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The Arrival of Target Date Funds with Annuities

The production of “Income Target Date Funds” has grown exponentially as participants seek retirement plans that offer a guaranteed paycheck. Since 2020, some Target Date Fund solutions have incorporated guaranteed income features, offering participants more predictability in their future payments.

What is a Target Date Fund (TDF) with an Annuity?

TDFs with annuities provide a balanced investment strategy with reduced equity exposure as retirement approaches (similar to other TDFs) while guaranteeing income over a specified time horizon. This approach fosters investment growth while ensuring the security of guaranteed payments throughout retirement. It addresses concerns about outliving your retirement savings.

Advantages and Drawbacks:

Advantages

- **Security for Participants:** Guaranteed income provides financial security without exposure to market volatility and the risk of outliving one’s savings.
- **Simplified Choices:** Target Date Funds are popular in retirement due to their “set-and-forget-it” nature. The addition of a guaranteed income component eliminates further income concerns.
- **Institutional Pricing:** Adhering to ERISA regulations, Target Date Funds with an Annuity can be cost-effective for participants due to their institutional pricing.

Drawbacks

- **Portability:** If a participant changes jobs or recordkeepers, the new recordkeeper might not offer the same annuity plan or an annuity at all.
- **Perception:** Annuities have been unattractive due to high fees, so participant education is crucial.
- **Regulations:** Designed to operate within ERISA, these funds require careful planning and management.

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Despite the potential drawbacks, both Fidelity Investments and Empower have announced future plans to offer annuities in their retirement plan programs. According to a study by Goldman Sachs Asset Management, 70% of 34 insurers now offer an annuity option. The popularity of TDFs with an annuity element could catapult them to the top of the retirement industry, providing investors with guaranteed income, and helping Americans save for the future.

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