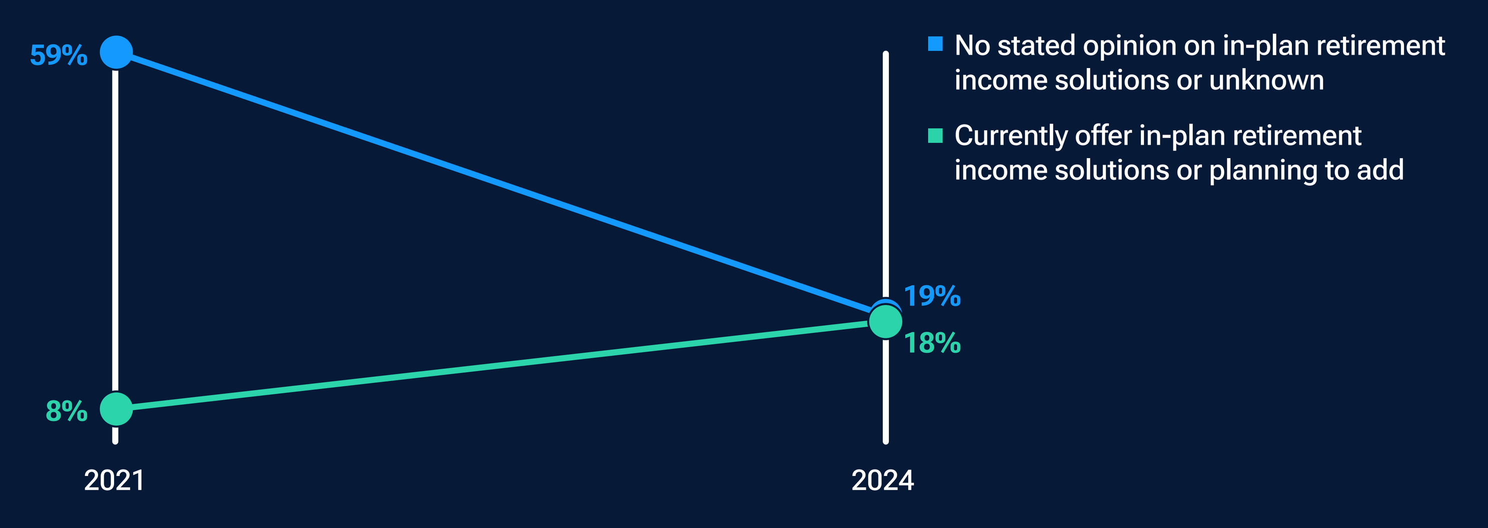
T. Rowe Price

Drawdown with annuities can balance retirement income and liquidity

Annuities as income solutions could help create a paycheck-like experience in retirement.

More plan sponsors are taking a stance on retirement income

Data show that plan sponsors are evolving from an exploratory mindset to a more decision-oriented posture when it comes to in-plan retirement income solutions.



Source: T. Rowe Price, 2024 Defined Contribution Consultant Study and 2021 Defined Contribution Consultant Study. See Appendix for additional detail.

Why the renewed interest in annuities?

Longevity risk

Life expectancy at age 65 increased 15% from 1980 to 2022. The fear of running out of money is among the biggest participant concerns.

Sources: CDC/National Center for Health Statistics and T. Rowe Price 2024 Exploring Individuals' Retirement Income Needs and Preferences Study. See Appendix for additional detail.

Decline in defined benefit (DB) plans

In 1975, DB plans covered 3X private sector workers as defined contribution (DC) plans. In 2023, DC plans cover 4.5X private sector workers as DB plans.

Source: United States Department of Labor.

By the numbers: Annuities could be a better match with drawdown withdrawal strategies

Retired Participant A

Endowment withdrawal strategy with immediate annuity

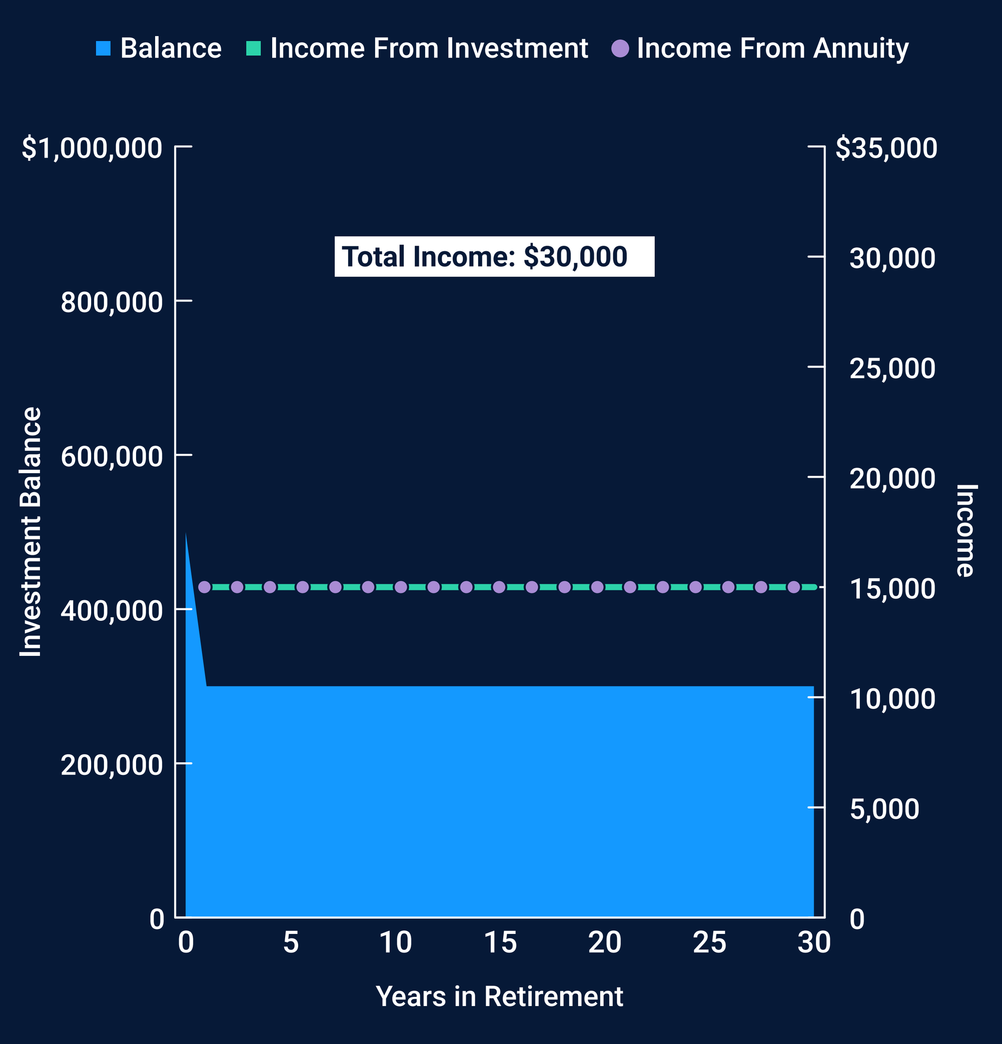
Hypothetical Illustration:

Goal: To generate $30,000 annual income from $500,000 in retirement savings

Allocation Assumptions:

- 60% in an endowment strategy, where income is derived from portfolio returns and the principal is mostly preserved—5% rate of return to provide $15,000 income annually.
- 40% in an immediate fixed annuity—pays 7.5% at retirement ($15,000 annually).

Reduced account balance early in retirement could have a substantial impact on long-term liquidity.



Source: T. Rowe Price analysis. For illustrative purposes only.

Retired Participant B

Drawdown withdrawal strategy with deferred annuity

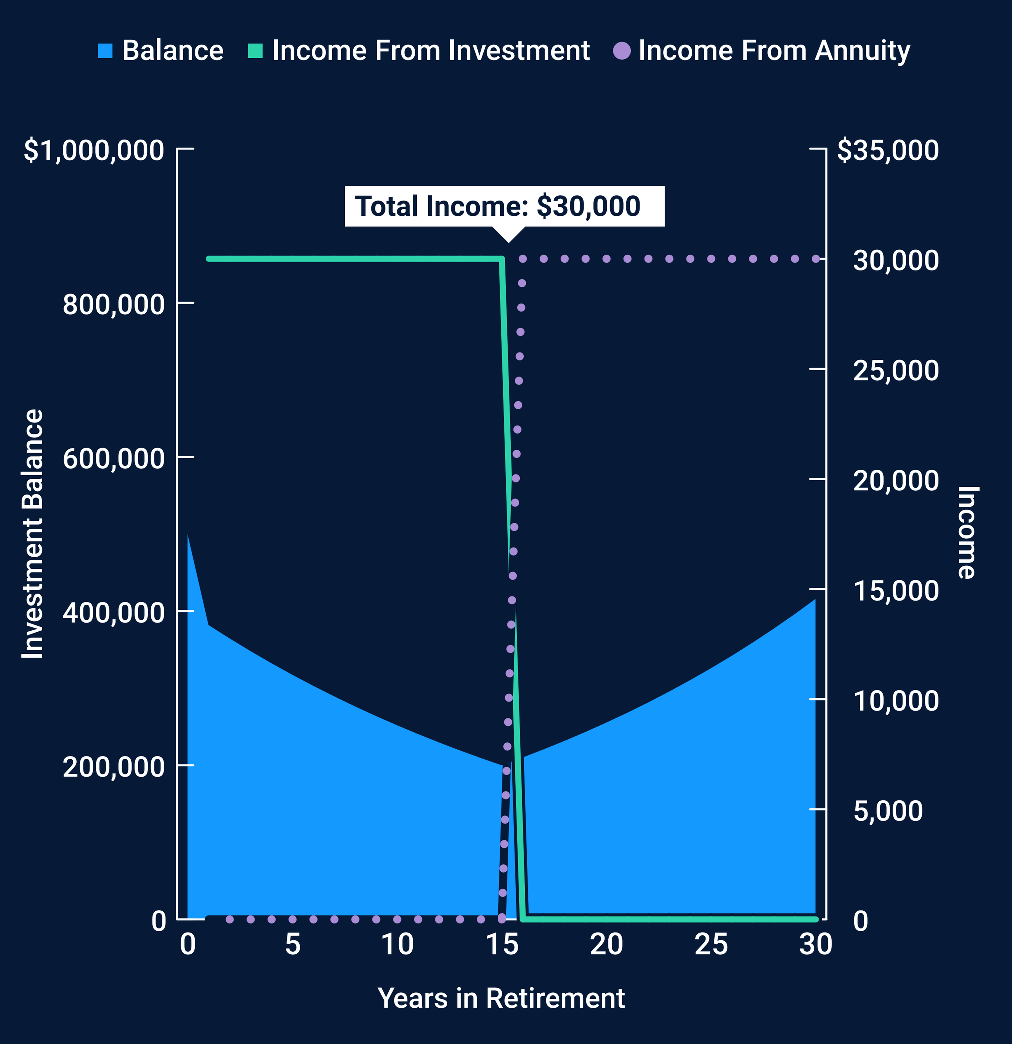
Hypothetical Illustration:

Goal: To generate $30,000 annual income from $500,000 in retirement savings

Allocation Assumptions:

- 80% in an drawdown strategy, where income is derived from both principal and portfolio returns, which gradually depletes the principal—5% rate of return and partial principal provide $30,000 income annually for 15 years.
- 20% in an deferred fixed annuity—pays 30% after 15 years ($30,000 annually after 15th year).

Reduced account balance early in retirement has potential to recover once deferred annuity payments kick in.



Source: T. Rowe Price analysis. For illustrative purposes only.

The charts shown above are for illustrative purposes only, do not represent actual investments, and do not predict or project returns or represent actual results. Actual results may differ materially. There is no assurance that any objective will be met. Changing the assumptions may result in different outcomes that could lead to different conclusions than those outlined in this material. All investments are subject to risk, including the possible loss of principal. See the Appendix in this material for additional information on the exhibits and assumptions used as well as risks.

Things plan sponsors should know:

Income and liquidity trade-off considerations: The choice between expected income and liquid account balance should meet the unique preferences and needs of retirement investors.

Messaging/education: To drive engagement and adoption, the participant experience is key. Digital and in-person communication strategies can help educate employees about their options and empower them to make better-informed decisions about their retirement savings.

Annuity riders are important: Optional features that provide additional benefits and flexibility—especially the inclusion of a death benefit—will be a key consideration for most participants. Riders involve additional costs.

Fiduciary responsibility: Adopting flexible distribution options requires due diligence, and consultants and advisors can help plan sponsors evaluate products and determine whether they are competitive and a good fit.

Get additional insights in the T. Rowe Price 2024 U.S. Retirement Market Outlook.

Appendix

2024 Defined Contribution Consultant Study: This study included 48 questions and was conducted from January 12, 2024, through March 4, 2024. Responses are from 35 consulting and advisor firms with over 134,000 plan sponsor clients and more than $7.5 trillion assets under administration.

2024 Exploring Individuals' Retirement Income Needs and Preferences Study: Data reflect responses from 2,582 individual investors age 40 to 85 who were currently enrolled in a DC plan and had at least $100,000 saved in their plan accounts. The survey was fielded from December 2023 through February 2024.

Hypothetical Illustrations: 5% annual return for the investment is not an actual return on an investment and is not meant to represent the performance of any specific investment option. Fees were not assumed for the investment allocation. The assumed payout rate for the annuities are what we view as a reasonable net-of-fees rate based on industry data. It does not reflect all fees that can apply for an actual annuity investment. The illustrations are based on nominal numbers, no inflation or tax is assumed. Retirement age is 65. Investments and annuities are subject to fees and other charges. Returns would be lower if fees and expenses were assumed. The illustrations do not take into account individual investor circumstances including total assets, that should be taken into account when determining the appropriateness and allocation percentage of certain investments and products such as annuities, which can be illiquid.

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Annuities Risk: Guarantees are subject to the claims paying ability of the insurer. Annuities may be subject to higher fees, including commissions upon purchase, surrender charges, administrative fees and other costs. Riders may be available to help customers customize their policy and provide additional benefits. Riders are optional and available at an additional cost. There is no guarantee that the benefits received under the terms of a rider may not exceed the cost to include the rider on a policy. All withdrawals or partial surrenders will reduce the death benefit and may be subject to surrender charges. Some annuities with income for life may not allow access to the principal value. Additionally, once in the income phase, excess withdrawals will reduce subsequent future payments.

An annuity is a contract between a customer and an insurance company. Contracts and other offering documents should be read carefully as they describe risk factors, terms of the contract, and fees and charges that may apply. T. Rowe Price does not issue any annuity products.

Past performance is not a reliable indicator of future performance. **All investments are subject to market risk, including the possible loss of principal.** Those at or near retirement are subject to sequence of returns risk, where potential losses at this time could have a more significant impact on income for retirement from investments. All charts and tables are shown for illustrative purposes only.

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