AMERICAN ACADEMY of ACTUARIES

Executive Summary

MARCH 2025

Decumulation Strategies: Creating Lifetime Income from Defined Contribution Plans

Employer-sponsored defined contribution (DC) plans are a key element of the American retirement system. Employers ("plan sponsors") offer and manage DC plans into which employees ("plan participants"), and potentially employers, make regular contributions. The DC plan model is a convenient and effective way to encourage workers to save for retirement. In many cases, DC plans have replaced private sector defined benefit (DB) plans, which are funded entirely by employers and provide guaranteed and specific monthly payments to participants at retirement.

There are many options when it comes to spending down ("decumulating") DC plan savings in retirement, but options within the plan are typically limited. Plan sponsors can help their plan participants decumulate by offering multiple DC plan options, potentially including both non-insured and insured strategies. By providing participants with education materials and tools, plan sponsors can help them understand the payout options and plan their decumulation phase.

The following discussion provides a brief overview of the types of insured and non-insured payment options employers can offer through DC plans. The Academy's 2025 issue brief, *Decumulation Strategies: Creating Lifetime Income from Defined Contribution Plans* discusses these options in more detail and provides a comparison of them across various features and strategies.

Insured DC Plan Payment Options

Insured options can provide valuable guarantees against investment and longevity risk and are often more cost-effective than those sold on the retail market, but they come with some costs and limitations.

Two broad categories of insured payment options offered through DC plans are income annuities and annuities with guaranteed lifetime withdrawal benefits (GLWBs). Both options differ in several respects from the versions that are offered in the retail market:

1850 M Street NW, Suite 300
Washington, DC 20036
202-223-8196 | www.actuary.org

Geralyn Trujillo
Senior Director, Public Policy

Linda K. Stone, MAAA, FSA
Senior Retirement Fellow

1. Pricing is based on a blending of male and female rates.

2. Deferred income annuities (DIAs) may offer liquidity during the deferral period, which allows the participant to transfer the annuity's value to another plan investment option without irrevocably converting the money in the annuity into an income stream. This option adds flexibility but may increase the DIA's cost.

3. These annuities may incorporate competitive bid offerings with multiple insurance companies backing the guarantee.

4. These options should not pay commissions and generally do not charge for surrenders, in contrast to annuities available on the retail market.

Income annuities are insured options that give DC plan participants a guaranteed lifetime income benefit that mitigates the risk they will outlive their retirement plan savings. These offerings require the irrevocable conversion of a single sum balance into an income stream. Payments can be customized in a variety of ways, which are briefly discussed in the issue brief. The Academy's August 2022 issue brief, *What Are the Various Types of Insurance Annuities?* includes a detailed discussion and examples on payment options.

Subcategories of income annuities include:

- Single Premium Immediate Annuities (SPIAs): Immediately provide plan participants with an income benefit for the rest of their lives. Determination of the income payable is based on prevailing interest rates when the annuity is purchased, along with other actuarial assumptions.

- Deferred Income Annuities (DIAs): Payment commencement is deferred until a later date, which can be years in the future. Benefit amounts and the type of benefit when income starts are often determined at the time of purchase. In-plan DIAs are

This issue brief was drafted by members of the Defined Contribution Subcommittee of Pension Committee:
Maria Carnovale, MAAA, FSA – *Chairperson*; Spencer Look, MAAA, FSA – *Vice Chairperson*; Lee Gold, MAAA, ASA, EA, FCA;
Jay Francis Hines, MAAA, FSA; Robert Reiskytl, MAAA, FSA, FCA; Ruth Schau, MAAA, FSA, FCA, EA; Mary Stone, MAAA, FSA, FCA, EA.

Special Thanks: Rachel D'Anna, Jason Jump, Lloyd Katz, and Linda K. Stone, Senior Retirement Fellow, American Academy of Actuaries.

often designed to be funded, not through a lump-sum premium purchase but over the years leading up to retirement, permitting dollar-cost averaging for the purchase. Moreover, plan participants can maintain liquidity with in-plan DIAs until they decide to annuitize (i.e., irrevocably convert their balance into an income stream).

- Qualifying Longevity Annuity Contracts (QLACs): Type of DIA that can be purchased using funds from a tax-qualified retirement account and are typically purchased at or near retirement with a lump-sum payment (IRS limitations apply). The annuity is exempt from RMD rules until income payments begin. QLACs address longevity risk with benefits often starting around age 80 to 85.

- Guaranteed Lifetime Withdrawal Benefits (GLWBs): Provide payments that begin at a selected retirement age. Unlike income annuities, they do not require plan participants to give up their account value to collect payments, which are made directly from the participant's account balance each month unless the balance has been depleted, after which payments come from the insurer. The payment amount is based on a percentage of the account balance or benefit base (which is a value used to calculate the payment amount) at commencement and can potentially increase under some designs. After payments begin, participants may choose to withdraw an amount above the payment amount, though this will reduce future payments. The guarantee of lifetime payments continues to apply for the reduced level of future payments. If the participant dies before the account balance is depleted, the remaining account balance is payable to their beneficiary. GLWBs offer flexibility but can be hard for plan participants to understand and may be more expensive than income annuities.

Non-insured DC Plan Payment Options

These types of payment options use a rule or algorithm to determine how to withdraw from a retirement account each year. These strategies provide the most flexibility and upside investment potential during accumulation and payout phases but do not protect from downside investment or longevity risk. Participants can only safeguard against outliving their savings by choosing a conservative payout or assuming an extended payout period, which could cause a large portion of retirement assets to remain unused at death and left to beneficiaries. The following table presents a high-level comparison of the insured and non-insured options offered through employer-sponsored retirement plans.

Summary Comparison of Payout Options

The following table presents a high-level comparison of the insured and non-insured options we discussed that are generally offered through employer-sponsored retirement plans.

	Product Type			
	Insured Approaches			Non-insured Approaches
Features	**SPIAs**	**DIAs and QLACs**	**GLWBs**	**Systematic Withdrawals**
Income guaranteed for life	Yes	Yes	Yes, insurers provide benefits after account balance is depleted	No
Liquidity				
Pre-income commencement	Yes, premium not paid until payout commencement	Usually (for plan-selected DIAs only, not QLACs)	Yes, account balance	
Post-income commencement	No	No	Yes, account balance	
Post-retirement death benefit to heirs	Premium less benefits paid if "cash refund" feature is selected or any remaining "period certain" payments if that feature is selected (both have a "cost" of lower payouts)		Remaining account balance	
Downside protection				
Pre-income commencement	No, in particular, participants are subject to point-in-time interest rate risk, which can be partially mitigated if premium is accumulated over time in a fixed income account that mimics annuity purchase rates	Yes	Yes, as soon as the "benefit base" is established	No, but participants can mitigate downside risk by investing conservatively
Post-income commencement	Yes	Yes	Yes	No
Upside potential				
Pre-income commencement	Yes, premium not paid until payout commencement	No, guaranteed income locked in at time of purchase	Yes, fund returns if the base product is a VA, market index if FIA; insurer may limit upside	Yes
Post-income commencement	No	No	Account value can grow with fund returns (VA) or market index (FIA), and guaranteed lifetime withdrawals under some designs	Yes
Fees	No explicit fee; instead the payout rate reflects the cost to provide the lifetime income guarantee		There is an explicit or implicit product fee/cost (or both) that lowers returns	Investment and administration fees to maintain the account—usually percentage of balance—but generally no fee if participant does their own systematic withdrawal
Simplicity	Easy to understand	Relatively simple	Can be complex	Range from easy to understand to complex

There are many factors employers might consider in designing plans that could help plan participants to spend their retirement savings safely and effectively.

There are a number of steps policy makers could pursue to contribute to this goal, such as evaluating ways to encourage or mandate lifetime income solutions in retirement plans or paving the way for the introduction of Collective Defined Contribution (CDC) plans. (CDC plans are covered in depth in the Academy's September 2024 issue brief, *Collective Defined Contribution Plans.*) Policymakers are continuing to evaluate other ways to encourage or mandate lifetime income solutions in retirement plans such as allowing annuities to be part of a Qualified Default Investment Alternative (QDIA) and including lifetime income options in proposals to mandate retirement plan access.