

The Retirement Income Dilemma

What are we solving for and what have we learned so far?



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In brief:

- Retirement income is top of mind for many plan sponsors these days. Often, we find that the conversation focuses solely on products: What types of funds should sponsors consider that can help deliver a retirement income solution for their participants?
- We think the conversation should instead focus on creating and articulating a retirement income philosophy based on an understanding of the retirement income problem, the state of the market and lessons we have learned so far.
- We’ve developed a retirement income roadmap to help sponsors determine if they want to offer an Accumulation Plan or a Destination Plan.
- We note that this should not be a “one and done” process. Sponsors should periodically revisit and refine their strategy as plan demographics, business needs or the retirement income landscape changes over time.

The Retirement Income Problem

Demographics are driving the retirement income discussion. The statistics in Exhibit 1 help paint the picture of an aging workforce with doubts about their ability to retire comfortably.

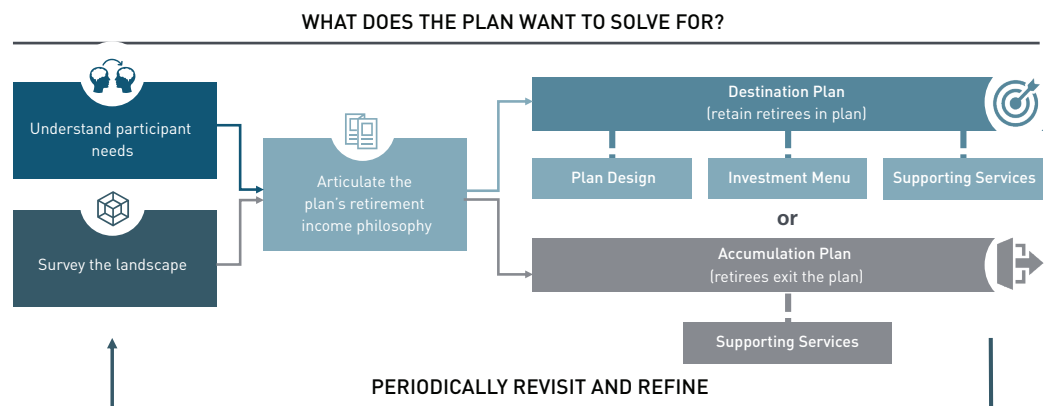
Exhibit 1: Demographics are Driving the Retirement Income Discussion



Source: ¹ Bureau of Labor Statistics, Civilian labor force by age, sex, race and ethnicity 8 September 2022. ² Social Security Administration Total Social Security Retirement Insurance Applications (April 2019 – March 2023). ³ Thinking Ahead Institute Global Pension Assets Study 2022 ⁴ Social Security Administration 2023 Annual Report, March 2023. ⁵ Social Security Administration, February 2023. ⁶ MFS 2023 Global Retirement Survey.

The retirement income challenge offers an opportunity to align corporate objectives with employees' retirement goals. To do this, we suggest sponsors design a Retirement Income Plan Road Map. The journey begins with an assessment of participant needs along with an understanding of the current state of the retirement income landscape. From there, a sponsor can begin to articulate their retirement income philosophy, which could lead to one of two potential types of plans.

Exhibit 2: Retirement Income Plan Road Map



The first plan type is an Accumulation Plan that focuses on accumulating balances throughout the working years—participants tend to exit the plan once they retire. The second type is a Destination Plan, one that actively works to retain retirees in the plan.

If for example the philosophy points to a Destination Plan, the sponsor can take steps to establish the proper plan design, determine which options should be available in the investment menu and implement the supporting services needed to help participants retire and stay in the plan. With the Accumulation Plan, the sponsor offers supporting services to help retirees transition into retirement and, potentially, out of the plan. There is no right or wrong answer, but we think this approach is a useful framework for sponsors to address the retirement income challenge and navigate the often-confusing retirement income landscape.

State of the Retirement Income Landscape

As noted earlier, it's important for sponsors to understand the retirement income landscape, including regulatory and legislative developments, the state of Social Security and the solutions currently available in the marketplace.

Over the past decade, there have been several regulatory and legislative developments pertaining to retirement income. In particular, the Secure Act and Secure 2.0 included a variety of provisions designed to make it easier for plan sponsors to implement retirement income provisions.

However, it's not all good news. The Social Security Trust Fund expected to be depleted by 2034⁷ when it's estimated that tax income will be sufficient to pay only 80% of scheduled benefits. Social Security forms the foundation for most American's retirement income and any shortfall could have wide ranging implications for how and when employees retire, potentially creating challenges to employers' ability to effectively manage their workforce. At present, there are currently no meaningful legislative initiatives to address this critical issue.

⁷Social Security Administration 2023 Annual Report.

Next, we highlight in Exhibit 3 the key features of the retirement income solutions that exist in the marketplace today and how they might fit into a retirement plan menu.

Exhibit 3: Range of Retirement Income Solutions

| SOLUTION | DESCRIPTION | LIQUIDITY/ FLEXIBILITY | GUARANTEED INCOME | EASE OF USE (FOR PARTICIPANT) | EASE OF MONITORING (FOR SPONSOR) |
|-------------------------------------|---|---------------------------|----------------------|-------------------------------------|--|
| Tools and Services | Retirement income calculators and tools, e.g., Social Security calculator | ✓ | X | X | ✓ |
| Income-Oriented Fixed Income | Income yielding fixed income strategies, e.g., stable value or shorter duration strategies | ✓ | X | ✓ | ✓ |
| Target Date Funds | Income or retirement vintage of existing TDF plan option | ✓ | X | ✓ | ✓ |
| Managed Accounts | Professionally managed asset allocation service, can incorporate retirement income planning | ✓ | X | ✓ | ? |
| Managed-Payout Funds | Strategy focused on providing steady stream of income (either as a fixed dollar amount or percentage of portfolio) | ✓ | X | ✓ | ✓ |
| TDFs With Guarantee | Typically, a portion of fixed income allocation is replaced by buying into an annuity (immediate or deferred) or GMWB* over time | ? | ✓ | ✓ | X |
| In-Plan annuities | Ability to purchase annuity, sponsor vets the service and makes it available to participants | X | ✓ | ? | X |
| Out-of-Plan annuities | Similar to above but distinction is that transaction occurs out of plan | X | ✓ | ? | X |

*Guaranteed Minimum Withdrawal Benefit.

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Some key takeaways from Exhibit 3 include:

1. There is a wide variety of options under the retirement income solutions umbrella.
2. There are tradeoffs when it comes to the features and benefits of these solutions. For example, solutions without guaranteed income components tend to be more liquid than those that offer some form of guarantee.
3. Given the complexity of the various solutions, it's unlikely that adding just one solution will solve all the retirement income needs of any one plan's participant base.
4. Appropriate retirement income solutions will depend on plan sponsors' overall retirement income philosophy that aligns with the workforce and plan characteristics.

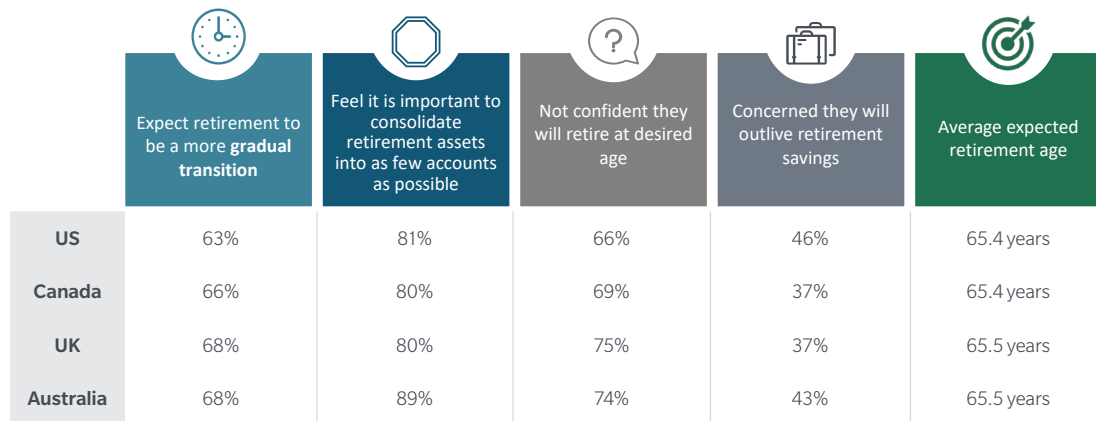
Lessons Learned (So Far)

The retirement income conversation has been ongoing for several years, and we believe there are four lessons learned.

First, retirement concerns are universal. Our global retirement survey asked participants across the United States, Canada, the United Kingdom, and Australia for their views on retirement. We show the results of several questions in Exhibit 4, and it is noteworthy how consistent the responses are across different markets.

Retirement concerns are universal. We are more alike than different. ▲

Exhibit 4: Lesson One: Retirement Concerns Are Universal

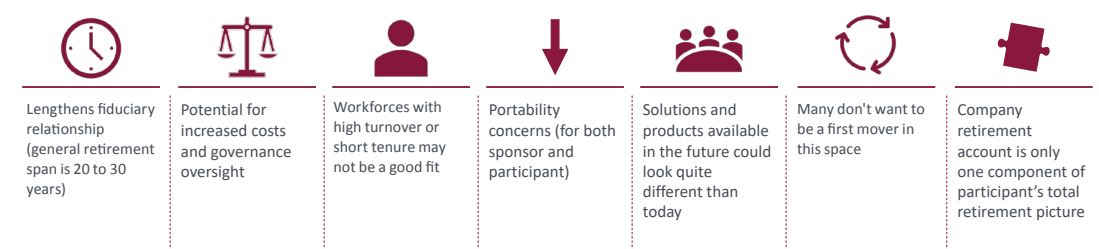


Source: MFS 2023 Global Retirement Survey. Q: Do you expect your retirement to be... This question was only posed to respondents age 45+. Q: How important is it for you to be able to consolidate all retirement assets into one or as few accounts as possible? Q: How confident are you that you will be able to retire at the age you want to? Q: What are your top financial concerns or worries regarding retirement? Q: At what age do you plan to fully retire (i.e., no longer work for pay?).

The second lesson is that retirement income presents potential drawbacks, and that in-plan retirement income solutions may not be a fit for all plan sponsors.

In-plan retirement solutions are not a fit for all plan sponsors. ▲

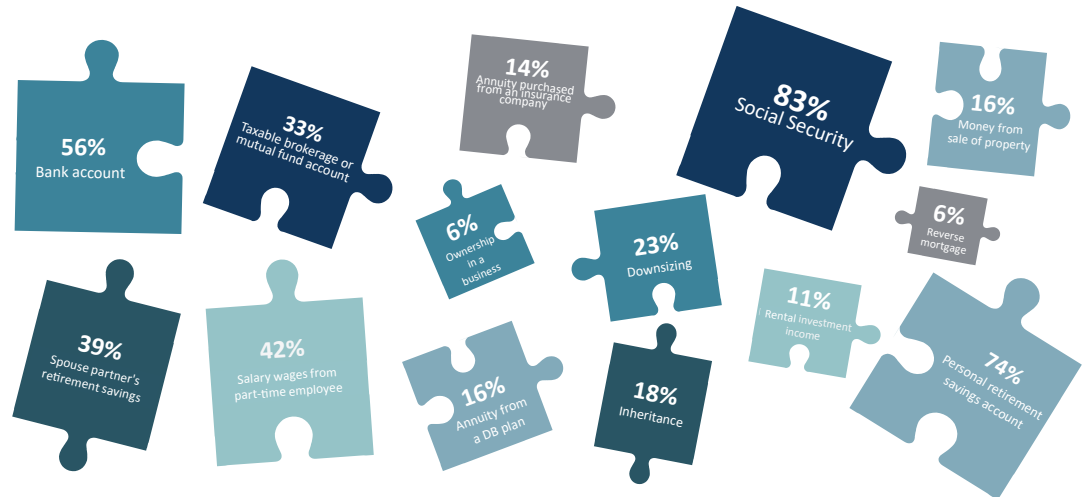
Exhibit 5: Lesson Two: Retirement Income Presents Potential Drawbacks



The third lesson is there is no one-size-fits-all solution to the decumulation puzzle. Our global retirement survey asked "Aside from Social Security and your personal retirement savings, what assets do you expect to use in retirement?" Exhibit 6 shows the wide array of income sources that participants identified and demonstrates that everyone's puzzle pieces are different. Participants could potentially benefit from advice to help put these pieces together into a cohesive retirement income plan.

Participants could potentially benefit from some form of advice to help put these pieces together into a cohesive retirement income plan. ▲

Exhibit 6: Lesson Three: No One-Size-Fits-All Solution to the Decumulation Puzzle

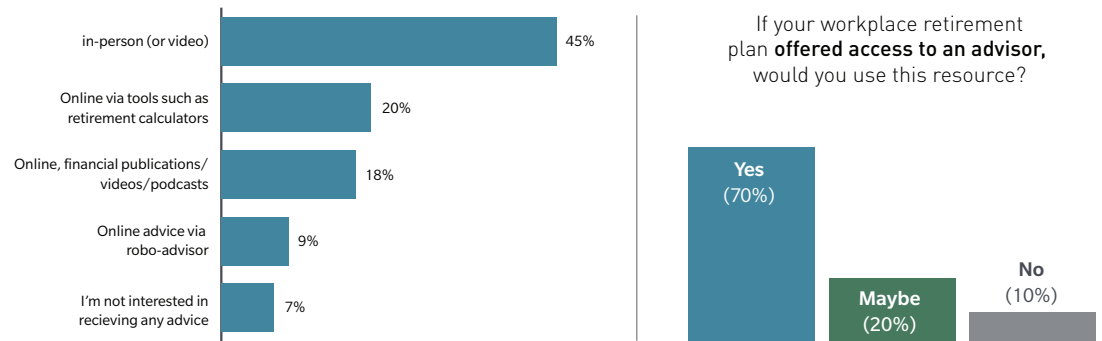


Source: MFS 2023 Global Retirement Survey, US respondents, Q: Select all potential sources of retirement income in retirement. This question was only posed to respondents age 45+. Respondents could choose more than one response so responses will not total to 100%.

That brings us to lesson four, which is that participants are looking for advice—in-person advice.

Plan sponsors may want to offer access to advisors—whether it's affiliated with the recordkeeper, managed account service or an independent firm. ▲

Exhibit 7: Lesson Four: Participants are Looking for In-Person Advice



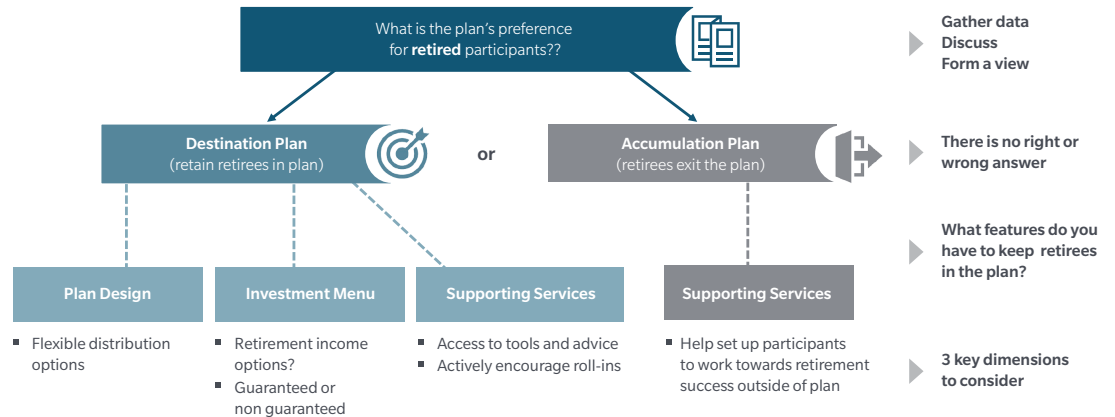
Source: MFS 2023 Global Retirement Survey, US respondents. Left Q: How do you prefer to receive advice related to retirement saving and planning? "In-person" can be a video call. Right Q: If your workplace retirement plan offered access to an advisor/planner to help with planning for retirement, would you use this resource?

This point of access is important. We aren't suggesting that plan sponsors directly provide advice. Rather, sponsors have an opportunity to position the plan as a resource from which participants can access advice, education and tools. That access can be affiliated with the plans recordkeeper, managed account service or through an independent firm.

This brings us back to our roadmap to help plan sponsors navigate through this complex topic. It starts with a fundamental question: Do you want to sponsor an accumulation plan where participants accumulate assets and exit the plan upon retirement, or a destination plan where participants are encouraged to stay in the plan upon retirement.

Exhibit 8: Decision to Make: A Destination Plan or an Accumulation Plan

Choose an identity and ensure the plan's design, investment menu, and services reflect it. ▲



There is no right or wrong answer, and different sponsors will come to different conclusions based on their circumstances. For those that do want to sponsor a destination plan, there are three key dimensions to consider:

1. The plan's design, in particular its ability to allow for flexible distribution options in retirement
2. The investment menu, what investments are you offering to keep retirees in the plan and what level of guaranteed options make sense?
3. Supporting services, including tools and potentially access to advice

Too often we find that the retirement income conversation is almost wholly focused on investment products that can be added to a DC plan menu as the proverbial silver bullet solution. While investments will undoubtedly be an important component of a plan's approach to positioning itself as a destination plan, we believe decisions regarding the plan's design and how it will support retired participants are just as important. ▲

Conclusion



There is no one-size-fits-all product that can solve the retirement income puzzle

- Each participant is unique based on their financial needs, goals and risk tolerance, and a wide array of solutions will be needed to address varying participant needs.



Every plan is unique and should craft its own approach to retirement income

- Plan sponsors should consider if they want to be a savings plan or a destination plan, and implement the features and investments that align with their objectives.
- There is no right or wrong answer.



Rhetoric versus reality

- There is a gap between what the market is talking about and where the industry is today.
- Legislation has encouraged in-plan annuities, but plan sponsors and participants have shown little interest.



Plan sponsors could be an important part of the solution

- DC plans have been successful in addressing the accumulation challenge, but decumulation is more complex.
- Plan sponsors are in the unique position to provide resources that can help prepare participants for success in retirement.

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Survey Methodology:

Audience: Ages 18+, employed at least part-time. Active workplace retirement plan participants / members in the US, Canada, UK, and Australia.* Data weighted to mirror the age / gender distribution of the workforce in each country. **Methodology:** Mode: 15 min. online survey. MFS not revealed as the sponsor. Field period: March 22 – April 6, 2023. **Key Topics of Inquiry:** Impact of market events, retirement confidence and advice, target date funds, retirement income and sustainability.

*To qualify in each region: US, actively contributing to a 401(k), 403(b), 457, or 401(a) / Canada, actively contributing to DC Pension Plan, Group Registered Retirement Savings Plan, Deferred Profit Sharing Plan, Non-Registered Group Savings Plan, or Simplified Employee Pension Plan / UK, actively contributing to a Defined Contribution Scheme, Master Trust, or Individual Savings Account. / Australia, actively contributing to an industry, retail, corporate or public sector super fund or a self-managed super fund. Arrows shown throughout represent trend from 2022 survey results.