

# Making Savings Last A Lifetime

Each day another 10,000 Americans reach the traditional retirement age of 65<sup>1</sup>, and face the challenge of converting their hard-earned savings in defined contribution (DC) plans into an income that will replace their working-year paychecks. PLANSPONSOR recently spoke with Tim Brown, Senior Vice President, Life & Income Funding Solutions at MetLife, on the changes in mindset and risk perspective for both retiring participants and sponsors, and building out the “last mile” of DC plans with guaranteed solutions for retirement income.

**PLANSPONSOR:** What are the new risks that confront DC participants in having to manage their own retirement income?

**Tim Brown:** The risks aren’t new—it’s more that in a retirement world dominated by DC plans, several important risks have been shifted from the plan sponsor to the individual. Most important are market risk and longevity risk, or the prospect of outliving your assets. Few participants have the financial knowledge to tackle these, and in fact many people may not even recognize that they face these risks. But now that more and more people are depending primarily on DC plans for retirement income, we’re seeing a greater focus from both sponsors and participants on the decumulation or spend-down phase, and the importance to a healthy retirement of a guaranteed source of income.

**PS:** Many financial planners recommend percentage rules of thumb on how much to draw from retirement savings each year. Don’t they provide sufficient guidance?

**Brown:** We’re all individuals, with different financial resources and respon-



*Tim Brown, Senior Vice President,  
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sibilities, and we believe that one-size-fits-all guidelines don’t address those differences. However, we do think insurance through income annuities can help protect individuals from outliving their savings. For most people their most valuable asset is likely their home, and no one would think of going without insurance. The second largest asset is probably their retirement account, but few people protect their savings to ensure that these funds will last throughout their lifetime. It’s true that most retirees have Social Security as a foundation, but it may not provide adequate income to meet their needs in retirement.

**PS:** How can individuals start the process of creating a guaranteed income?

**Brown:** Our research indicates that people realize that the responsibility is on them, but they also really want their employers to be involved—providing them with information and access to obtaining a secure retirement<sup>2</sup>. One thing that would be very helpful to

participants is education on how savings translate to expected retirement income. Also, recent research from the Employee Benefit Research Institute and Greenwald & Associates shows that 80% of participants express interest in taking money out of the plan at retirement and moving it into a financial product that would guarantee monthly income for life<sup>3</sup>.

**PS:** Many people are reluctant to give up the liquidity and control that comes with a lump sum. How is the industry addressing that preference?

**Brown:** Purchasing an annuity doesn’t have to be an all-or-nothing proposition. A great compromise is partial annuitization, where people can purchase a layer of guaranteed income protection, while maintaining the remainder of their assets for emergency situations. That’s similar to what people have in their working lives—a regular paycheck, plus a savings program.

**PS:** What suggestions do you have for sponsors who are considering adding guaranteed income options to the investment lineup?

**Brown:** Simplicity is paramount to the success of any plan, so any option would need to be readily communicated and understood, both for participants and sponsors. Sponsors can also help participants manage the additional risks inherent in DC plans. Target date funds have received great acceptance through their “set it and forget it” aspects, and with a guaranteed product such as an income annuity, that same concept would apply—that retirees insure their savings, and have the certainty of knowing how much they’ll receive every month for the rest of their lives. ■

1. Pew Research Center, December 2010  
2. MetLife Role of the Company Survey, April 2018  
3. 2018 EBRI Retirement Confidence Survey, April 2018

