Sustainable Income for the Retirement Voyage

A new income strategy from Voya Investment Management gives employers a tool to help plan participants meet their retirement spending needs and reduce their chances of running out of money.

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The Voya Retirement Income Fund ("Voya RIF") is not the only investment option available in an employer's plan; participants can invest in other investment options that may produce different outcomes. Participants who utilize the Voya Retirement Income Generator ("Voya RIG") tool are not required to invest in the Voya RIF. The personalized withdrawal guidance tool ("Voya Retirement Income Generator tool") is in development and all details are subject to change. The analysis in this paper is for illustrative purposes only, and should not be used to make withdrawal planning decisions.

INVESTMENT MANAGEMENT

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Executive summary

Plan participants are looking to their employers to provide investment solutions that can help them save for retirement and provide sustainable income once they enter retirement. For the most part, plan sponsors want to offer participants these options, and they are looking to do so at a reasonable cost. To be effective, these solutions must be easy to understand and implement. They also must be robust, offering potential for sustainable withdrawals to meet spending needs while reducing the chance of running out of money.

The Voya Retirement Income Generator (Voya RIG) program seeks to meet these challenges. The program consists of a tool that provides guidance on withdrawal planning, supported by the Voya Retirement Income Fund (RIF) — a diversified, actively managed portfolio with an option for longevity protection. We believe that together, the tool and the Fund offer plan participants a better approach to retirement income than the options they may have elsewhere.

Voya Retirement Income Generator Program = **Voya Retirement Income Fund** + **Voya personalized withdrawal tool**

In this paper, we start by addressing the issues that confront plan sponsors who are looking to provide a retirement income solution to their plan participants. Next, we discuss the challenges participants face as they decide how to spend their retirement savings. We then summarize what we consider to be the key attributes of a retirement income solution and discuss identification of optimal solutions. We also consider whether and when the tradeoffs of incorporating guaranteed income investments might be appropriate.

Finally, the paper introduces the Voya Retirement Income Generator program. The discussion focuses on how the program features work together to support participants, simplifying the calculation of how much to withdraw each year from retirement savings and offering an investment vehicle intended to support sustainable withdrawals.

Plotting the course of the retirement voyage

Over the last several decades, employer-sponsored defined contribution (DC) plans have helped millions of Americans save and accumulate wealth for retirement. As these employees approach retirement, they are looking for solutions to utilize their savings to support themselves. These evolving needs, combined with policy initiatives such as the SECURE Act, have led more employers to consider adding retirement income solutions to their DC plans.

DC plan sponsors and their consultants are seeking in-plan solutions to help participants:

- **Meet retirement spending needs:** Many participants are not equipped to, or prefer not to, make investment decisions, assess longevity risk or determine optimal decumulation strategies.
- **Navigate a path through retirement:** Beyond meeting spending needs, participants must feel like they have a reasonably clear plan to avoid inertia and overcome fear, for the full duration of their retirement.
- **Limit costs:** Staying in plan may offer participants access to lower-cost solutions than those available to individuals purchasing products on their own.
- **Increase adoption:** A strong default retirement income option (i.e., a qualified default investment alternative, or QDIA) is an effective way to increase adoption. An ideal retirement solution is one that can work both as part of a QDIA and on a standalone basis.

Meeting participant needs throughout the retirement journey

A participant's retirement journey can be separated into three stages:

Accumulation (25–65 years): With advances in plan design such as auto-enrollment, auto-escalation, employer match and the use of QDIAs (particularly target date funds), plan sponsors have set the stage for participants to grow and preserve wealth during their earning years.

Decumulation (65–85 years): The key focus of a retirement income program should be to help participants meet their spending needs in the "golden years," the 15 to 25 years after they stop working. Here, participants want to be assured of how much they can safely spend in retirement, how to invest their savings over the retirement period, and have a reasonable level of confidence that they are unlikely to outlive their assets.

Longevity/legacy (85+ years): Participants' fears of outliving their savings are supported by research which shows that most average or affluent participants live on less than they can afford in retirement.[1] Participants seek an investment strategy that will continue to provide the income they need and, just as important, give them the potential to leave a legacy for their heirs. In some cases, guaranteed income (typically in the form of longevity insurance) can supplement Social Security and remaining assets while providing assurances that retirees won't outlive their savings**.**

Each stage of the retirement journey needs distinct but complementary tools.

Each stage requires different tools:

Accumulation	Decumulation	Longevity/legacy
Target date fund As the QDIA while participants are working and saving for retirement, the TDF ideally employs a dynamic investment process that seeks to optimize return potential by keeping the portfolio attuned to capital market developments.	**Retirement income fund** At retirement, participants' savings automatically transition into an in-plan fund designed to support an appropriate withdrawal rate while seeking to minimize the risk of depleting savings. **Personalized withdrawal guidance tool**[2] With guidance from this tool, participants may personalize their retirement withdrawals from the fund, creating a pension-like "paycheck."	**Option to include guarantees for longevity protection** A participant can choose to add guaranteed products at any time in the retirement journey, particularly if there are concerns around longevity.

The QDIA may be an off-the-shelf target date fund (TDF) or a custom TDF; either relieves participants of the need to determine appropriate levels of investment diversification and risk on their own. Upon retirement, the participant's savings will transition into a professionally managed retirement fund (with no additional paperwork required). The withdrawal tool allows participants to decide how much of their savings they'll spend each year, and whether they should consider guarantees.

Finding an optimal solution for the retirement journey is challenging. Plan sponsors face many choices, most of which are complex and hard to evaluate. To guide sponsors and consultants, the table below summarizes the key features and potential benefits we consider necessary for an effective QDIA retirement income program:

[1] Source: "Retirees' Dilemma: Spend or Preserve?" Employee Benefit Research Institute (EBRI), May 6, 2021.

[2] As of this writing in September 2022, the personalized withdrawal guidance tool ("Voya Retirement Income Generator tool") is in development and all details are subject to change. The analysis in this paper is for illustrative purposes only, and should not be used to make withdrawal planning decisions.

Feature	Potential benefits
Professional investment management during accumulation and decumulation	Deliver returns to support spending and maintain purchasing power in retirement
Guidance setting withdrawal amounts	Address spending needs of each participant, ease decision-making burden
Automatic transition from target date fund to retirement income fund	Easy for plan sponsors and participants to adopt
Option to add guarantees after retiring	Access to savings, budgeting flexibility
Integrated, in-plan solution	Deliver all features at reasonable cost

Ideally, a retirement income solution should be integrated to work with the DC plan's QDIA. This offers participants a seamless transition to retirement and a continuous experience at each stage of their engagement with the plan, from saving through retirement spending.

Annuities provide a sense of certainty, but the price of certainty may be erosion of purchasing power.

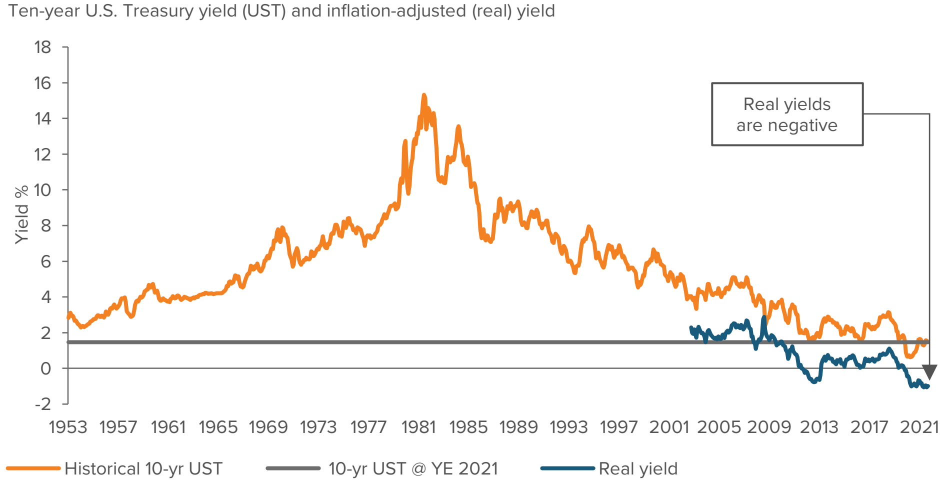
Identifying effective solutions for retirement income

At first glance, it might seem that the simplest, surest way to convert accumulated savings into retirement income would be to use those savings to purchase a fixed stream of cash flows, such as those from a fixed annuity or a portfolio of bonds.

Fixed-interest-rate products such as immediate annuities provide a sense of certainty, but the price of certainty may be erosion of purchasing power. Immediate annuities are priced by locking in prevailing market interest rates over the life of the annuity. If prevailing market interest rates are low when participants annuitize their savings (Figure 1), a fixed strategy locks them into low yields for the lifetime of the annuity. In the future, this could mean lower-than-market returns and loss of purchasing power to inflation.

Recent increases of interest rates are still modest by historical standards. Even with the recent increases, inflation-adjusted bond yields are unlikely to meet future spending. As a result, retirees may be forced to scale back planned spending to avoid depleting their savings. In this way, the greater certainty offered by an immediate annuity may limit how much income a participant has in his or her "golden years" after retirement–potentially resulting in a less-than-ideal retirement experience. For further detail, see "Avoiding challenges of using guarantees" below.

Figure 1. Even with interest rates rising, immediate annuities may lock investors into a lifetime of low or negative real yields



Source: Federal Reserve Bank of St. Louis: https://fred.stlouisfed.org.

Furthermore, there are psychological considerations that potentially reduce the appeal of immediate fixed annuities. Participants may feel the emotional need to retain control of their assets, and they may not be enthusiastic about giving up access to their life savings, as they would have to do when purchasing an annuity. This can lower adoption rates of guaranteed products.

Indeed, a historical analysis suggests that since the 1960s, for the same annual payout, a participant would have maintained greater flexibility with a withdrawal strategy than with an immediate annuity (Figure 2) — though of course, with the annuity options, there would be certainty that payments would continue through the retiree's lifetime.

Figure 2. Comparison of systematic withdrawal strategies and annuities

Remaining savings balances after 20 years, based on a hypothetical $100 starting balance and similar annual payouts

			Remaining balance after 20 years	
Starting year	Starting balance	Annual payout	Systematic withdrawal strategy	Annuity
1977	$100	10%	$145	$0
1987	$100	10%	$80	$0
1997	$100	9%	$63	$0
2001	$100	8%	$71	$0

Source: St. Louis Fed FRED database and Bloomberg, analysis by Voya Investment Management. The Voya analysis calculates an estimated annuity payout at the beginning of each year using then-prevailing interest rates; it assumes a similar withdrawal takes place from a balanced portfolio consisting of 40% equities and 60% bonds. Equity returns are represented by the S&P 500 index; bond returns are represented by the Bloomberg U.S. Aggregate index. This analysis is for illustrative purposes only; it should not be considered promissory of any portfolio return or taken as investment advice. **One cannot invest directly in an index. Past performance is no guarantee of future results.**

Instead of the rigidity of an immediate annuity, we believe a combination of a well-designed investment fund and personalized withdrawal guidance delivered through an intuitive tool — with an option for participants to add guarantees in the form of longevity insurance — provides the balance required to address the needs of most participants.

The Voya Retirement Income Generator program is expressly designed for this purpose.

> We believe the best way to address participants' needs is a flexible program combining an investment vehicle with personal withdrawal guidance and an option to include guarantees.

The Voya Retirement Income Generator program

The Voya Retirement Income Generator (Voya RIG) program potentially meets most participants' needs for a retirement income solution:

Easy to understand and implement: The program is integrated as an in-plan retirement savings option; participants can transition directly into the Voya Retirement Income Fund (Voya RIF) upon retirement, typically without having to do any extra paperwork.

Supports retirement spending with a personalized "paycheck": A key feature of the Voya Retirement Income Generator program is the RIG guidance tool, which helps participants evaluate their circumstances and create personalized withdrawal amounts.

Reduces the risk of depleting savings: Unlike traditional balanced funds that seek to outperform investment benchmarks, the Voya Retirement Income Fund seeks to support a reasonable withdrawal amount over a participant's decumulation period (modeled as 20 years), while minimizing the risk of running out of money at the horizon. That 20-year horizon is projected forward continuously, and market assumptions are updated at least annually; the RIF's asset allocation approach is therefore dynamic and can adapt to shifts in the macroeconomic environment.

Avoids challenges of built-in guarantees: The Voya Retirement Income Generator doesn't feature built-in guarantees, which can increase the complexity and cost of retirement income solutions. Instead, participants have the option to add guarantees as they see fit. The Voya RIG guidance tool allows participants to model guarantee options, helping them determine whether these solutions meet their preferences.

Easy to understand and implement

Simplifies the plan sponsor's decisions — Plan sponsors are responsible for two key decisions: (1) identifying a QDIA that meets the needs of plan participants and (2) identifying options the plan can offer participants based on their preferences. We believe the Voya Retirement Income Generator helps simplify the first decision: it potentially meets the needs of most participants. What's more, it's cost-effective, easy to understand and gives plan sponsors the flexibility to adapt the QDIA program over time to include transition into a retirement income fund.

Simplifies participant decisions — For participants, an integrated retirement income QDIA simplifies decision-making at each stage of the retirement voyage, from onboarding through retirement spending. The built-in RIG guidance tool helps participants navigate a clear course while maintaining control of their savings.

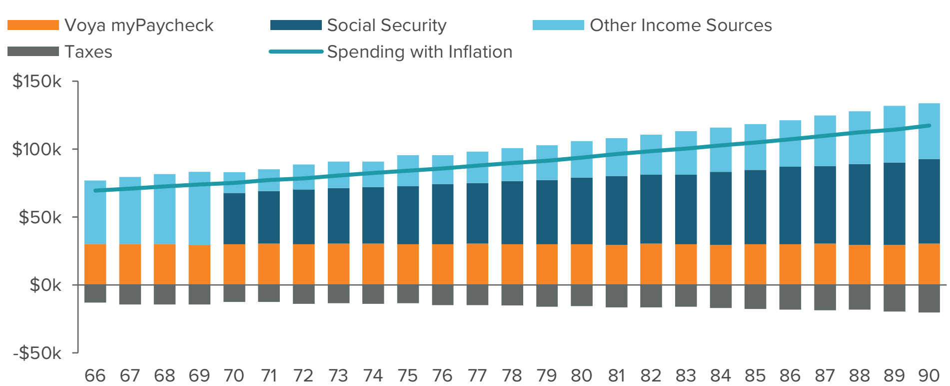
Withdrawal guidance is an essential tool to set retirement spending.

Supports retirement spending with a "personalized paycheck"

One key feature of the Voya Retirement Income Generator (RIG) program is its ability to offer plan participants guidance on how to optimize the decumulation stage of the retirement voyage. The spending needs of each participant may be unique, making personalization critical. Generally, plan participants are focused on how to make the most of their lives, and they do not want to get bogged down in the details of figuring out how to meter their retirement savings. The Voya Retirement Income Generator (Voya RIG) tool simplifies this task, which increases the likelihood that participants will create a spending plan.

The Voya RIG guidance tool (Figure 3) helps participants determine an appropriate amount to withdraw from their savings based on their needs and preferences. The tool allows the user to factor in his or her spending needs as well as other sources of income (including pensions and Social Security), and to model different scenarios. Each participant is thus able to create a personalized retirement "paycheck" tailored to his or her circumstances. The tool is connected to the Voya Retirement Income Fund to maintain consistency of investment assumptions.

Figure 3. The Voya myPaycheck guidance tool is easy to use and understand



Source: Voya Investment Management. This illustration is hypothetical and should not be considered promissory of any portfolio return or taken as investment advice.

Once the personalized "paycheck" (i.e., withdrawal amount) is determined, the program will use options made available by the plan's recordkeeper in order to help participants set up withdrawal instructions.

Dynamic asset allocation and diversification lower the risk of depleting savings

What does the Voya Retirement Income Fund (RIF) seek to achieve?

The Voya RIF seeks to preserve purchasing power while reducing the risk of loss. To deliver these benefits to participants in an ever-changing investment environment, it is essential to offer a reasonably priced, actively managed, well-diversified, multi-asset portfolio. The Voya RIF invests in a broad array of asset classes: equities and corporate bonds for growth and income potential, government bonds for capital preservation potential.

The investment strategy focuses on achieving Voya RIF's objectives rather than seeking to outperform a market benchmark.

How is the Voya RIF designed?

Voya uses a range of inputs to construct the portfolio: annually refreshed capital market assumptions, scenario modeling and fundamental strategic asset allocation. The result is a dynamic portfolio mix that the managers adjust annually to optimize the Voya RIF's potential to deliver benefits to participants. Figure 4 illustrates the asset allocation spectrum available to the Fund.

Figure 4. Dynamic portfolio allocation seeks to preserve principal and purchasing power

Asset class	Permissible range
U.S. equities	15–50%
Non-U.S. equities	0–10%
Real estate	0–5%
U.S. short-term bonds	0–50%
U.S. intermediate-term/core bonds	8–50%
U.S. long-duration bonds	0–10%
High yield/bank loans	0–20%
Inflation-linked bonds (TIPS)	0–10%
Securitized credit	0–5%
Expected equity weight over time	30–40%
Expected bond weight over time	60–70%

Source: Voya Investment Management, data as of June 2022. Fund parameters are subject to change.

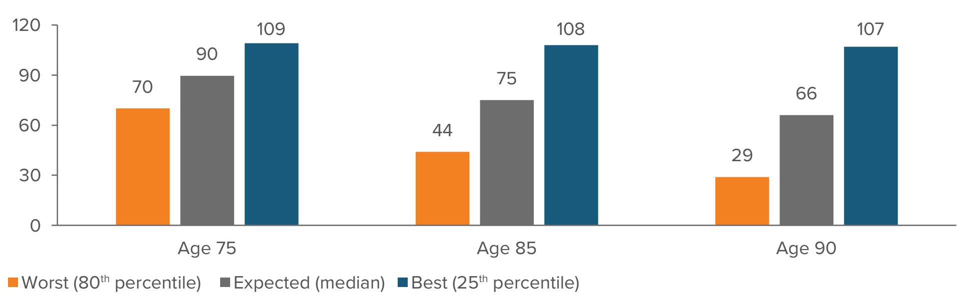
What potential outcomes can the Voya RIF provide?

The Voya RIF's asset allocation is designed to minimize the likelihood of running out of money in a prolonged, adverse market environment. The portfolio is structured so that in a worst-case scenario (80th percentile), over a 20-year period, participants are projected not to deplete their retirement savings.

The hypothetical example in Figure 5 illustrates a retiring 65-year-old participant who decides to withdraw 4% of her balance at retirement each year. The graph shows the remaining percentage of the participant's balance that potentially would be available at different ages.

Figure 5. Projected available balances after withdrawing 4% per annum

Remaining percentage of initial retirement balance at each age



Source: Voya Investment Management. Note: The analysis represents the average of thousands of simulations and assumes the portfolio remains actively managed, which offers potential for both gains and losses. This analysis is hypothetical and is based on assumptions and forecasts that may not come to fruition. **The projections are for illustrative purposes only and should not be taken as a recommendation for any plan participant.**

In the expected (median) outcome, even after withdrawing funds each year, participants are likely to retain enough of their savings to meet future spending or legacy needs. In the best case, participants potentially could benefit from market appreciation and enjoy a savings surplus, which they could use to increase their spending.

While positive scenarios provide comfort that participants can maintain purchasing power, it's important to consider the worst-case scenario, even though it's a low-probability outcome. In such a scenario, participants would still have a portion of their savings available by ages 75 or 85; but to avoid running out of money later, they might need to adjust their withdrawal amounts or consider allocating a portion of their savings to a guarantee.

Avoiding challenges of using guarantees

Guarantees through insurance contracts can play an important role in retirement income, offering participants stability and security. However, for the reasons discussed above (under "Identifying effective solutions for retirement income"), incorporating immediate annuities is challenging and may not address the psychological considerations of plan participants.

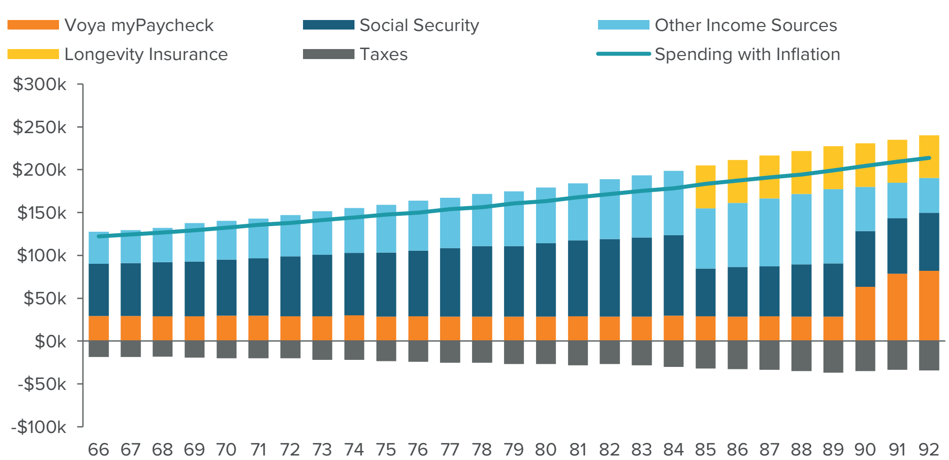
The primary benefit of guarantees is longevity protection—i.e., provision for income should one live longer than expected. For some participants, Social Security benefits and other income sources may provide sufficient guarantees beyond their life expectancy.

Other participants may desire additional guaranteed protection for these later years (e.g., beyond age 80 or 85). A deferred annuity, also known as a qualified longevity annuity contract (QLAC), may be appropriate for such participants. A QLAC may be purchased around the time of retirement and will provide a steady income stream starting at a later age (e.g., at age 80 or 85).

Within the Voya Retirement Income Generator program, selecting a QLAC is a participant-directed choice that is available only if the plan sponsor decides to offer guarantees as an option. The withdrawal tool allows participants to model the impact of a QLAC on their withdrawal plan (Figure 6). Participants can then decide whether a QLAC meets their needs, or whether a combination of withdrawals from the RIF, Social Security and other income sources provides sufficient cash flows and confidence in retirement.

This construct simplifies the challenges plan sponsors and participants face when trying to include guarantees.

Figure 6. Participants can use the myPaycheck guidance tool to see the effects of QLAC options



Source: Voya Investment Management. This illustration is hypothetical and should not be considered promissory of any portfolio return or taken as investment advice.

Making a retirement income program easy to use is key to its successful adoption.

Putting it all together

We believe that an intelligent withdrawal strategy combined with withdrawal guidance will meet the critical retirement needs of most participants. This should be the preferred approach for a default, in-plan retirement income solution — not only because it helps meet participants' needs, but also because it's easy to understand and implement, making it more likely that participants will actually use it.

The Voya Retirement Income Generator program is designed to be an effective, easy-to-use solution that supports participants across the entire timeline of retirement savings accumulation and spending down. The Voya Retirement Income Generator is built upon these key features:

Diversified, actively managed investment portfolio — Designed to support stable withdrawals during the decumulation period, with opportunity for upside potential, to minimize the risks of running out of money. Voya Investment Management's decades of experience in target date funds, multi-asset investing and macroeconomic modeling represent a key strength that differentiates our retirement income solution from other offerings.

Personalized withdrawal — Individual spending needs vary, and so do alternative income sources in retirement (such as Social Security). An intuitive application helps guide participants in determining the appropriate withdrawal amount based on their specific situation. Connecting this guidance to the Voya Retirement Income Generator program integrates professional investing with personalized withdrawal.

Reasonably priced, simple structure — The Voya Retirement Income Generator program represents a single fund that participants can automatically allocate to once they reach retirement. Costs are similar to those of blended target date funds, without any additional charges for asset allocation or personalized withdrawal.

Flexibility — The Voya Retirement Income Generator program offers participants access to their savings, can be upgraded as markets evolve, and is able to add guarantees should participants want them.

References

For an overview of the universe of available solutions, and the pros and cons of each, see *Retirement Income Is the New Retirement Plan Outcome*, published by Voya Financial, the parent company of Voya Investment Management (Voya IM): https://advisors.voya.com/insights/market-insights/survey-retirement-landscape-plan-sponsor-perceptions.

For details on Voya's forecasting process, please refer to Voya's capital market assumptions: https://advisors.voya.com/insights/market-insights/2022-capital-market-assumptions.

Principal risks

The Voya Retirement Income Fund (Voya RIF) is a preliminary portfolio that may be available as a collective trust fund or a mutual fund. More information is available by obtaining the strategy's offering document or the Fund prospectus, which should be read carefully before investing. Consider the investment objectives, risks and charges/expenses carefully before investing.

The Voya RIF is not the only investment option available in an employer's plan; participants can invest in other investment options that may produce different outcomes. Participants who utilize the Voya Retirement Income Generator ("Voya RIG") tool are not required to invest in the Voya RIF.

Important factors to consider when planning for retirement include your expected expenses, sources of income and available assets. Before investing in the Voya RIF, weigh your objectives, time horizon and risk tolerance. Generally, investors with longer time frames can consider assuming more risk in their investment portfolios. The Voya RIF seeks to support a reasonable withdrawal amount over a participant's decumulation period while minimizing the risk of running out of money. Voya RIF's asset allocation approach is dynamic and can adapt to shifts in the macroeconomic environment.

No guarantees: As with any portfolio, you could lose money on your investment in the Voya RIF. Although the Fund seeks to optimize risk-adjusted returns, you still may lose money and experience volatility. Forward-looking asset-class assumptions and market judgment are used to form the asset allocations for the Voya RIF. Diversification cannot ensure a profit or protect against loss in a declining market. There is risk that you could achieve better returns than those of the Voya RIF in an underlying portfolio or other portfolios representing a single asset class. The Voya RIF invests in many underlying portfolios, which are exposed to the risks of different areas of the market. The higher a portfolio's allocation to stocks, the greater the overall risk. Stocks are more volatile than bonds, and portfolios with a higher concentration in stocks are more likely to experience greater fluctuations in value than portfolios with a higher concentration in bonds. Foreign stocks and small- and mid-cap domestic stocks may be more volatile than domestic large-cap stocks. Investing in bonds entails credit risk and interest rate risk.

The Voya RIF strategy utilizes quantitative modeling, in addition to other analysis, to support investment decisions. Data imprecision, software or other technology malfunctions, programming inaccuracies and similar circumstances may impair the performance of these systems, which may negatively affect performance. Furthermore, there can be no assurance that the quantitative models used to support investment decisions in the strategy will perform as anticipated or enable the strategy to achieve its objective.

Target date fund risks: There is no guarantee that any investment option will achieve its stated objective. Principal value fluctuates and there is no guarantee of value at any time, including the target date. The target date is the approximate date when investors plan to start withdrawing their money. When their target date is achieved they may have more or less than the original amount invested. Generally, until the day prior to its target date, a target date portfolio will seek to provide total return consistent with an asset allocation targeted at retirement in approximately each portfolio's designated target year. Generally on the target date, the portfolio's investment objective will be to seek to provide a combination of total return and stability of principal consistent with an asset allocation targeted to retirement.

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Past performance is no guarantee of future results.

The Voya Retirement Income Generator ("Voya RIG") tool is not final and may evolve and change based on client feedback. The Voya RIG demo tool is for discussion only.

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