

WHITE PAPER

# Product reframed

A guide to thinking differently about guaranteed lifetime income

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# It's time to think differently about retirement

The central aim of a defined contribution (DC) plan is to help plan participants financially prepare for their retirement years largely through the accumulation of assets through contributions and investment gains. However, this current system is open for improvement. The 2023 Mercer CFA Institute Global Pension Index ranked the U.S. retirement system 22<sup>nd</sup> out of 47 countries, behind many of its peer countries.<sup>1</sup>

The index, which ranks retirement systems on metrics around adequacy, sustainability, and integrity, cited concerns over the shortcomings of employer-sponsored plans. As the shortfalls of a system that relies on individuals saving their way into retirement security and then sustainably spending down become increasingly apparent, exploring new solutions and strategies is key to helping improve plan participant outcomes.

In an era where retirement security is a growing concern, advisors and consultants have a large role to play in guiding their clients toward a secure financial future. Yet, a significant opportunity lies untapped: guaranteed lifetime income (GLI). Hesitations to discuss GLI solutions, such as annuities, can leave advisors, consultants, and their clients at a disadvantage.

<sup>1</sup> 2023 Mercer CFA Institute Global Pension Index, Mercer, October 2023

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## THE COST OF INACTION

Studies show that both plan sponsors and participants are increasingly interested in guaranteed lifetime income solutions. Nearly half (49%) of private-sector plan sponsors that do not currently offer an in-plan annuity have considered adding one, and 3 in 4 claim they will make this decision within the next 12 months.<sup>1</sup> However, they rely on their advisors to guide them through the complexities and navigate the various options available.

By not actively and earnestly discussing guaranteed lifetime income with their clients, advisors and consultants are potentially missing out on:



### Improved client satisfaction

Offering comprehensive retirement income planning that includes GLI products helps demonstrate dedication to the well-being of a plan and its participants. This proactive approach fosters trust and loyalty, leading to long-term client relationships.



### Differentiation in a competitive marketplace

Actively promoting GLI solutions can help position advisors as retirement income specialists, giving them a distinct edge in a competitive marketplace.

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## THE EARLY ADOPTER ADVANTAGE

Advisors and consultants can thrive in a competitive marketplace by taking the initiative and positioning themselves as specialists in guaranteed lifetime income, leading the charge in enhancing plan participant outcomes.



### Opportunity to stay ahead of the learning curve

Being at the forefront of product and technology innovations grants first-hand access, fostering deep understanding and adaptability. As demand grows, advisors and consultants fluent in GLI solutions become trusted specialists, attracting clients seeking guidance in this evolving area.



### Position oneself as a leader and influencer

Championing emerging trends boosts recognition and unlocks opportunities as a thought leader in your field. An active voice on topics like GLI can help generate opportunities for enhanced visibility through publications, conferences, and networking events – drawing in potential new clients and collaborators.



### Experience a powerful driver of personal and professional growth

There is a sense of excitement and discovery to finding new streams of value for one's clients and practice. Engaging in the retirement income conversation early offers opportunities to shape product development and user experience to ensure solutions cater to a wide range of client needs.





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## REFRAMING THE GUARANTEED LIFETIME INCOME CONVERSATION

Being an early mover in the guaranteed lifetime income space requires commitment, ongoing education, and a willingness to embrace change. As such, it's important to be well-equipped to overcome misconceptions, manage reluctance, and promote better understanding around the topic.

This white paper aims to provide actionable strategies for talking to clients about guaranteed lifetime income – helping to reframe common misconceptions, stress the urgency for income solutions, and promote the value in helping participants generate a guaranteed stream of income in retirement. It explores both the historical myths that have led to annuity aversion as well as more nuanced hesitations that have inhibited greater adoption in the DC space.

# Bad reputation?

## It's a new generation

Clearing up historical misperceptions around complexity, cost, flexibility, and lack of growth potential not only underscores the positive evolution of annuities, but also emphasizes the valuable contributions these products can make to a comprehensive financial plan. This can help put all stakeholders in a better position to assess whether an annuity aligns with the goals of a plan and its participants.

<b>Myth:</b>	Annuities are overly complex
<b>Reality:</b>	Advancements in user experience and key integrations are driving simplification

Thanks to advancements in technology and user-friendly online platforms, enrolling in an annuity is now as simple as a few clicks within your existing employer-sponsored plan.

While many annuities involve intricate features and complex math under the hood, product providers, including Allianz Life Insurance Company of North America (Allianz), have made significant investments to simplify the end-user experience with intuitive design and user-friendly features.

This often includes easy-to-understand explanations, embedded videos, as well as tools and calculators to estimate future income payments. Additionally, many products today can be delivered within, or alongside, existing solutions such as Managed Accounts or Target Date Funds (TDFs), making it easier for participants to engage.

When coupled with one of these investment vehicles, participants do not need to take any additional actions to make an allocation to the annuity.

Managed Account solutions, in particular, offer personalized recommendations based on a participant's individual needs and circumstances, providing both point-in-time advice as well as the active monitoring and management of portfolios – all centered on the unique needs of an individual.

Personalized Target Date solutions also tailor allocations to a GLI product while considering an individual's risk profile, which offers significant advantages over a traditional TDF that only considers retirement age.

### Personalization + protection

At Allianz, we believe in the power of personalization and protection, which is why Allianz Lifetime Income+® Annuity is designed to be delivered through a Managed Account or Personalized Target Date solution in addition to a robust DIY experience.

	Level of personalized advice
DIY Experience	Low
Traditional TDF	Moderately low
Personalized Target Date solution	Moderately high
Managed Account	High

→ **DOWNLOAD** the white paper “Navigating the market for guaranteed lifetime income products” to compare different solutions and options for how to implement them in a plan (LIA-110)

<b>Myth:</b>	Annuities have high costs
<b>Reality:</b>	Product innovation, cost-efficient structures, and economies of scale provide attractive in-plan pricing

Annuity costs have declined in recent years due to ongoing product innovation and more cost-efficient structures. Further, annuities offered through employer-sponsored retirement plans are able to leverage the size of the in-plan market to offer economies of scale.

This allows providers to lower administrative costs and present annuities at more attractive prices. As a result, many of these new in-plan annuities

are favorably priced with other plan investment options. For example, the Allianz Lifetime Income+® Annuity has a competitive annual product fee of 0.50% – guaranteed to never increase, even if the participant leaves their plan.

Additionally, there are no additional costs for plan sponsors to add Allianz Lifetime Income+® to a plan.

<b>Myth:</b>	Annuities lack flexibility and accessibility
<b>Reality:</b>	Pure annuitization products lack flexibility and accessibility, but GLWB design addresses these concerns

Guaranteed Lifetime Withdrawal Benefits (GLWBs) have transformed the annuity landscape by addressing inflexibility concerns and offering contract holders more control over their underlying account values.

With GLWBs, contract holders are no longer forced to make an all-or-nothing decision to annuitize. Instead, they can begin taking lifetime withdrawals without having to give up access to the remaining cash value – which enables potential growth opportunities.

It also gives participants the ability to tap into their accumulation value in the event that they need to take a full or partial withdrawal. Most in-plan products with a GLWB available today,

including Allianz Lifetime Income+® with the Lifetime Income Benefit, have no withdrawal charges. Note that a Market Value Adjustment and taxes may apply.

Moreover, the GLWB design often provides annuity owners greater control over their funds and the ability to tailor their retirement income strategy to their individual needs, including options to choose when income starts (at age 60 or older for Allianz Lifetime Income+®) and how income is taken in retirement years. If the maximum payment is not needed, participants can typically opt to take less – giving them the flexibility to leave this money to heirs, or to take any leftover amount in later years when expenses may be higher.

<b>Myth:</b>	Annuities have limited growth potential
<b>Reality:</b>	Robust retirement income planning should include growth potential and protection

Building a secure retirement roadmap requires navigating two crucial challenges: accumulating enough assets for income in retirement and managing downside market risk, which can impede progress.

While traditional investment vehicles, such as stocks and mutual funds, offer the potential for high returns, they also expose participants to market volatility that can erode their retirement savings.

Annuities therefore provide a valuable addition to a well-diversified retirement portfolio – providing a level of protection against such market upheavals and a steady flow of income in retirement.

Modern fixed index solutions like Allianz Lifetime Income+® Annuity and its Lifetime Income Benefit blend protection from market downturns with potential for growth, both during accumulation years and after income has started. This is because fixed index annuities (FIAs) provide

opportunities to benefit from positive market movement while protecting assets invested in the annuity from market risk.

FIAs do not directly participate in any stock, equity, or bond investments. Instead, participants can earn interest based on changes in a market index such as the S&P 500®, up to a cap or other limiter. Some products also contain additional features that support growth objectives and can help address the corrosive impacts of inflation.

Allianz Lifetime Income+® is an FIA that provides opportunities to further enhance any potential interest generated from positive market movement with innovative features available through the Lifetime Income Benefit.

For those seeking a holistic approach to retirement income planning, in-plan annuities offer a thoughtful blend of growth potential and protection from market downturns – helping participants navigate market uncertainties and support a secure financial future.

### Risk strategies that go beyond growth

Three major bear markets in recent memory and ongoing economic uncertainty serve as a stark reminder of the risks that plan participants face:

1. **Acute market-related risks** are factors that are most impactful early in retirement, including growth risk and sequence of returns risk.
2. **Gradual risks** are factors that affect the long-term sustainability of retirement income, such as inflation and longevity risk.



→ **DOWNLOAD** the white paper “The compounding complexities of retirement income planning” to learn more (LIA-031)



# Unlocking broader adoption

Despite lingering negative perceptions from past generations, many now recognize the significant improvements in modern annuities, and see the potential in these products to address the unique situations faced by a broad spectrum of plan participants. The following section dives into the remaining hurdles to unlocking broader access to GLI solutions.

<b>Myth:</b>	The technological infrastructure of the DC market is not robust enough to support GLI
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<b>Reality:</b>	Middleware helps streamline the delivery and servicing of GLI
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Expanding access to GLI products to millions of workers through their DC plans has the potential to revolutionize retirement planning. However, concerns have been raised about the readiness of the DC market to adopt these products. One of the primary concerns is the cost and resources required to establish connectivity between recordkeepers and annuity product providers.

The emergence of middleware has proven instrumental in bridging gaps and expediting the adoption of GLI products. It can standardize data formats, streamline communication protocols,

and automate many of the tasks involved in connecting the two systems. Further, the one-to-many approach of middleware, where a single connection point unlocks access to multiple service providers, helps power product choice, portability, and ease of integration.

As technology continues to evolve at a rapid pace, key collaborations with middleware providers offer a flexible foundation for future innovations that is easily scalable across multiple recordkeeping partners.

<b>Myth:</b>	SECURE 2.0 priorities have taken precedence over GLI conversations
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<b>Reality:</b>	GLI products can serve as a complement to SECURE 2.0 priorities
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SECURE 2.0, enacted in 2022, introduced 92 provisions aimed at enhancing retirement savings outcomes. As a result, many plan administrators and sponsors focused on upgrading capabilities to align with the new legislation have put guaranteed lifetime income discussions on hold.

However, these are not mutually exclusive. In fact, in-plan annuities can both complement and enhance the objectives of SECURE 2.0. Just as many of its provisions help safeguard earlier chapters in the retirement savings journey, guaranteed lifetime income products serve as a cornerstone to help support a secure retirement.

Coupling these enhancements can help boost outcomes by equipping participants with tools to help them save responsibly and turn a portion of their savings into a guaranteed stream of income that cannot be outlived.

Moreover, the administrative burden of implementing and servicing GLI is significantly reduced by middleware, which streamlines connections through the DC ecosystem. Efficiencies generated by this technology helps expand opportunities for recordkeepers to grow their business, and for plan sponsors to introduce value-add benefits, all while managing regulatory changes.

**Myth:** Participants aren't asking for GLI products

**Reality:** When it is presented to them, participants want GLI

Recent surveys, including the Allianz Quarterly Market Perception Study, indicate a rising demand for guaranteed lifetime income, with 90% of Americans recognizing the importance of an additional income source beyond Social Security for a comfortable retirement.<sup>1</sup>

However, there is a clear disconnect between this desire and actual advocacy for GLI products, based on anecdotal evidence from advisors and plan sponsors.

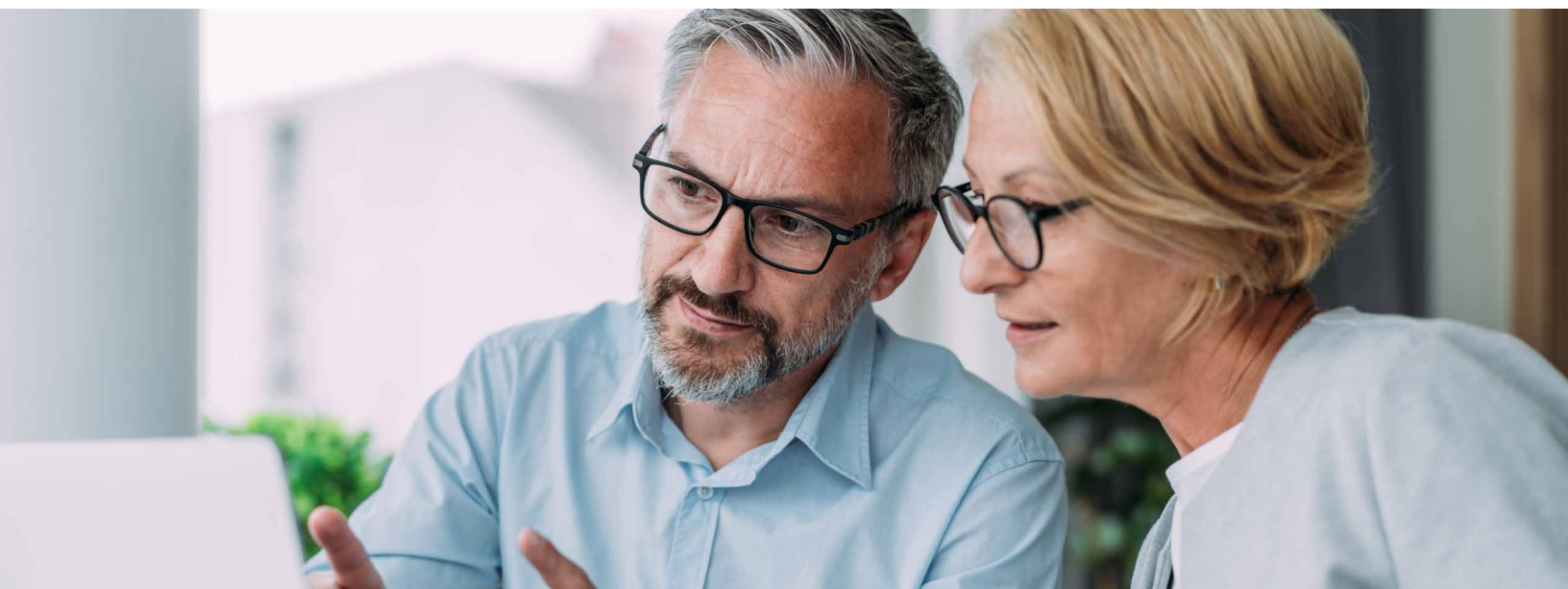
This may be due to a myriad of factors, including behavioral biases like inertia, which causes participants to stick to the status quo even if it's not optimal for the future – or present bias, which leads to a tendency to prioritize immediate needs over long-term planning. Participants may also not know how to ask, or worry about feeling unheard if they voice their opinions.

There are also misconceptions about current investment solutions, which may contribute to a false sense of security. According to a recent

study from MFS, 75% of participants believe Target-Date Funds (TDFs) offer a guaranteed stream of retirement income, and 68% believe TDFs provide a guaranteed rate of return.<sup>2</sup>

Such misunderstandings can have serious consequences for retirees who are relying on their TDFs to provide them with a steady stream of income in retirement.

While biases and/or lack of understanding can hinder demand for in-plan annuities, evidence shows that familiarity with the benefits of guaranteed lifetime income increases demand. Plan sponsors with an active DC plan are more likely to consider offering in-plan income products.<sup>3</sup> This underscores the enduring appeal and growing relevance of these solutions in the modern retirement landscape.



<sup>1</sup> 2023 3Q Quarterly Market Perceptions Study, conducted by Allianz in August 2023 with a nationally representative sample of respondents age 18+

<sup>2</sup> Retirement Outlook 2023, MFS Investment Management, January 2023

<sup>3</sup> In-Plan Annuities: The Plan Sponsor Perspective, LIMRA, 2023

<b>Myth:</b>	Existing income strategies like the 4% rule are sufficient
<b>Reality:</b>	Existing strategies like the 4% rule are a guideline, not a guarantee

The 4% spending rule developed by financial advisor William Bengen in 1994 is a widely cited guideline for withdrawing money from retirement savings to ensure assets last throughout retirement. It suggests that retirees can safely withdraw 4% of their initial retirement savings in the first year and adjust subsequent withdrawals annually for inflation.

While the 4% rule has served as a valuable tool for many retirees, it is important to acknowledge that the financial landscape has evolved significantly since its inception.

A rigid application of the rule may not adequately address the myriad of challenges faced by today's retirees. For example, the 4% rule assumes an average annual investment return of 7%. If the markets experience a sustained

downturn, retirees may risk depleting their assets if they withdraw more than their investments are earning. During the low interest rate environment in 2020, many professionals recommended dropping the rate to 3% or lower.

The market environment isn't the only factor that can upend the rule. Longevity risk and unexpected expenses could also lead to a depletion of assets if one lives beyond the assumed 30-year retirement period, or faces large, unplanned expenses – including medical bills and/or long term care costs.

A more adaptable and individualized approach that includes guarantees and professional guidance can help retirees better navigate the evolving financial landscape and enjoy a sustainable retirement.

<b>Myth:</b>	Fiduciary risk is significant
<b>Reality:</b>	The SECURE Act of 2019 took significant steps to alleviate fiduciary risk

Concerns over fiduciary responsibility have historically served as a barrier to the adoption of annuities in employer-sponsored retirement plans to the extent that they prompted legislative action.

The Fiduciary Safe Harbor provisions of the SECURE Act of 2019 established a safe harbor for plan sponsors when selecting insurers for lifetime income solutions within DC plans to help alleviate some of the apprehensions that have hampered adoption.

The safe harbor facilitates the insurer review process for plan sponsors, enabling fiduciaries to rely on insurer representations regarding their financial capability to meet annuity obligations.

This significantly reduces the fiduciary burden associated with offering annuities within an employer-sponsored plan – helping pave the way for wider access to GLI.

<b>Myth:</b>	Uncertainty around the portability of guaranteed lifetime income products
<b>Reality:</b>	Product innovations such as the individual contract design provide an unparalleled level of portability

The ability to seamlessly move an annuity across different DC plans or even roll it into an IRA is crucial for individuals who change jobs or wish to consolidate their retirement savings.

While several solutions have come to market positioned as incentives to help keep participants in-plan, there are also products that recognize how paramount portability is to both plans and participants.

Allianz Lifetime Income+® and its innovative individual contract design supports seamless

portability to other DC plans or IRAs with all the same benefits, guarantees, and pricing as when the product was issued.

This stands out as a notable improvement compared to many group contracts on the market, which require participants to convert to an individual product upon separation from the plan and/or involve complex contractual agreements in order to maintain guarantees.



# Elevating the retirement income conversation

Understanding how modern annuity products have evolved is only one piece of the puzzle. Employing strategies that build trust and confidence when communicating these key points is equally important. These foundational efforts will help cultivate a receptive environment for meaningful discussions with clients about the substantial value of GLI.

## 1. **Listen actively and empathize**

Foster trust by actively engaging and empathizing with client concerns. Give your full attention, avoid interruptions, and acknowledge their concerns. If you're able to recognize when a plan sponsor may already believe in the value of GLI, you can guide the conversation toward ease-of-implementation rather than repeating what they already know.

## 2. **Clarify and understand the objective**

Jumping to conclusions often compounds confusion, especially for plan sponsors who may be unfamiliar with GLI solutions. Asking clarifying questions regarding specific aspects of their objections, priorities, and decision-making processes can help you fully understand the nature of their concerns.

## 3. **Address misconceptions directly**

Once you've fully grasped any misconceptions a client may have, address them directly and comprehensively. For example, if they have concerns surrounding the inflexibility of annuities, don't dismiss it as an outdated belief. Instead, explain the difference between pure annuitization and GLWB products to enhance their understanding.

## 4. **Focus on benefits and value**

Emphasize the benefits and value of annuities without defaulting to a defensive stance. Highlight how these products can help address the risks faced by clients and plan participants.

## 5. **Anticipate questions**

Use resources like this white paper to anticipate potential questions and prepare responses in advance. This will allow you to respond to their concerns confidently and promptly.

## 6. **Demonstrate a genuine interest in helping the client and their participants**

Conversations about GLI shouldn't be treated as a box that's checked during plan reviews. Inspire continuous dialogue to address their concerns surrounding retirement income for employees and actively seek out tailored solutions to meet their needs.

## 7. **Offer potential solutions and alternatives**

It is important to have a strong understanding of the range of products, customizable features, and implementation options available. Be prepared to offer alternative solutions that speak to clients' unique pain points and objectives.

## 8. **Be patient and persistent**

Researching, selecting, and implementing GLI solutions takes time, and requires advisors and consultants be patient partners and persistent advocates for their clients – ultimately contributing to a more secure financial future for all stakeholders involved.



# Retirement Reframed

At Allianz, we believe it's time to think differently about retirement – to challenge conventional wisdom and champion innovative income strategies that help improve outcomes for plan participants.

For decades, retirement planning has focused on helping participants amass wealth; however, as lifespans lengthen and retirement journeys evolve, a new mindset has emerged. One that focuses not on accumulation, but income.

Income strategies are about actively deploying wealth in this dynamic stage of life to match the unique needs and aspirations of individual participants. It's about understanding cash flow, harnessing the potential of your decisions, and living life in retirement to the fullest. This shift empowers participants to move beyond fears of

depletion and embrace the possibilities that lie ahead, transforming retirement from a passive goal post to purposeful chapter.

This is what retirement reframed is all about. We want to help participants discover the joy of decumulation – not as a drain, but as a fountain of possibilities for the future. At Allianz, we believe that guaranteed lifetime income products, such as annuities, are an important part of a holistic strategy to help participants effectively transition their savings to a stream of income in retirement.



# Tired of the same old retirement income talk?

## Discover tools to help you reframe the retirement income conversation

Our team is dedicated to providing fresh perspectives and practical tools to help you elevate your practice and navigate the ever-changing landscape of retirement income. Browse our library of white papers, blogs, and practice management resources today.



**VISIT** [www.allianzlife.com/dcplanresearch](http://www.allianzlife.com/dcplanresearch)

## Let's break the mold together

Contact the dedicated Employer Markets team at Allianz to learn more about our differentiated solutions and strategies.



**EMAIL** [retirement-income@allianzlife.com](mailto:retirement-income@allianzlife.com)



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Through a line of innovative products and a network of trusted financial professionals, and with 3.7 million contracts issued, Allianz helps people as they seek to achieve their financial and retirement goals. Founded in 1896, Allianz is proud to play a vital role in the success of our global parent, Allianz SE, one of the world's largest financial services companies.

While we are proud of our financial strength, we are made of much more than our balance sheet. By being true to our commitments and keeping our promises, we believe we make a real difference for our clients. It's why so many people rely on Allianz today and count on us for tomorrow – when they need us most.