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The rise of the stay-in-plan model

As older participants opt to stay in retirement plans, plan sponsors have options to support their diverse needs

Key takeaways

- A growing number of pre-retirees and retirees are opting to stay in plan,[1] and a majority of plan sponsors prefer allowing older participants to stay in their plans beyond separation from service.[2]
- When evaluating which plan options may appeal to retired participants who choose to stay in plan, plan sponsors may want to consider the diversity of their employees' needs.
- Offering diverse options for retirees who choose to stay in plan can help address five interrelated categories of risk: longevity risk, investment risk, utilization risk, complexity risk, and liquidity risk. Every participant – and every stay-in-plan option – will weigh these risks differently.
- For retirees who choose to stay in plan, plan sponsors may want to consider a suite of options – including education, tools, and investment and income offerings – that can serve the varied needs of participants as they enter retirement and begin to spend down their assets.

As defined contribution (DC) plans have eclipsed defined benefit (DB) plans as the primary source of retirement savings, plan sponsors are paying greater attention to participants' needs for in-plan retirement income that can support the pivot from building their savings (accumulation) to drawing them down (decumulation). In the same way that plan sponsors are able to offer participants access to a variety of ways to accumulate savings, many now also want to provide decumulation options for participants who want to stay in their plans, especially as the population of pre-retirees and retirees in plans continues to grow.

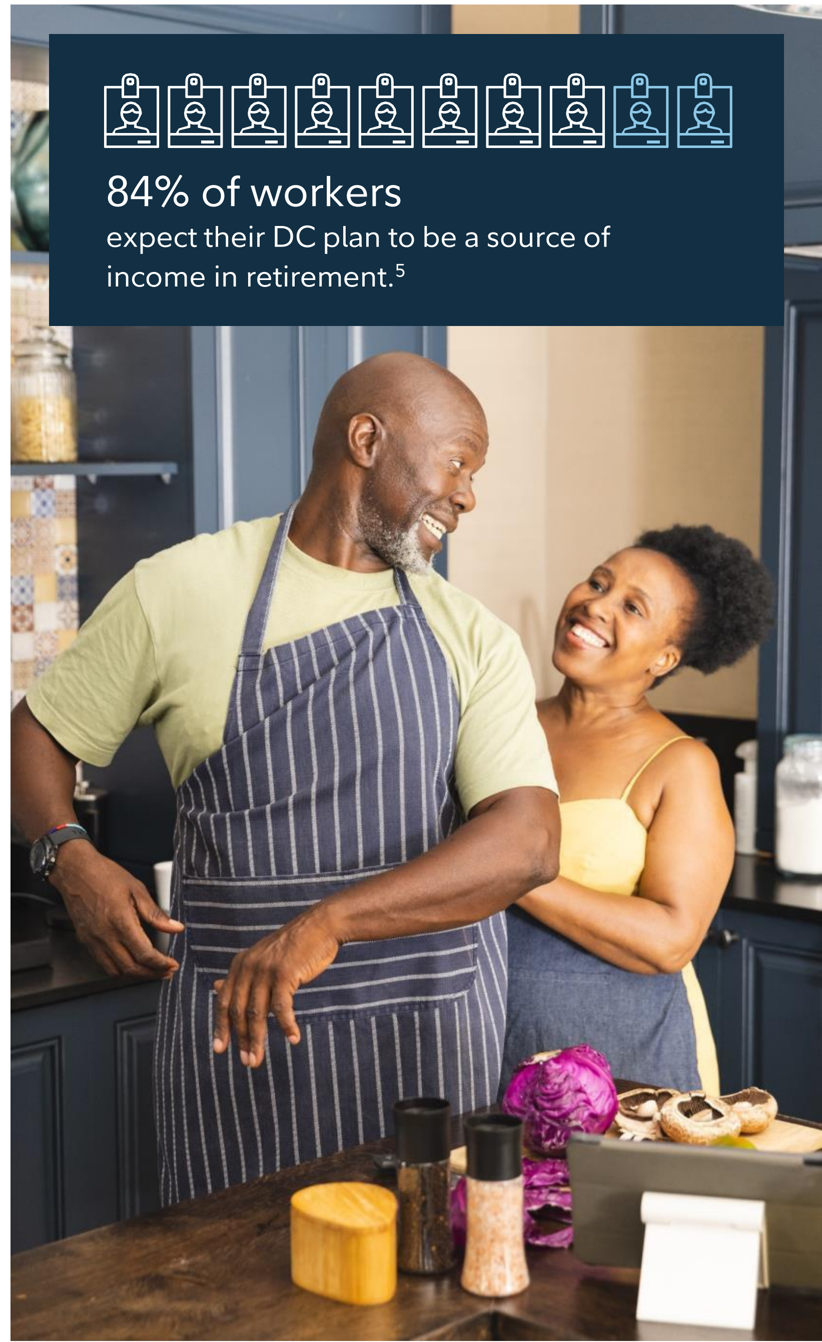
This paper explores the implications for plan sponsors that are considering adding new options for their participants as they move from saving to living in retirement.

Plan sponsors and participants are driving stay-in-plan trends

The vast majority of plan sponsors express interest in allowing older participants to remain in their DC plans after separation from service. Research by Fidelity Investments® reveals that 81% of plan sponsors prefer to give retirees the flexibility to stay in plan and withdraw assets throughout their retirement years.[3] Additionally, 59% of plan sponsors recognize that employees need help making financial decisions while in retirement.[4]

Fidelity's recordkeeping data also shows that the number of retirees and pre-retirees embracing the opportunity to stay in plan past their separation date has been on an upward trend over the past 10 years.[6] For the purposes of this paper, and based on Fidelity's recordkeeping platform, we deem retirees as participants ages 60 years and older – with pre-retirees ages 50 to 59 – who have separated from service but remain in their employer-sponsored DC plan. As of December 2022, 60% of retirees on our platform remained in their plan within the first year of separation, compared with approximately 50% in 2013. Pre-retirees have shown a similar shift, with 67% remaining in plan in 2022, compared to 61% a decade ago.[7] Furthermore, while overall recordkept assets on our platform have doubled over the past decade, assets held by pre-retirees and retirees have nearly tripled.[8]

84% of workers
expect their DC plan to be a source of income in retirement.[5]



Consider the impact that the stay-in-plan trend may have on your plan and its participants

With so many older participants remaining in their plans, what are the implications for plan sponsors, particularly if they want to retain the assets of these individuals while helping them transition smoothly to retirement? Supporting retirees who choose to stay in plan can offer benefits for both participants and plan sponsors, while potentially introducing some plan sponsor challenges to take into consideration.

For participants, potential benefits of staying in plan could include: the simplification and consolidation of their retirement accounts, familiar investment options, access to managed portfolio services and advice, educational content, and recordkeeper familiarity. Additionally, staying in plan can provide access to institutional pricing and specialized investment offerings not typically available in retail accounts, such as stable value funds.

Likewise for plan sponsors, supporting retiree participants with a variety of options can have many potential benefits. For example, it may make it possible to better negotiate or maintain lower fees due to economies of scale, and it can also support efforts to attract, retain, and manage talent pools. That said, offering a variety of options can introduce potential challenges that plan sponsors may want to consider as well. (Exhibit 1).

EXHIBIT 1: **Options and resources available for the stay-in-plan retiree potentially offer benefits to participants and plan sponsors, but they may also introduce challenges**

POTENTIAL BENEFITS **FOR PARTICIPANTS**

- Simplification and consolidation of retirement accounts
- Access to institutional products, pricing, services, and planning tools
- Potential access to products that are not available in retail accounts, such as stable value funds
- Continued administrative and decision support from plan sponsor and/or recordkeeper

POTENTIAL BENEFITS **FOR PLAN SPONSORS**

- Retain assets to help maintain economies of scale, which could result in reduced recordkeeping fees and make lower-cost investment options more viable
- Assist workforce management by helping pre-retired employees feel more confident about retirement
- Help attract and retain talent by demonstrating commitment to employees' long-term needs

POTENTIAL CHALLENGES **FOR PLAN SPONSORS**

- May necessitate broadening the investment lineup to offer options suitable for an older demographic
- Additional resources and time required to evaluate and restructure current plan design and amend plan documents
- Potential increase in administrative fees (dependent on how plan costs accrue)

Supporting the pivot to decumulation involves considering a diverse spectrum of participant risks and needs

Supporting older participants through this transition requires the flexibility to meet the needs of a wide variety of financial circumstances, with options that can address a complex set of risks. Retirement risks can fall into five broad, interrelated categories: longevity risk, investment risk, utilization risk, complexity risk, and liquidity risk (Exhibit 2). Every participant – and every stay-in-plan option – will weigh these risks differently.

For example, the degree to which retirees plan to draw down their retirement savings – known as utilization risk – can vary greatly within your plan. Research from the Employee Benefit Research Institute (EBRI) has shown that 44% of retirees plan to spend down all or a significant portion of their assets over the course of their retirement, while another 34% said they plan to spend down a little, and 22% planned to spend down none or grow their assets.[9]

EXHIBIT 2: **Offering participants diverse options when they choose to stay in plan may help address a variety of risks**

Longevity Risk

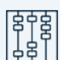
With the benefit of increasing life expectancy comes increased risk that some retirees may outlive their retirement benefits. This is one of the most pressing issues facing DC plan participants today.

Investment Risk

Prudent investment management and diversification are key to providing retirees with an asset allocation that can help support the retirement income they seek.

Utilization Risk

Assisting retirees in managing how (and at what rate) to draw down their savings can help them make effective use of their assets and maintain a similar standard of living throughout their retirement years.



Complexity Risk

Simplicity is a central aspect to retirement income planning, as overly complex decumulation strategies can lead to indecision and inaction by retirees.

Liquidity Risk

Retirees may need access to their money when unexpected emergencies occur. Products that restrict liquidity can make it difficult to access their savings.

Source: Fidelity Investments. For illustrative purposes only.

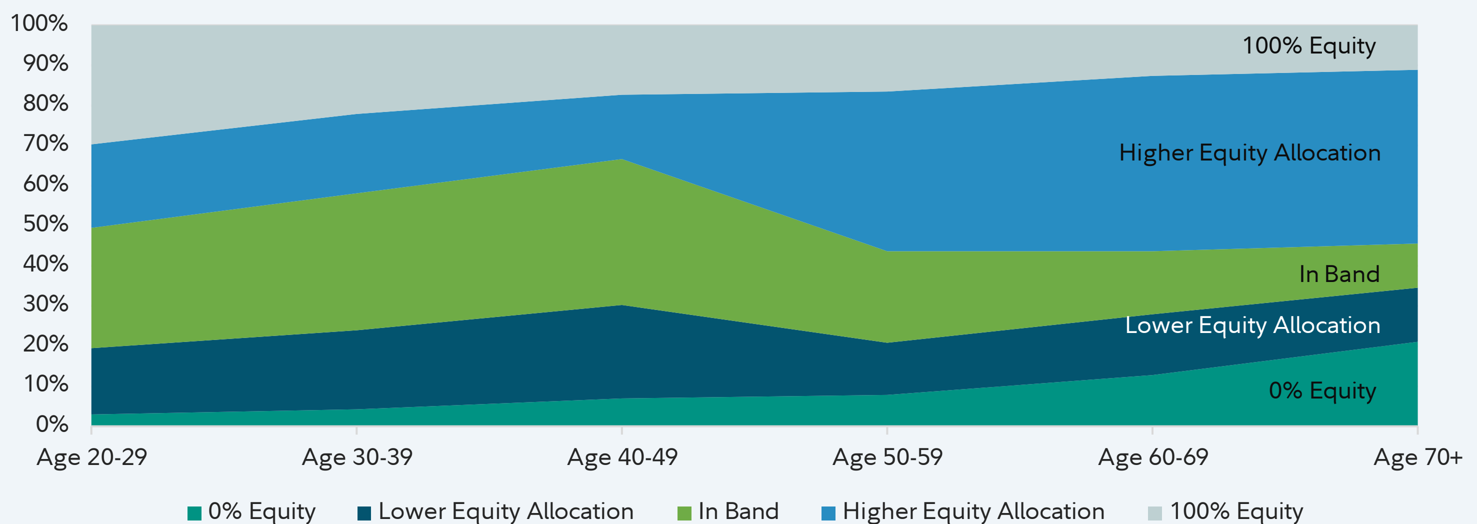
As another example, Fidelity's recordkeeping data demonstrates that investment risk may be a consideration for retirees and pre-retirees who are "Do-it-yourself" (DIY) investors – meaning those who manage all or a portion of their retirement assets on their own. Many of these DIY participants maintain an allocation to equities that falls outside of the levels of the Fidelity Equity Glide Path. The Fidelity Equity Glide Path is a range of equity allocations that may be generally appropriate for many investors saving for retirement and planning to retire around ages 65 to 67, and it becomes more conservative as participants approach retirement and beyond.

A risk in having too high an allocation to equity or to cash is that while investors may experience favorable investment results in certain market environments, they leave themselves more vulnerable in others. For example, depending on the market environment, having too high an equity allocation could expose retirees to large market drawdowns and potentially result in a more volatile income stream. Conversely, a higher allocation to cash could result in less retirement income overall, particularly during inflationary periods.

As of year-end 2022, 56% of DIY retirees and pre-retirees on Fidelity's platform held equity allocations above the levels of the Fidelity Equity Glide Path. Meanwhile, 30% of retirees and 21% of pre-retirees had a lower allocation. Some DIY participants also held high levels of "extreme" allocations: About 12% of retirees and 16% of pre-retirees were invested 100% in stocks. At the other end of the spectrum, 16% and 8%, respectively, had zero equity exposure (Exhibit 3).

This data only reflects workplace savings assets record kept at Fidelity, and each participant may hold other assets they intend to use for retirement.

EXHIBIT 3: **For many older DIY participants, their relative allocation to equities falls outside of the levels of the Fidelity Equity Glide Path**



DIY: Do-it-yourself. For "Asset Allocation" purposes, age appropriate equity allocation is defined as the participant's current age and equity holdings in a retirement portfolio compared with an example table containing age-based equity holding percentages based on an equity glide path. The Fidelity Equity Glide Path is an example we use for this measure and is a range of equity allocations that may be generally appropriate for many investors saving for retirement and planning to retire around ages 65 to 67. It is designed to become more conservative as participants approach retirement and beyond. The glide path begins with 90% equity holdings within a retirement portfolio at age 25 continuing down to 19% equity holdings 10-19 years after retirement. Equities are defined as domestic equity, international equity, company stock, and the equity portion of blended investment options. The indicator for asset allocation is determined by being within 10% (+ or -) of the Fidelity Equity Glide Path and capped at 95% equity. We assume self- directed account balances (if any) are allocated 75% to equities, regardless of participant age and so the Asset Allocation Indicator has limited applicability for those affected participants. For purposes of this metric, participants enrolled in a managed account or invested greater than or equal to 80% of their account balance in a single target date fund are considered to be On Plan. Source: Fidelity Investments; investment allocations as of December 31, 2022.

A suite of more diverse options for retirees who stay in plan may offer choice in how they address their specific needs

Plan sponsors interested in providing options and ensuring participant choice for retirees may want to consider a broad suite of offerings – including educational materials, tools, and investment and income offerings – that can serve the diverse needs of employees as they enter retirement. Bear in mind that individual retirees have distinct financial goals, spending habits, and lifestyles, which means that there may not be one formula that works for all participants in your plan.

Automatic withdrawals

One area of opportunity may be to offer and educate participants on automatic withdrawals. Automatic withdrawals generally take the form of a series of payments over a period of time, during which a participant's entire account may be distributed.

Providing additional types of automatic withdrawal options – such as payments based on a calculated percentage of a participant's account balance or computed using an actuarial life expectancy – generally may also be helpful.

We believe it is also important to provide education on the availability of automatic withdrawals, along with tools and calculators to help model different withdrawal plans' potential impact on retiree cash flow and balances. Robust modeling capabilities that can provide estimates may help answer the questions that many retirees face: How much will I have? How long can it last? How much will be left?

Retirement income

Innovations that address these questions are gaining momentum. Many plan sponsors have shown interest in offering managed payout funds, an investment option that seeks to optimize participant withdrawals over the course of retirement while still allowing full access to their savings. These types of offerings can help effectively manage not only withdrawals but also asset allocation.[10] Plan sponsors can add these to their existing plan lineup and may choose to re-enroll retired participants seeking help with retirement income.

The idea of offering a form of guaranteed income within a DC plan has also been attracting attention in the marketplace, and research shows that 65% of participants are at least somewhat interested in having guaranteed income options in their workplace plans.[11] While costs and fiduciary responsibility tend to be the most-discussed considerations among plan sponsors that are exploring guaranteed income, the SECURE Act established a new fiduciary safe harbor for selecting insurers, which makes it easier for plan sponsors and their fiduciaries to offer annuities to their plan participants. The notion of exchanging their retirement savings for less control of and access to their assets – along with the irreversibility of annuity purchase – has historically proven a challenge to annuity adoption for some retirees. However, guaranteed income annuities may be a consideration for retirees who – for example – have a gap between their essential retirement expenses and other predictable sources of income, like Social Security and pensions. They may be able to fill this gap by converting a portion of their retirement savings into an annuity. Some guaranteed income annuities may offer a cash refund option that provides a lump sum payment to their beneficiary, minus any payments already received, which may help retirees become more comfortable with annuitizing a portion of their balance if they are concerned with their longevity.

Managed accounts

For plan sponsors that offer them, managed accounts may also appeal to retirees who choose to stay in plan – particularly for participants with more complex financial situations. This may include, for example, retirees with additional retirement assets (like an IRA or pension), company stock, or significant spousal assets. For these investors, 401(k) asset management that considers the impact of other retirement income sources may complement stay-in-plan options like automatic withdrawals and guaranteed income. Participants may also want to consider that fees are typically associated with managed accounts.

Plan sponsors can take steps today to support pre-retirees and retirees in their transition from years of building up savings to drawing it down.

For example, plan sponsors that are considering supporting participants who choose to stay in plan past their retirement date can:

- Review plan documents to ensure they include features that support participants staying in plan
- Consider adding investment options aimed at income generation and, along with that, evaluate ways to support retirees with communication and education on these options
- Explore the availability of decumulation options on the recordkeeping platform – including functionality for automatic and partial withdrawals – to provide participants with drawdown flexibility
- Provide targeted training, education, workshops, webinars, calculators, and other tools for DC participants nearing and in retirement

To learn more about Fidelity retirement income solutions, please contact your Fidelity Managing Director or Investment Strategist.

Endnotes

[1] Among pre-retirees and retirees who hold a minimum of $50k in their 401(k) balance on Fidelity's recordkeeping platform. Fidelity Workplace Investing, as of December 31, 2022.

[2] Fidelity Employer Survey: Retirement Income Services and Experiences, December 2021.

[3] Fidelity Employer Survey: Retirement Income Services and Experiences, December 2021.

[4] Fidelity Annual Financial Wellness Employer Trends Survey, June 2023.

[5] Employee Benefit Research Institute and Greenwald Research, 2023 Retirement Confidence Survey, EBRI Chartbook (Employee Benefit Research Institute, April 27, 2023).

[6] Among pre-retirees and retirees who hold a minimum of $50k in their 401(k) balance on Fidelity's recordkeeping platform. Fidelity Workplace Investing, as of December 31, 2022.

[7] Among pre-retirees and retirees who hold a minimum of $50k in their 401(k) balance on Fidelity's recordkeeping platform. Fidelity Workplace Investing, as of December 31, 2022.

[8] Fidelity Workplace Investing, as of December 31, 2022.

[9] Bearden, Bridget, "2022 Spending in Retirement Survey: Understanding the Pandemic's Impact," EBRI Issue Brief, no. 572 (Employee Benefit Research Institute, October 6, 2022).

[10] Managed payout funds are subject to the volatility of the financial markets, including that of equity and fixed income investments in the U.S. and abroad, and may be subject to risks associated with investing in high-yield, small-cap, commodity-linked, and foreign securities. No Managed Retirement Fund is considered a complete retirement program and there is no guarantee any single fund will provide sufficient retirement income at or through retirement. Principal invested is not guaranteed at any time, including at or after the funds' target dates.

[11] Top three box of a five-point scale, among participants ages 50 and over. Fidelity Retirement Income Study, July 2023.

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Participants whose total equity allocation of assets in their account is within the Fidelity Equity Glide path are likely to be On Plan. Participants whose equity allocation is outside of this range may also be On Plan, depending on individual retirement planning and investment needs. Some participants within the Fidelity Equity Glide Path Range may not be On Plan, depending on individual retirement planning and investment needs. Investors should allocate assets based on individual risk tolerance, investment time horizon, and personal financial situation. A particular asset allocation may be achieved by using different accounts or by using the same one across multiple accounts.

The Fidelity Equity Glide Path can be provided upon request.

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