

When nest eggs need a safety net:

Who benefits from guaranteed
lifetime income – and how?

Intro

22%. That is the average increase in potential retirement spending that individual savers in defined contribution (DC) plans can achieve when they embed guaranteed retirement income solutions into a target date fund. For lower-income workers, it's a 25% increase (Figure 3).

These are just two findings from our persona analysis, which examines who benefits from guaranteed lifetime income.

It's one solution to some of the issues that have troubled DC plans since their very beginnings:

What happens in retirement? How should people convert nest eggs into income? And how should they manage the lack of guarantee?

With Americans living longer and the average retirement age largely unchanged, the challenge of how to spend in retirement is more important than ever. And retirees' outcomes vary greatly.

At one end of the spectrum, many households struggle to make their assets last through retirement. 66% of savers worry they'll run out of money in retirement, only 27% of retirees feel confident they have enough to last through their entire retirement whereas 91% of retirees looking back believe employers should provide guaranteed income options in the plan.¹ At the other extreme, we find that many retirees don't spend nearly as much as they could from their investments. A 2018 study found that most retirees still had 80% of their pre-retirement savings after almost two decades of retirement.² This was true across all wealth levels, suggesting that there's a behavioral element at play. Simply put: We don't like watching a leaky bank account.³ We like finding checks in our mailboxes.

Our take on this retirement spending⁴ challenge: Neither extreme is desired. People don't want to outlive their savings, but they do want to preserve their quality of life through retirement. It's why, for the past 30 years, our lifecycle investment philosophy has always held that consistent spending⁵ is the right investment objective for target date funds – thinking that extends to our retirement income philosophy, which includes the option to purchase lifetime retirement income embedded in a target date strategy.

The question is – how can having guaranteed income enhance the retirement experience of different segments of an employee population? Does it benefit everyone? What about those at the top or bottom of the income spectrum? Are the benefits strictly financial, or are there behavioral advantages, too? These questions are usually at the top of plan sponsors' minds. And, with over a decade of experience working on the decumulation problem, it's something we've given considerable thought. In the persona analysis that follows, we expand on work we've done with individual companies' employee populations, as well as industry stakeholders,⁶ to examine who benefits from guaranteed lifetime income across a nationally representative sample of workers.

1 BlackRock, Read on Retirement® survey, 2025
2-3 BlackRock, EBRI, To Spend or Not to Spend, 2023 (updated from 2018). **4** Otherwise known as, "decumulation." **5** Our approach is rooted in providing individuals tools to maximize spending over their lifetime, maximize certainty of spending, and address longevity risk in retirement. **6** See: BlackRock, Bipartisan Policy Center, Paving the Way to Optimized Retirement Income, 2023.

Key findings.

Guaranteed lifetime income lifts all boats.

Our modeling shows that embedding a guaranteed retirement income solution in a target date fund can drive a 22% average increase in potential spending ability across all income levels.

A big boost for low-income workers.

The increase in potential spending ability from savings is particularly strong among lower-income workers.

Our modeling shows that guaranteed retirement income solutions can drive a 25% increase for this group.⁷

Peace of mind for middle-income workers.

Workers in the 25th to 75th income percentiles represent a significant portion of 401(k) savers.⁸ Looking across this analysis and our annual survey of retirement savers, we find that this group derives outsized value from increased potential spending certainty and reduced longevity risk.

A strategic option for higher-income workers.

While higher-income earners are typically able to self-insure, we still find that guaranteed retirement income solutions can increase their potential spending ability by 18% – which, we believe, can strengthen their overall income optimization strategy.

A solution for workers who once had DB.

As the shift away from defined benefit (DB) plans towards DC plans continues, many companies are looking for ways to provide support to employees who find themselves caught up in the transition. When comparing a traditional retirement pension benefit with a guaranteed lifetime income benefit within a target date strategy, we find that, like a pension, a lifetime income benefit could provide greater certainty of income in retirement relative to a traditional target date approach.

⁷ Granted, lower-income earners typically receive the majority of their retirement income from Social Security. For the purposes of our analysis, we have omitted income from Social Security. See "Analysis" section for rationale. ⁸ Employee Benefits Security Administration, U.S. Department of Labor, Abstract of 2021 Form 5500 Annual Reports, Data extracted on 7/26/2023.

Inputs considered.

In looking at who can benefit from having guaranteed lifetime income, we need to consider several variables and set certain assumptions. While differences in personal circumstances, including income, savings rates, and investments, will determine specific individual outcomes in retirement, we looked to capture a variety of factors in our analysis as outlined below.

Income

We know that lower-income workers rely predominately on Social Security benefits to replace income in retirement. We also know that very high-income earners can afford to self-insure and may benefit from personalized advice. With that in mind, does everyone benefit from using a portion of retirement assets to purchase a guaranteed lifetime income solution? Or does only a sub-population stand to benefit? For this analysis, we refer to the average annual income for each quartile, using U.S. Census data, to understand impact across income cohorts.

Age

For plan sponsors considering introducing a new retirement income solution, a question we commonly get is how a participant's age at the time of the switch impacts their retirement outcome. With this in mind, we've assigned a different "starting age" for each persona (25, 35, 45, and 55), so we can see the impact at different stages of the lifecycle.

Starting balance and savings rate

The starting balance and savings rate for each age group is derived from the ages we selected. Leveraging EBRI data, we found the average balance for each age cohort (25, 35, 45, 55) and assumed a corresponding savings rate (1%, 5%, 8%, 21%) based on our lifecycle research, plan design experience, and informed by EBRI research.

Social Security

While an important component of an individual’s overall retirement income portfolio, Social Security is excluded from our analysis. This is for two reasons: First, it is difficult to arrive at a “typical” benefit value for Social Security, as the dollar amount is impacted by both income and claiming strategy. Second, while we are working on tools to help individuals better understand and optimize claiming Social Security, for the purposes of this analysis, we want to focus on what plans can control, namely the investment options available within plan menus.⁹

⁹ Of course, savings rates are another factor that may be within individuals’ control.

Using these variables, we created four personas:

FIGURE 1

	Income quartile	Avg. starting salary¹⁰	Age¹¹	Avg. starting balance¹²	Savings rate¹³
Persona 1	First	\$16,157	25	\$535	1%
Persona 2	Second	\$48,093	35	\$7,818	5%
Persona 3	Third	\$90,746	45	\$52,754	8%
Persona 4	Fourth	\$188,832	55	\$468,512	21%

A note on savings rates: Savings rates have a direct impact on balances over time. Correspondingly, a low savings rate on a low base salary will yield a smaller balance at retirement. In other words, how much a person saves matters. In this paper, we do not suggest that guaranteed lifetime income solutions can make up for low savings rates; rather, we aim to show the relative increase in spending ability that they can provide.

Within each persona, we compare investment in a traditional, index target date fund to one where the saver has a guaranteed lifetime income solution – and measure the corresponding potential impact on retirement spending capacity.

¹⁰ U.S. Census Data, 2022. BlackRock analysis, 2024. Refers to the average starting salary at the “starting age” (25, 35, 45, 55). ¹¹ The ages here were chosen by BlackRock. ¹² EBRI, Retirement Confidence Survey, Age Comparisons Among Workers, 2023. ¹³ These savings rates were chosen by BlackRock and informed by EBRI research.

Analysis.

To better understand the impact of the presence of guaranteed retirement income across the four personas, we ran 100,000 simulations for two target date portfolios – one traditional strategy invested in stocks and bonds, the other invested in stocks, bonds, and a guaranteed lifetime income strategy. While the guaranteed income strategy does not include a cost-of-living adjustment, each target date strategy includes inflation-hedging assets. For this analysis we leveraged our proprietary lifecycle model and reflected various economic conditions, including asset class returns, inflation rates, and annuity prices.¹⁴ Potential spending outcomes are shown in real dollar terms, reflecting a 2% inflation target.

¹⁴ We calculate the value of the modeled deferred annuities (see Figure 2) using a proprietary BlackRock annuity pricing model. ¹⁵ Retirement Income Institute, “Participant Attitudes Toward Guaranteed Income in a Defined-Contribution Plan,” 2021.

In determining a target allocation to lifetime income (Figure 2), we sought to balance individual preferences with research into spending needs. According to a Retirement Income Institute survey, on average, participants would allocate 33.5% of their total retirement savings to an income annuity if the option were available.¹⁵

Furthermore, we evaluated average expenditures in retirement and sought an allocation to guaranteed income that, when paired with Social Security, could cover essential expenses. We believe a target allocation of 30% to a guaranteed income option provides income certainty, while the remaining 70% invested in stocks (50%) and bonds (50%) delivers participants flexibility, opportunity for growth, and inflation protection. In our view, the presence of annuity income gives investors capacity to take on additional equity risk (hence the comparison to the 40/60 scenario).

FIGURE 2

Strategy	Accumulation period asset allocation	Decumulation period asset allocation
Traditional target date invested in stocks and bonds	Asset allocation gradually de-risks following glidepath, shifting away from stocks in favor of bonds.	Stocks – 40% Bonds – 60%
Retirement income target date invested in stocks, bonds, and guaranteed lifetime income strategy	Asset allocation gradually de-risks following glidepath, shifting away from stocks in favor of bonds. Saver gradually purchases a series of deferred annuities from age 55 to retirement at 65. Upon retirement, the deferred annuities (which represent ~30% of the total account balance) commence paying guaranteed income.	Stocks – 50% Bonds – 50%

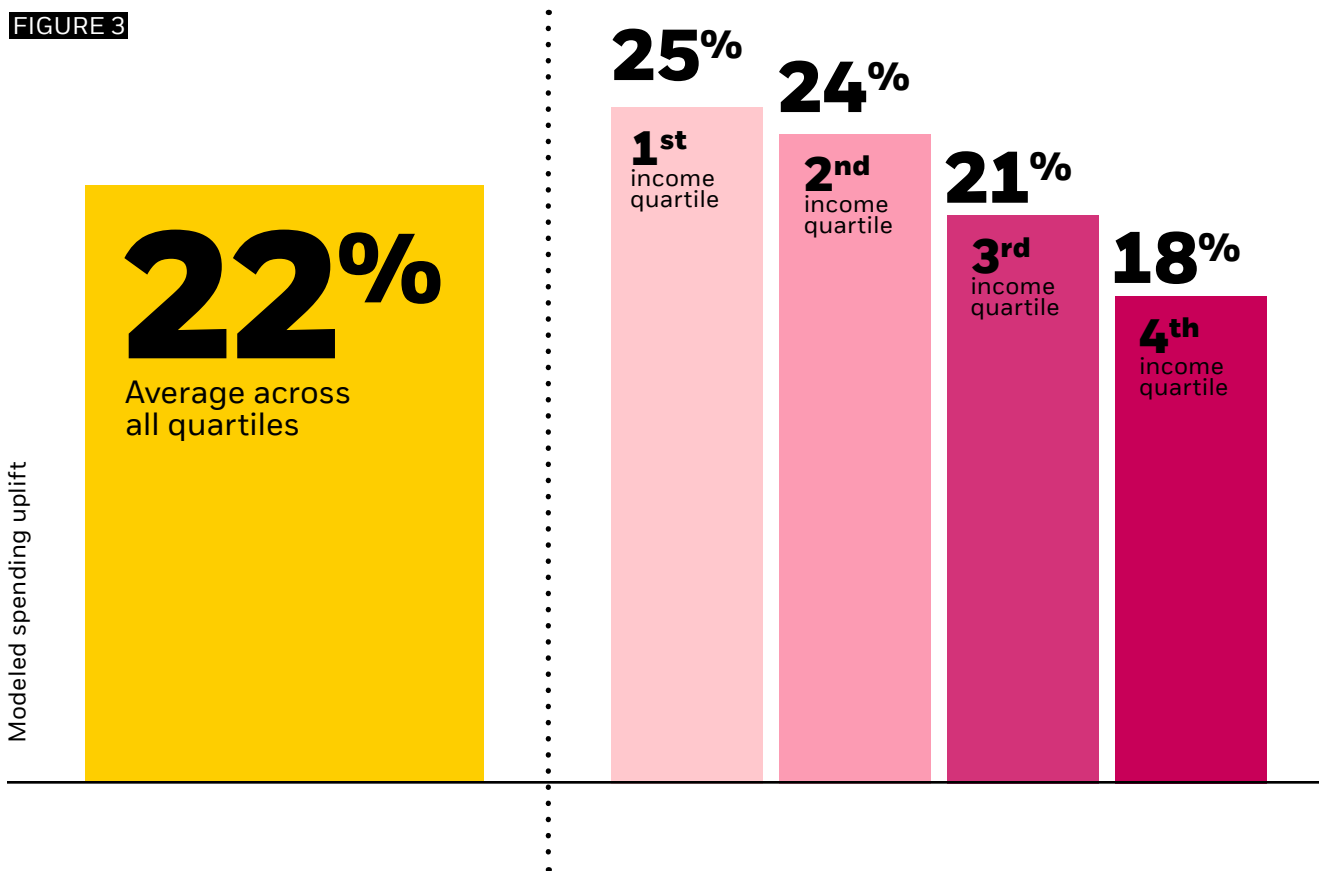
Key findings



Guaranteed lifetime income lifts all boats.

Perhaps the most notable finding from this work is that retirement savers, across the income spectrum, stand to benefit from access to guaranteed lifetime income. Our model finds a 22% average spending uplift across all income quartiles. This increase is attributable to both the addition of a guaranteed component and the adjusted asset allocation from 40% stocks to 50% in retirement. This change in asset allocation reflects the additional security, or guaranteed income floor, provided by the guaranteed income.

FIGURE 3



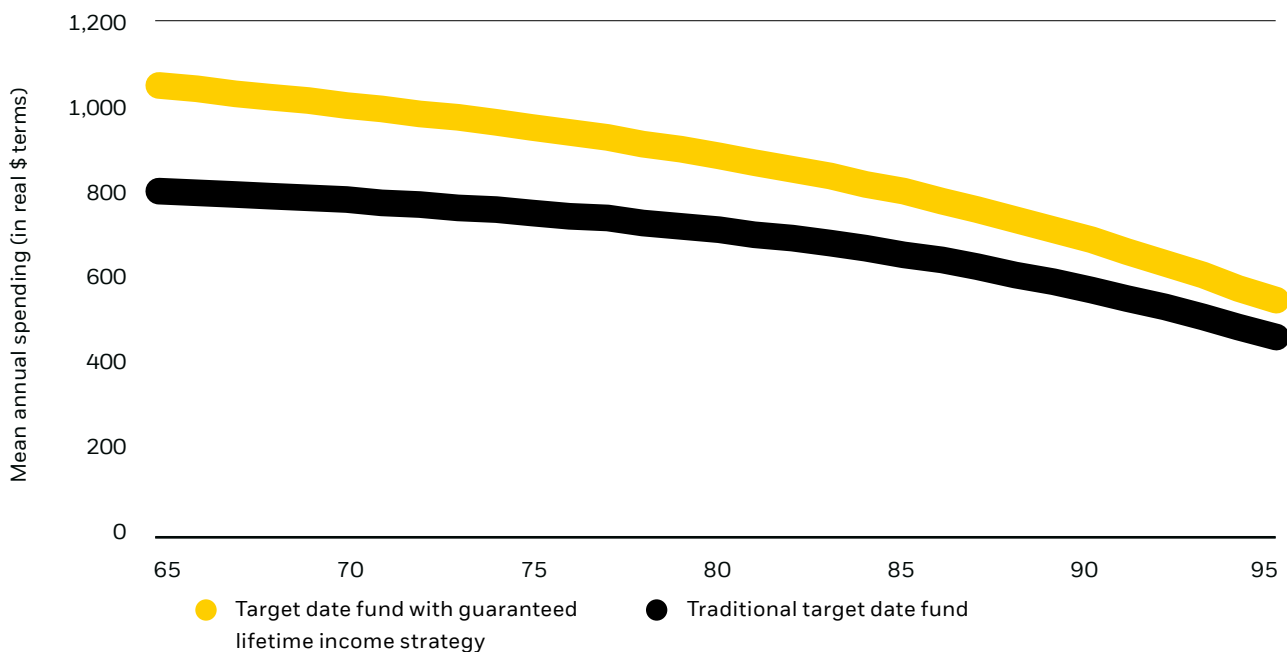


A big boost for low-income workers.

FIGURE 4 | PERSONA 1

Income quartile: First
Avg. starting salary: \$16,157
Age: 25
Avg. starting balance: \$535
Savings rate: 1%
Modeled spending uplift: 25%

As Figures 3 and 4 show, savers in the first income quartile experience the biggest lift (25%). Of course, we recognize that lower-income earners likely face barriers to saving, which, in turn, can lead to lower retirement savings balances. Even still, we believe it's a mistake to underestimate the behavioral benefits that the presence of a guaranteed lifetime income solution can have on this group of savers.



One important consideration for lower-income workers is understanding their liquidity needs. Accessing lifetime income usually means giving up control over those assets used to purchase a guaranteed income stream like an annuity, which may not be appropriate for everyone. For this reason, in this analysis we allocate 30% to a guaranteed income strategy, thereby keeping 70% invested in traditional, daily liquid assets, providing greater flexibility for things like unexpected costs and emergencies.

Investing in an income solution – particularly when combined with a robust participant engagement program – can go a long way toward shifting people’s mindsets from “nest egg” to “income.” The literature¹⁶ tells us this is one of the greatest barriers to solving the decumulation challenge. And, qualitatively, we know that lower-income earners are significantly less likely to think in terms of income generated in retirement.¹⁷ In fact, lower-income earners are 20% less likely than middle-income earners and 42% less likely than high-income earners to have thought about generating income in retirement.¹⁸

Yet, we also know that 72% of lower-income earners indicate they would save more if their plan offered them a guaranteed retirement income solution and 88% note retirement income solutions would positively impact their well-being.¹⁹ It’s why we emphasize these behavioral benefits in our retirement income participant engagement programs. For lower-income earners, having a guaranteed lifetime income option could be an incentive to increase savings throughout their career.

16 U.S. Treasury, “Retirement Income Review Final Report,” 2020. **17-19** BlackRock, Read on Retirement®, 2023.

Our philosophy is to provide education and communication throughout the participants’ lifecycle – with acute attention given during key moments.

(e.g., enrollment, career and life changes, etc.)

This includes what we call “pre-retirement” – that is, the 10-year window leading up to retirement. There are two reasons for this. First, our labor income models show that this is a period in the lifecycle where earnings peak and, therefore, the odds of having the capacity to save more

increases. Second, behavioral finance finds that, when delivered consistently, financial education interventions – especially around generating retirement income – have a significantly higher likelihood of “sticking.”²⁰

20 David Blanchett, “Guaranteed Income: A License to Spend,” 2021.

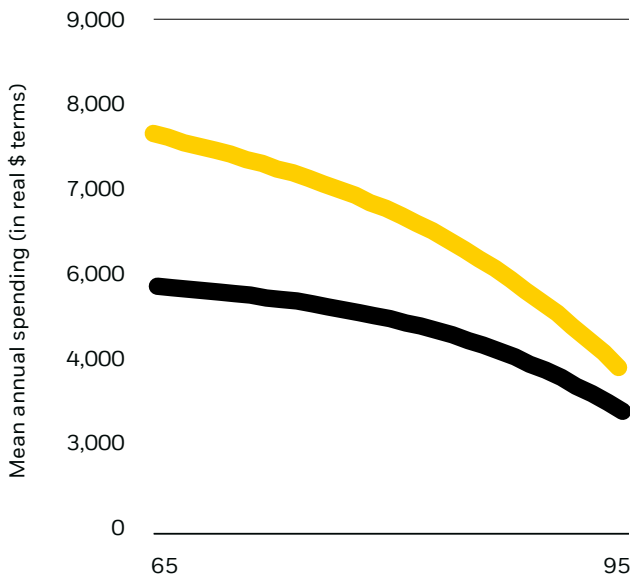


Peace of mind for middle-income workers.

The meaty middle is how we refer to the significant portion of 401(k) savers who fall between the 25th and 75th income percentiles.²¹ As Figures 5 and 6 show, the second- and third-income quartiles experience a 24% and 21% uplift in spending ability, respectively.

FIGURE 5 | PERSONA 2

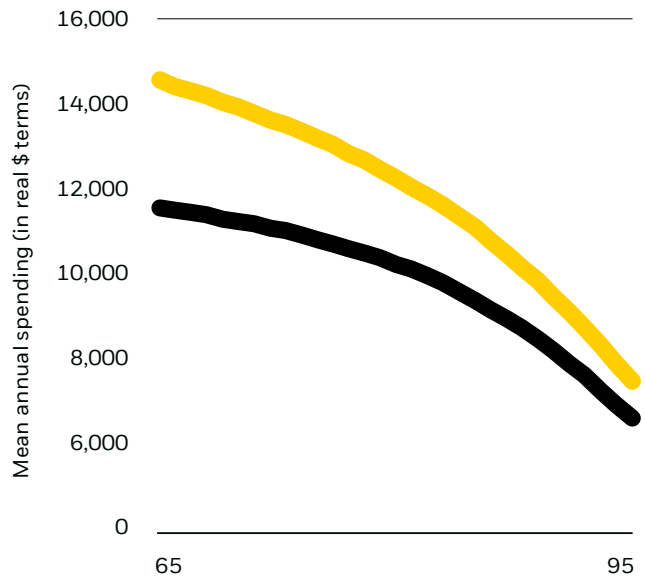
Income quartile: Second
Avg. starting salary: \$48,093
Age: 35
Avg. starting balance: \$7,818
Savings rate: 5%
Modeled spending uplift: 24%



- Target date fund with guaranteed lifetime income strategy
- Traditional target date fund

FIGURE 6 | PERSONA 3

Income quartile: Third
Avg. starting salary: \$90,746
Age: 45
Avg. starting balance: \$52,754
Savings rate: 8%
Modeled spending uplift: 21%



What's more, these workers derive outsized value from the increased spending certainty and reduced longevity risk that guaranteed retirement income delivers. Qualitatively, "meaty middle" savers confess they're more worried about outliving their retirement savings than either those in the bottom- or top- income quartiles, and they are significantly (21%) more worried than top-quartile savers about having to generate their own retirement income.²² 95% of these savers are interested in owning an investment solution to help address this.²³

²¹ Employee Benefits Security Administration, U.S. Department of Labor, Abstract of 2021 Form 5500 Annual Reports, Data extracted on 7/26/2023. **22-23** BlackRock, Read on Retirement®, 2023.

That's what the yellow line in Figures 4 and 5 offers. Should an individual live beyond their average expected lifespan, a guaranteed lifetime income solution can provide an effective longevity hedge. Even if we were to extend the graph for decades longer, the yellow line would never go to zero – because it continues to provide income in perpetuity. That is the guarantee.

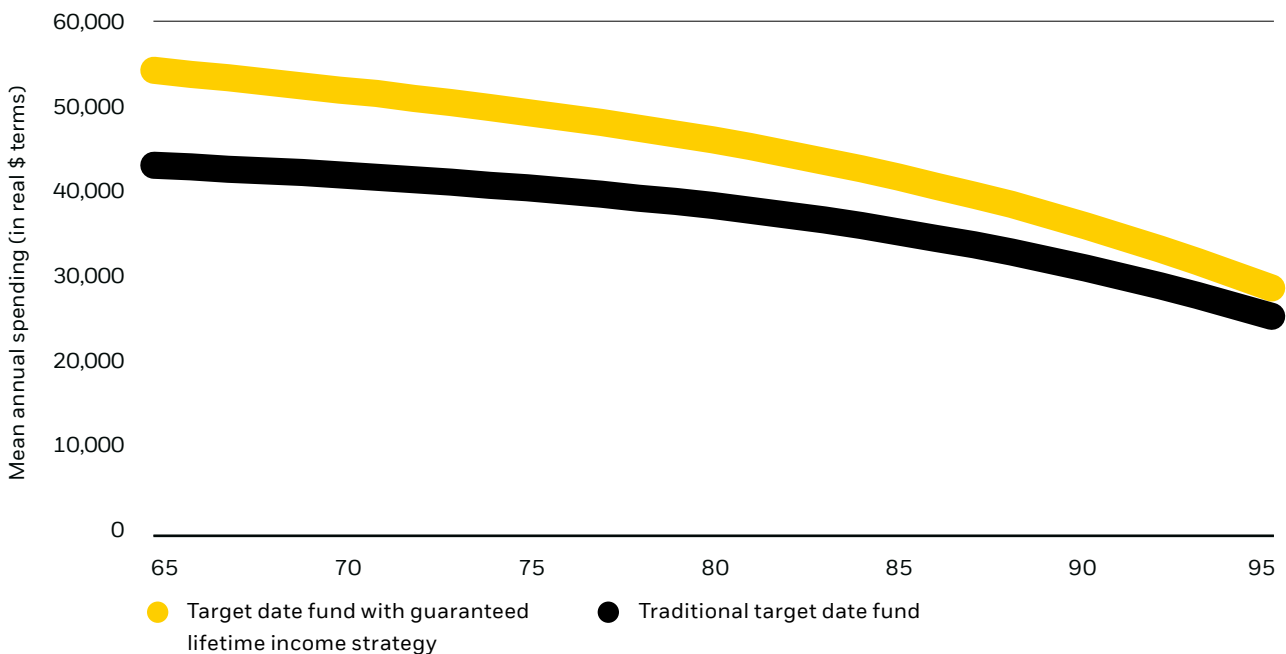


A strategic option for higher-income workers.

FIGURE 7 | PERSONA 4

Income quartile: Fourth
Avg. starting salary: \$188,832
Age: 55
Avg. starting balance: \$468,512
Savings rate: 21%
Modeled spending uplift: 18%

High-income earners stand to benefit, as well. While the uplift in spending ability we see from investing in a guaranteed lifetime income solution is more muted, relative to the other cohorts, at 18%, it is still significant. This income cohort can benefit from a more personalized retirement income strategy, including other forms of insurance, tax optimization, and managing bequest motives.





A solution for workers who once had DB.

As the shift away from DB plans towards DC plans continues, there's the risk that plans might create a group of haves and have-nots. It's why many companies are looking for ways to provide support to employees who find themselves caught up in the transition.

In many cases, employers turn to plan design – increasing contributions, playing with match structure, etc. – as a lever. Until recently, there have been fewer investment solutions, so it's not surprising that, while 100% of employers feel responsible for helping participants generate and manage income, only 38% of employers believe at least 60% of their employees are on track for retirement.²⁴ Today, however, plan sponsors can consider guaranteed lifetime income options to help address this issue and offer their participants additional tools to maximize certainty of spending, the way DB plans used to.

²⁴ BlackRock, Read on Retirement® survey, 2025.

Like any analysis, ours relies on a certain set of assumptions and – ultimately – individuals' retirement outcomes will be a product of their personal circumstances, behaviors, and other factors. Even still, we are encouraged by this analysis, as it underscores our belief that, like a pension, a lifetime income benefit can provide a predictable income stream in retirement.

Conclusion

All roads lead to income.

Over the past 30 years, the pension has largely slipped away. But the need for guaranteed forms of retirement income certainly hasn't. Uncertainty around our lifespans, spending needs, and the ability to generate investment income has long made the decumulation phase the biggest challenge in retirement planning. Increased longevity has only further exacerbated this challenge.

In this paper, we aim to show that, not only is the need for retirement income universal – the impact it can have is, too. Across the board, people of all income levels stand to benefit from the increased certainty provided by guaranteed lifetime income. And, when we look more closely at certain personas, we believe other benefits emerge. In the case of lower-income earners, the benefits are behavioral, encouraging the mindset shift from “nest egg” to “income stream.” For higher-income earners, it's strategic – enabling retirees to optimize their retirement income. And for those who once had a pension, it offers a potential improvement alongside other tools that plan sponsors can consider.

Still, there is so much more about the question, “Who benefits from guaranteed lifetime income?” that we still want to answer. In future work, we hope to focus on the impact of other demographic factors (like gender, race/ethnicity, and industry), as well as behavioral variables (like spending habits, health, and bequest motive).

We believe building a guaranteed income solution that works in step with a wide range of participant experiences will allow more people to not only retire on their own terms, but live it out that way, too.

Important information

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