

# Show me the income.

Discovering plan sponsor and participant  
preferences for creating retirement income



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## DC plan = biggest retirement income source

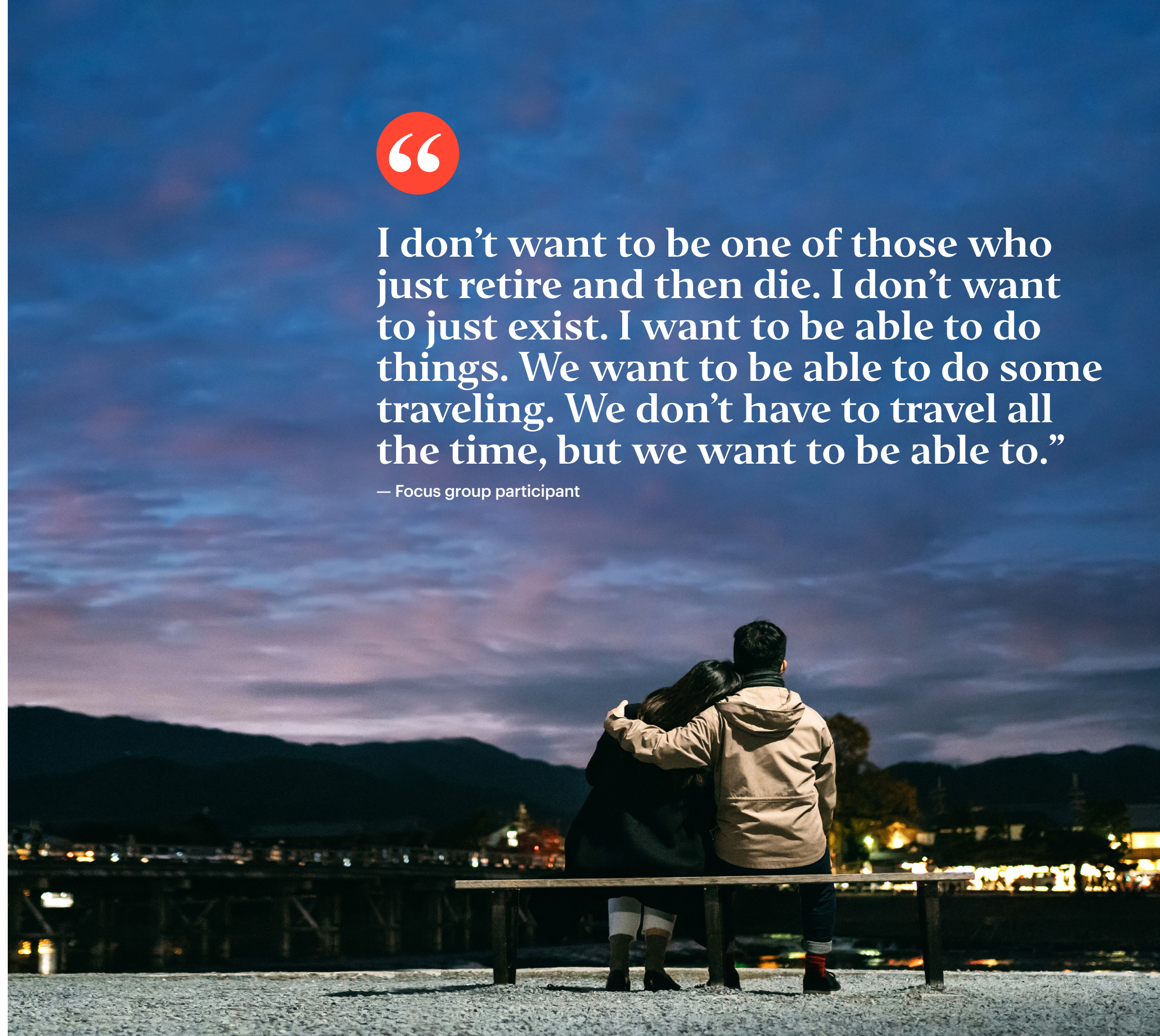
**O**ur in-depth research “Show me the income,” reflects on the evolving retirement industry today as it faces the pressing need to help participants turn their defined contribution (DC) plan savings into long-term retirement income.

Participants today view retirement differently, driven by their personal experiences, goals, and financial resources. Our research further solidified that every employee’s situation is unique, with no clear-cut behaviors across generations, income levels, and/or gender. There’s no “one-size-fits-all” retirement. No matter what kind of retirement they envisioned, participants recognized they’re primarily on their own to fund it, which was daunting for many.



I don’t want to be one of those who just retire and then die. I don’t want to just exist. I want to be able to do things. We want to be able to do some traveling. We don’t have to travel all the time, but we want to be able to.”

— Focus group participant



### DC plan = biggest retirement income source

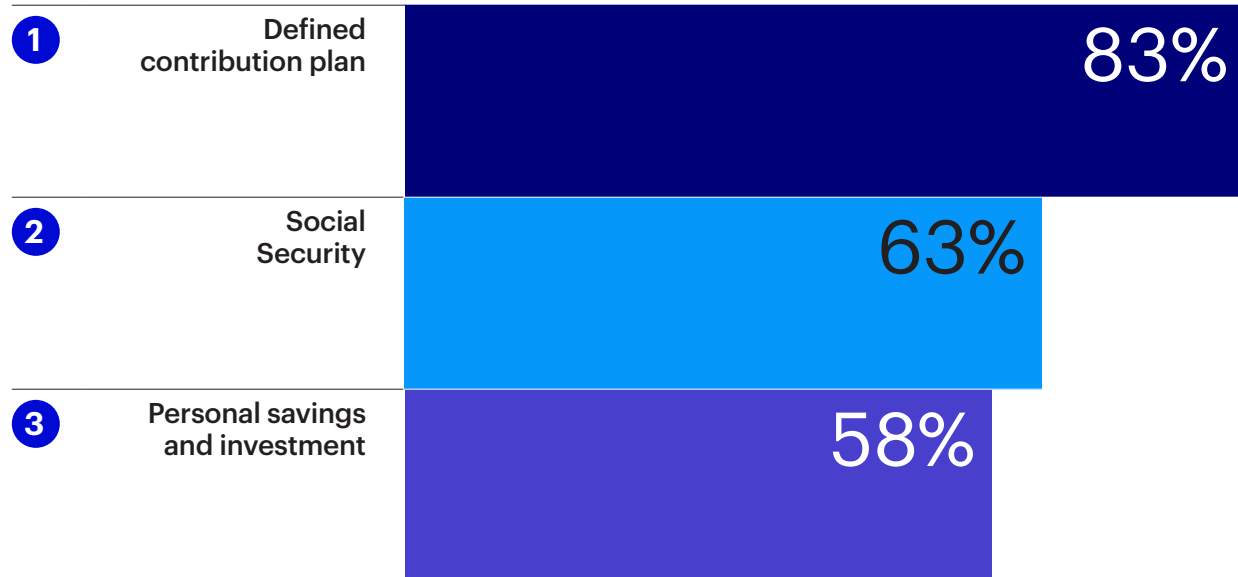
All participants overwhelmingly believed their DC plan savings would be their largest source of retirement income by a wide margin, surpassing both Social Security and their personal savings and investments. Surprisingly, employees with traditional DB plans also named their DC plan as their largest retirement income source (79%). This highlights just how important the DC plan is both to public and corporate employees.

While withdrawals have historically been the main — and sometimes only — way for participants to access their DC plan savings, a broader approach is needed to address the future income needs of employees.

**65%**  
all participants  
felt their DC plan played  
a critical role in helping  
with retirement  
planning.<sup>1</sup>



**Q** Which of the following do you expect will be your household's three biggest sources of income in retirement?



<sup>1</sup> Invesco, Watch Your Language 2021 DC Language Study (survey of 997 large plan participants).

## Participants lacked confidence and wanted (more) guidance from employers

More than two-thirds of participants were worried they would run out of money in retirement. The fear cut across even those with higher incomes, who work with a financial professional or have a DB plan.

Why? Few were very confident that they could develop an income strategy on their own, especially given their perception that their current employers provided little help or guidance.

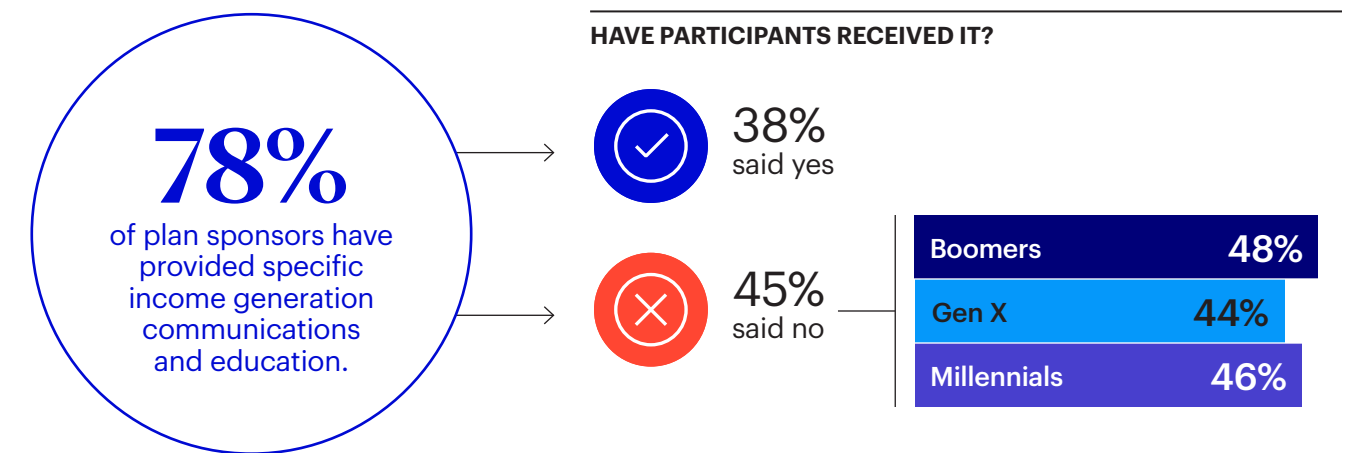
While 78% of plan sponsors said they provided communications and/or education to participants — specifically about turning retirement savings into a regular stream of income — just 38% of participants remembered receiving these types of communications. Instead, almost half of all boomers, Gen X, and millennials said they hadn't received any communications on the topic.

“  
When you're the person having to divvy out your savings and make it last, it's a lot of responsibility. You want to live a long time, but you don't want to outlive your money.”

— Focus group participant



Q Thinking about your current employer's retirement plan, do you receive communication or education specifically about how to turn your retirement savings into a regular stream of income once you retire?



## Sponsors have been cautious about adopting (new) retirement income solutions

The new focus on “solving the retirement income crisis” has brought a flurry of ideas, products, and accompanying regulations. While plan sponsors of all sizes recognize the need to address it, they are often unsure how to proceed. Before adding any new solution to their plan menu, sponsors wanted more information and guidance from regulators and their advisors, especially as the market continues to evolve. Concern about fiduciary risk remained pervasive, especially around guaranteed income solutions.

“  
Plan sponsors want to make sure that they don't get in trouble for any well-intended [guaranteed income] solution that they do offer.”

— Consultant interview

# Actionable insights

To help plan sponsors navigate the shift from savings to income generation for their respective DC plans, we explored how participants think about retirement income in general, what type of in-plan solutions may be most attractive to them (and why), and which resources would best resonate across a wide range of employee demographics. We also examined how participant and plan sponsor mindsets differed at times to see how best to bridge the (savings to income) gap moving forward.



## About the study

Invesco teamed up with Greenwald Research to conduct the research from March 2021 through April 2022. The extensive study spanned online surveys of 100 plan sponsors and more than 1,000 plan participants (all working for large US organizations with 5,000 or more employees), 12 participant focus groups, nine in-depth interviews with plan consultants and advisors, and nine in-depth interviews with large-plan sponsors. All data and quotes are used with permission.

## 01

### Connecting savings with income

While half of plan sponsors surveyed encouraged participants to stay in-plan at retirement, more work needs to be done to generate participant awareness, as well as conveying the benefits of staying. Including (new) retirement income solutions would be a significant reason for many participants to stay, yet sponsors were cautious to move forward.

## 02

### Overcoming fear and inertia

Participants had two intertwined fears: Outliving their retirement savings and spending too much, too soon. To help overcome their fear and inertia, participants favorably viewed being automatically enrolled into a retirement income solution (guaranteed or non-guaranteed), with the ability to opt out.

## 03

### Bridging the [income] gap

Participants wanted reliable income to cover their baseline expenses with access to flexible withdrawals to cover ad hoc spending as needed — without running out of money along the way. They weren't as concerned about what type of retirement income solution(s) would achieve this. However, they felt both guaranteed lifetime income solutions and non-guaranteed monthly income withdrawal solutions would be a good fit for them, in different ways.

## 04

### Give me reliability + flexibility

Few participants would allocate all their DC plan savings into just one retirement income solution, if given a choice. Most participants wanted more than just one in-plan retirement income solution available, preferring to split their DC plan savings across a guaranteed solution (for reliability) and a non-guaranteed monthly withdrawal solution (for flexibility).

## 05

### Jumpstart the retirement income conversation

Participants wanted their employers to start the retirement income conversation — specifically how to turn their DC plan savings into an income stream in retirement — with them earlier and continue the dialogue on a more frequent basis. Participants valued online tools much more than the top resource sponsors offered: talking with a call center financial representative.

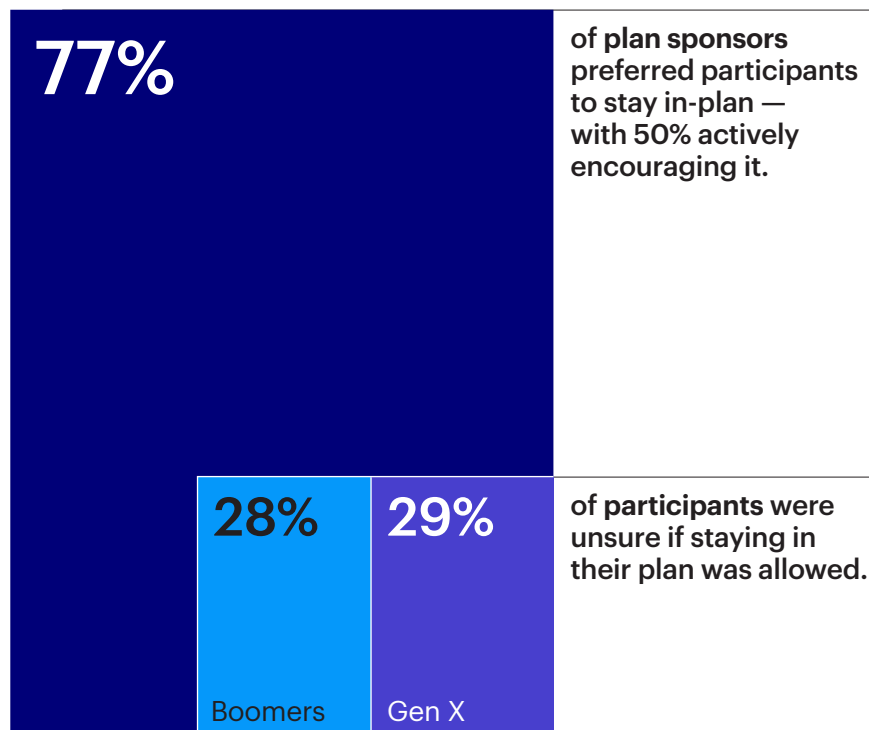
# Encouraging participants to stay in-plan

Our research showed that most plan sponsors were still in the early stages of helping participants connect their plan savings with retirement income in two important ways:

- If preferred, communicate with participants that they can stay in the plan, and the benefits of doing so.
- Offering retirement income solutions and supporting resources to meet the unique needs of today's retirees.

More than three-quarters of sponsors surveyed preferred participants leave their retirement assets in the plan when they retire, with half saying they actively encourage it. However, 28% of all participants didn't know whether leaving their assets in the plan at retirement was even allowed, including Gen X and boomers. There continues to be a significant gap between what plan sponsors say and what participants hear as they prepare for retirement.

**Q** In general, which of the following best represents your organization's philosophy about retirees leaving their savings in your organization's retirement plan once they retire?



**28%** of participants didn't think they were allowed to keep their money in the plan when they retire.

## Retirement income solutions motivate participants to stay in-plan

Employees want (and need) their employers to help them generate retirement income. Almost every participant surveyed would view their employer favorably if they added investment options to help them generate a regular stream of income in retirement from their DC plan.

**97%** of participants would view their employer favorably if they added investment options to help generate retirement income.

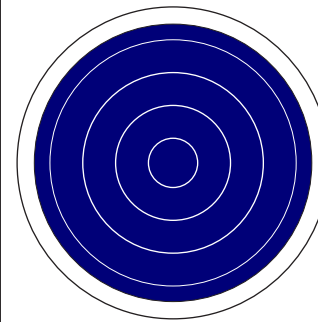


## Stay or rollover?

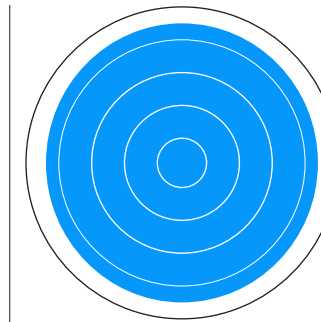
While many participants recognized the benefits of leaving money in their current plan when they retire — including the familiarity of their employer’s plan and the convenience of staying put — most planned to roll their money out of their current DC plan. Why? Many felt that their plan did not offer enough investment choice or flexibility to accommodate their unique needs in retirement. Other considerations were the expectation of high fees and a lack of trust in their employer.

What would make them more likely to stay? Nine in 10 participants were more likely to leave money in their plan if it offered specific investments designed to help them create a regular stream of income in retirement. They were also more likely to stay if costs were lower than they could get outside the plan and if they could roll outside retirement money into the plan for a consolidated view, especially millennials (87%).

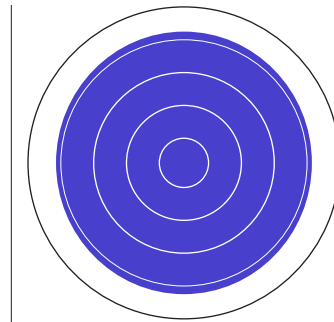
**Q** Would you be more likely to leave money in your current employer’s retirement plan when you retire if...? (Ranked more/somewhat likely.)



**89%**  
There were specific investments available designed to help them create a stream of income in retirement.



**87%**  
The costs were lower than I could get elsewhere.



**83%**  
I could roll other retirement money into the plan for a consolidated view of my savings.



There is a familiarity with the plan you are already working with. Assuming that the costs are relatively low, the returns are good or at least comparable to what you would get elsewhere, it is a no-brainer.”

— Focus group participant



### Sponsor opportunity

As more sponsors prefer participants leave their assets in the plan at retirement, it’s crucial to increase communications and education around the ability to stay in-plan — specifically highlighting the top three benefits that resonated:

- Specific **income generating** investments: As evaluating potential retirement income solutions takes time, sponsors should consider including them to the plan in stages.
- Potentially **lower costs** than what they could get outside of the plan, on their own.
- The ability to **roll-into** the plan outside retirement savings for a more holistic/consolidated view.



Offering [retirement income solutions] projects that an employer values their workers. It shows a continuation of treating employees well, even at the point of retirement and after.”

— Focus group participant

# Give me income that is both reliable + flexible

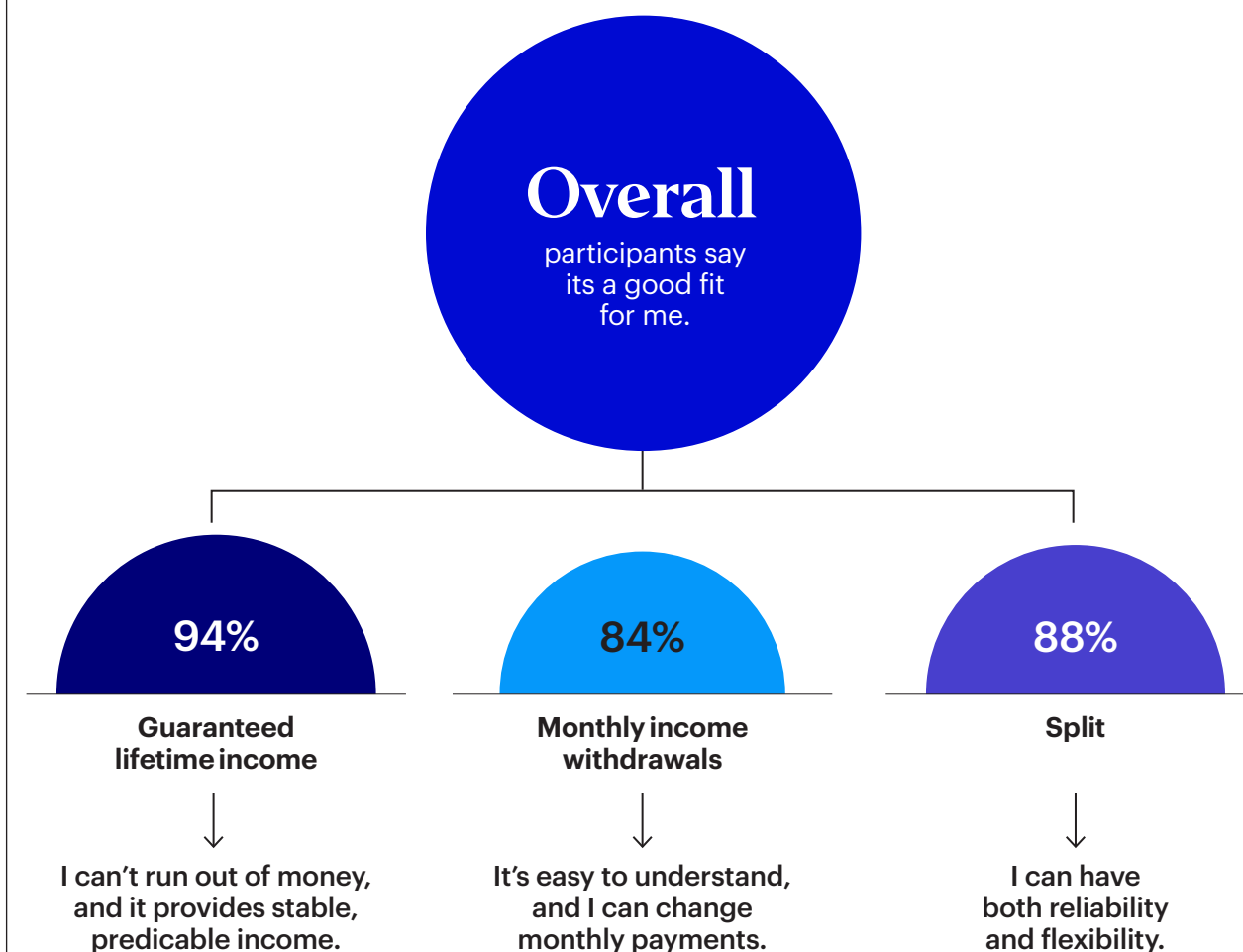
We found that participants wanted a consistent, monthly income stream to reliably cover their baseline expenses (housing, food, transportation, etc.) with the flexibility to withdraw additional amounts to cover ad hoc spending (travel, helping grandkids or emergencies, etc.). They didn't think (at all) about what type of retirement income solution(s) would achieve this.

Few participants would allocate all their DC plan savings into just one retirement income solution, if given a choice. While many felt a guaranteed lifetime income solution or a monthly income withdrawal solution would be a good fit for them, having to make a trade-off between reliable income (guaranteed) and flexible income (non-guaranteed) made splitting their DC plan savings between the two attractive.

**90%**  
of participants wanted more than one retirement income option.



## Participants view in-plan retirement income solutions favorably



“You know you won't run out of money. If you live for a long time, you don't have to worry about not having a [reliable] income.”  
— Focus group participant

“I would use the monthly [withdrawal] income for spending and the guaranteed income option towards bills and responsibilities.”  
— Focus group participant

## Guaranteed income has benefits, but lacks flexibility

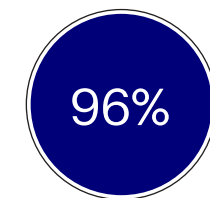
Across the board, participants felt that a guaranteed lifetime income solution would offer the peace of mind that they wouldn't run out of money and would provide a predictable income stream that could cover their essential monthly expenses for life. And participants recognized — and valued — that this solution may be less expensive through their DC plan, versus what they would pay on their own in the retail market. The convenience and ease of accessing it through their DC plan was also an important factor.

While participants liked the concept of guaranteed income for life, the idea of “locking it in” — not being able to make any changes (92%), access larger amounts if needed (90%), or control how the money would be invested (79%) — were key disadvantages. Having to pay an annual cost was a concern as well (91%), yet just three in 10 listed it as major deterrent.

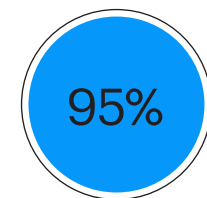


**Q** What are some possible advantages and disadvantages of a retirement income option that uses a guaranteed lifetime income approach? (Percent combines major/minor responses.)

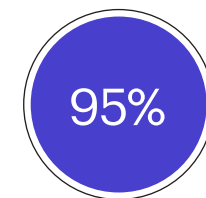
### ADVANTAGES



I can't run out of money even if my account balance is depleted.



It provides stable, predictable income that makes budgeting easier.



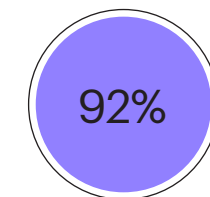
It's less expensive through my employer than accessing outside of plan.



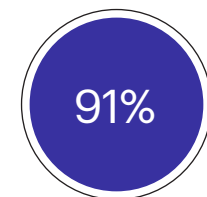
Assuming that Social Security won't be a thing by the time I retire, the idea of having guaranteed income and not having to watch [my savings] deplete... I think peace of mind factors in a lot.”

— Focus group participant

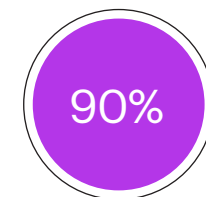
### DISADVANTAGES



I can't change the amount of my monthly payments once they're set.



There is an annual cost for the guaranteed income stream.



I can't access or withdraw larger amounts as needed.



Let's say this month I only need a certain amount, but the following month I need to double the payout — can I change it? And are there penalties for changing?”

— Focus group participant



## Plan sponsor perspectives

Almost all sponsors felt that offering a guaranteed lifetime income solution would be a good fit for their participants, especially as it would show they wanted to take care of their employees over the long term. They saw value in how it could help to retain assets by providing participants access to predictable income that was easier to access and less expensive than employees could get outside of the plan.

92% of sponsors agreed that even if a small percentage of participants take advantage of it, it's still worth offering.

However, sponsors viewed the potential for additional fiduciary risk to the plan, higher costs, and a participant's inability to access larger amounts as needed as top disadvantages.

“When I think about [our] employees, it might be easier, more straightforward, and transparent to say you put in X and you get Y. I love this idea, because so many companies don't have a pension plan.”

— Plan sponsor interview

98%  
said a guaranteed lifetime solution was a good fit for participants.



## The appeal of plan sponsor's negotiating lower fees on their behalf

How much value did participants place on a guaranteed lifetime income solution, especially one available through their DC plan? In general, people usually don't think they should have to pay for lifetime income, but when we framed it in a certain way, more participants felt it was reasonable.

Sponsors looking to encourage adoption should create a communications plan that clearly highlights how a guaranteed solution can help solve their biggest fear — outliving their savings. Then, include benefits-driven and personal language to highlight how the plan negotiates lower fees on their behalf, resulting in potentially higher monthly income for them.

“If there's value to it, it should cost money. I used to be focused on getting things for free, like a free app or free news on the internet. But I learned that spending a little bit of money got me a much better product. I've stopped expecting to get things of value for free.”

— Focus group participant

Q Which of the following would you rather hear from your employer? Due to the large size of our plan, we are able to...

67%

Negotiate lower fees

on retirement income options, potentially increasing your monthly income in retirement.

33%

Offer a lifetime income option

that would be difficult to access on your own outside the plan.

“I think the lower costs my employer can negotiate is a huge benefit, and one of the reasons I would be more likely to leave my money behind.”

— Focus group participant

# Overcoming fear and inertia

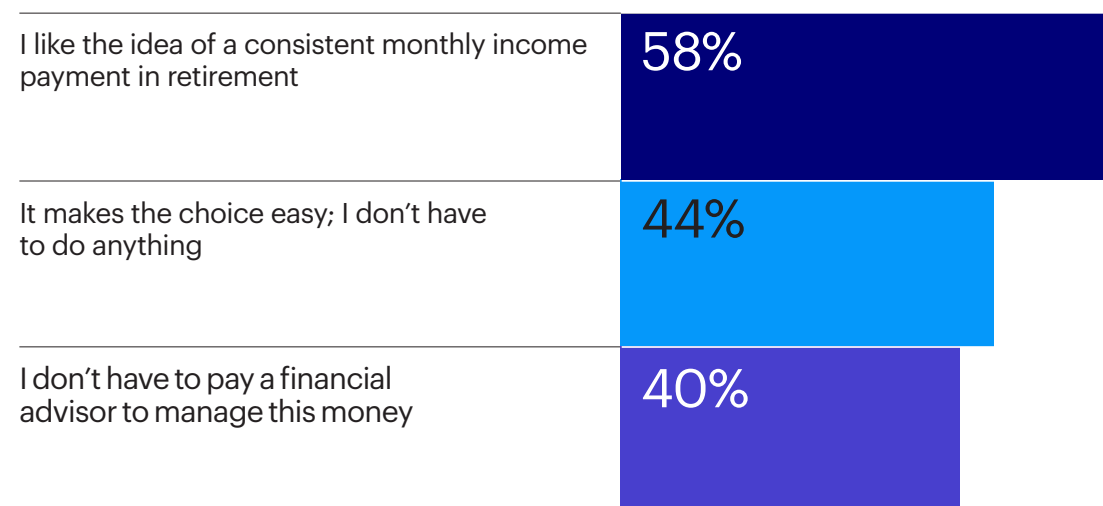
## Auto-enroll me into a retirement income solution

Participants are becoming familiar and comfortable with auto-features with an opt-out option. Given that their biggest fear is running out of money in retirement, and a desire for help from their employer, eight in 10 participants favorably viewed being automatically enrolled into a retirement income solution, with the ability to opt out without penalty when notified. This applied to both guaranteed and non-guaranteed solutions.

- Participants who had been automatically enrolled into their plan had the most positive view (93%).
- Millennial participants had a more favorable view than boomers (83% versus 75%), along with those with income less than \$100k (83%).

**Q** Why do you find automatically [SAMPLE A: enrolling /SAMPLE B: transitioning] into one of these retirement income options favorable? (Select up to two responses.)

Top reasons why participants liked auto-enrolling into a retirement income solution:



## Portability: Taking it with me is important, but it's not a deal breaker

Not surprisingly, the industry term "portability" was confusing for many focus group participants. We explained that it meant their guaranteed lifetime income solution account could be held outside of the DC plan if they left their employer. Overall, we heard in focus groups that if their DC plan was "good," then it wouldn't be an issue to leave their plan savings there.

Plan sponsors also agreed that portability was moderately important, but not a deal breaker. Others worried about how much administration effort it could take and the impact to their team.

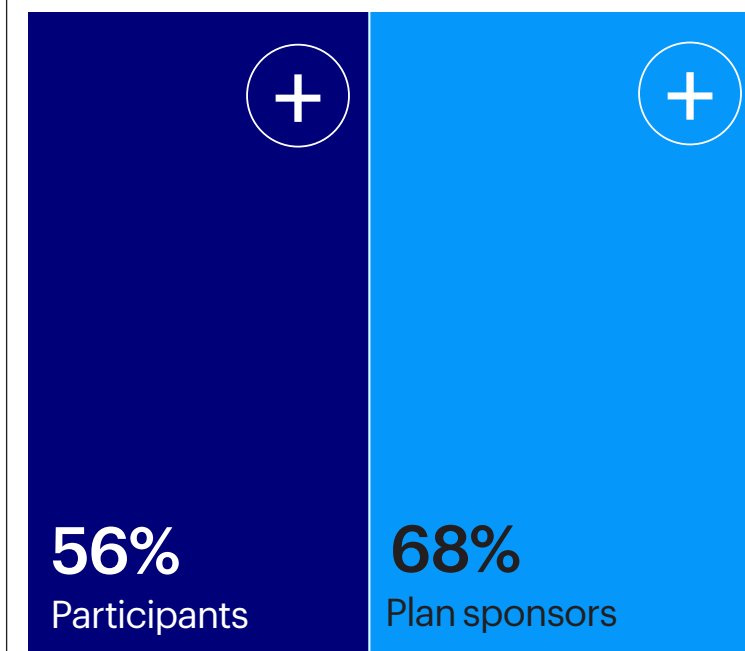


**It wouldn't bother me. I already have two 401(k)s from previous employers. If I changed employers and needed to leave this in my current plan to get the benefit, I'd be fine with that."**

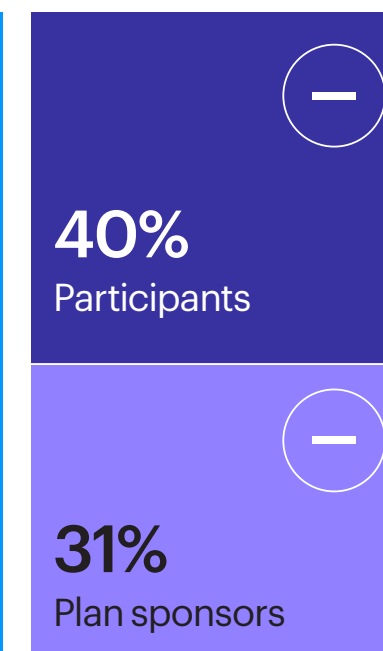
— Focus group participant

For half (56%) of all participants, having the ability to transfer their guaranteed lifetime income solution from their DC plan to another plan or provider was moderately important (especially mid-career focus group participants). However, while having the option to transfer was positive, it's not a must-have: six in 10 said it wouldn't be a deal breaker if they had to leave it with their employer.

### PORTABILITY IS IMPORTANT



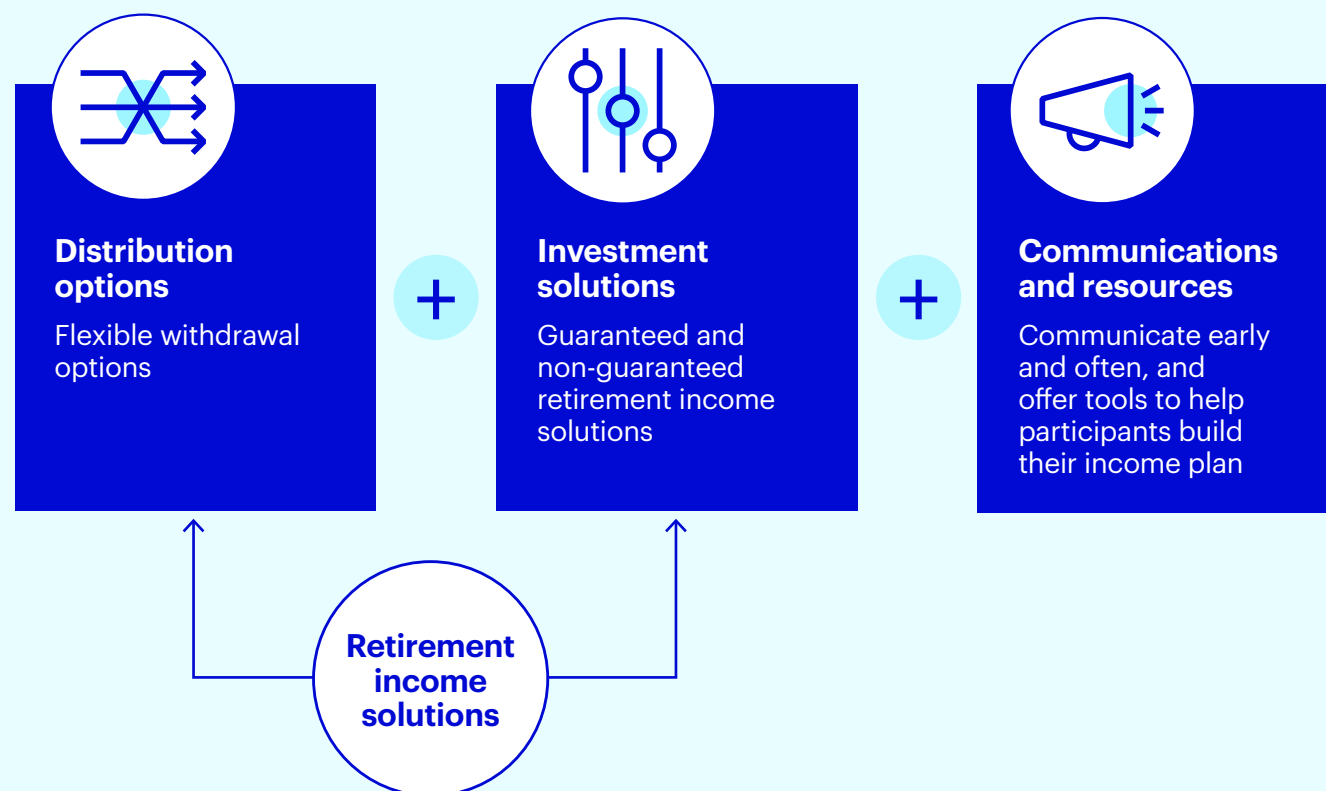
### IT'S A DEAL BREAKER



# Putting it all together

Ultimately, employers that prefer DC participants stay in the plan post-retirement should consider creating a **“Retirement Readiness Program”** — a combination of retirement income solutions (investment solutions and distribution options), communications and resources tied to the plan’s current and future demographics — to help retirees generate flexible and/or reliable streams of income.

A Retirement Readiness Program should include:



For illustrative purposes only.

## Evaluating potential solutions takes time

Plan committees should begin the process of assessing a range of retirement income solutions, and consider earlier, more frequent educational support to help employees transition smoothly into retirement.



# Methodology

Together with Greenwald Research, cited Invesco defined contribution research includes:

**18**  
in-depth interviews  
with plan sponsors  
and consultants

Online  
survey of  
**100**  
plan sponsors

**12**  
virtual  
participant  
focus groups

National online  
survey of  
**1,049**  
plan participants



Greenwald Research is a leading research firm with focused industry expertise in financial services, employee benefits and health care. Conducting customized research for over 30 years, Greenwald leverages its extensive knowledge and industry expertise to help clients explore and build products, design effective communication, and demonstrate their thought leadership.



Invesco is a leading global investment management firm serving defined contribution clients for over 30 years, managing \$134 billion in US DC assets as of June 30, 2022. With a thoughtful insights platform, one of the broadest investment offerings, and a commitment to a superior client experience, Invesco strives to help plan sponsors, advisors and consultants achieve optimized participant outcomes.



Across the ever-changing world of defined contribution (DC), plan sponsors and intermediaries are seeking actionable insights and solutions to help optimize participant outcomes and strengthen their fiduciary responsibilities. Our ReDefined Contribution Plans Research Series is designed to assist with holistic decision-making by:

- **Uncovering the drivers of participant behaviors and investment choices and**
- **Identifying language that resonates with participants and increases engagement.**

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Research conducted by Invesco and Greenwald Research. Sources for all data, unless indicated, include virtual participant focus groups (held May–June 2021 and December 2021–January 2022); online participant survey of more than 1,000 employees of large US companies (conducted September–October 2021); survey of 100 large US plan sponsors (conducted November–December 2021); and in-depth interviews with 18 plan sponsors and consultants (held March 2021 and March–April 2022). As of 2021, generational age bands are defined as: millennial, ages 25 to 40 (born 1981 to 1996); Generation X, ages 41 to 56 (born 1965 to 1980); and baby boomer, ages 57 to 75 (born 1946 to 1964). Percentages may not add up to 100 due to rounding. Plan sponsor and participant quotes are used with permission.

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