

The Retirement Income Dilemma

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



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In brief:

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

The Retirement Income Problem

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

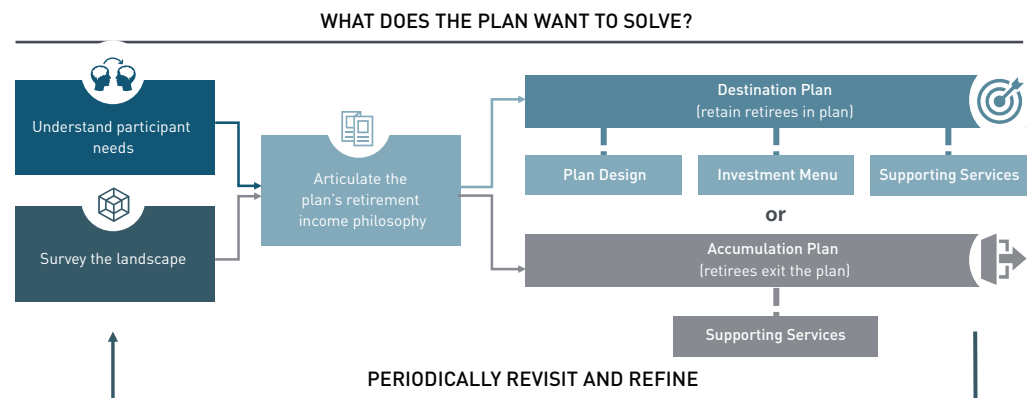
Exhibit 1: Demographics are Driving the Retirement Income Discussion



Source: ¹ Bureau of Labor Statistics, Civilian labor force by age, sex, race and ethnicity 6 September 2023. ² Social Security Administration Total Social Security Retirement Insurance Applications (July 2019 – June 2024). ³ Thinking Ahead Institute Global Pension Assets Study 2024. ⁴ Social Security Administration 2024 Annual Report, May 2024. ⁵ Social Security Administration, Fact Sheet 2024 Social Security Changes. ⁶ MFS 2024 Global Retirement Survey. For survey methodology see page 7.

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

Exhibit 2: Retirement Income Plan Road Map



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

If, for example, the philosophy points to a Destination Plan, the sponsor can take steps to establish the proper plan design, determine which options should be available in the investment menu and implement the supporting services needed to help participants retire and stay in the plan. With the Accumulation Plan, the sponsor offers supporting services to help retirees transition into retirement and, potentially, out of the plan.

There is no right or wrong answer, but we think this approach is a useful framework for sponsors to address the retirement income challenge and navigate the often-confusing retirement income landscape.

State of the Retirement Income Landscape

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

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

However, it's not all good news. The Social Security Trust Fund is expected to be depleted by 2035 when it's estimated that tax income will fund only 83% of scheduled benefits.⁷ Social Security forms the retirement income foundation for most Americans and any shortfall could have wide ranging implications for how and when employees retire, potentially creating challenges to an employer's ability to effectively manage their workforce. At present, there are currently no meaningful legislative initiatives to address this critical issue.

⁷Social Security Administration 2024 Annual Report.

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

Exhibit 3: Range of Retirement Income Solutions

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

*Guaranteed Minimum Withdrawal Benefit.

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Some key takeaways from Exhibit 3 include:

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





Lessons Learned (So Far)

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

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

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

Exhibit 4: Lesson One: Retirement Concerns Are Universal

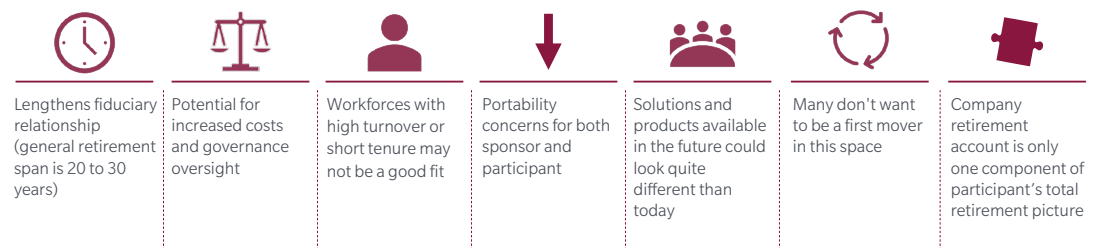
	 Expect retirement to be a more gradual transition	 Feel it is important to consolidate retirement assets into as few accounts as possible	 Not confident they will retire at desired age	 Feel they will need to save more than they planned	 Feel they will need to work longer than they planned
US	61%	84%	64%	74%	59%
Canada	66%	85%	70%	73%	58%
UK	68%	83%	74%	72%	64%
Australia	63%	88%	77%	75%	60%

Source: MFS 2024 Global Retirement Survey. Q: Do you expect your retirement to be... This question was only posed to respondents age 45+. : How important is it for you to be able to consolidate all retirement assets into one or as few accounts as possible? Q: How confident are you that you will be able to retire at the age you want to? Q: How much do you agree with the following statements regarding your outlook on retirement saving and investing over the past year? ... I will need to save more than I planned ... I will need to work longer than I planned.

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

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

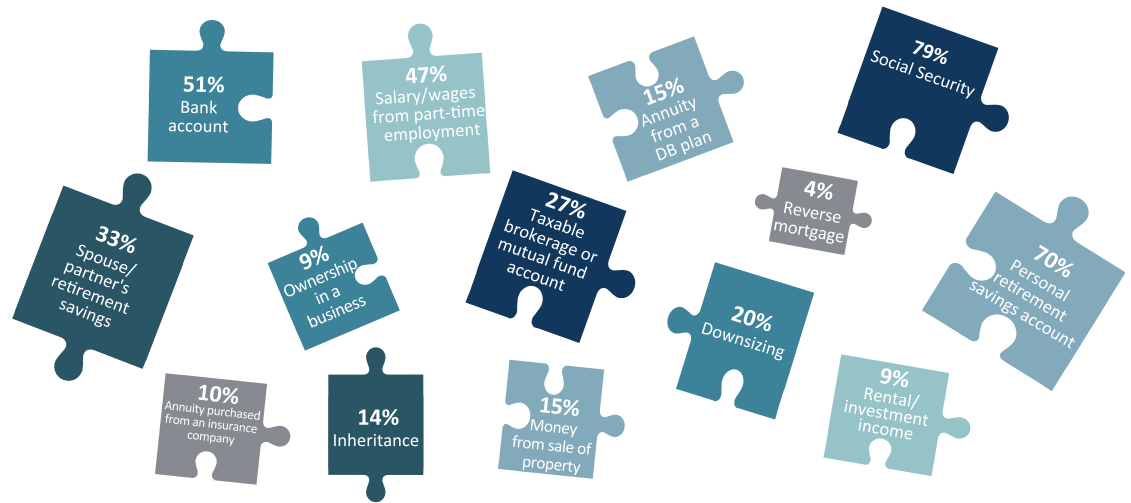
Exhibit 5: Lesson Two: Retirement Income Presents Potential Drawbacks



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

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

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

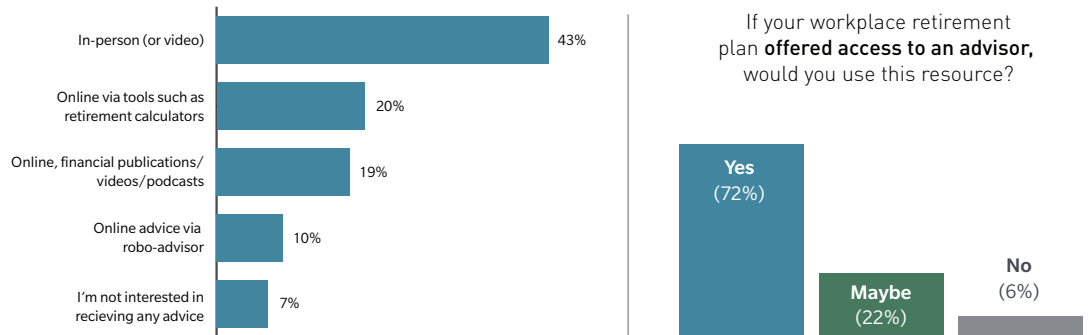


Source: MFS 2024 Global Retirement Survey, US respondents, Q: Select all potential sources of retirement income in retirement. This question was only posed to respondents age 45+. Respondents could choose more than one response so responses will not total to 100%.

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

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

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



Source: MFS 2024 Global Retirement Survey, US respondents. Left Q: How do you prefer to receive advice related to retirement saving and planning? “In-person” can be a video call. Right Q: If your workplace retirement plan offered access to an advisor/planner to help with planning for retirement, would you use this resource?

This point of access is important. We aren't suggesting that plan sponsors directly provide advice. Rather, sponsors have an opportunity to position the plan as a resource from which participants can access advice,

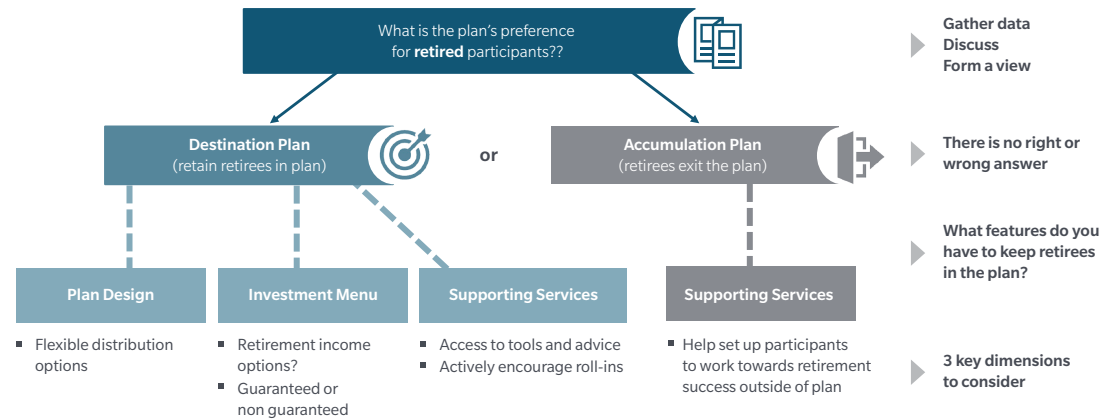


education and tools. That access can be affiliated with the plan’s recordkeeper, managed account service or through an independent firm.

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

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

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



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

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

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

Conclusion



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

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



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

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



Rhetoric versus reality

- There is a gap between what the market is talking about and where the industry is today.
- Legislation has encouraged in-plan annuities, and plan sponsors are starting to take steps toward adopting certain solutions, but participants have yet to show meaningful interest in these solutions.



Plan sponsors could be an important part of the solution

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

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Survey Methodology:

Audience: Ages 18+, employed at least part-time. Active workplace retirement plan participants/members and retirees in the US, Canada, UK, and Australia.* Data weighted to mirror the age/gender distribution of the workforce in each country. **Methodology:** Mode: 15 minute online survey. MFS not revealed as the sponsor. Field period: March 8 – April 13, 2024. **Key Topics of Inquiry:** Impact of market events, retirement confidence and advice, target date funds, retirement income and sustainability.

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