets with income from annuities. For workers who are phasing into retirement, this strategy makes it possible to reduce work-related earnings over time. Retirees who have a higher risk tolerance can also postpone the start of annuitization.

By offering information and guidance regarding lifetime income options, plan sponsors increase the likelihood plan participants will make decumulation decisions appropriate to their individual circumstances. Information that is particularly useful includes:

- The pros and cons of RIGs the plan offers
- The risks associated with each
- The amount of retirement income it is reasonable to expect under different scenarios.

In addition, education may be required to help workers overcome the perception of annuities as investments that require people to give up a lot today with an uncertain return. Framing annuities as buying insurance that guarantees lifetime payments versus investing can positively affect how many individuals are willing to purchase annuities.

Make a Retirement Income Generator the Default Option

Just as autoenrollment has been effective in increasing DC plan participation, making an RIG the default distribution option for a DC plan can discourage lump-sum payouts at retirement. Many DB plans already do this—making an annuitized income stream the default option. Default options include:

- **Systematic withdrawals.** A professionally managed account with systematic withdrawals is the most popular in-plan RIG used with DC plans. This approach allows retirees to stay in their plan and receive a stream of income. The principal downside...
is that longevity and/or low investment returns may result in retirees outliving the assets in their accounts.

- **Annuities.** Annuities address both of these risks—providing a guaranteed income stream for the life of the retiree (or in the joint and survivor context, for the life of the retiree’s spouse/partner as well).

  When a DC plan participant purchases an annuity at retirement, he or she gives up a relatively large sum of money today to receive a stream of income tomorrow. For some workers, the loss of financial flexibility along with the perceived loss of value if they were to die early creates a psychological barrier to making a purchase.

  Behavioral economics suggests that if the annuity amount is small and the commitment to future annuity purchases is reversible, workers will be more willing to accept an annuity. A plan sponsor might permit workers to start purchasing deferred annuity units with a portion of their DC contributions each pay period after they reach a specific age (e.g., 50). Workers would be allowed to stop purchasing additional units at any time. This not only increases the likelihood workers will purchase annuities, but workers also benefit from dollar cost averaging with units purchased over time at different interest rates. This strategy lessens the conversion risk that occurs when an entire annuity is purchased at retirement.

- **414(k) provisions.** If a DC plan sponsor has an affiliated DB plan, another option is to transfer some or all of a participant’s DC funds to the DB plan under Internal Revenue Code Section 414(k). The money from the DC plan is converted to an annuity payable from the DB plan. Given the current low interest rates used by insurance companies when pricing annuities, the 414(k) transfer approach can provide a substantially higher lifetime retirement income for the participant without adding any measurable risk to the DB plan’s funding.

- **Target-date funds with a decumulation feature.** A relatively new choice for DC plan sponsors to consider is target-date funds that include a decumulation feature—an effort by the financial industry to address multiple accumulation and decumulation issues with one product.

**Conclusion**

It would be hard to disagree that the responsibility for achieving a secure retirement in the United States is increasingly shifting to the shoulders of individuals and their families. Nonetheless, employers and other plan sponsors still have an obligation to help. In fact, this obligation is greater. Besides contributing on behalf of employees to government and workplace retirement plans, employers and plan sponsors must provide a combination of information and education programs that will help workers achieve the knowledge and skills essential to achieving a secure retirement. Particularly important will be changes in plan design and enrollment along with access to financial planning tools and advisors—all of which have been proved essential to overcoming human behaviors that create barriers to action and success. Given the number of workers who now want to (and, in some cases, must) work beyond the typical retirement age, employers also need to consider what they can do to make working longer a positive scenario for both the employer and the employee.