



Unlocking the Potential

The Versatility of Nonguaranteed Retirement
Income Products in DC Plans

October 2024

As the clock ticks towards retirement, the pressure on plan sponsors, asset managers, and recordkeepers intensifies, each striving to offer optimal income solutions for plan participants. While nonguaranteed retirement products typically assist plan participants in the accumulation phase, they can also serve a dual function as a retirement income solution or, at the very least, be paired with guaranteed income products to aid participants transitioning into retirement. This paper argues that highlighting the versatility of nonguaranteed retirement income products is an effective way to promote these vehicles.

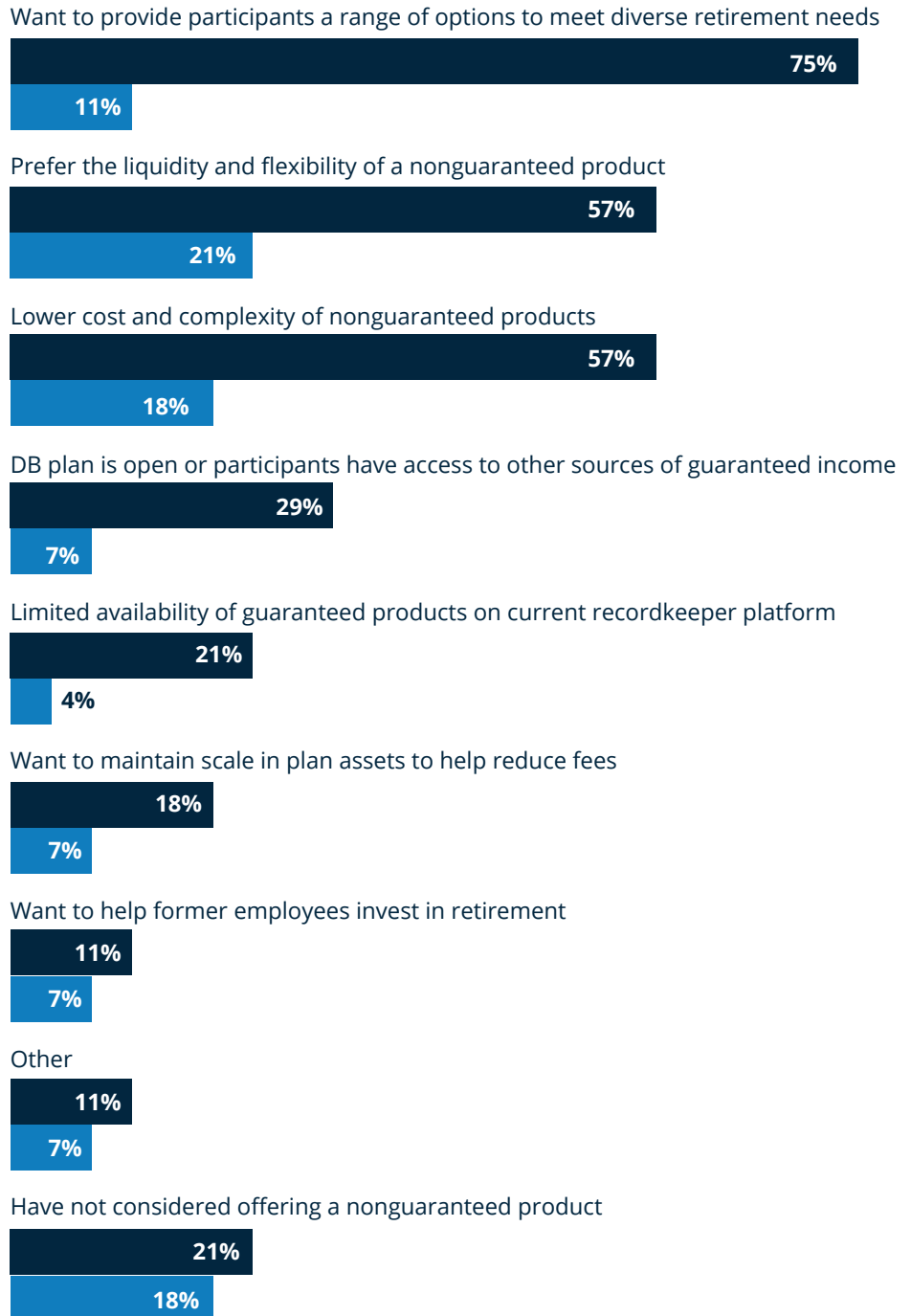
Based on Cerulli's 2024 research, plan participants prioritize two key retirement income features: the potential for asset growth even after withdrawals commence (24%) and the ability to withdraw funds at their discretion (23%). The key takeaway is having a solution that can simultaneously accommodate both preferences. In contrast, participants are less inclined (15%) to favor a guaranteed income stream even if the assets are depleted. This data suggests that participants are unlikely to favor forfeiting liquidity in exchange for a guaranteed income stream.

Attitudes concerning retirement income features align with plan sponsor motivations for including nonguaranteed retirement income products in their investment lineups. The 2024 PIMCO US DC Consulting Study underscores plan sponsors' preferences for products that are liquid, flexible, and simple (see Figure 1). This does not imply that guaranteed retirement income products have no place in an investment lineup. Despite the enduring stigma around annuities, Cerulli's research reveals that 69% of retirement specialist advisors indicate that an effective in-plan retirement income solution should include a guaranteed component.

Figure 1 | Plan sponsors' top reasons for nonguaranteed retirement income solutions

Lower cost, less complexity, increased liquidity, and flexibility cited as top reasons

■ Rank 1-3 ■ Rank 1



What are the top reasons why plan sponsors have considered or implemented nonguaranteed retirement income solutions? Rank all in order of importance, where 1 = most important. (n=28)

Analyst Note: "Other" includes "Because to have a QDIA its required to pick a multi-asset class option that by the nature of it functions as a nonguaranteed retirement income solution" and "Have not considered offering a nonguaranteed product."

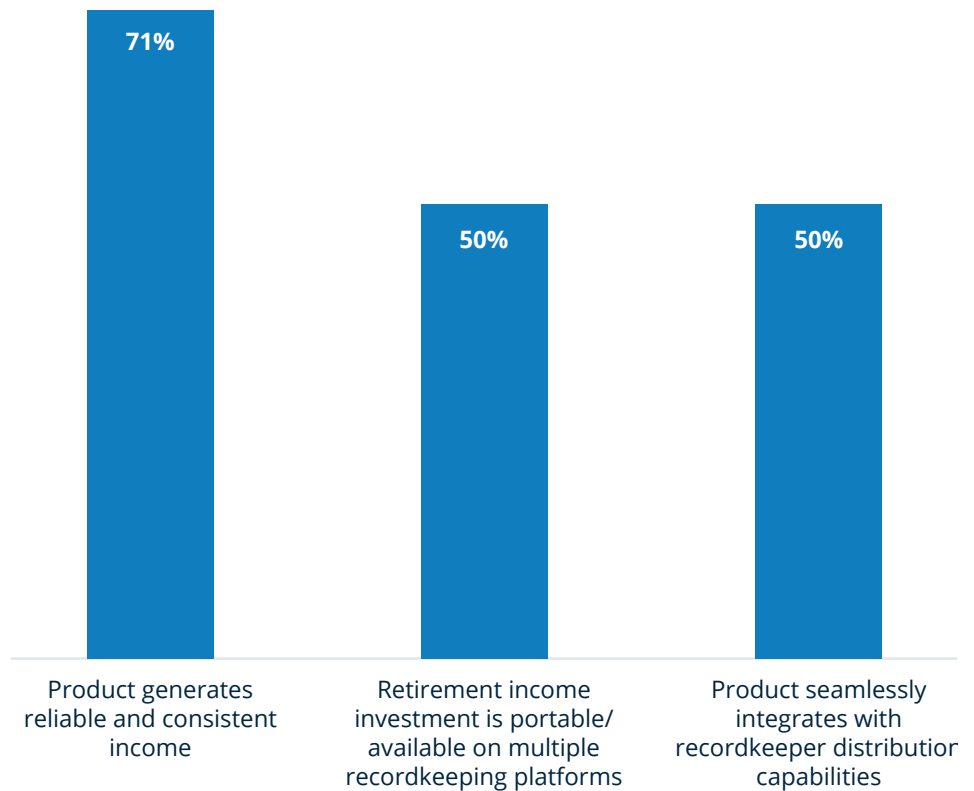
While nonguaranteed products dominate DC plan offerings, plan sponsors recognize that a “suite approach,” combining guaranteed and nonguaranteed retirement income solutions, can comprehensively cater to participant preferences. After all, plan participants are not monolithic. A balanced approach recognizes the diverse needs of participants, with some preferring the security of guaranteed income and others valuing the flexibility of nonguaranteed options. This strategy addresses the ‘sleep-at-night’ factor.

Nonguaranteed retirement income strategies (e.g., target date funds with income vintages) continue to gain significant traction for several reasons, including their long-standing presence within investment lineups and time-tested track records, making them familiar and reliable choices. Additionally, their transparent nature makes them easy for participants to understand. These products can also easily address liquidity requirements. Their availability on recordkeeper platforms, and in some cases, portability across different recordkeepers, further contributes to their widespread adoption.

Corroborating the traction gained by nonguaranteed retirement income strategies, institutional consultants indicate that plan sponsors look for products that generate reliable and consistent income, are portable and available on multiple recordkeeping platforms, and can easily integrate into recordkeeper distribution capabilities (see Figure 2). Given these preferences, PIMCO’s 2024 US DC Consulting Study shows that institutional consultants are likely to recommend positioning target date funds (with income or retirement vintage) (93%) and stable value products (54%) as retirement income options. Personalized solutions and income-focused fixed income funds are also commonly available in plans and can serve as retirement income options for participants.

Figure 2 | Top features for in-plan retirement income solutions

Ability to generate reliable and consistent income, and platform availability, are cited as the most important features



Choose the top three features for guaranteed and/or non-guaranteed in-plan retirement income solutions. (n=28)

Analyst Note: “Other” includes “Flexibility for plan sponsors and participants” and “We don’t believe there are ‘top features’ that all solutions must have, since it really varies based on plan needs. However, we would highlight portability as broadly important across solutions.”

Asset managers and recordkeepers can capitalize on this moment by reframing nonguaranteed retirement products as effective income solutions

Although more than half of plan sponsors (57%) have not considered including a guaranteed retirement income product, institutional consultants state that on the occasion plan sponsors offer guaranteed retirement income products, they do so because they recognize that plan participants want a range of diverse options, or because their defined benefit plan is closed or frozen (see Figure 3).

57%

of plan sponsors have not considered including a guaranteed retirement income product.

PIMCO's 2024 US DC Consulting Study finds that consultants expect income-focused/multisector fixed income (92%), annuities (84%), and stable value (83%) to be the top additions to retirement plan lineups over the coming years. For plan sponsors contemplating guaranteed retirement income products, it's essential to determine whether their recordkeeper can integrate these products or, at the very least, is willing to do so. Cerulli's research shows that only 39% of DC recordkeepers allow participants to convert a portion of their account balance into guaranteed periodic payments. Looking ahead, only 11% of recordkeepers plan to offer this distribution option in the next 12 months. As a result, plan sponsors seeking to offer guaranteed retirement

income products may need to partner with a middleware provider that can help implement these solutions and facilitate distributions.

Asset managers do not need to reinvent the wheel to meet the evolving retirement income needs of plan participants. By strategically reframing the messaging around existing nonguaranteed products, they can effectively address participant demands for reliable retirement income solutions. While nonguaranteed retirement products are a mainstay, incorporating guaranteed retirement income products offers a comprehensive approach that caters to a diverse participant base.

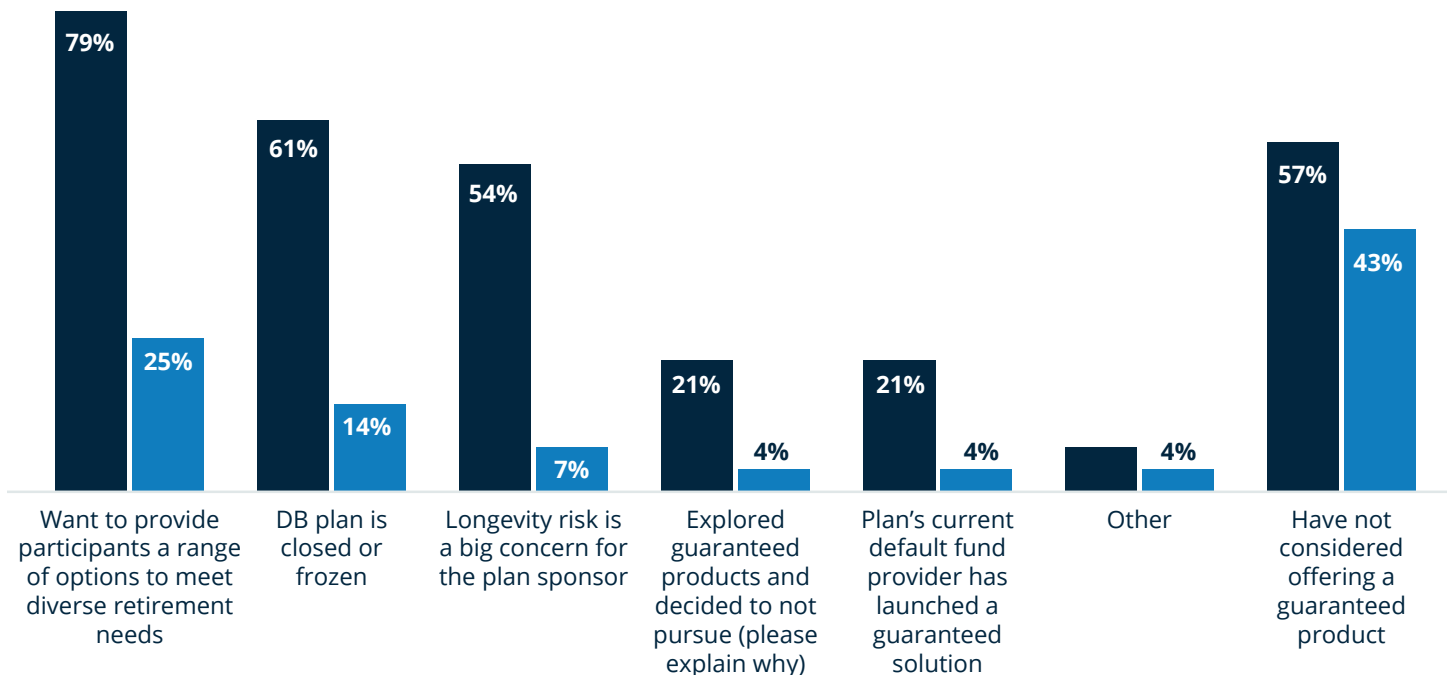
39%

of DC recordkeepers allow participants to convert a portion of their account balance into guaranteed periodic payments.

Figure 3 | Plan sponsors' top reasons for guaranteed retirement income solutions

More than half of plan sponsors have not considered offering a guaranteed product; a frozen DB plan or desire to offer a range of options cited as top reasons for using

■ Rank 1-3 ■ Rank 1



What are the top reasons why plan sponsors have considered or implemented guaranteed retirement income solutions? Rank all in order of importance, where 1 = most important. (n=28) | Analyst Note: "Other" includes "Too complicated to explain to participants" and "More products are available in the market."



CERULLI
ASSOCIATES

Cerulli Research and Consulting

For over 30 years, Cerulli has provided global asset and wealth management firms with unmatched, actionable insights. Cerulli Associates is an international research and consulting firm that provides financial institutions with guidance in strategic positioning and new business development. Our analysts blend industry knowledge, original research, and data analysis to bring perspective to current market conditions and forecasts for future developments.

PIMCO

PIMCO is a global leader in active fixed income with deep expertise across public and private markets. We invest our clients' capital across a range of fixed income and credit opportunities, leveraging our decades of experience navigating complex debt markets. Our flexible capital base and deep relationships with issuers have helped us become one of the world's largest providers of traditional and nontraditional solutions for companies that need financing and investors who seek strong risk-adjusted returns.



pimco.com



[@pimco](https://twitter.com/pimco)



[/pimco](https://www.linkedin.com/company/pimco)

IMPORTANT NOTICE

The 2024 PIMCO US DC Consulting Study contains opinions of survey respondents and not necessarily those of PIMCO. The study captures data, trends and opinions from 28 consulting and advisory firms who serve over 15,379 clients with aggregate DC assets in excess of \$7.94 trillion. All responses were collected from January 8, 2024 through February 26, 2024. The analysis of key findings is for illustrative purposes only, intended to highlight major themes identified within survey responses.

All investments contain risk and may lose value.

Statements about financial market trends or portfolio strategies are based on conditions at the time of publication, which are subject to change. There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors. Individual investors should evaluate their ability to invest for the long term, especially during periods of downturn in the market. All opinions, outlook and strategies are subject to change without notice.

PIMCO as a general matter provides services to qualified institutions, financial intermediaries and institutional investors. Individual investors should contact their own financial professional to determine the most appropriate investment options for their financial situation. This material contains the opinions of the author but not necessarily those of PIMCO and such opinions are subject to change without notice. This material has been distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission. PIMCO is a trademark of Allianz Asset Management of America LLC in the United States and throughout the world. ©2024, PIMCO

Pacific Investment Management Company LLC, 650 Newport Center Drive,
Newport Beach, CA 92660 | 800.387.4626