Sustainable Income for the Retirement Voyage

A new income strategy from Voya Investment Management gives employers a tool to help defined contribution 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.

VOYA® INVESTMENT MANAGEMENT

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Executive summary

Workers are looking to their employers to provide investment solutions that can help them save and build wealth for retirement and provide sustainable income once retirement begins.

An optimal retirement income solution should meet the critical needs of most participants and should be easy to understand and implement, making it more likely that participants will actually use it.

The Voya Retirement Income Generator (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 (Voya RIF)—a diversified, actively managed portfolio—with an option for longevity protection. The Voya RIG is designed to be an effective, easy-to-use solution that potentially supports participants across the entire timeline of accumulating and spending retirement savings.

It is built upon **two key features:**

Reasonably priced, simple structure: The Voya RIG 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 calculations.

Flexibility: The Voya RIG offers participants access to their savings, can be upgraded as markets evolve, and allow participants to add guarantees if desired.

The Voya RIG guidance tool helps participants determine an appropriate amount to withdraw from their savings based on their needs and preferences. Each participant is able to create a personalized retirement "paycheck" (that provides regular income payments) from their account balance tailored to their circumstances along with a view of how to withdraw other assets. For the "paycheck," the tool is connected to the Voya RIF to maintain consistency of investment assumptions.

The Voya RIF uses a diversified, actively managed investment portfolio designed to support stable withdrawals during the decumulation period—with opportunity for upside potential—to minimize the risks of the participant 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.

Defined contribution (DC) plan participants are looking to their employers to provide investment solutions that can help them save and build wealth for retirement and provide a solution for sustainable income once they enter retirement. For the most part, plan sponsors want to offer participants an option for sustainable retirement income, seeking to enhance the potential for better participant outcomes. To be effective, these solutions must be easy to understand and implement. They must be robust, offering potential for sustainable withdrawals to meet spending needs while reducing the chance of running out of money. Finally, sponsors want to provide retirement income options at a reasonable cost.

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

As we delve into Voya's solution, we discuss 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. While our solution focuses on non-guaranteed investments, it also is flexible enough to accommodate the inclusion of a guaranteed component for participants particularly concerned about the possibility of outliving their assets.

Plotting the course of the retirement voyage

Over the last several decades, employer-sponsored DC plans have helped millions of Americans save and accumulate wealth for retirement. As these employees approach retirement, they are looking for solutions to use their savings to support themselves. These evolving needs, combined with policy initiatives such as the SECURE and SECURE 2.0 Acts, have led more employers to consider adding retirement income solutions to their DC plans.

DC plan sponsors and their consultants are seeking in-plan retirement income 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.** Coupling retirement income to a strong, overall qualified default investment alternative (QDIA) is an effective way to increase adoption. A flexible 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, targeted employer match and the use of QDIAs (particularly target date funds), 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 in this stage seek an investment strategy that will continue to provide the income they need—and for some, give them the potential to leave a legacy for their heirs. 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 requires different tools.

Accumulation	Decumulation	Longevity/legacy
Target date fund As the QDIA while participants are working and saving for retirement, a 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.

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

During accumulation, an off-the-shelf target date fund or custom target date strategy that also serves as the plan's QDIA relieves participants of the need to determine appropriate levels of investment diversification and risk on their own.

Ideally, a retirement income solution should be integrated to work with the 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. For example, upon retirement, the participant's savings will transition into a professionally managed retirement income fund (with no additional paperwork required).

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

[2] As of September 2024, 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.

Once participants are invested in a retirement income investment solution that also has the appropriate levels of investment diversification and risk, a personalized, robust withdrawal tool allows participants to decide how much of their savings they can safely spend each year and whether they should consider guarantees.

Finding an optimal solution for the retirement journey is challenging

As they seek to offer participants a retirement income solution, 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 retirement income program.

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 a reasonable cost

Annuities can provide a sense of certainty—but come with risks

At first glance, the simplest, surest way to convert accumulated savings into retirement income might 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.

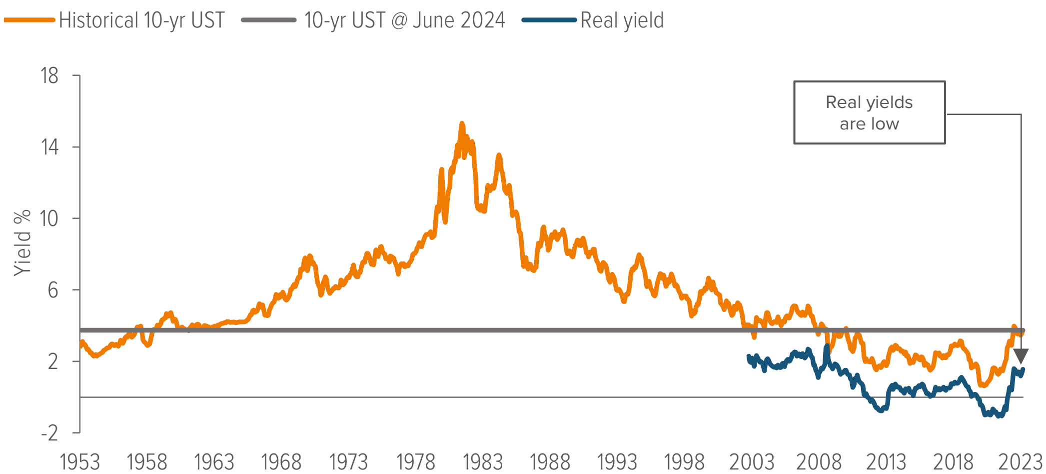
Fixed-interest-rate products such as immediate annuities provide a sense of certainty, but the price of certainty may be the erosion of purchasing power. Immediate annuities are priced by locking in prevailing market interest rates over the life of the annuity. If rates are low when participants annuitize their savings (Exhibit 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.

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

Interest rates remain low by historical standards. Even after rate hikes in 2022 and 2023, inflation-adjusted bond yields are still unlikely to meet future spending needs. 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”—potentially resulting in a less-than-ideal retirement experience. For further detail, see “Avoiding challenges of using guarantees” below.

Exhibit 1. Immediate annuities may lock investors into low or negative real yields

Ten-year U.S. Treasury yield (UST) and inflation-adjusted (real) yield



As of 06/30/24, 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 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. We believe this is likely to reduce 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 (Exhibit 2)—although of course, with the annuity options, there would be certainty that payments would continue through the retiree's lifetime.

We believe the best way to address participants' needs is a flexible program of investments, withdrawal guidance and optional guarantees.

Exhibit 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%	$62	$0
1987	$100	10%	$34	$0
1997	$100	9%	$13	$0
2004	$100	8%	$24	$0

As of 06/30/24. Source: St. Louis Fed FRED database and Bloomberg Index Services Ltd.Analysis by Voya Investment Management. The 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 US Aggregate Bond Index. This analysis is for illustrative purposes only; it should not be considered promissory of any portfolio return or taken as investment advice. **Investors 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.

Our solution: The Voya Retirement Income Generator program

The Voya Retirement Income Generator (Voya RIG) 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 (with an option to mitigate the risk of outliving assets) offer 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 guidance tool**

We believe the Voya RIG program should meet most participants' needs for a retirement income solution for the following reasons.

Easy to understand and implement: The program is integrated as an in-plan retirement savings option; participants simply transition to the Voya RIF at retirement, ideally without having to do any extra paperwork.

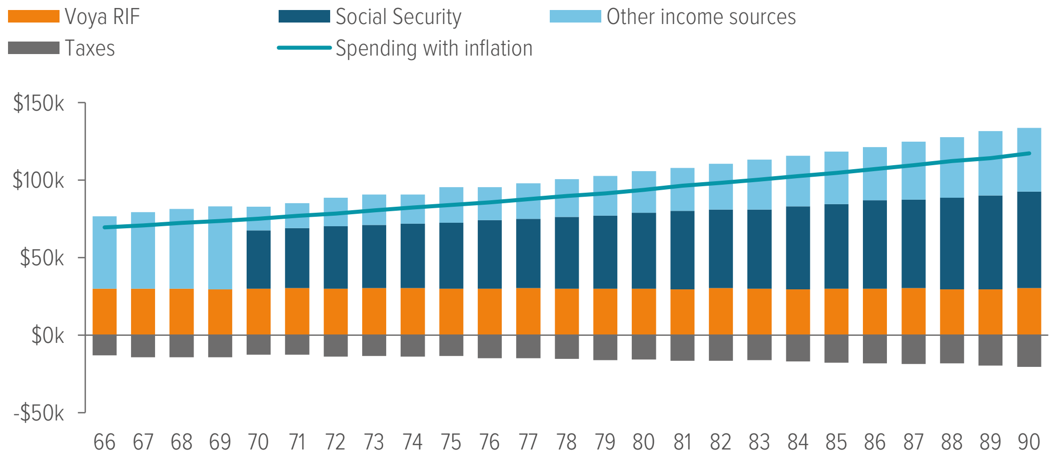
- **Simplifies the plan sponsor's decisions.** Sponsors are responsible for two key decisions: (1) identifying a QDIA that meets the needs of participants and (2) identifying options the plan can offer participants based on their preferences. We believe the Voya RIG helps simplify the first decision: it potentially meets the needs of most participants. What's more, it's cost-effective, easy to understand and gives 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 drawdown. The built-in RIG guidance tool helps participants navigate a clear course while maintaining control of their savings.

Supports retirement spending with a personalized withdrawal guidance tool: A key feature of the Voya RIG is the withdrawal guidance tool, which—coupled with the Voya RIF—helps participants evaluate their circumstances and create personalized withdrawal amounts that are designed to last throughout retirement.

The tool (Exhibit 3) helps participants determine an appropriate amount to withdraw from their savings based on their needs and preferences. It allows the participant to factor in their 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 income amount from their current plan account balance tailored to their circumstances along with a view of how to withdraw other assets. The tool is connected to the Voya RIF to maintain consistency of investment assumptions.

Withdrawal guidance is an essential tool to set retirement spending.

Exhibit 3. The Voya RIG guidance tool is easy to use and understand



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

After the tool determines the optimal withdrawal amount, the plan's recordkeeper can facilitate withdrawal instructions.

Helps reduce the risk of depleting savings: Unlike traditional balanced funds that seek to outperform investment benchmarks, the Voya RIF aims 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. That 20-year horizon is projected forward continuously, and market assumptions are updated at least annually; the Voya RIF's asset allocation approach is therefore dynamic and can adapt to changes in the macroeconomic environment.

Avoids challenges of built-in guarantees: The Voya RIG program 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 out of plan in the form of longevity insurance. The withdrawal guidance tool allows participants to model their options, typically as a Qualified Longevity Annuity Contract (QLAC), helping them determine whether these solutions meet their preferences.

Dynamic asset allocation and diversification lower the risk of depleting savings

The Voya RIF seeks to preserve purchasing power while reducing the risk of loss. To deliver these benefits to participants in an ever-changing market 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 and government bonds for capital preservation potential.

The investment strategy focuses on achieving the Voya RIF's objectives rather than outperforming 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. Exhibit 4 illustrates the asset allocation spectrum available to the Fund.

Exhibit 4. The Voya RIF's 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%
Total equity weight	25–45%
Total bond weight	55–75%

Source: Voya IM, data as of August 2024. Fund parameters are subject to change.

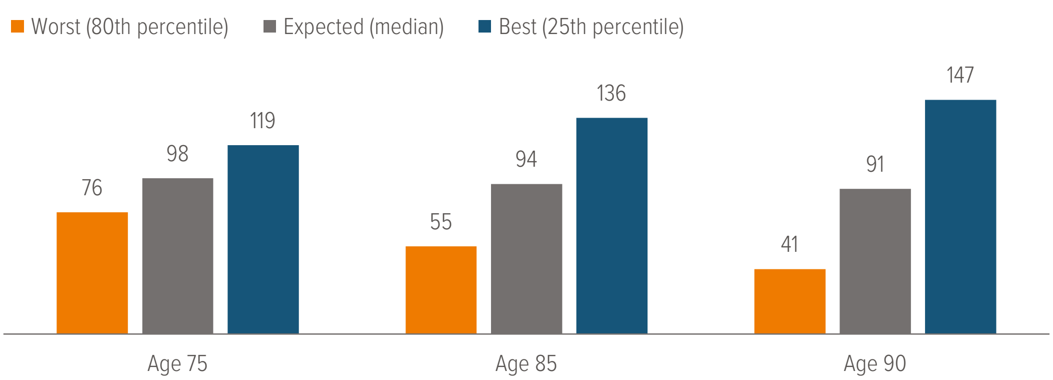
What potential outcomes can the Voya RIF provide?

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 Exhibit 5 illustrates a retiring 65-year-old participant who decides to withdraw 5% 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.

Exhibit 5. Projected available balances after withdrawing 5% per annum

Remaining percentage of initial retirement balance at each age



As of 06/30/24. Source: Voya IM. 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

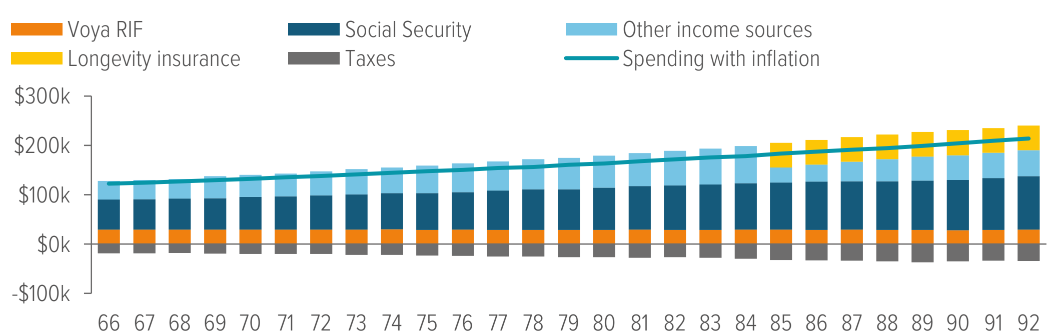
Guarantees through insurance contracts can play an important role in retirement income, offering participants stability and security. However, for the reasons discussed earlier in this paper, **incorporating immediate annuities is challenging and may not address the psychological considerations of participants.**

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

Other participants may desire additional guaranteed protection for later years (for example, beyond age 80 or 85). In this case, a qualified longevity annuity contract (QLAC), which is a type of deferred annuity, may be appropriate. A QLAC may be purchased around the time of retirement and will provide a steady income stream starting at a later age (such as 80 or 85).

Within the Voya RIG, selecting a QLAC is a participant-directed choice that is available only at the plan sponsor's discretion. The withdrawal guidance tool allows participants to model the impact of a QLAC on their withdrawal plan (Exhibit 6). Participants can then decide whether a QLAC meets their needs, or whether a combination of withdrawals from the Voya RIF, Social Security and other income sources provides sufficient cash flows and confidence in retirement. If a participant chooses to allocate to a QLAC, then the QLAC is unique to that participant, and their assets are transferred out of plan, reducing the complexity of offering this option within the plan. This construct simplifies the challenges sponsors and participants face when trying to include guarantees.

Exhibit 6. Participants can use the withdrawal guidance tool to see the effects of QLAC options



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

Putting it all together

We've designed the Voya RIG program as a comprehensive solution that aims to meet the evolving retirement planning needs of participants. By integrating a diversified, actively managed investment fund with a personalized withdrawal guidance tool, the program aims to provide sustainable retirement income while minimizing the risk of outliving assets. The program's flexibility, ease of implementation, and cost-effectiveness make it a viable option for both plan sponsors and participants, addressing the critical stages of the retirement journey from accumulation to decumulation and beyond.

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.

For details on Voya's forecasting process, please refer to Voya's latest **capital market assumptions.**

A note about risk

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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Participation in a collective trust fund is limited to eligible trusts that are accepted by the Trustee as Participating Trusts. Eligible trusts generally include (i) certain employee benefit trusts exempt from federal income taxation under Code Section 501(a); (ii) certain governmental plans or other deferred compensation plans described in Code Section 414(d), Code Section 457(b), and Code Section 818 (a) (6); (iii) certain commingled trust funds exempt from federal income taxation under Code Section 501(a); and (iv) certain insurance company separate accounts. Neither the fund nor units of beneficial interest in the fund are registered under the Investment Company Act of 1940 or the Securities Act of 1933, in reliance on exemptions under these acts applicable to collective trust funds maintained by a bank for certain types of employee benefit trusts.

Past performance does not guarantee 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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