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EXECUTIVE THOUGHT LEADERSHIP

Interview with

Brendan McCarthy

(Retirement) Ready or Not?

In a generation's time, the nation's private retirement system pivoted from an emphasis on traditional pension plan designs to a broader reliance on defined contribution designs, notably 401(k) plans. During that time many of the best aspects of defined benefit designs have been imported to defined contribution designs—save one: retirement income. Strikingly, even as a growing number of working Americans move into retirement, in-plan retirement income solutions have yet to be addressed by most of the very plans that Americans rely upon for retirement.

To consider the impact of these trends—and some new potential solutions—

NAPA-Net connected with Brendan McCarthy, Head of Nuveen Retirement Investing.

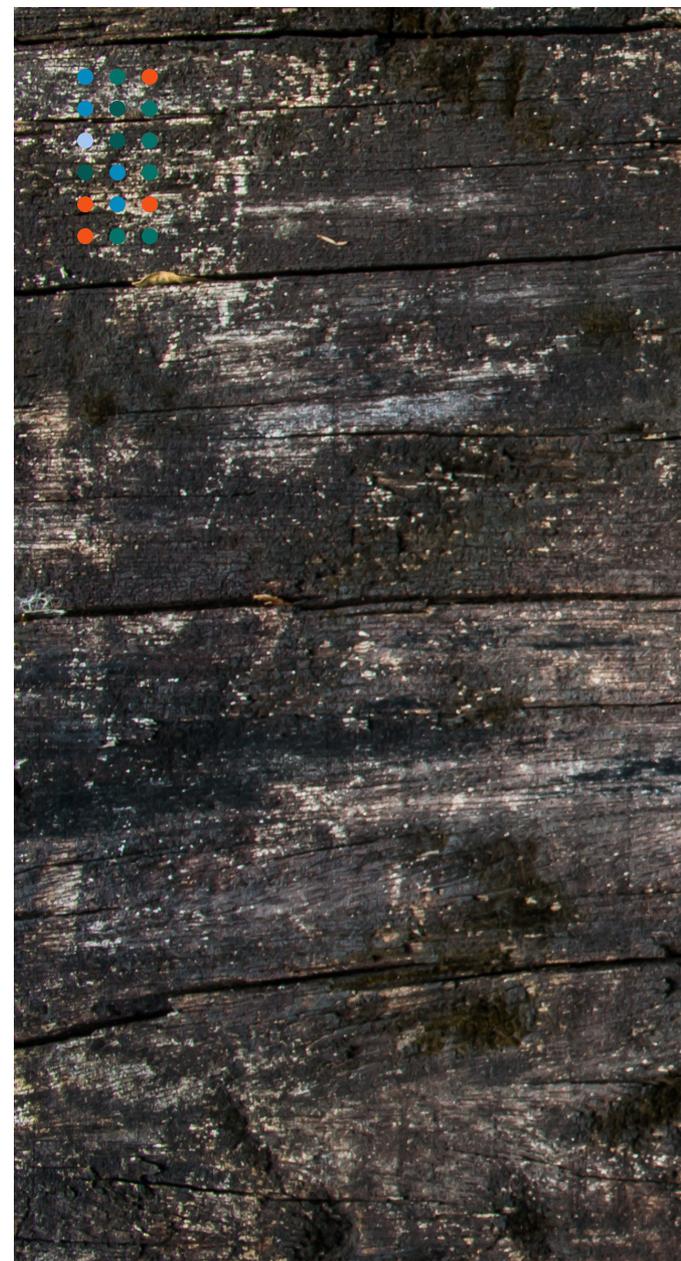
NN: RETIREMENT—AND RETIREMENT PLANS—HAVE UNDERGONE SIGNIFICANT CHANGE IN RECENT YEARS. WHAT DOES THAT MEAN FOR RETIREMENT PLANNING?

MCCARTHY: Today only 6% of private firms offer a traditional defined benefit pension plan. As a result, we're now looking at the first generation of corporate American workers heading into retirement without any form of guaranteed income, other than their Social Security. Worse, it's a generation that is living longer—a 65-year-old today has a 50% chance of living to age

90. Little wonder that the possibility of a large percentage of American's outliving their retirement savings is a major concern among those in Washington, D.C.

NN: ARE THEY DOING ANYTHING ABOUT THOSE CONCERNS?

MCCARTHY: The shift in emphasis from defined benefit plans—where lifetime income options like annuities were typical—to defined contribution plans that lack such features—creates a huge gap in retirement preparations. To remedy this, lawmakers have been looking at shifting the emphasis from being focused solely on tax preferential savings plans into true retirement plans—plans that can provide employees a





portion of their retirement in the form of guaranteed lifetime income—similar to what previous generations enjoyed through a corporate pension plan.

They're doing that through legislation that not only removes the traditional restrictions, but that encourages the use of annuities/lifetime income solutions inside of 401(k) plans. This began with the December 2019 passage of the SECURE act, which provides plan sponsors with additional safe harbor protections for utilizing annuities as part of 401(k) plans, and is continuing with further provisions in SECURE 2.0 which has passed the U.S. House of Representatives, as well as the LIFE Act which was recently introduced in Congress.

NN: WHERE DO YOU SEE THESE TRENDS LEADING?

MCCARTHY: Eventually, we see this becoming a “bifurcation” of our market—with plan sponsors considering two types of 401(k) plans over the next decade. The first option would be traditional 401(k) plans, no different than they are today, that act purely as tax preferential savings plans and offer their employees a lump sum amount at retirement that they may redeem in full or systematically until it runs out.

A second, new option would be a 401(k) plan that provides the participant with the option of converting a portion of their retirement savings into guaranteed lifetime income. This

would provide 401(k) participants the ability to supplement their monthly Social Security in order to attain a lifetime income amount that meets their essential living expenses in retirement. The remainder of their 401(k) balance can continue to be invested to cover any discretionary needs they may have in retirement. As the market shifts into two plan types, we see the latter being viewed as superior to the former as it acts more like a true retirement plan, providing great retirement security to its participants—a retirement plan that actually helps workers prepare for retirement income. **NNTM**

