corebridge financial

Helping employees navigate a path to financial security in retirement

Actionable insights and highlights from "The Peak 65® Zone Is Here—Creating a New Framework for America's Retirement Security," published by the Alliance for Lifetime Income's Retirement Income Institute.[1]

In the middle of the 20th century, a historic boom in births created the Baby Boomer generation. Now, the aging of those Baby Boomers is creating another historic boom: More Americans will turn 65 this year than ever before. In fact, it's estimated that over 4.1 million Americans will turn 65 each year through 2027.[1,2]

As we usher in this potential tidal wave of retirees—a period dubbed Peak 65®—are these millions of Boomers well-prepared to fund and enjoy a secure retirement for as long as they live?

What can employers do to help make life-long financial security a reality for their employees?

The Alliance for Lifetime Income says the changing face of retirement makes it imperative that households forge a path to protected income guaranteed to last throughout retirement.

In the battle for workforce talent, employers can attract, retain and motivate human capital by leading the way in helping their employees take action to plan for their long-term financial security.

More than 11,200 Americans will turn 65 every day through 2027[1,2]

Proud member of Alliance for Lifetime Income

Peak 65® is a registered trademark of the Alliance for Lifetime Income.

The changing retirement landscape

Given longer life spans, today's workers may spend 30 or more years in retirement. America's retirement and social insurance programs were not designed for lives that may extend to 90 or even 100 years old. Therefore, employees will have to think through financial strategies and solutions to help ensure they don't outlive their money.

The need is clear: An index created by the Center for Retirement Research at Boston College estimates that approximately half of U.S. households are at risk of not having enough money to maintain their standard of living in retirement.[1,3]

Rather than just aiming to accumulate a level of assets they hope will last a lifetime, individuals should consider ways to generate a steady, guaranteed income stream throughout retirement, no matter how long they live.

Today there are three types of protected lifetime income available in the U.S.—pensions, Social Security, and annuities. Increasingly, many retirees cannot rely on a pension or Social Security to fully fund their retirement lifestyle. Let's look at the pressures on these two retirement vehicles.

91% of investors say it is important that their retirement income plan provides a guaranteed income payment or principal protection.[4]

Decline in traditional defined benefit pensions

One of the most dramatic changes in the way that Americans plan for retirement is the significant decline in employer-provided defined benefit pension plans, which provide defined income in retirement. The shift to workplace savings-based plans such as 401(k)s and 403(b)s also puts more responsibility for retirement planning in the hands of workers.

Corebridge's 2023 survey of public sector workers finds only 41% say they expect to fund retirement with their public pension, versus 73% pointing toward their retirement savings plans.

As noted by the Alliance for Lifetime Income:

"When people in the Peak 65 generation entered the labor market in the early 1980s, approximately 60% of private sector workers relied on the protected income offered through a pension plan as their only retirement account, as compared to 4% in 2020.[1,5] According to data released in 2023 by the U.S. Bureau of Labor Statistics, only 19% of all workers participate in a pension plan."[1,6]

Social Security is just one part of the solution—and more education is needed

As a result of the decline in defined benefit pension plans, more Americans are entering retirement with Social Security as their only source of protected income.

However, Social Security was never intended to serve as the sole source of income in retirement. It was designed to replace about 40% of income in retirement for the average worker,[1,7] and today it's replacing about 37% for the average worker.[1,8] This could leave those who are relying too heavily on Social Security exposed to financial risk.

In addition, many Americans are claiming Social Security benefits before their full retirement age, missing out on larger payouts for the rest of their lives.

According to the Alliance for Lifetime Income:

"Though a large body of research evidence has confirmed that it is financially advantageous for most Americans to wait beyond the EEA (early eligibility age) to claim Social Security,[1,9] most individuals continue to claim early."[1,10]

Finally, Social Security faces financial shortfalls. According to the Social Security Trustees, if steps are not taken to reform the program, the trust funds could be depleted and unable to finance full benefits as early as 2034, less than a decade away.[11]

The aging of America and the growing number of Peak 65 retirees also mean the ratio of workers paying into the system through payroll taxes versus retirees receiving benefits will decline, stressing Social Security's finances.

Unless the federal government acts, Social Security might only be able to pay 77% of scheduled benefits when the retirement trust fund runs out of assets.[11] Even if the government does act to reform the program, the solution could involve structural changes that reduce benefit levels.

That brings us to the third and final source of a robust, fully protected income stream throughout retirement—annuities.

Only 16% of those in the Peak 65 Zone plan to defer claiming Social Security benefits until age 70—when they could collect the maximum benefit, which is 24% higher than benefits at full retirement age.[12]

Annuities are designed to offer reliable, protected retirement income that doesn't run out

As life expectancy after retirement increases, it becomes imperative that individuals properly allocate their resources so they do not exhaust them during their lifetime. Converting a portion of retirement assets to lifetime income through an annuity can help ensure that households have a constant stream of protected income that will last for life.

For individuals seeking to replicate the lifetime payment guarantees of a pension, using annuities on top of Social Security can help them create their own "personal pension."

Many of today's annuities offer growth potential in addition to the security of protected lifetime income. Some annuities also offer principal protection, which can relieve the stress and worry of market downturns, changing interest rates, or other economic challenges. Annuity guarantees are backed by the claims-paying ability of the issuing insurance company.

72% of people would feel more confident if they had a source of guaranteed monthly income beyond Social Security.[13]

93% of those who protected part of their portfolio by purchasing an annuity in 2022 are satisfied with their 2022 investment choices, and 44% are extremely satisfied.[14]

Which type of annuity might work for an individual depends on their financial situation, personal priorities, and retirement income strategy.

For example, since the amount of monthly Social Security benefits that a person receives depends on the age at which they claim, they could use an annuity to create a "bridge" to Social Security. If they retire before Social Security's full retirement age, they could purchase an annuity to provide immediate protected lifetime income, enabling them to wait to file for Social Security later and increase their monthly Social Security benefits for life.

SECURE Act aims to improve retirement outcomes

Recognizing the growing need for lifetime income protection, the U.S. government has taken steps to open up greater access to lifetime income solutions.

The bipartisan SECURE (Setting Every Community Up for Retirement Enhancement) Act became law in 2019. Among its provisions, the law makes it easier for retirement plan sponsors to offer an annuity option in a defined contribution plan. According to the report from the Alliance for Lifetime Income, research demonstrates that annuitization in defined-contribution plans improves retirement welfare.[1,15]

SECURE 2.0—follow-up legislation signed in 2022—aims in part at helping individuals preserve retirement income for longer. This was done by increasing the mandatory age for Required Minimum Distributions and increasing the amount that individuals can move into a qualified longevity annuity contract (QLAC).

The law also eliminated the partial annuitization penalty. For background, prior to SECURE 2.0, when a retirement account held an annuity that has been annuitized, RMD requirements were applied separately to both the annuity and the rest of the account, which could trigger larger RMDs than it would if they were treated as one. Now, individuals can aggregate annuities and other holdings for purposes of determining RMDs, which can lower the distribution amount, reduce federal income tax, and allow savings to last longer.

77% of individuals aware of the SECURE Act say employers should offer protected retirement income (annuities) in 401(k) and 403(b) employer-sponsored retirement plans.[14]

Important implications for employers

As Americans increasingly save for retirement in defined contribution plans, protected income solutions are more important than ever. Even though annuities can solve many of the complex problems and risks that people face in retirement, many people still are not aware of what annuities are, how they work, and the important role they can play when it comes to their income in retirement. Plan sponsors can help narrow this knowledge gap.

66% of Americans fear running out of money in retirement more than they fear death.[13]

A survey by the Alliance for Lifetime Income found that 61% of non-retired Americans say they don't understand annuities well, illustrating the need for more education and communications by employers, providers and financial professionals.[16]

More employers are embracing the need for a new retirement security framework by offering protected income strategies in their retirement plans and reframing their employee communications and education efforts to encompass the need for lifetime income solutions.

Securing lifetime income is a priority for 92% of Americans, with 65% saying it is a high priority.[13]

Taking action today

With America's Peak 65 retirement surge under way, the future financial security of millions of Americans—and the generations that follow—may very well depend on the actions they take now to ensure they don't outlive their money.

Employers have a unique opportunity to help their employees take action for the future and give them tools, resources and benefit plan options to mitigate the risk of financial insecurity in retirement. Here are several important steps that plan sponsors can take with their plan providers to help employees prepare for lifetime income:

- **Increase your employees' financial literacy**
- **Broaden communications focus from accumulation to lifetime income**
- **Help employees understand the role of Social Security**
- **Provide annuity options for lifetime income in your retirement plan**

For your employees, building tomorrow's financial security starts with understanding today's sources of protected lifetime income that will last for the rest of their lives. Learning more about annuities and protected lifetime income is an essential next step.

Working with you to help move financial futures forward

Corebridge Financial is a leading provider of retirement solutions and insurance products in the U.S. We proudly partner with financial professionals and institutions to make it possible for more people to take action in their financial lives for today and tomorrow. At Corebridge, we believe no one achieves a financially secure future by accident—great things can happen when people take action. Action is everything.

Action today can lead to great things tomorrow. **Action is everything.**

Sources:

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Annuities are long-term insurance products designed for retirement. In the growth stage, they can help build assets on a tax-deferred basis. In the income stage, they can provide protected lifetime income through standard or optional features. A contract can be annuitized in order to receive lifetime income payments for no additional cost if a lifetime annuity option is chosen. Income protection features may be optional or standard. Additional fees, age restrictions, withdrawal parameters, and other limitations apply. With variable annuities, certain investment requirements also apply.

Early withdrawals may be subject to withdrawal charges. Partial withdrawals may reduce benefits available under the contract, as well as the amount available upon a full surrender. Withdrawals of taxable amounts are subject to ordinary income tax and, if taken prior to age 59½, an additional 10% federal tax may apply. An investment in a variable annuity involves investment risk, including the possible loss of principal. The contract, when surrendered, may be worth more or less than the total amount invested.

All contract and optional benefit guarantees, including any fixed account crediting rates or annuity rates, are backed by the claims-paying ability of the issuing insurance company. They are not obligations of or backed by the distributor, insurance agency or any affiliates of those entities and none makes any representations or guarantees regarding the claims-paying ability of the issuing insurance company. Products and features may vary by state and may not be available in all states. The purchase of an annuity is not required for, and is not a term of, the provision of any banking service or activity.

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