Qualified default investment alternatives (QDIAs) offered in defined contribution (DC) plans seek to ensure that participants who don't actively manage their accounts earn better returns. Newer QDIA models that include lifetime income options may help boost retirement income security.

The Evolution of QDIAs: Unlocking Better Retirement Security?

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Participant-directed defined contribution (DC) plans are the most common retirement vehicle in the United States. The benefits and downsides of this type of plan design are clear. DC plans offer participants increased control over investment decisions and, for employers, they mean less long-term financial risk than a traditional defined benefit (DB) pension plan. However, plan participants may lack financial literacy and investment expertise to make sound financial decisions. In addition, unlike DB plans, DC plans do not typically provide the security of guaranteed lifetime income. This creates a longevity risk, meaning participants may outlive their retirement savings.

Options for addressing these issues may lie in emerging options for *qualified default investment alternatives (QDIAs)*. QDIAs are automatic default investment options provided to participants enrolled in a DC plan who fail to direct how their accounts should be invested. Emerging QDIA options offer choices that may be better tailored to an individual's age, years until retirement and risk tolerance. Some of these alternatives also seek to offer lifetime income options to provide increased retirement security.

This article will discuss some of the challenges that DC plan participants face in investing and saving for retirement and options that plan fiduciaries may have to help participants realize better outcomes.

DC Participant Challenges

Participants in most DC plans must act as their own investment manager, and their investment choices will ultimately impact their retirement nest egg. Median annualized returns for DC plan investments between 2007 and 2021 totaled 6.3%.[1] For DB plans, the same metric on returns totaled 6.6%.[2] The variation can be partially attributed to participants' financial literacy. Participants investing their assets independently may fail to monitor or manage their investments, may be less tolerant of risk, or may suffer excessive losses or missed gains due to inappropriate market timing.[3]

In one sense, weaker investment performance by plan participants is not the responsibility of plan fiduciaries. Section 404(c) of the Employee Retirement Income Security Act (ERISA) limits fiduciary liability for investment losses to DC plans that result from participant decisions, provided that the plan provides participants with a broad range of investment options, the opportunity to obtain sufficient information on the investment options, the ability to control the investment options and an explanation of the fiduciaries' limited liability. However, some participants may lack financial literacy or interest in investing their own assets, which can negatively impact their retirement savings.

Along with poor investment management, another challenge is participants who fail to manage their investments at all. Unlike DB plans, where enrollment has almost always been automatic, enrollment in DC plans was typically voluntary, at least until the passage of the Pension Protection Act (PPA) in 2006. Prior to PPA, only about 11% of 401(k) plans used automatic enrollment options for eligible employees.[4] At that time, the Department of Labor (DOL) reported that approximately one-third of eligible employees failed to participate in their employer's DC plan.[5]

One reason that employers and plan sponsors did not enroll employees in DC plans automatically was to avoid assuming fiduciary responsibility (and potential liability) for making investment decisions on behalf of plan participants who failed to enroll and select their own investment options. Common practice instead required employees to opt in to the plan. To address this, PPA directed the DOL to establish safe harbor relief from fiduciary liability for plans that invested earnings from automatically enrolled employees. The

takeaways

- A *qualified default investment alternative (QDIA)* is an automatic default investment option provided to participants who are enrolled in a defined contribution (DC) plan but fail to direct how their accounts should be invested.
- QDIAs seek to ensure that retirement accounts achieve better returns than would be attained in a low-yield savings account, even without active management by the participant.
- QDIA investment funds permitted under the Employee Retirement Income Security Act (ERISA) include lifecycle or target-date funds (TDFs), professionally managed accounts and balanced funds.
- Emerging QDIA options, including dynamic and hybrid QDIAs as well as QDIAs with lifetime income options, seek to address retirement security concerns.
- As regulatory guidance on QDIAs continues to evolve, plan sponsors and fiduciaries must balance innovation with prudence to ensure that these options serve participants' best interests.

goal of this change was to help provide for long-term retirement savings needs by reducing employers' concerns about automatically enrolling employees and investing their contributions into "default" investments—i.e., QDIAs.[6]

Qualified Default Investment Alternatives (QDIAs)

PPA and corresponding QDIA regulations extended the fiduciary relief available under ERISA 404(c) by providing that participants whose earnings are automatically invested in QDIAs "shall be treated as exercising control over the assets in the account" concerning the assets invested in the QDIA.[7] To be eligible for relief, the QDIA option must be managed by an investment manager or other named fiduciary, participants must have the chance to select investment options prior to their automatic enrollment, and participants must have the option to transfer or liquidate their investment following their automatic enrollment.[8] Plan sponsors must also distribute notices following enrollment and annually thereafter, explaining the participants' ability to redirect their investments to other available investment options, how participants can obtain information on other options, and the QDIA's investment objectives and accompanying fees.[9]

The QDIA regulations also specify the types of QDIAs that plan sponsors must provide to avail themselves of fiduciary relief for investment losses.[10] Regardless of type, the purpose of QDIAs is to ensure that retirement accounts achieve better returns than what would be attained in a low-yield savings account, even without active management by the participant. Permitted QDIA investment funds include:

- Target-date funds (TDFs), also known as lifecycle funds
- Professionally managed accounts
- Balanced funds.

Target-Date Funds

TDFs are the most prevalent form of QDIA. TDFs do not require active management, and investment options within the fund rebalance automatically as the participant approaches their target retirement date. Earlier in a participant's career, when retirement is decades away, a participant's account contains more high-risk investments (equities) and offers the potential for higher returns. As the participant approaches retirement, investments become more conservative (fixed income). In its 2024 annual report, Vanguard reported that 98% of its plans offering QDIAs utilized TDFs.[11] Most plan sponsors now recognize that a younger participant's investment portfolio should be structured differently from that of someone nearing retirement, and the widespread use of TDFs reflects this belief.

However, TDFs have some downsides as well. By focusing only on a participant's retirement date, TDFs assume that the investment risks and needs of all participants with the same retirement date are the same. Litigation concerning TDFs is also worth considering; a growing number of lawsuits have focused on funds with excessive fees and/or those that are underperforming compared with higher performing TDFs on the market.

Balanced Funds

Balanced funds are another permitted, albeit rarely utilized, form of QDIA. They typically have a mix of equity and fixed income investments and are managed by an investment consultant or plan fiduciaries. The QDIA regulations require that balanced funds be managed in light of the level of risk for plan participants as a whole.[12] This uniform approach may disadvantage some participants since it fails to account for participants' specific retirement dates or other unique risk factors. However, because balanced funds are spread across equity and fixed income investments throughout an employee's career and retirement, they may be more likely to withstand changing market conditions compared with TDFs.

Managed Accounts

Professionally managed accounts provide participants with customized investment services that consider factors other than age, such as accumulated savings, alternate sources of income and marital status. Managed accounts are relatively common in DC plans; Vanguard's report demonstrates that 45% of surveyed plans offered managed account programs.[13]

The advantages are notable. Studies suggest that participants utilizing professionally managed accounts are more likely to have diverse portfolios with more appropriate risk levels, as well as increased retirement wealth overall. This is particularly true for younger employees.[14] It's also worth noting that some employees may not have access to professional investment advice outside of their workspace, and a professionally managed retirement option, with reasonable fees, could significantly alter their later years.

However, managed accounts—precisely because they are professionally managed—come with higher fees. Partly due to these fees, professionally managed accounts have generally not been offered as a default option. Another problem with managed accounts is that if participants fail to select investment options in the first place, resulting in their default to a QDIA option, they may be unlikely to proactively offer an investment professional personal information that could be used to customize their portfolio, meaning that fees spent offering managed account QDIAs may not be well spent.

Emerging Options

Although QDIAs ensure that DC plan participants have an opportunity to earn higher returns by participating in the stock market, even if they fail to make investment options independently, they may fall short in providing sufficient retirement income. New QDIA models have emerged that may address this gap.

Dynamic and Hybrid QDIAs

Within the last decade, new forms of QDIAs have become more prevalent in the market. In a *dynamic* or *hybrid QDIA*, assets are invested in a competitive TDF during a participant's early years of work. Later, depending on the participant's age, years of service or desired retirement date, assets are transferred into a managed account. The managed account is tailored to the participant's financial needs and imminent retirement goals. Industry consensus is that older participants nearing retirement are more receptive to professional advice and its associated fees, whereas younger workers with smaller account balances and many years until retirement view professional advice less favorably.[15] While the goal of a hybrid QDIA is laudable, it remains to be seen whether the performance of these options justifies the higher fee structure, particularly if a TDF QDIA is performing well for a lower fee.

Potential Regulatory Changes

Every year, the Department of Labor (DOL) ERISA Advisory Council studies key employee benefit plan topics and then publishes formal recommendations. The council's December 2024 report included commentary and requests for guidance on QDIAs and lifetime income options.* The council acknowledged increased litigation against defined contribution (DC) plan sponsors and fiduciaries and recommended that the DOL issue formal guidance to assist plan fiduciaries in selecting and monitoring guaranteed and nonguaranteed retirement options. The council also noted that formal guidance could also result in improved products from providers.

DOL 2025 Advisory Opinion

The DOL signaled support for lifetime income options as QDIAs in a September 2025 advisory opinion, in response to a request from investment firm AllianceBernstein. The firm asked whether its guaranteed lifetime income option, offered to DC plans through an annuity contract, could be considered a QDIA under the above-mentioned QDIA safe harbor regulations.** In its opinion, the DOL reiterated that a lifetime income option will "not fail" to fall under the QDIA regulatory safe harbor, so long as the conditions in the regulation are met.

AllianceBernstein described its program as meeting the following conditions: the company acts as an investment manager responsible for plan assets, participants receive the required notices, and participants may transfer their assets to other investment options offered by the plan or withdraw them. When participants die, their spouses will continue to receive lifetime income payments for the remainder of their lives.

AllianceBernstein also asked for guidance on the program's fiduciary obligations. The opinion clarified that employers and plan sponsors are responsible for prudently selecting and monitoring investment managers—but also that the investment manager for an investment with a lifetime income option is generally responsible for selecting and monitoring the insurers, guaranteeing the participant's monthly income payment and ensuring that the associated fees are reasonable. With this guidance, plan sponsors can feel more secure in considering and/or offering lifetime income options as QDIAs, so long as the lifetime income option complies with the QDIA regulations.

*Advisory Council on Employee Welfare and Pension Benefit Plans. *Qualified Default Investment Alternatives—Start to Finish, Default to Payout.* (December 2024).

**Department of Labor Advisory Opinion 2025-04A (September 23, 2025).

Lifetime Income Options

Lifetime income options have also emerged as potential components of TDF QDIAs. Designed to prevent retirees from outliving their retirement savings, *lifetime income options* allow participants to transfer assets from TDFs to a guaranteed income investment strategy through an annuity contract. This allows participants to receive a minimum monthly income for the remainder of their life—and helps mitigate the risk of poor investment performance or outliving retirement assets.[16] The income security advantages of lifetime income options are plain, but there are drawbacks. Participants who surrender their assets for an annuity may be walking away from growth potential on the market (depending on their investment expertise) in exchange for a potentially smaller monthly payment determined by the insurance company.[17] And because annuities are geared toward offering participants retirement income in the long term, participants who pass away earlier than expected will end up getting shortchanged.

Nevertheless, support for lifetime income options as QDIAs is reflected in recent legislation and DOL guidance. Section 404(e) of ERISA extended safe harbor protections to fiduciaries that engage in an “objective, thorough, and analytical” search for insurers capable of offering guaranteed retirement income for a reasonable cost, among other considerations. Corresponding regulations clarify that if a lifetime income option complies with the QDIA regulations, it “shall not fail” to be a QDIA simply because of its status as an annuity contract.[18]

Conclusion

The evolution of DC plans reflects a broader shift toward greater participant control and flexibility—but also highlights the need for mechanisms that protect long-term retirement security. Emerging QDIA and lifetime income options represent important progress in bridging the gap between participants’ desire to manage their own assets and the need for guaranteed financial stability.

As regulatory guidance continues to evolve, plan sponsors and fiduciaries must balance innovation with prudence to ensure that these options serve participants’ best interests. While such products can help participants invest more effectively throughout their careers and enhance retirement readiness, they also carry inherent risks and tradeoffs. Plan sponsors and fiduciaries are encouraged to review these developments with their plan professionals to determine whether they merit consideration for their plan.

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Endnotes

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