Materials and Bios for Getting to More Coverage and Increased Retirement Savings: Ideas and Next Steps

Presented at 2026 ACEBC Education Program
By the Retirement Reform Group[1]

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InterContinental San Diego Hotel, Bayview Ballroom
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Moderator: J. Mark Iwry

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[1] The Retirement Reform Group (RRG): An informal, nonpartisan discussion group of over 100 active and retired employee benefits lawyers which has been exploring ways to address lagging lower- and moderate-income worker retirement savings. See retirementreform.org. Any Fellow of the American College of Employee Benefits Counsel (ACEBC) is welcomed to join the RRG. The RRG is not affiliated with the ACEBC. **Disclaimer:** The materials are for informational purposes only and are not tax or legal advice. Content reflects the individual views of the speakers, not those of RRG or ACEBC. Affiliations are noted for informational purposes only.

Bios:

The Honorable **Phyllis C. Borzi** is currently an independent consultant after serving from 2009 to 2017 as the Assistant Secretary of Labor at the Employee Benefits Security Administration (EBSA) and as Pension and Employee Benefits Counsel for the U.S, House of Representatives Committee on Education and Labor from 1979 to 1995. She currently advises on issues relating to retirement and health care. A graduate of the Columbus School of Law at Catholic University Law School where she was Editor-in-Chief of the Law Review, Ms. Borzi also holds an MA in English from Syracuse University. Ms. Borzi is an active member of the American Bar Association, including service as former Chair of the Joint Committee on Employee Benefits and a Charter Member and former Chair of the American College of Employee Benefits Counsel, and currently resides in University Park, Maryland.

Lisa Germano, JD, CPA, President and General Counsel, Actuarial Benefits & Design Company in Midlothian, VA and partner, Coyner & Germano, PC in Charlottesville, VA. Small and mid-market plan compliance, plan design and governance for qualified plans and ERISA 403(b) plans including participant education. She currently resides in Midlothian, VA.

Lisa M. Gomez has deep technical and practical experience in employee benefits law and policy, and is the president of LMG Collaborative Consulting Solutions, a consulting firm providing services in all areas related to employee benefit plans, including strategic policy advice, expert witness services, and professional trustee/independent fiduciary services. Previously, Lisa served as Assistant Secretary of Labor for Employee Benefits Security at the U.S. Department of Labor during the Biden Administration, leading the Employee Benefits Security Administration (EBSA), after almost 30 years at the law firm Cohen, Weiss and Simon LLP in NYC, where she served as counsel to many Taft-Hartley multiemployer benefit plans and unions. Lisa earned her law degree from the Fordham University School of Law and her undergraduate degree from Hofstra University and lives in Flemington, New Jersey.

J. Mark Iwry formerly served as Senior Advisor to the U. S. Secretary of the Treasury, as Treasury's Deputy Assistant Secretary for national retirement and health policy, as Treasury's Benefits Tax Counsel, as a Partner at Covington & Burling, Research Professor at Georgetown University, and Co-Founder and Principal of Brookings' Retirement Security Project, and is currently a nonresident Senior Fellow at Brookings and a Visiting Scholar at the University of Pennsylvania's Wharton School, and is a resident of Potomac, MD. He has originated, authored, co-authored, and worked to implement numerous major reforms and policy initiatives in the nation's private pension system, including launching and directing the national initiative to expand 401(k) plan participation and saving through Treasury/IRS guidance defining, approving, and promoting 401(k) automatic enrollment and automatic/default investment in diversified stock and bond funds; originating the national movement to expand coverage by establishing new state-facilitated automatic IRA saving programs and drafting the template for the state legislation, co-authoring the nationwide Automatic IRA federal legislative proposal; and authoring or co-authoring the Saver's Credit/Saver's Match, SIMPLE-IRA plan, QLAC longevity annuity, annuities embedded in QDIA target date funds, new plan startup tax credit for small businesses, "myRA", direct deposit of tax refunds into IRAs, and automatic rollovers of small plan balances to IRAs to minimize cashouts and leakage.

Mark has testified before Congress on 27 occasions and has received numerous awards from a wide range of organizations for leadership, innovation, and major contributions to retirement security and to the nation's pension, healthcare, and tax systems. Publications have recognized him as one of the world's "30 top financial players", as one of 20 individuals expected to have a major influence on financial services, as number 3 nationally among the "100 most influential people in 401(k)", as one of the nation's most influential individuals in finance, pensions, saving, and aging, and as winner of Harvard's Kennedy School of Government's annual Alumni Public Service Achievement Award for "his extraordinary public service on behalf of the people of the United States".

Maria O'Brien is the Paul M. Siskind Scholar and Professor of Law at Boston University School of Law where she teaches ERISA, contracts, Insurance Law and labor and employment law. Her research focuses on employee benefits and insurance. She is a member of the American Law Institute (ALI), the International Pension and Employee Benefits Association, the AALS Section on Employee Benefits and Social Insurance and the MA Division of Labor Relations Advisory Council (appointed by Governor Baker). She received her A.B. in Economics *magna cum laude* from Harvard College and her J.D. from Yale Law School, and currently resides in Lincoln, Massachusetts.

Richard Shea is Senior Counsel and immediate past Chair of the Employee Benefits and Executive Compensation practice at Covington & Burling, LLP. Before joining Covington in 1991, Mr. Shea served in the Office of Tax Policy at the Treasury Department, where he was responsible for developing federal tax legislation and regulations governing employee benefits and executive compensation, and in particular, the implementing regulations to the Tax Reform Act of 1986, fully one-third of the provisions of which involved amendments to the Code provisions governing employee benefits and executive compensation. He earned his law degree at the University of Virginia School of Law, where he served as Executive Editor of the Virginia Law Review, and his undergraduate degree at Amherst College. He is a member of the Advisory Committee to the Pension Research Council of the Wharton School at the University of Pennsylvania, and a resident of Great Falls, Virginia.

Norman Stein is Senior Policy and Legal Counsel at the Pension Rights Center. He is also the Douglas Arant Emeritus Professor of Law at the University of Alabama, and Professor Emeritus of Law at Drexel University, where he continues to teach employee benefits and to coach the Drexel Hennessey Employee Benefit Moot Court Team. He is also Robin's, Sasha's and Ben's grandpa. Norman currently resides in Seattle, Washington.

Cynthia A. Van Bogaert is a retired ERISA and employee benefits attorney who spent her active career advising clients at a law firm and as in-house counsel, later serving at the IRS Office of Associate Chief Counsel in the Office's defined contribution plan and IRA areas. A frequent author and speaker on benefits topics, she now volunteers her time toward reducing the retirement savings gap for lower- and moderate-income workers (retirementreform.org). She also serves as a volunteer member of the Taxpayer Advocacy Panel (TAP), an independent Federal Advisory Committee that provides recommendations to the IRS on improving taxpayer service and tax administration. Ms. Van Bogaert earned her B.S. in Mathematics in 1980 and her J.D. in 1982 from the University of Wisconsin-Madison, and currently resides in Encinitas, California.

Matthew I. Whitehorn is a partner in the in the Tax Group at Dilworth Paxson LLP and currently resides in Philadelphia, Pennsylvania. He has practiced in the ERISA/Employee Benefits area for over 35 years. Matt's educational background includes an LL.M. in Taxation from Temple University School of Law, 1987, a J.D. from Villanova University School of Law, 1984 and B.A./M.A.in History from Johns Hopkins University, 1981. He is a frequent speaker and author and has been an adjunct professor in a graduate tax program and VITA program volunteer for many years

TAB 1

The Urgent Need and Incredible Opportunity to Expand Retirement Coverage through Efficient Plan Design

Author: Richard Shea

Getting to More Coverage and Increased Retirement Savings: Ideas and Next Steps

The Urgent Need and Incredible Opportunity to Expand Retirement Coverage through Efficient Plan Design

Presented October 10, 2026 in San Diego by
Richard Shea, Covington & Burling, LLP

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ERISA Has Created the Most Dynamic Retirement System in the World

- How? —by requiring retirement promises to be fully funded
  - that was the core idea behind ERISA and a seemingly simple step, yet
  - most of the world (including some other parts of the US system) merely promise to pay retirement benefits without backing up those promises with actual sufficient assets
- Our early headstart in funding retirement benefits has permitted the US to amass more retirement assets than the entire rest of the world combined
  - retirement assets are approaching 2 times GDP in the US
  - while Europe, with a comparably sized economy and population, has accumulated barely 1/3 of GDP, and that after having promised massive retirement benefits to its now rapidly aging population—a train wreck waiting to happen

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Our Retirement Funding Gives Our Country Important Competitive Advantages

- First and foremost, the funding guarantees that promised benefits will be paid—an important advantage to retirees and our society at large
- It also provides massive pool of investment capital to fund US growth and innovation
- In the process, it has fostered an expansion and democratization of capital ownership across the US population, on a scale seen in few other countries
  - in fact, our retirement system is the most efficient tool we have to convert labor income into capital ownership
  - that advantage is crucial today in maintaining Americans' standard of living as growth of income from capital (including IP and technology assets) is outstripping growth of income from labor

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Yet ERISA's Promise Is Only Half Fulfilled

- ERISA retirement plans and ERISA-like plans that cover federal, state, and local government employees still reach only a little over half of all Americans
  - expanding our successful retirement system to the remaining half of the population promises significant improvement in our national standard of living and well-being
- It's critical for our retirement system to further extend the benefits of capital ownership to our entire population at this time in our history
  - AI is likely to accelerate the trend of income from capital outstripping income from labor
  - providing retirement coverage to the uncovered offers the clearest and most efficient path to ensuring that they too share in wealth created by technological advancement and economic growth and do not get left behind as the rest of society powers ahead

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The Reasons for ERISA's Failure to Penetrate Further into the Workforce Are Clear

- Retirement plans have simply been too costly for most smaller employers to adopt and sponsor
  - by contrast, larger employers have been able to spread their costs over a larger workforce and, beyond a certain size, command superior economies of scale and bargaining power in the markets for plan services and investments
  - at bottom, the cost to smaller employers for each dollar of benefit they might have provided has far exceeded the cost to larger employers of providing the same dollar of benefit to their employees, making retirement plans uneconomic for most smaller employers

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Dramatically Increasing the Efficiency of Our Retirement System to Reduce Its Costs Is Critical

- Only then will it be possible to extend coverage to those Americans our retirement system still doesn't reach
  - yet doing so will benefit all employers, not just smaller employers, by reducing the cost to provide retirement benefits across the board
  - however, that goal won't be achieved unless we identify and encourage plan designs that excel at turning each dollar contributed to retirement savings into the most dollars available as income in retirement (a dollars-in/dollars-out perspective)

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Plan Features Needed to Achieve Efficiency

- A plan will need to incorporate at least the following features:
  - provide the broadest participation (ideal, nonwaivable coverage, next, default)
  - extend benefits of economies of scale and bargaining power to all plans and plan sponsors regardless of size
  - maximize risk-adjusted financial returns
  - take full advantage of technology to optimize plan administration and investment
  - maintain alignment between plan benefits and the assets needed to pay them
  - provide for transparent governance with clear-cut lines of responsibility
  - exercise competent fiduciary control of all material plan functions and activities
  - minimize leakage of plan assets to purposes other than providing retirement income

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TAB 2

The Challenges and Promise of Lifetime Income in a Defined Contribution World

Author: Norman Stein

Getting to More Coverage and Increased Retirement Savings: Ideas and Next Steps

The Challenges and Promise of Lifetime Income in a Defined Contribution World

Presented: October 10, 2026, in San Diego, CA

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Acknowledgments

- The RRG gratefully acknowledges the consent of The Brooking Institution to include its paper “Strategies to Restore Lifetime Income to Retirement Plans” in the materials for today’s discussion.
- The author also thanks Karen Friedman, Theresa Gee, Michelle Varnhagen and Jane Smith of the Pension Rights Center for their thoughts and suggestions.

3

Overview of Presentation

- The Problem: Many economists argue that annuitization of some portion of an individual’s post-retirement wealth enhances the individual’s welfare. In a retirement savings world dominated by IRAs and 401(k) plans, most annuitants lack easy access to annuitization and those who have such access often forego voluntary options to annuitize.
- The benefits of partial annuitization and some concerns.
- Obstacles to annuitization.
- Recent legislative and regulatory actions to encourage annuitization
- Proposals and ideas to increase annuitization.

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Brief (and selective) History of Annuity Contracts

- Annuity contracts can be traced back at least to ancient Rome, when the Roman government provide annuities to retired soldiers. The United States has a long history of military pensions, beginning with revolutionary war veterans. (The civil war pension system has been pointed to as helping establish an extensive post-war federal bureaucracy. See Theda Skocpol, Protecting Soldiers and Mothers: The Political Origins of Social Policy in the United States (1992).)

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Brief (and selective) History of Annuity Contracts

- As early as the 18^{th} Century, some churches awarded pensions to aging ministers and their spouses.
- In 1812, The Pennsylvania Company for Insurance on Lives and Granting Annuities began selling annuity contracts.
- The first formal private sector pension plan was adopted by The American Express Company in 1875, which paid an annuity to qualifying participants. By the start of the 20th century, many of America's major employers in the transportation and manufacturing sectors had similar plans.

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Brief (and selective) History of Annuity Contracts

- Deferred profit-sharing plans began appearing in 1916. These plans were not designed primarily as retirement savings plans. Early profit-sharing plans did not generally provide lifetime retirement options and that has continued to be the predominant model post-ERISA.
- Some defined contribution plans (e.g., money-purchase pension plans) were designed and either required or permitted accumulations to be paid as lifetime annuities.

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The World on ERISA's Enactment in 1974

- Defined benefit plans dominated the landscape—few contemporary defined benefit plans provided lump sum distribution options.
- Defined contribution plans were generally supplemental plans, and few had annuity options (with exception of money-purchase pension plans and similar vehicles, which were denominated as "pension plans").
- Thus, most participants in employer *pension* plans were paid in annuity form.
- Profit-sharing plans and similar plans typically did not provide for annuity options.

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Post-ERISA Landscape

- 401(k) plans are dominant plan type.
  - 401(k) plans must be either profit-sharing plans, a stock bonus plan, or a pre-ERISA money purchase plan
- Only about 12% of private sector workers today have access to defined benefit plans
  - Roughly 1/4 of private sector traditional-formula defined benefit plans provide for elective lump sum benefits and some estimate 50% of participants in such plan elect them

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Post-ERISA Landscape (continued)

- Cash balance plans now make up about 25% of defined benefit plans and almost universally have lump sum option
- Only about 12% of defined contribution plans offer annuity options
- Close to 40% of tax-advantaged retirement savings are held in IRAs
- Initial conclusion: the problem of non-annuitized benefits (to the extent it is a problem) is not simply a 401(k) problem.

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Arguments for Annuitization

- Annuitization prevents exhaustion of assets before death
- Retirees with annuitized benefits have greater and smoother lifetime consumption
- Protection of spouse (in ERISA plans)
- Relieves retiree of burdens of investment and deaccumulation management
- Provides some safeguards against internet, cyber, and phone scams and elder abuse by relatives and others

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A Different Argument for Annuitization: Retirement Plan Structure v. Savings Plan Structure

- Annuitization, where available, is increasingly a participant election and thus a tool that a participant can select if the participant concludes it is personally beneficial.
  - Under this model, employer-sponsored retirement plans are increasingly a savings arrangement with an emphasis on retirement planning.

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A Different Argument: Retirement Plan Structure v. Savings Plan Structure

- A defined benefit system (without a lump sum optional benefit form) is designed to replace retirement income for life. It depends on those with shorter lives to "subsidize" those with longer lives, or another way of looking at it, it avoids adverse selection.
  - As a means of maximizing collective retirement income, such a defined benefit system is more efficient than a system when annuitization is a personal election for each individual plan participant.

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Rational (and arguably rational) Reasons for an Individual to Decline Annuitization

- Knowledge of short life expectancy
- Immediate need for cash (for example, retiring high-interest debt, health emergency)
- Conflicted investment advisers recommending lump sum distributions
- Concern about future emergency spending needs that exceed annuity payments
- Concern with inflation's impact on fixed annuity payments

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Rational (and arguably rational) Reasons for an Individual to Decline Annuitization

- Significant personal wealth is sufficient to negate possibility of exhausting assets before death
- High costs of annuities in retail market when plan does not offer in-plan annuitization
- Complexity of some annuity contracts
- Concern with solvency of the entity providing the annuity (and the underlying guaranty systems—PBGC or State Guaranty Associations)

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Rational (and arguably rational) Reasons for an Individual to Decline Annuitization

- Using account balance early in retirement as bridge to age 70, when individual will qualify for increased indexed annuity
- Low interest rates at time of annuitization decision

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Some Policy Arguments for Not Encouraging (or requiring) Partial or Total Annuitization of Retirement Benefits

- American cultural preferences for freedom of choice
  - But what about defaults?
- Different needs of participants with respect to percentage of benefits to annuitize
  - But what about defaults?
- High social security replacement rates for low and moderate-income individuals already supplies significant percentage of individual wealth in mandatory annuity form

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Some Policy Arguments for Not Encouraging (or requiring) Partial or Total Annuitization of Retirement Benefits

- Life expectancy is greater for white collar workers than blue collar workers and correlates with income and wealth
- Racial and ethnic life expectancy disparities
- Concerns about fiduciary lapses in selection of annuity contracts
- Concerns about portability, especially with respect to small accounts

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Barriers to Annuitization

- Participant behavioral biases
  - Difficulty comparing large lump sum and stream of annuity payments
  - Concern about early unanticipated death ("Frank O'Harra syndrome")
  - Having to make an all-or-nothing decision
  - Underestimating life expectancy
  - Overestimating investment return on lump sum

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Barriers to Annuitization

- Participant behavioral biases (continued)\
  - Gaps in participant financial education
  - Participant concerns about possible future insurer solvency
  - Participant concerns about inflationary erosion of annuity benefits
  - High cost of annuity contract in individual market when plan does not offer an annuity option
  - Participant inability to understand certain annuity contracts

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Cause for Optimism

- In the Employee Benefits Research Institute (EBI)'s 2025 Retirement Confidence Survey, 70% of respondents expressed interest in lifetime benefits.
  - 70% of respondents to the survey reported that a partial annuity allocation in a default was "appealing"
  - 30% of those who responded said adding a lifetime income option to their plan was a valuable feature

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Structural Barriers to Annuitization

- Employer concerns about
  - Fiduciary liability
  - Low employee interest
- Conflicted investment advice from non-fiduciary investment advisers, relatives and others

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Congressional and Regulatory Actions to Facilitate Annuitization

- Fiduciary Regulatory Safe Harbor--29 CFR § 2550.404a-4
  - Adopted in 2008, in response to a provision in the Pension Protection Act of 2006.
  - Safe harbor provides that
    - A fiduciary engage in an objective, thorough and analytical search for an annuity provider
    - Considers financial stability of insurer to make payments
    - Considers costs of contract in relation to benefits and administrative services under contract

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Congressional and Regulatory Actions to Facilitate Annuitization (continued)

- Fiduciary Regulatory Safe Harbor--29 CFR § 2550.404a-4
  - Safe harbor provides that
    - Concludes *at the time of selection* that the insurer is able to make future payments and that the annuity contract is reasonable
    - Monitors the annuity provider after selection
  - Industry response to was only tepidly positive, because
    - Safe harbor depends on ultimate judgment by fiduciary
    - Concern about continuing monitoring responsibilities

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Congressional and Regulatory Actions to Facilitate Annuitization (continued)

- Secure also created alternative statutory safe harbor:
  - It allows the fiduciary to rely on objective facts rather than doing an actual analysis of insurer stability and allows reliance on certain representations made by the insurer
  - But unlike the regulatory safe harbor, the statutory safe harbor only applies to insurers issuing a ”guaranteed retirement income contract,” as defined in the safe harbor.
  - DOL considered deleting the regulatory safe harbor but retained it as an alternative to the statutory safe harbor.

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Congressional and Regulatory Actions to Facilitate Annuitization (continued)

- The Secure Act included provisions to provide portability of accumulated lifetime income products on events such as change in investment menu.
- Secure also required benefit statements to include illustrations of lifetime income when converting an account balance.

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Congressional and Regulatory Actions to Facilitate Annuitization (continued)

- Proposed DOL regulation on Fiduciary Duties in Selecting Designated Investment Alternatives

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Congressional and Regulatory Actions to Facilitate Annuitization (continued)

- 2025 DOL Letter to Michael P. Kreps
  - Approved complex, multi-insurance variable annuity product as permissible within a QDIA
  - Also indicated that if fiduciary satisfied its monitoring duties, its selection of the lifetime income product would be examined for prudence as of the date of selection

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Solutions: nothing new under the sun

- The ERISA Advisory Council, since the year 2005, has studied ideas to increase annuitization on five occasions:
  - 2005, ”Retirement Distribution and Options”
  - 2008, “The Spenddown of DC Accounts”
  - 2012, “Examining Income Replacement During Retirement Years in a DC Plan System”
  - 2018, “Lifetime Income Solutions as a Qualified Default Investment Alternative
  - 2024, Qualified Investment Alternatives-Start to Finish, Default to Payout

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Ideas, Concepts and Proposals to Increase Annuitization of Benefits

- Education on value of annuities
- Default into annuitization or partial annuitization, either at retirement or deferred annuities
- Trial period for annuities
- Provide simple annuities, with inflation adjusted benefits
- Permit plan participants to purchase annuity benefits from either Social Security Administration or PBGC
  - Perhaps limit such purchases to lower and moderate-income households

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Ideas, Concepts and Proposals to Increase Annuitization of Benefits

- Provide PBGC ”insurance” coverage for annuity contracts
- Limit availability of complex, variable annuity and fixed index annuity arrangements
- Permit/encourage use of tontine-like vehicles
  - Jonathan Barry Forman & Michael J. Sabin, *Tontine Pensions*, 163 U. Pa. L. Rev. 755 (2015)

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Ideas, Concepts and Proposals to Increase Annuitization of Benefits

- Provide government subsidization of annuity contracts for low and moderate-income participants
  - Direct subsidy at time of annuity purchase
  - Favorable tax treatment of annuity payments
- Default or mandatory annuitization of employer contributions

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TAB 3

The IRA Protection Gap: Missing ERISA Safeguards, Rollover Vulnerabilities, and Paths to More and Safer Retirement Savings

Authors: Phyllis C. Borzi, Cynthia A. Van Bogaert

Getting to More Coverage and Increased Retirement Savings: Ideas and Next Steps

The IRA Protection Gap: Missing ERISA Safeguards, Rollover Vulnerabilities, and Paths to More and Safer Retirement Savings

Presented: October 10, 2026 in San Diego, CA

Speakers: Phyllis Borzi and Cynthia Van Bogaert
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Abbreviations

- ERISA: Employee Retirement Security Act of 1974
- IRC: Internal Revenue Code
- IRA: Individual Retirement Account under IRC § 408
- 401(k): IRC § 401(k)
- DOL: U.S. Department of Labor
- SEC: U.S. Securities and Exchange Commission
- FINRA: Financial Industry Regulatory Authority
- OCC: Office of the Comptroller of the Currency

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3

Overview of the IRA Protection Gap

- How to judge: employer plan, e.g., 401(k), vs. IRA? An important difference is the IRA Protection Gap
- More important than ever. More assets now are held by IRAs vs. defined contribution plans, like 401(k) plans.[1]
  - Includes direct contributions and rollovers
- Why the shift is occurring. We will focus on rollovers to IRAs.
- Goal: to provide more and safer retirement savings -- for all workers, but with a focus on the lower- and moderate-income workers who have little or no retirement savings at retirement.[2]

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Scope of IRAs Covered in this Session

- To avoid complex exceptions, this session will only cover:
  - Traditional and Roth IRAs set up by individual (IRC §§ 408(a) and 408A) and Rollover IRAs (see IRC § 402(c))
- Not covered, but part of the bigger conversation:
  - IRAs with employer involvement, like SEP IRAs (IRC § 408(k)), SIMPLE IRAs (IRC § 408(p))
  - State-administered automatic IRA programs (operating with state-level oversight)[3]
  - IRC § 530A child IRAs
  - IRC § 408(b) Individual Retirement Annuities

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IRAs Were Added in ERISA, But Without the ERISA Employer-Sponsored Plan Protections

- IRAs were a minor feature mostly aimed at portability.[4]
- ERISA Goal: Fix the employer plan system-protect employees. ERISA title I: new strict fiduciary responsibilities for employers.[5]
- IRAs were designed without many title I protections (IRA Protection Gap), but IRA tax rules in title II include prohibited transactions IRC § 4975. Reorganization Plan No. 4 of 1978[6] includes some DOL oversight.
- Some recent changes include: excise tax relief for Required Minimum Distributions (RMDs); rollover form improvements[7]

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In the Gap: Stay in ERISA Trust or Set Up a Trust

Rely on Employer:

- To set up trust/plan (IRC § 401)
- To choose trustee, etc. Has DOL guidance[8]
- Has ERISA § 404 duties: loyalty (solely in interest/exclusive benefit), prudence, reasonable fees, etc.

Rollover to IRA: Individual sets up.

- **Bank/other financial institution** IRC § 408(a)(2) & (n)
- **Life insurance company** IRC § 408(b)
- **Mutual fund/Stockbroker** IRC § 408(h)
- **Non-bank custodian -** IRS asset & continuity reqts, Treas. Reg. § 1.408-2(e)
    - **Self-directed IRA** – opt out of oversight; Note high risk: SEC Fraud Alert for Self-directed IRAs[9]
- **Lack of info on IRA owner rights, risks, and remedies among the trustee types**

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IRA Gap: Support System/When Things Go Wrong

Rely on Employer:

- More resources to hire nonconflicted experts
- ERISA enforcement options, penalties for breaches, plan disqualification, class action lawsuits
- Employee/shareholders influence behavior

Individual: Fewer resources

- Things can go wrong (Bernie Madoff entity was a non-bank trustee).[10]
- Little guidance on issues to check for different types of IRAs, e.g., FINRA broker check,[11] SEC securities fraud,[12] OCC,[13] State disciplinary actions[14]
- Different requirements, penalties, owner rights and remedies. Best Interest standard[15]

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IRA Gap: Know Your Watchdog? Reporting and Independent Auditor

Rely on Employer Plan

- Form 5500
- Independent qualified public accountant auditor (large plan) ERISA § 103(a)(3)(A)
- Form 1099-R
- ERISA duty: Follow plan terms & ERISA

Move to IRA- More Individual Risks

- No ERISA independent auditor
- Trustee files Form 1099-R, but not responsible for RMD
- Must avoid prohibited transactions[16]
- Risk of unrelated business taxable income IRC § 408(e)(1)
- Form 5498 (to IRS) reporting accuracy is a concern - can cause errors on individual's return[17]

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IRA Gap: Investments and Fees That Eat Earnings

Stay in Plan

- Plan fiduciaries select investments - ERISA § 404(c) menu; Target-date default
- Fee oversight; economies of scale
- Agency oversight and audit
- Breach of fiduciary duty – consider remedies

Move to IRA – Individual…

- Selects investments. No collectibles. Must avoid prohibited transactions,[18] unrelated business taxable income, disqualification. Can hire an advisor, conflicts and costs may be high and erode earnings.[19]
- Has fee oversight. Despite the availability of lower fee IRA providers, many IRAs owners pay higher fees.
- Should know: What are the oversight, audit, remedies?

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IRA Gap: Getting Disconnected from Retirement Savings As You Age – Escheatment Risks

Stay in Employer Plan

- Extensive search for missing participants[20]
- ERISA preemption of state unclaimed property laws, but see DOL Temp. Enforcement Policy for transfers of $1,000 or less to state unclaimed property fund[21]

Move to IRA – Individuals keep track as they age, become infirm, move

- Too few studies, but “abandonment” increasing. Default, like auto-enrollment, may be factor[22]
- No preemption from state unclaimed property rules. Limited search: e.g., mail a letter to last known address.[23]
- Unaware of lost funds. Hindered by recovery steps. Wary of scams & Social Security # input.[24]

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IRA Gap: Spousal Protections, Creditor and Bankruptcy Rights if Times Get Tough

Stay in Employer Plan

- Spousal rights. Spouse consents to beneficiary
- Creditor and Bankruptcy rights. Anti-alienation protection from creditors. ERISA § 206(d)

Move to IRA

- Spousal rights may be weaker[25] or nonexistent
- Creditor rights: State by state
- Bankruptcy rights: Protection is capped, likely affects wealthy individuals. Bankruptcy Code 11 USC § 522

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12

IRA Gap: Who is in Charge of the RMD? Many Other Differences

Stay in Employer Plan

- Plan fiduciary must pay RMD IRC § 401(a)(9)
- Lots of guidance for qualified plans
- More Differences, e.g.,
  - Life time payment options
  - Collective investments

Move to IRA

- Individual responsible for taking RMD - IRC § 4974 excise tax (10-25%). IRA Trustee not responsible for paying
- Lack of guidance for IRAs, including big picture, e.g., effect on health care, etc.
- Differences deserve attention by policymakers and should be explained to taxpayers

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Shift to Lower-Protection IRAs –Why?

- Participant Choices. Pew study:[26] reasons given by participants:
  - **Greater control, convenience**, and **access to professional advice** – motivators to roll to IRA
  - **Preferred employer plan investment options, convenience** – motivators to stay in employer plan
  - **Lower fees** are much less significant as a motivator
- Challenges include:
  - Complex system, lack of resources, lack of information and transparency, lack of coordination of many agencies, and inadequate non-conflicted financial education/literacy[27]

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Shift to Lower-Protection IRAs – Why? (cont.)

- Choices made by employers (often w/out nonconflicted advice):
  - Failure to offer an ERISA plan/offering only to some workers
  - Design choices that boost leakage/push assets out of the plan, like forced cashout of small accounts
  - Unpopular choice of investments/higher fees
- Efforts to influence made by the fin. service provider industry
  - Fees earned by wealth managers/registered investment advisors, broker-dealers, higher fee retail funds
  - Alternative investments – private equity, real estate, crypto

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Shift to Lower-Protection IRAs – Why? (cont.)

- Choices made by Congress/Agencies/States:
  - Auto-enrollment, plan adoption incentives, etc. increases number of ERISA plans and enrollment, but also IRAs
  - New savings arrangement designs offered only as IRAs rather than ERISA plans: IRC § 530A child IRAs
  - Permitting forced cashouts from ERISA plans[28]
  - Tax incentives differences in employer plan or IRA, e.g.,
    - Qualified Charitable Distribution; Roth Conversion
  - State actions to target IRAs for unclaimed property funds

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Ideas and Next Steps: Safer with More Savings

- Research and publicize the impacts of IRA protection gap
- Identify and publicize the differences among the types of IRAs and how they compare to ERISA plans and where the tax-subsidized money goes (follow the money)
- Establish uniform, robust, conflict-free protections across all IRA types, update IRA regulations
- Provide consistent enforcement mechanisms and penalties for all IRA trustees
- Mandate/suggest model IRA agreements with broad owner rights, lifetime income option, no fiduciary duty disclaimer
- Preempt future escheat of funds from IRAs – Mandate use of unclaimed property earnings to reunite it with owner/beneficiary

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Ideas and Next Steps: Safer with More Savings

- For employers: Develop a list of design choices to maximize security and savings (such as how to keep low fees, good investment choices, and plan distribution requirements to encourage lifetime payments) and have an approved provider list
- RMD reforms to assist older Americans:
  - Add automatic RMD to role of IRA trustees
  - Drop complex rules for multiple IRAs
- Reduce the risk of error, fraud, and financial exploitation
- Keep cash in ERISA plans:
  - Eliminate cashouts of small accounts
  - Plan-to-plan rollovers

18

18

The IRA Protection Gap: Missing ERISA Safeguards, Rollover Vulnerabilities, and Paths to More and Safer Retirement Savings

- Conclusion
  - Thank you for attending and for your interest in improving retirement savings of lower- and moderate-income workers!

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Notes

- 1. See, e.g., Investment Company Institute Release: Quarterly Retirement Market Data, Fourth Quarter 2025, Mar. 26, 2026, https://www.ici.org/statistical-report/ret_25_q4
- 2. See, e.g., U.S. Government Accountability Office report, Older Workers: Retirement Account Disparities Have Increased by Income and Persisted by Race Over Time, Released Jul. 27, 2023, https://www.gao.gov/products/gao-23-105342
- 3. For background, see, e.g., Congressional Research Service IF11611, State-Administered IRA Programs: Overview and Considerations for Congress, Updated Mar. 18, 2022, https://www.congress.gov/crs-product/IF11611
- 4. ERISA, P.L. 93-406, title II, § 2002(b) adding IRC § 408 generally covering IRAs, https://www.congress.gov/bill/93rd-congress/house-bill/2/text
- 5. General rule: ERISA title I only applies to employee benefit plans established or maintained by an employer or employee organization (see ERISA §§ 3(3) and 4(a)). For an overview of ERISA title I fiduciary duties, see Congressional Research Service R48470, ERISA: Legal Framework and Recent Supreme Court Litigation, Mar. 21, 2025, https://www.congress.gov/crs-product/R48470
- 6. https://www.dol.gov/agencies/ebsa/laws-and-regulations/laws/executive-orders/4
- 7. Reducing excise tax for failure to take required minimum distribution (SECURE 2.0, § 302 changes to IRC § 4974(a)); Improving sample rollover forms (SECURE 2.0, § 324; Notice 2026-49).

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Notes

- 8. See, e.g., https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/publications/meeting-your-fiduciary-responsibilities
- 9. https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-alerts/investor-14
- 10. See, e.g., Statement of Allan Goldstein who had IRA with Madoff, Jan. 5, 2009, Comm. on Fin. Serv., U.S. House of Rep., https://www.govinfo.gov/content/pkg/CPRT-111HPRT63127/html/CPRT-111HPRT63127.htm
- 11. https://brokercheck.finra.org
- 12. See, e.g., https://www.sec.gov/enforcement-litigation/litigation-releases/lr-21372
- 13. See, e.g., https://www.ecfr.gov/current/title-12/chapter-I/part-9, Fiduciary Activities of National Banks; https://apps.occ.gov/EASearch, OCC Enforcement Actions Search
- 14. See, e.g., https://dfpi.ca.gov/enforcement_action/retirement-accounts-inc/ https://dfpi.ca.gov/enforcement_action/senior-retirement-specialists/
- 15. https://www.finra.org/article/regulation-best-interest-%28reg-bi%29-overview

Notes

- 16. IRC § 4975(c)(1) So-called "self-directed IRAs" can result in less fiduciary oversight and protection over potentially abusive, risky, or difficult to manage investments such as real estate, precious metals, private equity, and virtual currency. See, e.g., U.S. Government Accountability Office, GAO 20-210, Individual Retirement Accounts: IRS Could Better Inform Taxpayers about and Detect Noncompliance Related to Unconventional Assets, published Jan. 27, 2020. https://www.gao.gov/products/gao-20-210
- 17. Example noted by IRS: Incorrect information on Form 5498, IRA Contribution Information, may cause taxpayers to make IRA reporting errors on their tax returns. Common examples of incorrect information include: Failing to report the contribution as a conversion from a traditional IRA to a Roth IRA; Issuing duplicate Forms 5498; Missing or incorrect Required Minimum Distribution information. https://www.irs.gov/retirement-plans/individual-retirement-arrangements-iras
- 18. IRS Publication 3125, The IRS Does Not Approve IRA Investments, https://www.irs.gov/pub/irs-pdf/p3125.pdf
- 19. https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins/investor-0
- 20. See, e.g., the ERISA standards for missing participants: https://www.dol.gov/agencies/ebsa/employers-and-advisers/plan-administration-and-compliance/retirement/missing-participants-guidance

Notes

- 21. https://www.dol.gov/agencies/ebsa/employers-and-advisers/guidance/field-assistance-bulletins/2025-01
- 22. 2022 working paper: Set It and Forget It? Financing Retirement in an Age of Defaults, Goodman, et al, https://www.chicagofed.org/research/content-areas/mobility/policy-brief-abandoning-iras
- 23. In Kentucky, holders of assets mail a letter to the owner as due diligence. Like many states, Kentucky holds significant assets from unclaimed property. "The Unclaimed Property fund contains assets with a total value of nearly 800 million dollars." https://treasury.ky.gov/unclaimedproperty/Pages/overview.aspx
- 24. See, e.g, Unclaimed Property Scam Notices, https://treasury.ky.gov/unclaimedproperty/Pages/scam.aspx
- 25. "For example, federal spousal protection and consent rules are no longer applicable after a plan participant transfers funds from a defined contribution plan account to an Individual Retirement Account (IRA)." See GAO-26-107536, Retirement Security: Most Defined Contribution Plans Do Not Require Spousal Consent to Remove Funds and Doing So Would Involve Trade-offs, Mar. 5, 2026 https://www.gao.gov/products/gao-26-107536

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Notes

- 26. https://www.pew.org/en/research-and-analysis/issue-briefs/2021/09/pew-survey-explores-consumer-trend-to-roll-over-workplace-savings-into-ira-plans
- 27. U.S. adults tend to have inflated self-perceptions of their financial knowledge. https://www.finrafoundation.org/sites/finrafoundation/files/2025-07/NFCS-Report-Sixth-Edition-July-2025.pdf
  - Rollovers in cash equivalents. Vanguard research: Even after 12 months:
    - 28% of investors in the sample who conducted rollovers to IRAs still had their assets in cash or cash equivalents.
    - 55% of investors in the sample who made direct contributions to IRAs still had their assets in cash or cash equivalents.
    - $170 billion annual additional retirement savings if these were in a target-date or similar fund. https://investor.vanguard.com/investor-resources-education/article/the-sticky-ira-cash-trap.
- 28. See, e.g., Mandated and forced cashouts GAO, 401(K) Plans: Greater Protections Needed for Forced Transfers and Inactive Accounts, 2014, https://www.gao.gov/products/gao-15-73

24

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TAB 4

Improving Access to Non-Conflicted Retirement Information for Individuals and Small Employers

Authors: Maria O'Brien, J. Mark Iwry/Matthew I. Whitehorn, Lisa Germano

Getting to More Coverage and Increased Retirement Savings: Ideas and Next Steps

Improving Access to Non-Conflicted Retirement Information for Individuals and Small Employers

Presented October 10, 2026
in San Diego, CA

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The Retirement Reform Group and Disclaimers

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ACEBC Connection: Any Fellow of the American College of Employee Benefits Counsel (ACEBC) is welcome to join RRG, which is not affiliated with the College.

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2

The Value of Financial Literacy Education: Some Evidence From the World of Behavioral Economics

See cites to Lusardi, Laibson and Ariely

BASIC CONCLUSIONS

1. The need for improved financial literacy is high among young adults, women and certain racial/ethnic groups

2. In general, Rules of Thumb are superior to theory

3. Active delivery (discussion, exercises etc.) is superior to lecture

4. Defaults work well as pushback against confirmation bias, and procrastination

3

What Is Confirmation Bias?

See cites to Choukhmane, Mitchell and Choi

- A well-documented tendency to overemphasize information that supports prior views or experiences.
- Confirmation bias can cause poor financial decisions.
- It may lead individuals to ignore or underemphasize diversification.
- It can cause individuals to ignore red flags.
- It can contribute to selling too quickly or holding investments too long.

4

Financial Literacy: Areas of Chronic Inadequacy

- "Financial literacy … mean[s] people's knowledge of and ability to use fundamental financial concepts in their economic decision making matters." — Lusardi and Mitchell, Fall 2023
- Risk assessment; time value of money; compound interest.
- Confirmation bias; overwhelming number of choices.
- Fear of technical language, especially among female respondents.
- Diversification and cost of money (interest rates).

5

The Big Three Questions Test

- Compound interest.
- Inflation.
- Risk diversification.
- Goal: minimal response burden and usefulness across many countries.

6

Financial Literacy Q & A

Question #1: Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much would you have in the account if you left the money to grow?

- More than $102
- Exactly $102
- Less than $102
- Do not know

7

Financial Literacy Q & A

Question #2: Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After one year, how much would you be able to buy with the money in the account?

- More than today
- Exactly the same
- Less than today
- Do not know

8

Financial Literacy Q & A

Question #3: Please tell me whether this statement is True or False: “Buying a single company’s stock usually provides a safer return than a stock mutual fund.”

- True
- False
- Do not know

9

Financial Literacy Rates in the U.S. Are Low

- Only 29% of women answer all three questions correctly versus 48% of men; this data is stable across more than 135 countries.
- Generally, only 33% of young adults under age 30 answer all three questions correctly. The number of correct answers increases in middle age and drops again after age 59.
- Sharp differences exist by race/ethnicity: about 50% of whites answer all three questions correctly, compared to 26% of blacks and 22% of Hispanics.
- For the inflation question, 81% of whites answer correctly, compared with 59% of blacks and 60% of Hispanics.

10

Financial Literacy Outside of the U.S.

- Germany has the highest rates of financial literacy across gender and age groups.
- The Netherlands is #2.

11

The Good News

- Jim Choi of Yale School of Management and others have documented substantial increases in retirement participation through auto-enrollment.
- Defaults should be taken seriously, especially in plans dominated by lower- and moderate-income workers.
- Auto-enrollment and other defaults address the “confirmation bias,” “postponement,” and “lack of expertise” problems.
- Lusardi and Mitchell are optimistic that high-school basic financial education courses measurably increase financial literacy in the under-30 cohort.

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For those interested in further reading

- https://docs.google.com/document/d/1_v_nqeXESabOAjo7ujTMypg5mRKbvP4S/edit?usp=sharing&ouid=102104812745203398638&rtpof=true&sd=true
- **Copy and paste the link above into your browser or scan the QR Code below**

13

Trump/530A Accounts and Financial/Retirement Literacy

- Secretary of the Treasury Scott Bessent, in remarks made on July 27, 2026, said Trump/530A Accounts will “unleash a financial literacy boom.”

- The remarks were made at a meeting to discuss digital financial literacy, because so much is now done online.

- The Secretary stated the goal is to make sure “that financial education keeps pace with financial innovation” and to create a new class of equity shareholders.

- There are 15 interactive learning modules on the Trump/530A accounts app tailored to different age groups and introducing savings, investing, compound growth, diversification, etc.

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Trump/530A Accounts and Financial/Retirement Literacy (cont.)

- Are Trump/530A Accounts described above enough to improve the lowest level of financial literacy in America over the last 10 years?

- They may be a start, but much more work needs to be done.

- There may be recordkeeping nightmares because certain contributions will be pre-tax (employer, governments, charities), while others will be after-tax (individual contributions), which could be discouraging for new investors.

15

Trump/530A Accounts and Financial/Retirement Literacy (cont.)

- See Laura Saunders Tax Report, The Wall Street Journal, Saturday/Sunday, August 8-9, 2026.

- While the $1,000 seed money for babies born in 2025-2028 is a nice incentive, combined with family and employer contributions, what happens when the beneficiary turns 18 and the account becomes an IRA under the beneficiary's control?

- Proposed IRS regulations were issued on August 20, 2026 — 92 FR 54280.

- Challenges and Opportunities for those who are learning:
    - Funds must "primarily be invested in U.S. equities" — at least 90%.

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Trump/530A Accounts and Financial/Retirement Literacy (cont.)

- Challenges and Opportunities for those who are learning:
  - Final rule may have a safe harbor investment percentage.
  - No bond or target date funds.
  - No fund of funds unless tracking an index.
  - No ESG.
  - 0.1% cap on investment fees includes all charges.
  - Default investment must be available.

DOL Technical Release 2026-02 (June 17, 2026) states that 530A accounts are not subject to ERISA, basically, in the absence of employer involvement other than making employer contributions.

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Automatic IRA Programs and Financial/Retirement Literacy

- One possible helpful method to increase retirement savings financial literacy may be automatic IRA programs.
  - These are not ERISA-covered retirement plans.

- States have adopted 17 auto-IRA programs to date and others are under consideration pending legislation.

- These programs are intended to benefit employees of small business owners that do not sponsor qualified plans.
  - Financial/Retirement literacy opportunities for owners as well as workers

- Most are structured as auto-enrollment Roth IRAs, with opt-out options, by payroll deduction with the goal of boosting retirement savings.

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Automatic IRA Programs and Financial/Retirement Literacy (continued)

- Pennsylvania is not one of these states, but Philadelphia has adopted a mandatory workplace retirement savings program, "PhillySaves."

- Other localities have pending proposals for similar programs. PhillySaves is an example to consider how auto IRA programs may have an impact on financial/retirement literacy.

- A primary objective of these programs is to help put money in accounts.
  - For PhillySaves, the goal is to assist over 200,000 workers currently without a retirement savings plan.

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Automatic IRA Programs and Financial/Retirement Literacy (cont.)

- Contributions are to start by July 1, 2027.

- PhillySaves applies to any business located in Philadelphia for at least 24 months, of any size, that does not sponsor a qualified plan.

- Employers must facilitate automatic-enrollment payroll deductions to a Roth IRA or traditional IRA, or both.

- Default contribution rate: 3% to 6% of wages, with 1% or 2% annual escalators up to 10% of wages.

- No employer contributions are required and there is no cost to the employer.

20

Automatic IRA Programs and Financial/Retirement Literacy (cont.)

- A Retirement Savings Board is being established to implement the ordinance.
- PhillySaves will address implementation decisions similar to those addressed in the other auto-IRA programs, such as:
  - Who will be custodian of these IRAs?
  - Application to employers, e.g., Does the ordinance apply to a nonprofit employer that sponsors a top-hat 457(b) plan when lower- to moderate-income employees have no employer-sponsored retirement plan?

21

Automatic IRA Programs and Financial/Retirement Literacy (cont.)

More Design Issues:

  - Eligibility questions, e.g., what if someone is not eligible for an IRA or Roth IRA? This is not generally an issue for lower- or moderate-income employees who do not have compensation restrictions.
  - Select permitted investments.
  - Set up recordkeeping, notice, and withholding processes.

- Why it matters: Only 47% of Philadelphia households with a person age 65 or older have any retirement savings other than Social Security.

22

Automatic IRA Programs and Financial/Retirement Literacy (continued)

• Why it matters: 35% of Philadelphia residents over 65 live on about $15,000 per year, while those with retirement income have a median income of about $58,000, per a Pew Charitable Trusts report.

• Perhaps the most important factor is that some employers may consider adopting a qualified plan with more robust retirement savings opportunities after exposure to the positive effects on employee retention that result through PhillySaves.

23

Automatic IRA Programs and Financial/Retirement Literacy (cont.)

- Once information about PhillySaves starts reaching Philadelphia's lower- and moderate-income worker community, the hope is that it will increase focus on the importance of retirement savings and, therefore, serve to increase financial literacy.
- These programs offer the opportunity to learn by doing. What more can be done to provide financial/retirement literacy aids to help make the most of the new savings?
  - Every program has a website.

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Saver’s Match and Financial/Retirement Literacy

- Another potential tool for savings and opportunity to increase financial/retirement literacy to maximize its effect is the Saver’s Match.
- SECURE 2.0 Act provided for the Saver’s Match based on the pre-existing Saver’s Credit. Treasury and IRS have been issuing guidance.
- Each year beginning in 2027, lower- and moderate-income individuals who make qualified retirement savings contributions are to receive a match (in the following year) of up to $1,000 from the U.S. Treasury or its delegate.
- Qualified savings include 401(k) elective deferrals, traditional or Roth IRA contributions, voluntary after-tax contributions, and 501(c)(18) contributions.
- The match equals 50% of qualified retirement savings up to $2,000.

25

Saver’s Match and Financial/Retirement Literacy (cont.)

• Eligibility is based on MAGI limitations.

• To the extent information about this program is made widely known, it can be a good tool to promote increased retirement savings and financial literacy awareness.

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26

Independent Retirement Information Initiative

Give individuals and small employers reliable, comparable information before they enter a sales or advice process.

Core premise

Public information → Comparison → Decision tool → Then advice / sale

Access should come first; recommendations and product selection should come second.

27

The access gap

Useful information often arrives after a financial intermediary is already framing the decision.

Individuals
IRA rollover, account consolidation, adviser selection, plan-vs-IRA decisions: IRC 402(f) Notice?

→

Information before influence

Current friction
Disclosures are fragmented; resources are agency-specific; vendors often educate **and** sell.

User question
"What are my options, and who benefits if I choose one?"

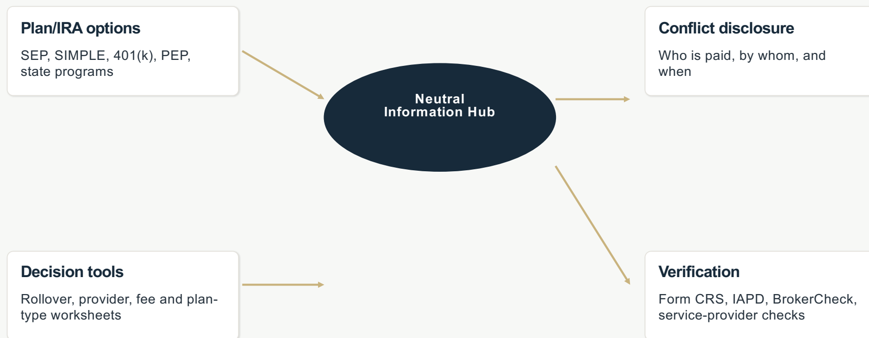
Public objective
Standardize the first layer of information before a recommendation.

Outcome
Better questions; better comparisons; better documentation.

28

Initiative design

Create a public, neutral front door before the user enters a commercial channel.



Design principle: organize around decisions, not agency jurisdiction.

Independent Retirement Information Initiative

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Rollover decision tool

The highest-impact individual use case: options compared side-by-side before the recommendation.

Recommendation: require a written rollover comparison worksheet whenever a financial professional recommends IRA rollover from an employer plan.

Independent Retirement Information Initiative

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Web-Linked Resources

- DOL - Choosing the Right Person to Give You Investment Advice
- DOL - Working With Retirement Service Providers
- DOL - Understanding Retirement Plan Fees and Expenses
- IRS - Retirement Plans for Small Business (Publication 560)
- IRS - Choosing a Retirement Plan: Plan Options
- SEC - Form CRS Relationship Summary
- Investor.gov - Form CRS
- FINRA - IRA Rollovers: Factors to Consider
- FINRA - BrokerCheck
- SEC - Investment Adviser Public Disclosure (IAPD)

Titles are hyperlinked to the source material.

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TAB 5

Why Aren’t They Saving? Real Plan Design and Demographic Barriers for Lower- and Moderate-Income Workers

Author: Lisa M. Gomez

Getting to More Coverage and Increased Retirement Savings: Ideas and Next Steps

Why Aren't They Saving?

Real Plan Design and Demographic Barriers for Lower- and Moderate-Income Workers

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Why Aren’t They Saving?: Myth vs. Reality

- "They don't save because they don't understand."
- "If they had the money, they'd save it."
- "Financial education doesn't work."
- “You need to offer a better seminar."
- "Government can't move the needle."
- "A tax credit is help."
- "If we offer the plan, they'll use it."
- "People choose their savings rate."
- "Automatic enrollment solved this."
- "Leakage is a discipline problem."
- "Our match is generous."
- "We already know why they don't save."
- "So just ask them."
- "The gap is the same gap."

3

3

"They don't save because they don't understand."

MOSTLY WRONG. *It collapses three different problems into one.*

- **Can't save: not enough left after basic and competing needs.**
  - SECURE 2.0 §103 Saver's Match (2027); §110 student loan matching (2024); §121 starter 401(k).
- **Don't save: inertia, complexity, lack of information.**
  - SECURE 2.0 §101 automatic enrollment mandate for new plans (2025); §125 long-term part-time eligibility at two years (2025).
- **Can't stay saved: life events, loans, withdrawals, cash-outs, job changes.**
  - SECURE 2.0 §115 emergency withdrawals; §127 PLESAs; §304 mandatory cash-out limit raised to $7,000; auto-portability.

Congress legislated for all three, but what provisions did plan sponsor actually adopt?

Automatic enrollment: increasingly prevalent, and mandatory beginning in 2025 for most new 401(k) and 403(b) plans established after December 29, 2022.

PLESAs: offered by 1.3% of sponsors in 2024, with 84.7% not considering one.

The continued ask: which of the three problems is this actually solving?

SECURE 2.0 Act of 2022, Div. T of Pub. L. 117-328; Plan Sponsor Council of America, 68th Annual 401(k) Survey.

4

4

"We already know why they don't save."

WRONG. *Knowledge vs. inference.*

Most of the data we rely on in this field tell us what workers or plans did, but not necessarily why they did what they did.

When you ask instead, the same behavior turns out to be two different events.

- EBRI's 2025 Retirement Confidence Survey oversampled 720 Black Americans specifically to get at the why. 29% had ever taken a hardship withdrawal versus 15% of non-Black respondents.
- The leading answer for Black respondents was covering day-to-day expenses and making ends meet (34%). For non-Black respondents it was buying a home, car or other large purchase (36%).
- Among those earning $75,000 or more, 77% of Black Americans had personally saved for retirement versus 87% of non-Black Americans; 63% called debt a household problem versus 45%; and 24% versus 11% named debt as an obstacle to retirement saving.

EBRI & Greenwald Research, 2025 Retirement Confidence Survey: A Closer Look at Black Americans (Issue Brief No. 639, June 2025) — 2,767 respondents including an oversample of 720 Black Americans; 2026 RCS oversampled 492 caregivers. 5

5

"If they had the money, they'd save it."

LARGELY TRUE.

Three workers. Each earns $50,000. Salaried with a working spouse and a cushion. Hourly with a variable schedule and a parent to support. Single parent with childcare and credit-card debt. If they defer different amounts, is that commitment or capacity?

- 63% of adults could cover a $400 emergency expense with cash — 26% of those without a high school degree, 51% with a high school degree, 81% with a bachelor's degree or more.
- By race: 40% of Black adults and 46% of Hispanic adults versus 73% of White adults.

A deferral election is possible only after housing, food, childcare, transportation and debt are covered. For a large share of the workforce there is no residual.

If this assumption is right, a meaningful share of the savings gap is not a behavior problem, and no plan design or education program will touch it.

6

Federal Reserve, Survey of Household Economics and Decisionmaking: Economic Well-Being of U.S. Households in 2025 (May 2026); race/ethnicity breakdown from 2025 SHED data.

6

Considering Income

Participation by income, in the same universe of plans:

Participants earning…	Under $15,000	$150,000 or more	Gap
Participation rate	31%	95%	**64 points**
Captured the full employer match*	22%	80%	**58 points**
Used a catch-up contribution in 2025*	Under 1%	52%	**51 points**

*Lower band is under $30,000. For comparison, the Black/White participation difference in the equity study was 21 points.

- A participant earning under $100,000 at age 50 or older would have to defer more than 20% of pay to reach the catch-up threshold at all. Congress built a benefit structurally out of reach for most of the workforce this session is about — and then enhanced it.
- Participants with ten or more years in the plan average $324,510. Those with under two years have a median of $6,140. One in four participants has less than $10,000.

Income is one of the steepest gradients in the data. Race and gender remain important because they reveal differences that income alone does not explain.

Vanguard, How America Saves 2026 (June 2026), year-end 2025 data; Vanguard, Are Employers Optimizing Their 401(k) Match? (May 2024); Vanguard, How Plan Design Can Help Promote Saving Equity in Retirement Plans (June 2024).

7

7

The Savings Gap Starts Before the Savings Plan

Workers do not arrive at the contribution election on equal financial footing.

Labor-market experience shapes capacity to save:

- Hiring and job access
- Occupation and hours
- Pay and advancement
- Access to benefits
- Household financial resources
- Capacity to save
- Retirement security

Kijakazi and Sanders find that barriers throughout a worker's career -- including disparities in hiring, pay, promotion, occupational opportunity, and access to benefits -- can compound over time and affect economic security approaching retirement.

The retirement plan can't undo everything that happened before the worker got there.

Kilolo Kijakazi & Cortney Sanders, Approaching Retirement: The Effects of Labor Market Barriers on Economic Security (Dec. 2024).

8

8

"The gap is the same gap."

WRONG. *Two groups, nearly identical headline numbers, opposite mechanisms.*

- **For Black workers, the gap shows up inside the plan.**
  - CFERS found balance disparities persisting after controlling for salary and tenure, driven by contribution rates, loans and withdrawals. Vanguard: 9.7% of Black participants took a hardship withdrawal versus 3.9% of White participants; 29% versus 19% had an outstanding loan. Automatic enrollment closes the participation gap and leaves these untouched.
- **For Latino workers, the gap shows up before the plan.**
  - NIRS puts working-age Latino retirement plan participation at 30.9%, about 22 points below White workers. But among Latinos who have access and are eligible, take-up is slightly higher than other groups. Only 32.9% of Hispanic workers overall (21% of workers with a high-school education or less) receive matched employer contributions at all.
  - The driver is sponsorship and eligibility: concentration in industries, firm sizes and job tenures that don't offer a plan. And the Vanguard data confirms it: once inside an automatic enrollment plan, Hispanic participation is 90%, identical to Black participants and within two points of White.

For Latino workers, the evidence points especially strongly to coverage and eligibility barriers. For Black workers already inside the plan, adequacy and preservation emerge as particularly important additional barriers. Reading them as one "minority savings gap" produces the wrong intervention for at least one of them.

National Institute on Retirement Security, Latinos' Retirement Insecurity in the United States and Retirement in America; Economic Innovation Group (updated Apr. 2026); Vanguard (June 2024); CFERS (Mar. 2024); Center for American Progress on Asian American wealth inequality.

9

9

"Financial education doesn't work."

WRONG — *and our field is roughly a decade behind the evidence.*

- **Where the belief comes from.**
  - Fernandes, Lynch & Netemeyer (2014): a meta-analysis of 13 experimental evaluations finding muted effects on behavior.
- **What the evidence says now**
  - Judged against benchmarks designed for causal education research, that is a "medium" effect at "low" cost per participant. Knowledge effects are comparable to meta-analyses of math and reading instruction; behavior effects to anti-smoking interventions.
  - Unlike the earlier literature, they find no significant difference in effects for low-income participants.

Kaiser, Lusardi, Menkhoff & Urban, Financial Education Affects Financial Knowledge and Downstream Behaviors, 145 J. Fin. Econ. 255 (2022); FINRA Investor Education Foundation, Insights: Financial Capability (Mar. 2022); cf. Fernandes, Lynch & Netemeyer, 60 Mgmt. Sci. 1861 (2014).

10

10

“You need to offer a better seminar."

WRONG. *Education works. The way we deliver it mostly doesn't.*

- **Timing beats volume.**
  - Just-in-time education at the decision point outperforms the annual meeting. Measured effects decay with time since intervention, which is an argument about delivery, not about efficacy.
- **Active beats passive.**
  - Programs using active learning outperform lectures and mailed materials. Rules of thumb outperform curricula.
- **Educating about a benefit is not the same as changing a behavior.**
  - Telling someone a match exists is a far easier task than persuading them to defer more. How well are we doing with the easier task? Only 48% of workers know the Saver's Credit exists -- 38% of those earning under $50,000.

Most sponsors measure education by attendance. Almost nobody measures whether a specific message reached a specific sub-population at a specific moment, or what changed after it did.

A workable standard: name the sub-population, name the message, name the channel, name the moment, and name the metric you expect to move.

If you cannot say which workers received which message and what changed, you do not have an education program. You have a checked off box.

Kaiser, Lusardi, Menkhoff & Urban (2022); Transamerica Center for Retirement Studies, 26th Annual Retirement Survey (Feb. 2026).

11

11

"Government can't move the needle."

WRONG. *It already has — for about a million workers we never reached before.*

- By early 2026, 15 states had active auto-IRA programs. More than one million workers had saved over $2.5 billion, passing $3 billion by spring. CalSavers, OregonSaves and Illinois Secure Choice hold roughly 85% of assets; Hawaii and Washington launch in 2026 and 2027.
- They reach people the private system does not: the typical OregonSaves participant earned about $22,600, in high-turnover industries.
- Employees are 20% more likely to contribute in auto-IRA states — 55% more likely among earners at or below median income. Pew finds these programs complement rather than crowd out private plans.

Pew Charitable Trusts, Status of State Auto-IRA Savings Programs (updated July 2026); Georgetown Center for Retirement Initiatives; Gusto (2024); Chalmers, Mitchell, Reuter & Zhong on OregonSaves; Pub. L. 115-35 (2017).

12

12

"A tax credit is help."

HALF TRUE. *Not if the people it was written for have never heard of it.*

- **The Saver's Credit has existed since 2001 (IRC §25B).**
  - Only 48% of workers are aware of it — 38% among those earning under $50,000, 36% among part-time workers. The figure has barely moved in five years: 43% in 2021.
  - It was also nonrefundable, so a worker with no income tax liability received nothing. The average credit claimed in 2022 was $194.
- **In 2027 it becomes the Saver's Match (SECURE 2.0 §103; IRC §6433).**
  - 50% of the first $2,000 contributed, up to $1,000 per person, paid by Treasury into a plan or IRA rather than as a tax refund. First payments in 2028.
  - Eligibility begins to phase out above $20,500 MAGI for single filers and $41,000 for joint filers. Not available to full-time students or dependents.
  - Notice 2026-48 (Aug. 7, 2026) describes anticipated rules and requests comment on the delivery mechanics — how the money reaches an account, and what a plan must do to accept it. Comments close October 5, 2026.

To receive it, a worker must know it exists, claim it on a return, and have an account for it to land in.

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IRC §§25B, 6433; SECURE 2.0 §103; IRS Notice 2026-48; IR-2026-89; Transamerica Center for Retirement Studies, 26th Annual Retirement Survey (Feb. 2026).

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Financial literacy

- The Financial Literacy and Education Commission was created by §514 of the Fair and Accurate Credit Transactions Act of 2003. It is chaired by the Treasury Secretary, vice-chaired by the CFPB Director, and composed of the heads of 23 federal agencies plus the White House Domestic Policy Council, including the Department of Labor. It runs MyMoney.gov and the National Strategy for Financial Literacy.
- The National Strategy is being rewritten now. Treasury issued a request for information on February 3, 2026; comments closed April 6; the Commission met publicly on July 27, 2026.
- DOL has its own mandate under the SAVER Act of 1997 — an ongoing retirement savings education campaign and periodic National Summits on Retirement Savings.

Retirement savings needs to be a centerpiece of the National Strategy.

Fair and Accurate Credit Transactions Act of 2003, §514, 20 U.S.C. §9702; SAVER Act, Pub. L. 105-92; SECURE 2.0 §303; Treasury RFI, 91 Fed. Reg. 5037 (Feb. 3, 2026); FLEC FY2025 Report to Congress.

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"If we offer the plan, they'll use it."

WRONG. *Offering and using are two different statistics.*

Private sector workers	Access	Participation	Take-up
Lowest 25% of occupations by wage	**48%**	**21%**	**44%**
Third 25% of occupations by wage	81%	76%	94%
Part-time workers	43%	20%	47%
Firms with fewer than 50 employees	54%	37%	—
Union	91%	80%	—

The same statutory scheme produces a 44% take-up rate in the lowest wage quartile and 94% two quartiles up.

What is there to address the gap between the columns?

Are we focusing too much on reporting the access number as progress?

CRS, IF13185 (Mar. 2026) and IF13274 (July 2026), from BLS National Compensation Survey, March 2025; IRC §410(a)(1); SECURE Act §112; SECURE 2.0 §125; IRS Notice 2024-73.

15

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"People choose their savings rate."

WRONG. *In most plans, the plan chooses and the worker goes along with it.*

Participation rate	Voluntary enrollment	Automatic enrollment
Black employees	52%	90%
Hispanic employees	57%	90%
White employees	73%	92%
Asian employees	80%	94%

Among employees earning under $75,000, hires under automatic enrollment saved at a 9.6% total rate versus 6.0% under voluntary enrollment. Participation among lower-income Black and Hispanic employees was 2.5 times higher.

A disparity in behavior does not necessarily reveal a difference in preferences, knowledge or desire to save. Sometimes it reveals only that two groups met the same friction with different reserves.

Vanguard, How Plan Design Can Help Promote Saving Equity in Retirement Plans (June 2024).

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"Automatic enrollment solved this."

HALF TRUE. *It solved participation. It did not touch adequacy or preservation.*

- **The contribution gap survives automatic enrollment.**
  - Average deferral rates stayed at 7.0% for Black and 7.5% for Hispanic participants, versus 9.4% for White participants
- **Automatic enrollment plans had higher hardship withdrawal rates.**
  - Vanguard's reading is fair: a worker facing a shock is better off than one with no cushion, and you cannot withdraw from an account you never opened. But it does mean we enrolled people into an account they then had to raid.
- **Congress saw this coming and legislated. The market largely declined.**
  - PLESAs (§127): Roth, capped at $2,500, NHCEs only, matched at the plan's ordinary rate — offered by 1.3% of sponsors. §115 emergency withdrawals of up to $1,000 annually on self-certification. §304 raised the mandatory cash-out threshold to $7,000.

Behind retirement behavior, contribution elections and financial literacy there is pay, wealth, caregiving, occupation, benefits access, income volatility, debt, household structure, job mobility.

Vanguard (June 2024); SECURE 2.0 §§115, 127, 304; ERISA §§801-804; PSCA 68th Annual 401(k) Survey; Kijakazi & Sanders, Approaching Retirement (Dec. 2024).

17

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"Leakage is a discipline problem."

WRONG. *And the word itself is doing a lot of damage.*

- 6% of participants took a hardship withdrawal in 2025 -- up from 4.8% in 2024 and roughly 2% pre-pandemic.
- The median hardship withdrawal was $1,900.
- In the same year, average account balances hit a record $167,970 while the median was $44,115.
- Vanguard's equity study found 9.7% of Black participants took a hardship withdrawal versus 3.9% of White participants, and 29% versus 19% had an outstanding loan.
- CFERS -- roughly 180,000 participants across nine plans -- found race and gender disparities in balances persisting after controlling for salary and tenure, and modeled that eliminating pre-retirement withdrawals would substantially mitigate them, particularly early and mid-career.

At a $1,900 median, this is not lack of discipline. It is a worker using their own money for its highest-value purpose at that moment.

We call it leakage because we are measuring from the plan's point of view rather than the participant's.

Vanguard, How America Saves 2026 (June 2026); Vanguard (June 2024); CFERS (Aspen Institute FSP, DCIIA, Morningstar Retirement) (Mar. 2024); Portability Services Network / Retirement Clearinghouse; EBRI.

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"Our match is generous."

PROBABLY TRUE — *But how much does it matter?*

A match of 100% of the first 6%. Two workers at $50,000. One affords 6% and receives $3,000; one affords 2% and receives $1,000. Same employer, same salary, same plan, three times the employer-funded benefit.

- Only 22% of workers earning under $30,000 captured the full match, versus 52% at $30,000-$60,000 and 80% at $150,000 or more.
- Almost 60% of matching dollars accrue to the 43% of employees already contributing above the match cap.
- The top 20% of earners receive an 11% larger share of employer contributions than of income; the bottom 20% receive 29% less.

Vanguard, Are Employers Optimizing Their 401(k) Match? (May 2024); Vanguard, Better Match Formulas for 401(k) Plans (July 2026); Choukhmane, Colmenares, O'Dea, Rothbaum & Schmidt, NBER Working Paper 32843 (2024).

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"So just ask them."

YES — BUT A BADLY BUILT SURVEY WILL CONFIRM WHATEVER YOU ALREADY BELIEVE.

- **The non-response problem runs exactly the wrong way.**
  - The workers least likely to answer a survey about why they don't participate are the workers who don't participate
  - So sample from the eligible population, not the participant list; oversample non-participants deliberately, the way EBRI does; field it away from open enrollment; and compare respondents to non-respondents on the plan data you already hold, so you can measure who you missed.
- **Anonymity is necessary.**
  - Debt, second jobs and money sent to family are not things people answer honestly to an employer who can identify them. Use a third party and tell employees you did.
- **Ask about the household, not the employee.**
  - A deferral election is made at a kitchen table, as part of a holistic financial picture, not limited to the job site.

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So why aren't they saving?

- **Many of them are once we stop requiring them to opt in.**
  - Under voluntary enrollment, 52% of Black and 57% of Hispanic employees participate. Under automatic enrollment, both reach 90%. Same people, same employers, same industries. Among Latino workers with access and eligibility, take-up is the highest of any group.
- **Where they aren't, the constraint is structural and it differs by population.**
  - No plan offered, or eligibility rules exclude them. Or they are in the plan and the money comes back out. Or the job ends before anything vests. Three different failures.
- **Some of it is capacity, and nothing in a plan document solves it.**
  - 63% of adults could cover a $400 emergency. For a large part of the workforce there simply is not enough money left to save,. That part is a wage and wealth problem, and we should stop calling it a choice.
  - The match pays most to those who can defer most. Three of the four statutory safe harbors are deferral-contingent. Catch-up contributions are arithmetically out of reach for below roughly $100,000. Vesting and cash-out rules rt those with the shortest tenures first.

They are not failing to save. They are saving into a system that turns a modest income difference into a much larger retirement difference.

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Questions?

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TAB 6

Supplement to Handout 4: Bibliography, Financial Literacy and Choices

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TAB 7

Supplement to Handout 2: Strategies to Restore Lifetime Income to Retirement Plans, Brookings Retirement Security Project

Authors: Goda et al.

Retirement Security Project at BROOKINGS

JUNE 2026

STRATEGIES TO RESTORE LIFETIME INCOME TO RETIREMENT PLANS

Gopi Shah Goda, Joshua Gotbaum, Aidan Creeron, and Lily Nevo

Contents

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I. Summary

The shift from traditional pensions to individual savings accounts profoundly changed the retirement experience of most Americans. Under traditional pensions, retirees received ongoing fixed annuity payments from their plan that they knew would continue for the rest of their lives and their spouse's lives. Most retirement savings accounts, by comparison, do not ensure or even offer guaranteed lifetime income payments: retirees know how much is currently in their account but not how much of it they can spend each month without risk of running out. This shift has led to a sharp decline in the portion of retirees that receive any lifetime retirement income other than Social Security.

Despite multiple U.S. government policies to increase the availability and use of guaranteed lifetime income in the now-dominant defined contribution system, its use remains low and appears to be declining. Even when Social Security is taken into account, we show that the share of retirement income carrying a lifetime guarantee is declining among individuals 65 and older. Our analysis from the Health and Retirement Study (HRS) reveals that guaranteed lifetime income from all sources (Social Security, defined benefit pensions, and private annuities) accounted for just over half of total income for Americans65 and older in the early 2000s, but that share had declined to approximately 43% by 2022. Private annuities play a minimal role, with only about 6% of older Americans receiving any income from this source.

Economic analysis and survey research suggests that many retirees would benefit from annuitizing at least a portion of their retirement savings. Retirees and prospective retirees consistently report a preference for a dependable lifetime paycheck in retirement, and concern about longevity risk—the fear of outliving your assets in old age—remains widespread. Researchers have found that retirees with guaranteed lifetime income maintain higher spending levels and greater satisfaction throughout retirement compared to those relying solely on withdrawals from savings accounts. Yet few are offered a chance to purchase guaranteed lifetime income annuities at institutional rates and few of those that have the option choose them, creating what economists call the "annuity puzzle."

We explore many factors that contribute to the lack of low annuitization rates. While preferences and rational explanations could explain part of low annuitization rates, we find considerable support for both institutional barriers that prevent employers from offering such options and behavioral biases that result in few retirees choosing an annuity when one is available. For example, federal regulations concerning employer-sponsored plans have imposed heavier burdens on offering such plans relative to other options, so relatively few employers offer an annuity option. In addition, there is also extensive research that decisions to annuitize are affected by behavioral biases, lack of information or trust, or reluctance to undertake the complex decision making involved when choosing among the details of varied guaranteed income products. These findings suggest that many retirees would benefit from more guaranteed lifetime income, even though they do not individually undertake the effort to select and purchase it.

Federal policies have for decades attempted to encourage the inclusion of lifetime income options in defined contribution plans. The Pension Protection Act of 2006, the SECURE Act of 2019, and SECURE 2.0 of 2022 all represent bipartisan legislative efforts that included provisions designed to facilitate annuity offerings in workplace retirement plans. However, their impact has been limited: fewer than 10% of plans offer in-plan annuities, and uptake among participants who have access remains minimal.

For policies to significantly increase the adoption of lifetime income, they must effectively address the institutional factors preventing employers from offering annuity options and the many frictions in decision-making that result in people not choosing them even when they are offered. This could be achieved by:

- Elimination of employer liability for including annuities in retirement plans, combined with alternative effective measures to control costs and provide protection for retirees; and
- Inclusion of annuities in default investment options, combined with ways to preserve retiree flexibility.

Higher rates of annuitization could meaningfully impact the well-being of older adults by providing additional security against the risk of outliving one's assets and reducing rates of poverty among widows.

II. The role of guaranteed lifetime income in retirement

Traditional defined benefit pensions were paid monthly, quarterly, or annually for the life of a retiree. Sometimes, companies would make the payments themselves; other times they would purchase annuity contracts for a retiree from an insurance company. While defined benefit pensions penalized job transitions and were not universally available, the transition to individual retirement savings accounts shifted the responsibility for deciding how much and how quickly to spend in retirement – and whether to purchase an annuity contract that guarantees payments for life – from the employer to the individual retiree.

How do annuities work?

Annuitization allows individuals to exchange their savings for a stream of income guaranteed for life, providing more confidence they will not run out of money in retirement. These contracts come in many different forms. Single premium immediate annuities are available for purchase at retirement and then provide a fixed payment for the life of the retiree and/or the surviving spouse. Deferred annuities can provide for a fixed lifetime payment that starts if and when the retiree reaches old age, say 80 or 85. Variable annuities involve investment of funds and provide a return that varies with markets. Some plans permit conversion into a fixed lifetime payment at the retiree's option (these can be referred to as "guaranteed minimum income benefits" or "guaranteed lifetime withdrawal benefits").

The pricing of annuities reflects expected longevity, interest rates, administrative costs, and profit margins. Insurance companies use mortality tables to estimate life expectancy and calculate payment amounts that balance the need to remain solvent while remaining competitive. Adverse selection—the tendency for individuals with longer life expectancies to disproportionately purchase annuities—affects pricing and can make annuities less attractive to those with average or below-average life expectancies.

Importantly, most annuity contracts are sold directly to individuals, based on the age and health of the individual among many other factors. Traditionally, they have been sold by sales agents, brokers, and financial advisors working on commission.

The benefits of guaranteed lifetime income

Given widespread concerns and the real risk of depleting one's savings during retirement, policymakers, retirement experts, and many economists believe that annuities should be more widely used and that demand for annuities should be much stronger than it is for multiple reasons.

Economists who have studied the welfare benefits of annuitization have generally concluded that they are substantial, as they allow for people to insure the risk of outliving their savings and optimize their consumption. As Brown, Kapteyn, Luttmer, and Mitchell (2017) noted, "there is a vast academic literature dating back a half-century on the role that annuities should and do play in people's portfolios in later life." Some research suggests retirees optimally should annuitize most (Davidoff et al., 2005) or all (Yaari, 1965) of their wealth. Other researchers have suggested that partial annuitization is best for most people (Horneff, Maurer, and Mitchell, 2025).

Second, surveys suggest that individuals value guaranteed lifetime income. Outliving one's savings has consistently polled among the greatest financial fears (Jones, 2024), outpolling even fear of death (Kolluri, 2026). Retirees with lifelong annuities tend to maintain their level of satisfaction during retirement. By contrast, those without such income sources tend to become less satisfied over time (Panis, 2003). A 2024 survey found that 46% of retirees said, "spending the money I saved for retirement gives me anxiety" (Alliance for Lifetime Income and CANNEX, 2024). This relationship persists even after controlling for wealth levels, suggesting that the additional security from having guaranteed lifetime income is not limited to those with little wealth. There is also survey evidence that guaranteed lifetime income benefits employers by increasing employee trust and facilitating retention of younger workers (TIAA 2022).

Third, when lifetime income extends to spouses through survivor benefits, poverty among widows is lower. The economic shock of widowhood is well documented: while poverty rates for elderly couples hover around 6.6%, they jump to roughly 17.6% in the period immediately following a spouse's death (McGarry and Schoeni, 2005). This can be seen in the most important form of guaranteed income, Social Security: each year a husband delays claiming Social Security, it increases his widow's annual benefit, and this appears to reduce her likelihood of entering poverty (Diebold et al., 2017; Slavov, 2025). Traditional pensions under Employee Retirement Income Security Act (ERISA) also recognized this need, shifting the default pension payout from a single-life benefit to a joint- and survivor-life benefit (Sevak et al., 2003). However, the decline of defined benefit plans and lifetime income options means that surviving widows are less insured against the risk of outliving their savings.

Finally, having a guaranteed paycheck in retirement seems to permit retirees to spend more of their savings. As Benartzi, Previtero, and Thaler (2011) noted, when people who have calibrated their lifestyle based on a paycheck are suddenly faced with lump sum 401(k) payments and no guidance, the overwhelming evidence is that they underspend, living less well in retirement than they otherwise might. Blanchett and Finke (2025) found that people with retirement income spent twice as much per dollar as the equivalent wealth held for investment. They refer to this as guaranteed income providing psychological "freedom to spend," reducing anxiety about resource depletion and supporting higher consumption levels throughout retirement.

These benefits could be significant. As an example, consider a “back-of-the-envelope" calculation of how much consumption could increase if half of non-annuitized retirement wealth among those 65 and older were converted to annuities based on the Blanchette and Finke estimates. If half of those savings were annuitized, this population would spend on the order of $27 billion more per year.[1]

III. Other than Social Security, guaranteed lifetime income in retirement is declining

One consequence of the decline of traditional pensions and their replacement by retirement savings plans is that access to lifetime retirement income has sharply declined. In this section, we describe how various measures of annuity prevalence have changed over time. We also report the results of new analysis of the Health and Retirement Study (HRS) that offers insights into what share of retirement income is annuitized, and how this share varies across income quintiles and age groups.

What existing data sources say about the prevalence of lifetime income

Employer offering of lifetime income options remains limited

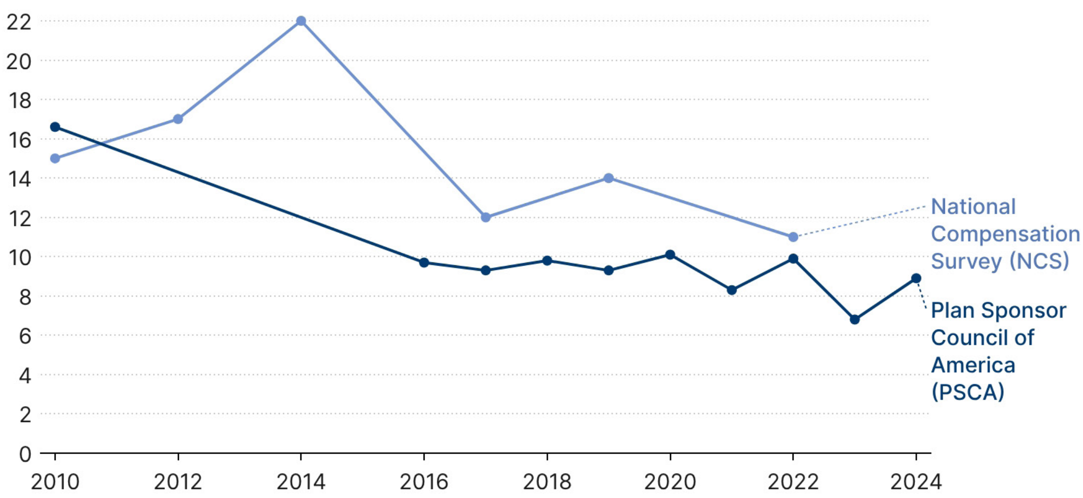
The National Compensation Survey (NCS) conducted by the Bureau of Labor Statistics provides information on the availability of retirement benefits in employer-sponsored plans. The survey indicates that access to defined contribution plans has grown substantially over recent decades, while access to defined benefit plans has declined. This data source also provides one of the few consistent measures of individual participant access to annuitization options in defined contribution (DC) plans. In 2022, only 11% of private industry workers participating in savings and thrift DC plans had access to an annuity distribution option, and this share has generally been declining since 2014 (see Figure 1).

Surveys conducted by the Plan Sponsor Council of America (PSCA) provide information on plan features and offerings and show consistent findings. The PSCA survey for the 2024 plan year reported that 8.9% of plans offered annuity options (Mulholland, 2025). While this represents an increase from the 6.8% reported the prior year, the overall trend since 2010 has been towards a smaller share of plans offering annuities (Figueiredo and Mackenzie, 2012).

1 These rough estimates should be interpreted cautiously, as they rely on a comparison of spending behaviors in a single study among households with varying levels of annuitization without accounting for individual variation in savings levels, health, bequest motives, or liquidity needs. The estimate was calculated as follows. Let W denote aggregate post-tax, non-annuitized retirement wealth held by households 65 and over, net of an assumed effective tax rate. Following Blanchett and Finke’s estimate that retirees spend approximately half as much out of non-annuitized wealth as out of equivalent guaranteed-income wealth, the annual consumption gap from non-annuitization is given by $(1-\theta)pW$, where $\theta=0.5$ is the ratio of the marginal propensity to consume out of investment wealth relative to guaranteed income, and $p=0.0743$ is an illustrative annuity payout rate. This implies an annual spending shortfall of $0.5\times0.0743\times W=0.03715W$. The post-tax non-annuitized retirement wealth stock is calculated using the Survey of Consumer Finances in 2022 as $1.46 trillion assuming a tax rate of 20%. Assuming half of this wealth is annuitized, we obtain an annual consumption difference of roughly 0.5 x $1.46 T x 0.03715 = $27 billion.

FIGURE 1

The share of defined contribution plans offering lifetime income options is declining



Source: Bureau of Labor Statistics National Compensation Survey (NCS); Plan Sponsor Council of America Annual Survey of 401(k) Plans (PSCA)

Note: Data from the NCS and PSCA are restricted to private industry workers, and data from the NCS reflect the share of specifically savings and thrift defined contribution plans. Data are linearly interpolated between the marked points. The NCS data from 2010 and 2012 are compiled from old pdfs (NCS 2011; NCS 2013). These data points are not included in the corresponding series on the BLS website, which extends from 2014 to 2022.

BROOKINGS

In contrast to the general sponsor reluctance to include lifetime income options, a few plan sponsors have both included those options and incorporated them into defaults. In most of these plans, the participants must opt in to start monthly payments. However, in at least one plan, participants are defaulted in when they reach the age of required minimum distributions. Lifetime income options for DC plans are now offered by multiple financial institutions, including Alliance Bernstein, BlackRock, JPMorgan Chase, State Street Global Advisors, and TIAA (Ortolani, 2024).

Use of lifetime income options by retirees is declining

Many sources have documented the declining use of guaranteed lifetime income. The Investment Company Institute (ICI) has found low rates of annuitization at retirement, finding that most retirees opted for lump-sum withdrawals or systematic withdrawals rather than converting their balances into guaranteed lifetime income (Investment Company Institute, 2000). Using TIAA's participant-level data within a large defined contribution plan, Brown, Poterba, and Richardson (2025) found that between 2000 and 2018 the share of new retirees selecting a life annuity as their first income draw fell sharply—from 62% to just 18%. By 2018, only about 30% of TIAA participants had a life annuity as part of their income distribution. In addition, Sabelhaus (2022) finds declining presence of protected income by birth cohort, and the PSCA survey states that fewer than 5% of participants choosing annuitization even when available.

The American Council of Life Insurers (ACLI) 2025 Fact Book, reported that premiums paid into annuities rose 18.8% to $456 billion, likely due to more favorable pricing caused by high interest rates (ACLI, 2024). However, these figures do not distinguish between immediate and deferred annuities or between lifetime and term-limited products, making it difficult to assess the prevalence of true lifetime income arrangements. It is also worth noting that annuity payouts in 2023 were still less than 10% of retirement and survivors' benefits paid by Social Security that year, which amounted to $1.23 trillion (Social Security Administration, 2024).

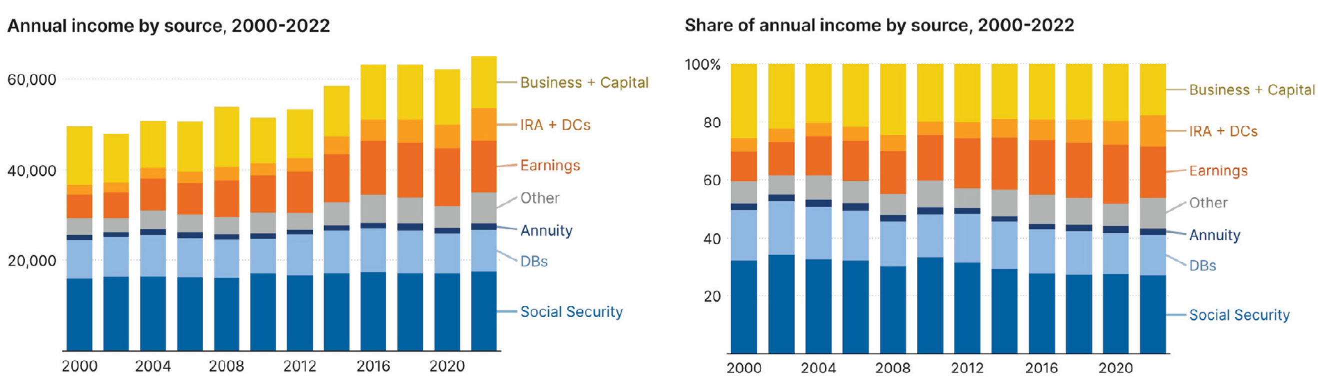
New evidence from the Health and Retirement Study

We provide a comprehensive picture of how annuitized income sources contribute to retirement income among Americans 65 and older and how the share of annuitized income varies over time and across income and age by analyzing survey data from the HRS covering the period 2000–2022. We first construct a measure of annual money income that includes earnings from work; withdrawals from IRAs and defined contribution plans, business and capital income (including rental income, dividends, interest, royalties, self-employment income, and trust income), other income (veterans benefits, unemployment insurance, workers compensation, disability insurance, Supplemental Security Income, and other government transfers), defined benefit pension income, Social Security benefits, and private annuity income. We classify defined benefit pensions, Social Security, and private annuities as annuitized income. More details regarding the construction of the underlying data are available in the technical appendix.[2]

Figure 2 shows the components of income among a nationally representative sample of HRS respondents 65 and older between 2000 and 2022, the most recent year of data available. The survey is conducted every two years and the amounts are reported in constant 2024 dollars, thus reflecting increases after accounting for economy-wide inflation.

FIGURE 2

Guaranteed lifetime income - including Social Security - has declined as a share of income for Americans 65 and over



Source: Health and Retirement Study

Note: Sample includes adults aged 65+. Income is converted to 2024 dollars using the CPI-U-RS series. Blue bars (DBs, Social Security, and Annuity) represent annuitized sources. See Technical Appendix for information on how we define each income source.

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The figure shows that over the past two decades, the income landscape for older Americans has shifted in important ways. In 2000, the average person 65 or older in our HRS sample received about $49,450 per year in real terms. By 2022, that figure had risen to just over $64,990, representing an average real growth rate of roughly 2.5% annually. This growth, however, has not been uniform across income sources.

2 Tables with the dollar amounts reported in the figures are also included in the appendix.

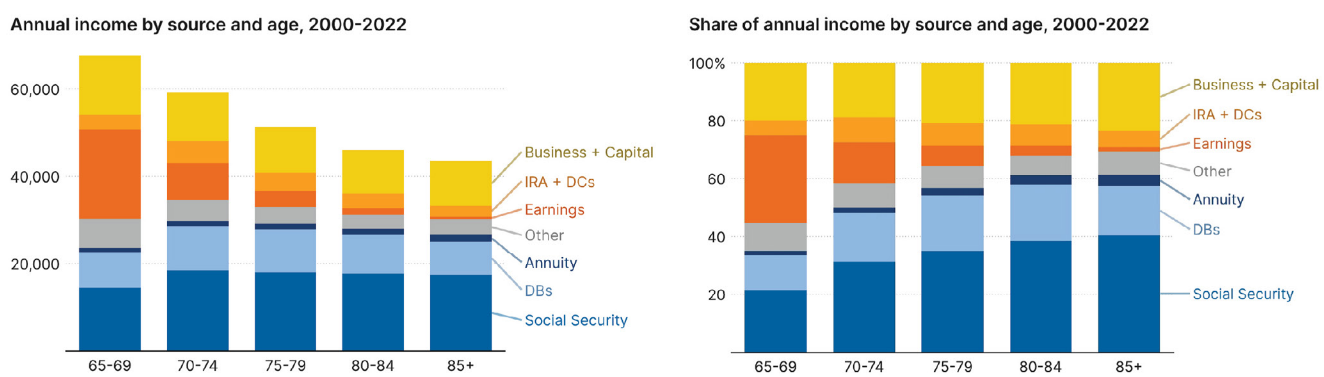
Earnings from work, withdrawals from IRAs and defined contribution plans, and other miscellaneous income sources have all grown faster than inflation. The increase in earnings reflects changes in labor force participation for those 65 and over during this period, which grew from 12.9% in 2000 to around 20.2% in 2019 before the COVID-19 pandemic caused large disruptions to employment and persistent declines in labor force participation among this group (Wilkins, 2025). Higher withdrawals from IRAs and defined contribution plans are consistent with the larger share of older households with retirement account balances over this period and strong stock market returns. In contrast, business and capital income, defined benefit pension benefits, Social Security, and private annuity payments have remained relatively flat in real terms.

The result of these divergent trends is a gradual decline in the share of total income coming from annuitized sources. In the early 2000s, defined benefit pensions, Social Security, and private annuities together accounted for just over half of all income received by those 65 and older. By 2022, that share had fallen to about 43%. This shift mirrors the broader structural transition from defined benefit to defined contribution retirement plans and suggests that absent policy changes, the proportion of retirees' income that is guaranteed for life will continue to shrink. The share of older Americans with any income from annuities has stayed relatively constant around 6%.

Figure 3 presents each component of income, pooled across all of the years, by five different age groups to show how annuitized income changes as individuals age. Overall, the data shows substantial declines in income from all sources with age: for 65- to 69-year-olds, total income amounts to about $68,000, but declines to approximately $43,500 for those 85 and older. Earnings decline sharply after 70, and business and capital income also fall. Other income sources diminish as well; however, defined benefit, Social Security, and annuity income maintain or increase purchasing power at older ages, and a somewhat larger share of older retirees receive income from annuities than younger retirees. Thus, the reduction in income by age generally reflects losses of non-annuitized forms of income and the share of income from annuitized sources rises. For the oldest age groups, these guaranteed income streams provide a critical floor, cushioning the loss of labor and investment income and helping to stabilize consumption late in life.

FIGURE 3

Reduction in income by age reflects losses of non-annuitized forms of income



Source: Health and Retirement Study

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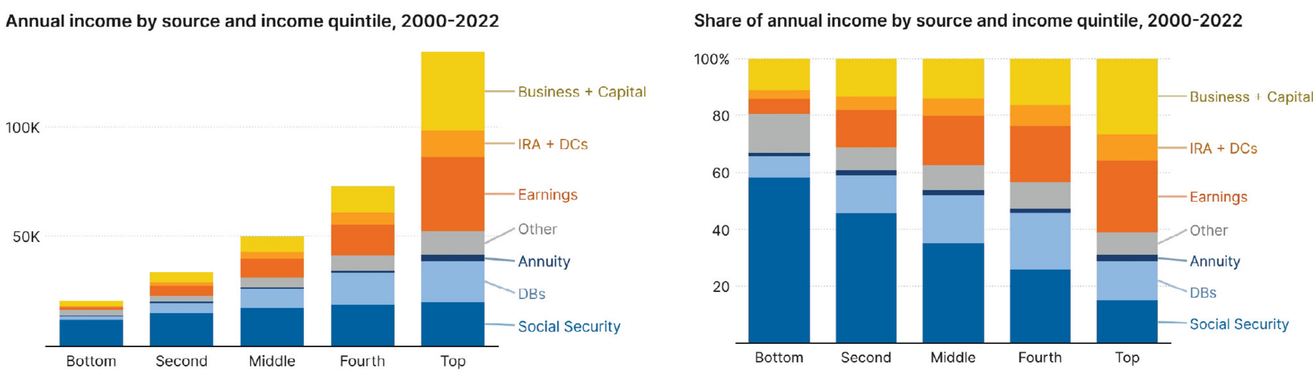
Note: Sample includes adults aged 65+. Income is converted to 2024 dollars using the CPI-U-RS series. Blue bars (DBs, Social Security, and Annuity) represent annuitized sources. See Technical Appendix for information on how we define each income source.

Figure 4 shows the same components by income quintile, where income quintile is determined by one's income during ages 50 to 65. In our pooled sample, the top income quintile has an average annual income of about $135,000, compared to just $20,600 for the bottom quintile. Withdrawals from IRAs and defined contribution plans are highly concentrated at the top, averaging about $600 annually for the bottom quintile but more than $12,000 for the top quintile. Social Security benefits, in contrast, are more evenly distributed, with the bottom quintile receiving about $12,000 and the top quintile about $20,200. Defined benefit pensions and private annuities are more common and larger in dollar terms among higher-income individuals, yet the annuitized share of income is highest for the bottom quintile at 67% because Social Security constitutes a much larger fraction of their total income stream. Focusing on just private annuities, however, reveals that a much smaller share of lower-income individuals has income from annuities.

Taken together, these findings paint a picture of a retirement income system in transition. Annuitized income remains a substantial component of older Americans' resources, but its relative importance has declined steadily over the past two decades. Social Security continues to be the dominant source of guaranteed lifetime income, especially for lower-income retirees, underscoring its role as the primary source of annuitized income in the U.S. private annuities, by contrast, play a small role in aggregate and are concentrated among higher-income households. The decline of defined benefit pensions and the limited annuitization of defined contribution balances mean that, for many retirees, it is likely that Social Security will be the only meaningful source of lifetime income going forward.

FIGURE 4

Private annuity and defined benefit income is more common among high-income individuals, while Social Security represents a major source of income among the bottom income quintile



Source: Health and Retirement Study

Note: Sample includes adults aged 65+. Income is converted to 2024 dollars using the CPI-U-RS series. Blue bars (DBs, Social Security, and Annuity) represent annuitized sources. Income quintiles are based on average annual individual income for adults between the ages of 50 and 65. See Technical Appendix for information on how we define income sources and quintiles.

IV. Many factors limit use of guaranteed lifetime retirement income

As shown in the previous sections, annuitization is much less prevalent than economic theory predicts, a phenomenon referred to as the "annuity puzzle." The term, introduced by Modigliani (1986), refers to the observation that voluntary annuitization rates remain far lower than standard economic models suggest would be optimal.

The persistence of low annuitization rates despite their theoretical benefits and widespread concerns about outliving one's savings suggests that substantial barriers impede adoption. Nonetheless, there are also many entirely rational reasons why individuals would choose to keep at least some of their retirement savings liquid rather than fully annuitizing. We briefly review the extensive literature on reasons behind low rates of annuitization below.

Rational individual preferences

Loss of control and the need for immediate funds: The irreversibility of most annuity purchases removes the option to modify withdrawals in response to unexpected expenses or changing financial circumstances. As a result, retirees facing potential long-term care costs or other health-related expenses may prefer maintaining accessible assets even at the cost of lower retirement income (De Nardi et al., 2010). These preferences for flexibility, the ability to adjust spending over time, and control over assets, sometimes referred to as "precautionary savings motives," can lead some individuals to favor systematic withdrawal strategies or options for lifetime income rather than committing to annuitization (Brown, 2001; Milevsky and Young, 2007).

Bequest motives: One of the most straightforward explanations for low levels of annuitization is a desire to leave a bequest to heirs, which would naturally reduce the demand for income streams that terminate upon death (Brown, 2001; Poterba et al, 2011). There is some evidence that bequest motives can and do limit the desire for annuities by some individuals (Lockwood 2012, 2018), while some studies have found less support for bequest motives as a major explanation (Bernheim, 1987; Brown, 2001).

Health status and life expectancy: play a central role in determining the value individuals derive from annuitization (Brown, 2001; Finkelstein and Poterba, 2004). Individuals with below average life expectancy receive lower expected value from annuities priced using population average mortality tables, making annuitization relatively unattractive for those in poor health (Friedman and Warshawsky, 1990; Brown, 2002). These individual decisions, while rational given personal circumstances, generate systematic selection patterns that contribute to adverse selection in annuity markets (Finkelstein and Poterba, 2002; Einav et al, 2010).

Having Social Security or other guaranteed lifetime income: Existing sources of annuitized income affect the demand for private annuitization. Social Security provides substantial guaranteed lifetime income for most Americans, effectively creating a base level of annuitization. For individuals with adequate Social Security benefits and defined benefit pensions relative to their anticipated retirement consumption, the marginal value of additional annuitization may be limited (Bernheim, 1991; Dushi and Webb, 2004; Beshears et al, 2011).

Finally, converting assets to income streams requires those assets to be liquid. However, a significant share of assets in retirement are in the form of housing, and households may be reluctant to sell those assets or otherwise lack the liquidity to annuitize (Poterba et al., 2011; Davis et al., 2021).

Behavioral and cognitive biases

There is also ample evidence that many individuals' decision making about annuities does not follow a rational model. As Brown, Kapteyn, Luttmer, and Mitchell (2017) stated: "a nontrivial fraction of the population has implied annuity values that are difficult to reconcile with costless optimization under any plausible set of parameters."

There are many examples showing that the way annuity choices are framed can have an important impact on annuitization decisions (Agnew et al, 2008; Brown et al, 2008; Beshears et al., 2014). For instance, when presented as investment products with uncertain returns, annuities appear less attractive than when framed as consumption insurance providing guaranteed income. In addition, people in defined benefit pension plans are much more likely to receive their benefits as an income stream even when lump sum options exist than they are for defined contribution plans when annuitization requires an active choice (Benzarti et al., 2011). This framing sensitivity suggests that the way annuities are presented and explained affects demand independent of their economic characteristics.

Behavioral economics has identified numerous cognitive biases and heuristics that help explain these phenomena. The requirement to commit substantial wealth to an irreversible purchase may trigger loss aversion, with individuals weighing the potential loss of liquidity more heavily than the equivalent gain in income security (Kahneman and Tversky, 1979; Tversky and Kahneman, 1992; Hu and Scott, 2007). While high discount rates or high mortality can be reasonable explanations for low demand for annuities, as described earlier, misperceptions about either could lead to suboptimal annuitization decisions. Evidence suggests that individuals underestimate their survival probabilities, which means they will systematically undervalue the benefit of lifetime income (O'Dea and Sturrock, 2023).

Finally, complexity and cognitive limitations present significant barriers to annuitization decisions. Understanding the tradeoffs involved in annuity purchases requires forecasting uncertain lifespans, comparing income streams with different timing and inflation characteristics, and evaluating counterparty risk—cognitive demands that may overwhelm even sophisticated individuals. Research has shown that individuals struggle to value annuities, especially as the complexity of plans increases, and that these difficulties are more pronounced among less cognitively able individuals and those with less education and financial literacy (Benartzi et al, 2011; Brown et al., 2017; Brown et al., 2021).

Institutional factors

Individuals have private information about their health and life expectancy that insurance companies do not have, and those who expect to live longer are more likely to purchase annuities. This asymmetry in information results in adverse selection, where insurers are forced to price annuities based on the mortality experience of purchasers rather than the general population, resulting in lower payment rates that make annuities less attractive to individuals with average or below-average life expectancies (Finkelstein and Poterba, 2004).

In addition, the fact that retail annuities are individually sold and priced involves substantial loads that reduce their value relative to institutionally priced products (Poterba and Warshawsky, 2000). Mitchell, Poterba, Warshawsky, and Brown (1999) estimated that administrative costs, profits, and adverse selection reduce retail annuity values by approximately 10-15% for average individuals. However more recent estimates suggest that on average, annuity purchasing reflects the mortality of the typical annuity purchaser, who tends to be healthier than the general population (Poterba and Solomon, 2025). In general, administrative costs make annuities less attractive compared to non-guaranteed strategies, particularly for individuals with average or below-average life expectancies or strong bequest motives.

Another factor that may influence demand for annuities is concerns about the financial strength and reliability of insurance companies (Figueiredo and Mackenzie, 2012). Purchasers may worry about insurer solvency over the multi-decade horizon of annuity contracts. While state guaranty associations provide some protection, coverage limits and awareness of these protections remain limited.

Since annuity contracts generally must be offered by insurance companies, they are governed by separate regulatory and capital requirements. As described in more detail below, federal regulation of retirement plans imposes additional burdens on employers considering the inclusion of insurance products in retirement plans; as a result, many employers choose not to do so.

Finally, for historical reasons, annuities are marketed by separate sales forces. When individuals retire, there is competition among advisors and financial firms over retirement assets. General financial advisors frequently advise against purchase of annuity contracts because that means fees will be shared with insurance companies and their salespeople.

Many of the factors discussed play a role in limiting the uptake of annuities. The challenge for both individuals and policymakers is that individual situations vary and the mix between the rational and the biases varies, too. It is challenging to understand the relative importance of each of these factors in a unified framework (Pashchenko, 2013).

What does seem clear is that increasing the adoption of lifetime income requires a multi-pronged approach. We first describe the current policy landscape and then turn to ideas that could increase the adoption of lifetime income products.

V. The current policy landscape

ERISA and lifetime income

The original conception of ERISA in 1974 was to encourage the use of defined benefit (DB) pensions whose payout was in the form of annuities. ERISA also permitted the purchase of an annuity at retirement to satisfy employer obligations upon the retirement of individual participants and was interpreted as allowing an employer to terminate a pension plan and purchase annuities to satisfy its obligations without creating a fiduciary obligation.

However, the 1991 financial distress and ultimate liquidation of the Executive Life Insurance Company, caused by mass withdrawal of policyholders concerned about its overreliance on “junk bond” financing, changed the Department of Labor’s approach. In 1995, the DOL published Bulletin 95-1, which stated that employers had fiduciary responsibilities when choosing annuity providers. They were required to choose the "safest available" annuity and to engage in "an objective, thorough and analytical search" for products (U.S. Department of Labor, 1995). In particular, they were to evaluate "the quality and diversification of the annuity provider's investment portfolio" and "the level of the [annuity provider's] capital and surplus." At the same time, they could also consider the relative financial cost of “marginally” less safe providers.

DOL’s bulletin on annuities, though intended for DB plans, led to uncertainty about how they applied to DC plans. This uncertainty combined with the fact that the requirements for inclusion of annuity products were more stringent than for mutual funds and other products deterred employers from including annuities in DC plans (Gale et al., 2008).

Efforts to increase lifetime income from 2006-2022

Pension Protection Act of 2006 (PPA): Congress’s lack of support for lifetime income options in DC plans changed in 2006 with the Pension Protection Act. PPA directed the Department of Labor to clarify that the selection of an annuity contract as an optional form of distribution from an individual account retirement plan is not subject to the “safest available annuity” standard but is subject to all other applicable fiduciary standards. The resulting regulations, issued in 2008, provided that plan fiduciaries would be deemed to have satisfied their obligations if they considered the provider's financial capability and certain other factors at the time of selection (U.S. Department of Labor, 2008).

However, DC plan sponsors continued to express concern about their ability to implement the standard without litigation and possible fiduciary liability. Many of the terms were seen as vague. Furthermore, in cases where an annuity was offered as a future retirement option, the 2008 “safe harbor” imposed a continuing obligation to monitor an insurance company provider in the years after the initial selection was made. The DOL attempted to address ongoing confusion with a 2015 bulletin, but few observers considered the 2008 regulation a success (Kreps, 2022).

The SECURE Act: The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 included several provisions designed to encourage lifetime income adoption (Congress.gov, 2019). The Act relaxed certain distribution rules, and enhanced portability of annuities. It also required benefit statements to include “lifetime income illustrations” meant to help participants understand how their account balances could translate into retirement income.

SECURE also modified the 2008 safe harbor in several ways. To allay plan sponsor fears they could become liable years after including an annuity option, SECURE allowed them to rely on insurance company representations at the time of selection so long as they continued to receive annual representations and did not independently learn of any financial difficulties. These changes, though well-intentioned, still maintained substantial additional employer fiduciary responsibilities compared to other investment options.

SECURE 2.0, enacted in 2022, further attempted to facilitate lifetime income adoption by allowing qualifying longevity annuity contracts (QLACs) within plans and certain types of deferred income annuities in target date funds and qualified default investment alternatives (QDIAs) (Harter, Secrest and Emery, 2025). It also provided additional safe harbors for employers to rely on statements from insurance companies about their financial soundness and compliance with state regulations. However, the Act still required employers to investigate, make judgments about, and potentially be liable for the reasonableness of the features and fees of any guaranteed income product.

Although there are claims that the SECURE Act and SECURE 2.0 safe harbor reforms have resulted in more consideration of annuity options, there is little evidence these changes have led to increased adoption. Businesses still fear fiduciary litigation about the terms of the annuity product or their care in selecting one, risks that they do not take if their plans are limited to mutual funds or ETFs. Since the employee take-up in many plans with an annuity option is low, most companies see no reason to incur any additional fiduciary risk, administrative complexity, or cost at all.

Ongoing efforts to increase use of Guaranteed Lifetime Income

Congress continues to propose additional limitations on employer fiduciary liability. Representatives Norcross (D-NJ) and Wahlberg (R-MI) proposed the Lifetime Income for Employees (LIFE) Act (H.R. 3942), which would both permit annuities to become part of a plan's Qualified Default Investment Alternative (QDIA) and also provide a safe harbor for employers that did so (Congress.gov, 2023). The LIFE Act safe harbor would limit employers' obligations to providing written disclosures, ensuring that the annuity portion was not more than 50% of the account, and ensuring the annuity contract could be rejected without penalty within six months. The LIFE Act has attracted support both from industry and from advocates for reduced federal regulation generally (Mullholland, 2023).

In 2025, the U.S. Department of Labor issued an advisory opinion stating that the Alliance Bernstein Lifetime Income Strategy, incorporating a Guaranteed Lifetime Withdrawal Benefit contract, complied with QDIA safe harbor (U.S. Department of Labor, 2025). It also stated that an employer could, as a fiduciary, transfer some of its fiduciary obligations for selecting and monitoring annuity providers to an investment manager such as Alliance Bernstein so long as it exercised its fiduciary obligations in choosing that investment manager.

The U.S. Department of Labor recently released a proposed rule that, although focused on inclusion of private credit and other “alternative investments,” arguably might affect employer willingness to include annuity options (U.S. Department of Labor, 2026). The proposal provides deference for employers who follow and document the process of deciding whether to include “alternative assets,” but it is not clear whether that definition includes commercial annuities or whether the proposed rule would provide protections beyond those already in effect.

Lifetime income policies in the United Kingdom

Until 2014, DC savers in the U.K. with DC wealth above a certain threshold were required by law to convert a portion of their accumulated savings into a lifetime annuity by age 75 (Banks et al., 2015). The U.K. tax code permitted 25% to be taken as a lump sum tax-free, and the typical annuitization was estimated by one observer at 75%. In what became known as the "pension freedoms" in 2015, the annuitization requirement was eliminated, and annuity purchases fell sharply to roughly 10%, while lump sum withdrawals became the norm. Although the motivations for the “pension freedoms” appear mixed, they appear to have been implemented at least in part in order to increase U.K. tax revenues.

Concerns about whether savers were managing withdrawals sustainably or protecting themselves against the risk of outliving their savings has led the current government to change policy. The Pension Schemes Act requires trustees of defined contribution schemes to make available a "default pension benefit solution" to provide members with a regular income in retirement unless they choose another option (Pension Schemes Act, 2026). Industry providers are now considering a range of qualifying product forms, including guaranteed-for-life annuities and hybrid drawdown/annuity arrangements. (Jadav and McInally, 2026)

The U.K.'s National Employment Savings Trust (NEST) has begun implementing a default strategy that begins in retirement. Its Guided Retirement Fund attempts to maintain a constant payout from retirement through age 85 (National Employment Savings Trust, 2023). NEST intends to combine this fund with a default deferred annuity that takes effect at age 85 (Reeve, 2025). The initial Guided Retirement program, which began in 2020, is the default for retirement age participants with accounts of £10,000 or more. In private correspondence, NEST has stated that there are about 13,000 participants in the current program with an opt-out rate of 28% (of which about half move to another NEST fund).[3]

VI. Approaches for greater use of lifetime income in retirement

Despite repeated efforts, as noted earlier, annuity availability and adoption remain modest.

Expanding the use of lifetime income in retirement plans will require multiple approaches addressing each of the barriers that current policy has not overcome. Specifically:

- Employers must be able to incorporate annuity products into retirement plans without any additional fiduciary risk or obligation relative to mutual funds and ETFs.
- At the same time, these fiduciary obligations must be transferred to and assumed by alternative entities with responsibility over standards to determine acceptable annuity products and terms, and for monitoring providers.
- For individuals, there must be defaults available so that the acquisition of lifetime income does not require financial sophistication, time, or substantial commissions and fees. They must also retain some financial flexibility.

Transferring employer fiduciary responsibility to alternative entities

Despite the good intentions of prior policy efforts, the safe harbors were never safe enough. Annuity products still involve different and greater employer fiduciary obligations than mutual funds and ETFs, where employers are not responsible for the performance of these investments. Businesses still fear fiduciary litigation about the terms of the annuity product or their care in selecting one. Therefore, as a practical matter, most employers will not incorporate annuity products into their plans unless doing so comes with no additional litigation or fiduciary risk.

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Eliminating employer liability for including guaranteed lifetime income options would be a change from the historical ERISA practice but is consistent with many other business risks. Employers pay for employee air travel, yet are not liable if airfare is high, a plane is late, or even if it crashes. Similarly, employers pay for training and education benefits but bear no liability for the reasonableness of the tuition or the quality of the teaching.

There are several ways to eliminate the additional employer liability. The bipartisan LIFE Act would modify U.S. Department of Labor's (DOL) existing Qualified Default Investment Alternative (QDIA) specifically to include lifetime income products. Alternatively, DOL could use its existing broad statutory QDIA authority to broaden the existing safe harbor.

If employers are no longer liable for their choice of annuity options, a different entity or entities must take this role by ensuring that the terms and conditions of the annuities are adequately disclosed, the fees and conditions of the annuity are reasonable, and the issuer is financially sound and going to remain so for decades in the future. In addition, terms for whether retirees can decline the annuity at retirement and/or exit the contract once payments have begun must be determined.

While there are several ways these requirements could be met, we provide a brief summary of potential approaches.

Disclosure and education: The U.S. Department of Labor (DOL) has, in multiple circumstances, specified the terms and forms of disclosure and could do so for annuity contracts as well. For example, to implement the SECURE Act requirement of lifetime income illustrations, DOL published detailed text that most recordkeepers provide to plan participants without any modification. DOL also published required disclosures for participants in 401(k) plans.

Protection against high fees: There are also several approaches that could be used to ensure that fees and conditions are reasonable. First, the DOL could, in consultation with the Department of Treasury, build on its lifetime income illustration standard to create a minimum standard for inclusion of an annuity in an employer plan. The DOL lifetime income illustration standard already takes both interest rates and actuarial tables into account; DOL could add an assumption for a commercial margin to create a minimum payout and require insurers to show compliance. A second approach to assure reasonableness of fees and terms would be to require that plans use a competitive process to procure their annuities. It is also worth noting that the establishment of a lifetime income default would likely reduce costs significantly compared to individually sold lifetime income products.

Protection against insurer failure: There are many safeguards currently in place to ensure the reliability and financial soundness of annuity providers, many put in place during the 35 years since the liquidation of Executive Life. Capital requirements now generally have moved from fixed dollar amounts to take the riskiness of assets into account. Governance and risk management procedures have been strengthened and accounting has been standardized. (National Association of Insurance Commissioners, 2013; Klein, 2012) In addition, the coverage limits of the state guarantee funds that back up insurers have been raised to $250,000 in present value for most annuities. (Hartley, 2024). This suggests that safety and soundness could be protected by limiting plans to annuities from insurers of size that have high ratings and are doing business in multiple states.

Making it easier for retirees to acquire lifetime income through defaults

The prevalence of automatic enrollment into employer-sponsored plans with a voluntary opt-out has increased considerably over the last 20 years. The practice has led to increases in plan participation over the past quarter century and is now legally required for many newly created employer plans.

Both policymakers and researchers have proposed to increase lifetime income in the same way, by establishment of defaults that automatically, unless the retiree chooses otherwise, provide guaranteed lifetime income for a portion of retirement savings (Mitchell, 2025; Horneff et al., 2025; Finke and Toland, 2024). Their rationale is that having lifetime income as a default will overcome the unwillingness to engage in the involved decision making and reduce the high costs of individual purchases of lifetime income contracts. In addition, an automatic process in which more people participate could, via diversification and risk pooling, significantly lower the costs of lifetime income. Estimates of the savings from group-rated institutionally priced annuities versus the individual retail market range from 100 to 200 basis points each year (Walsh, 2022; Institutional Retirement Income Council, 2021).

Importantly, a lifetime income default will be opposed by employers unless the additional employer fiduciary obligation that comes with annuities is eliminated. According to a recent DCIIA survey, only 3% of employers favor a default/opt-out of lifetime income options. This statistic underscores the fact that even a voluntary default arrangement is unlikely to be successful if not accompanied by the transfer of retiree protection obligations described above. Conversations with human resource personnel suggest that if employers were not made liable for the results after retirement, they would be more willing to provide advice and assistance to their employees prior to the retirement.

Advocates have suggested the inclusion of annuities into the Qualified Default Investment Alternative (QDIA), meaning that employers would be permitted to include annuities as a default payout option. This approach could permit inclusion of a lifetime income default without additional employer fiduciary requirements. An additional benefit is that current law gives the U.S. Department of Labor wide latitude in setting the requirements of a QDIA so the Department could develop and modify requirements more quickly than would be possible under a legislative calendar.

Other possible approaches to increase annuitization

There are many other approaches that could be used to increase annuitization, but evidence suggests that they are less likely to be effective.

Use of requirements: Other nations have been willing to require retirement programs and to specify some of the features of those programs. The U.S., by comparison, has not. Congress has generally declined to require employers to offer retirement plans, and declined to require particular types of plans for those employers that choose to do so.

Although there have been multiple proposals over the years for various federal requirements, retirement legislation has historically been required to have a bipartisan consensus and requirements generally do not get the support of employers, workers, recordkeepers, and investment firms. For those and other reasons, a federal requirement for greater use of lifetime income seems unlikely in the foreseeable future.

Financial education: While providing better information and financial education is widely endorsed, there is little evidence that it leads to greater actual use of lifetime income. A 2011 survey for the Society of Actuaries found that greater understanding of annuities increased the reported likelihood that pre-retirees would buy an annuity but had no effect on those already retired (DiCenzo et al., 2011). Other work on retirement planning more generally finds that information from online calculators tend to be complements to financial knowledge rather than substitutes (Goda et al,. 2023).

Financial incentives: Although financial incentives have been introduced to encourage both individual and employer actions to facilitate increased savings, and in principle could be used to encourage the offering and take-up of guaranteed lifetime income options, the evidence that they change behavior is weak. Bloomfield, Goodman, Ramnath, and Slavov (2025) found that only around 7% of eligible employers started plans even after the SECURE Act and SECURE 2.0 substantially increased the number of financial incentives. Their conclusion was that "the startup credit's influence on employers is modest at best, calling into question the effectiveness of current tax-based strategies to expand [retirement plan] coverage" (Bloomfield et al., 2025).

Furthermore, the competition for financial incentive dollars within typical tax legislation means that an annuity incentive would have to compete with expansions of existing tax incentives, each of which already has a constituency. Since annuity products are offered in competition with the far more widely established mutual funds and ETF’s, the companies that dominate retirement investing are unlikely to favor tax incentives solely for insurance products.

VII. Conclusion

The shift from traditional defined benefit pensions to defined contribution retirement plans has fundamentally altered the retirement landscape in the United States. One of the most significant consequences of this transition has been the sharp decline in guaranteed lifetime income available to retirees beyond Social Security. Analysis of Health and Retirement Study data reveals that the share of income from annuitized sources for Americans 65 and older declined from just over half in the early 2000s to approximately 43% by 2022, with private annuities playing a minimal role.

As the population ages and more individuals rely exclusively on defined contribution plans for retirement income beyond Social Security, the need for effective lifetime income solutions becomes increasingly urgent. Without policy intervention, the trend toward a smaller share of income from guaranteed sources will likely continue, leaving future retirees more exposed to longevity risk and the uncertainties of very old age.

Current policy approaches have not substantially changed this reality. Federal policies dating back to 2006 have attempted to encourage the inclusion of lifetime income options in defined contribution plans through safe harbor provisions and disclosure requirements, yet fewer than 10% of plans offer in-plan annuities and uptake among participants who have access remains minimal. The limited effectiveness of these policies suggests that removing legal barriers alone is insufficient without addressing plan sponsor concerns, participant understanding, and market structure issues.

Meaningful progress will likely require a comprehensive approach that addresses multiple barriers simultaneously: making the conversion of savings to guaranteed lifetime income an automatic default while preserving retirees' flexibility, protecting retirees through safeguards rather than the ability to sue their employer if the guaranteed income provider fails to deliver, and ensuring that plans can incorporate lifetime income without greater regulatory and fiduciary obligations.

Successful reform will require coordination among policymakers, plan sponsors, financial services providers, and researchers to develop and implement strategies that address the multiple barriers currently limiting annuitization while respecting legitimate diversity in individual circumstances and preferences.

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Technical Appendix

This appendix provides additional details on the data sources, variable construction, and methodological choices used in the analysis of retirement income in the Health and Retirement Study (HRS) presented in this paper.

Data source and sample construction

The analysis uses data from the HRS, a longitudinal survey of Americans over 50 conducted by the University of Michigan with support from the National Institute on Aging. The HRS has been fielded biennially since 1992 and provides detailed information on income, assets, health, employment, and family structure. This analysis uses data from survey waves 2000 through 2022, the most recent year available at the time of analysis.

The sample is restricted to individuals 65 and older at the time of each survey wave. This age restriction focuses the analysis on individuals who have reached traditional retirement age and are likely to be drawing on retirement resources. The HRS uses a complex sampling design with oversampling of certain populations, and all statistics presented in the paper are weighted using HRS-provided respondent-level weights to produce nationally representative estimates.

Income measurement and variable construction

Measuring income in retirement presents both conceptual and practical challenges. The appropriate definition of "income" depends on the purpose for which it is used. Tax-based measures such as adjusted gross income (AGI) are often used to determine eligibility for government programs but exclude many non-taxable sources, including most Social Security benefits, and thus understate economic resources for retirees. Broader income concepts that include other non-cash components might provide a more comprehensive measure of economic resources but are more difficult to produce and do not necessarily indicate an individual's purchasing power.

Survey-based measures of income may vary in what components are considered income. For instance, the Current Population Survey's Annual Social and Economic Supplement (CPS ASEC), which forms the basis of many published statistics of the income of Americans, includes regular withdrawals from IRAs and 401(k)s, but not irregular withdrawals, overlooking a potentially important source of income for retirees. Comparisons between survey reports and tax data suggest that limiting to regular withdrawals misses a substantial share of actual retirement distributions. In addition, underreporting of income is a well-documented issue in household surveys, particularly for income sources that are irregular, complex, or received in lump sums.

Reported withdrawals from IRAs and defined contribution plans in the HRS are designed to capture both regular and irregular withdrawals, in contrast to those reported in the CPS ASEC. However, the HRS has made a series of changes in the survey methods over time meant to provide a more comprehensive understanding of the status of retirement plans across current and former employers that impacted the measurement of defined contribution withdrawals. Thus, it is possible that defined contribution withdrawals during the early part of our time period are underreported.

Our measure of annual money income includes the following components:

- Earnings from work: Wages, salaries, bonuses, overtime, tips, and commissions from all employment.

- Withdrawals from IRAs and defined contribution plans: Regular and irregular distributions from individual retirement accounts, 401(k) plans, 403(b) plans, and similar tax-advantaged retirement savings accounts. The HRS made methodological changes over the study period to improve capture of these withdrawals, particularly irregular distributions.

- Business and capital income: Rental income, dividends, interest, royalties, self-employment income, and trust income.

- Other income: Veterans benefits, unemployment insurance, workers compensation, disability insurance, Supplemental Security Income, other government transfers, insurance payouts, alimony, and reimbursement for expenses.

- Defined benefit pension income: Periodic payments from employer-sponsored traditional pension plans, including those from current and former employers.

- Social Security benefits: Old-age, survivors, and disability insurance benefits from the Social Security Administration.

- Private annuity income: Payments from individually purchased annuities and annuities not provided through employer pension plans.

All income amounts are converted to constant 2024 dollars using the Consumer Price Index for All Urban Consumers (CPI-U-RS) to account for inflation over the study period. To limit the influence of outliers and reporting errors, the top 0.5% of observations for each income source are topcoded at the 99.5th percentile value for that source.

Classification of annuitized income

For purposes of this analysis, annuitized income is defined as income from sources that provide guaranteed lifetime payments. This includes defined benefit pension income, Social Security benefits, and private annuity income. These sources share the characteristic that they continue for the lifetime of the recipient (and in some cases a surviving spouse) regardless of how long the individual lives, providing insurance against longevity risk.

Income from IRAs and defined contribution plans is classified as non-annuitized even when taken as regular periodic withdrawals, as these payments are not guaranteed for life and depend on the remaining account balance. Similarly, earnings, business and capital income, and other income sources are classified as non-annuitized.

Income quintile construction

Figure 4 in the main text presents income by quintile based on pre-retirement income. Quintiles are constructed using average total income during ages 50 to 65 for each individual in the sample. Quintiles are based on a pooled sample from 1992 to 2022. We use respondent-level population weights as given in the RAND files and do not normalize the weights across years. This approach classifies individuals based on their economic position during their peak earning years rather than their retirement income, which may be affected by annuitization decisions themselves. Individuals are assigned to quintiles based on their position in the distribution of pre-retirement income across all individuals in the sample, and this classification remains fixed for all observations of that individual in the age range of 65 and older.

Limitations and measurement issues

Several limitations affect the measurement of retirement income in the HRS and should be considered when interpreting results:

Survey underreporting: Like all household surveys, the HRS is subject to underreporting of income, particularly for complex or irregular sources. Comparisons with administrative data suggest that certain income sources may be understated, though the magnitude varies by source.

Changes in survey methodology: The HRS has made improvements to its measurement of retirement account withdrawals over time, which may create discontinuities in the time series. Early waves may understate DC withdrawals relative to later waves.

Exclusion of in-kind benefits: The income measure does not include the value of in-kind benefits such as Medicare or Medicaid health coverage, which constitute substantial economic resources for many older Americans.

Difficulty distinguishing annuities from withdrawals: In some cases, it may be difficult to distinguish between true annuity payments and regular systematic withdrawals from retirement accounts, potentially affecting the classification of income as annuitized versus non-annuitized.

Treatment of joint accounts: For married couples, income attribution decisions may affect measured individual income levels, though this is less problematic when analyzing household-level income.

Despite these limitations, the HRS provides the most comprehensive nationally representative data available on the income sources of older Americans and their evolution over time. The trends and patterns identified in this analysis are robust to alternative measurement choices and consistent with findings from other data sources where available.

Data from figures

TABLE 1

Annual income by source, 2000–2022

Income Source (USD)							
					Annuitized Sources		
Year	Earnings	IRAs + DCs	Business + Capital	Other	DBs	Social Security	Annuities
2000	5,170	2,228	12,697	3,736	8,673	15,871	1,079
2002	5,565	2,220	10,725	3,108	8,811	16,404	1,068
2004	6,865	2,382	10,322	4,198	9,273	16,444	1,203
2006	6,935	2,515	11,016	3,789	8,721	16,286	1,348
2008	8,046	2,883	13,289	3,876	8,493	16,150	1,135
2010	8,058	2,583	10,097	4,688	7,709	17,083	1,225
2012	9,133	2,976	10,699	3,768	9,090	16,698	953
2014	10,493	3,852	11,052	5,241	9,437	17,170	1,124
2016	11,850	4,583	12,038	6,279	9,738	17,402	1,132
2018	11,989	5,071	12,109	5,744	9,450	17,215	1,517
2020	12,682	5,220	12,128	4,744	8,905	17,086	1,330
2022	11,469	7,071	11,488	6,793	9,289	17,518	1,364

Source: HRS

Note: Sample includes adults aged 65+. Income is converted to 2024 dollars using the CPI-U-RS series. Other income includes income from unemployment insurance and workers compensation, Supplemental Security Income and Disability Insurance, other government transfers, and other household income. Business and capital income includes any income from a business, self-employment earnings, income from rent, dividend and interest income, income from trust funds or royalties, and income from any other assets. Household income is allocated entirely to the individual if the respondent is single or widowed, and is split between the respondent and spouse if married. Income for a given source is top-coded at the top 1 percent for people ages 65+ in that year receiving any income from that source. See Technical Appendix for additional information.

TABLE 2

Annual income by source and age, 2000–2022

	Income Source (USD)						
					Annuitized Sources		
Ages	Earnings	IRAs + DCs	Business + Capital	Other	DBs	Social Security	Annuities
65-69	20,410	3,517	13,567	6,599	8,261	14,410	940
70-74	8,459	5,137	11,127	4,861	10,095	18,422	1,144
75-79	3,615	4,158	10,570	3,890	9,909	17,891	1,291
80-84	1,585	3,361	9,770	3,132	8,831	17,666	1,530
85+	632	2,430	10,259	3,488	7,407	17,502	1,688

Source: HRS

Note: Sample includes adults aged 65+. Income is con Sample includes adults aged 65+. Income is converted to 2024 dollars using the CPI-U-RS series. Other income includes income from unemployment insurance and workers compensation, Supplemental Security Income and Disability Insurance, other government transfers, and other household income. Business and capital income includes any income from a business, self-employment earnings, income from rent, dividend and interest income, income from trust funds or royalties, and income from any other assets. Household income is allocated entirely to the individual if the respondent is single or widowed, and is split between the respondent and spouse if married. Income for a given source is top-coded at the top 1 percent for people ages 65+ in that year receiving any income from that source. See Technical Appendix for additional information.

TABLE 3

Annual income by source and income quintile, 2000–2022

	Income Source (USD)						
					Annuitized Sources		
Quintile	Earnings	IRAs + DCs	Business + Capital	Other	DBs	Social Security	Annuities
Bottom	1,087	619	2,327	2,817	1,593	11,982	198
Second	4,331	1,554	4,552	2,708	4,404	15,288	678
Middle	8,506	3,069	7,065	4,428	8,463	17,527	908
Fourth	14,176	5,388	11,965	6,727	14,343	18,965	1,183
Top	33,937	12,153	35,850	10,961	18,447	20,204	2,629

Source: HRS

Note: Sample includes adults aged 65+. Income is converted to 2024 dollars using the CPI-U-RS series. Other income includes income from unemployment insurance and workers compensation, Supplemental Security Income and Disability Insurance, other government transfers, and other household income. Business and capital income includes any income from a business, self-employment earnings, income from rent, dividend and interest income, income from trust funds or royalties, and income from any other assets. Household income is allocated entirely to the individual if the respondent is single or widowed, and is split between the respondent and spouse if married. Income for a given source is top-coded at the top 1 percent for people ages 65+ in that year receiving any income from that source. Income quintiles are based on average annual individual income for adults between the ages of 50 and 65. See Technical Appendix for additional information. .

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