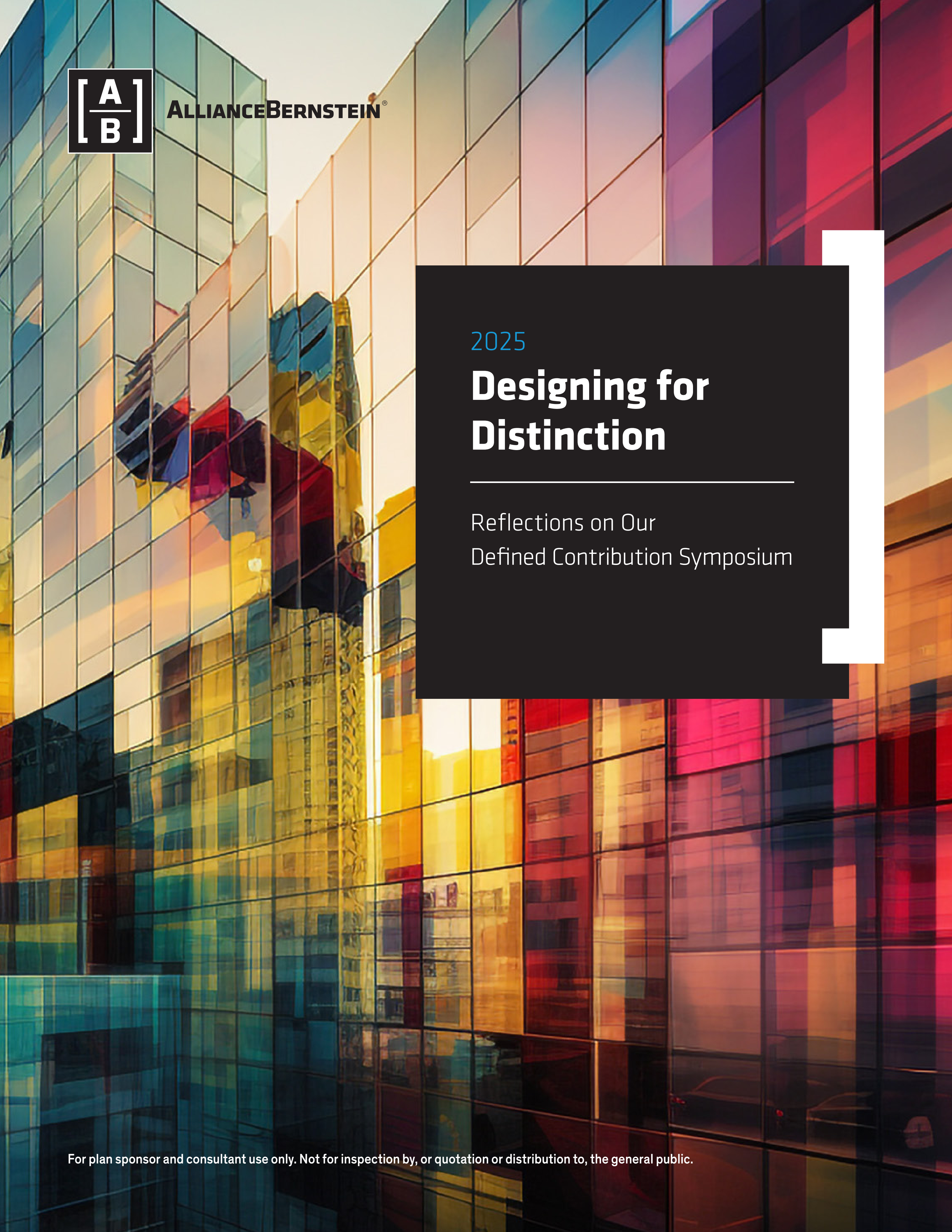

AllianceBernstein®

2025

Designing for Distinction

Reflections on Our
Defined Contribution Symposium

A confluence of megatrends and shifting demographics is creating new opportunities for defined contribution (DC) plan sponsors to elevate their retirement plans.

This backdrop framed AB's annual DC symposium: Designing for Distinction: Creating a Leading-Edge Retirement Plan for Your Most Important Assets, held in Nashville, Tennessee.

Plan sponsors, consultants and industry experts gathered for deep-dive discussions around meeting unique participant needs, driving better retirement outcomes with lifetime income solutions and exposure to private markets, and the future of participant engagement through artificial intelligence (AI).

Here, we provide highlights from the two-day gathering.

Stretched, Not Broken: The State of the US Retirement System

Is Retirement Even Possible Now?

To tee up the two days, AB's Onur Erzan, Head of Global Client Group & Head of Private Wealth, and Jennifer DeLong, Head of Defined Contribution, shared that having enough retirement savings to last a lifetime is today's tallest industry challenge. Life expectancies are soaring globally, with one in four people turning 65 by mid-century, along with a quadrupling of those reaching 100 years old, according to United Nations data.[1]

In a shifting global backdrop, plan participants and retirees will face potentially troublesome megaforces across labor demographics and deglobalization, which will likely reshape the macroeconomic outlook and global investing dynamics.

AB's Inigo Fraser Jenkins, Co-Head of Institutional Solutions, and Eric Winograd, Chief US Economist, outlined why they believe the years ahead could see lower market returns, higher inflation and greater volatility. And, from an asset-allocation perspective, government bonds may become less effective at diversifying portfolios than they have been historically. These risks could pose significant threats to retirement goals, both in the retirement saving and spending phases.

Outliving retirement savings is a top participant concern, while anxiety in general has hit peak levels. Three in four say that just thinking about their financial future makes them stressed, according to EBRI's 2024 Workplace Wellness Survey.

The System Isn't Broken, but Will Face Challenges

The US retirement system receives its share of negative media coverage, but one symposium session showed why, despite some challenges, it's actually functioning quite well. As of 2024, for example, 72% of private-sector employees had access to a retirement plan through work, according to publicly available data as analyzed by the Investment Company Institute (ICI). Lower earners rely mostly on Social Security, but it replaces up to 103% of preretirement income for many as they hit their 70s, a much greater share than for higher earners.

However, underfunding is a particular burden on an already strained US retirement system. For example, public pensions are currently at only 68% to 74% of the funding they need. Even those figures could be overstatements, according to Peter Brady, Senior Economic Advisor for the Investment Company Institute. Brady considers Social Security's sustainability as the other key uncertainty, with even modest estimates showing it will be drained by 2034 unless Congress acts.

With greater personal responsibility for their retirement, plan participants still have myriad concerns, which according to Heather Balley, Managing Director of Participant Communications at AB, is manifesting in three vital questions:

- "Did I save enough?"
- "Are my assets safe?"
- "How long will my nest egg last?"

What are participants looking for from their employers to help solve those concerns? Just as importantly, how are plan sponsors trying to fulfill their needs, given the changing landscape and the growing complexity of fiduciary duty?

Summing it up with the candid words of one attendee, the plan sponsor's path forward should always prioritize doing the right thing.

"It's understandable that fiduciaries are concerned about litigation risk, but it's important that we not let fear paralyze us. At the end of the day, fiduciaries have a duty to do what's in the best interest of participants, and many participants would benefit from new solutions," said Michael Kreps, Principal, Retirement Services Chair of Groom Law Group. "Congress and the federal regulators have issued a lot of guidance that should give fiduciaries comfort they are meeting their legal obligations, and sponsors can further mitigate risk by working closely with advisors and consultants, documenting the decision-making process, and making sure fiduciaries are sufficiently insured."

1 "World Population Prospects 2024," Population Division of the United Nations Department of Economic and Social Affairs. Forecasts represent their medium fertility variant.

Those Who See Their Financial Future Typically Stress Over It

> **Most participants either don't know or have unrealistic notions about how much they can spend in retirement without running out of money."**

Income Security in Retirement: The Participant View

Most participants either don't know or have unrealistic notions about how much they can spend in retirement without running out of money, according to AB's 2025 *Inside the Minds of Plan Participants* survey. Over half assumed relatively high spending levels—from 7% to 13% or more per year. Our research shows it actually should be much lower—closer to 2% to 3% today.

AB's survey draws a solid line from participants' worries to the need for reliable income. For example, "inflation and rising costs eroding savings and purchasing power" ranked high among participant concerns, with stress about "saving enough to live comfortably" a close second.

Despite similar income concerns, when it comes to plan communications, participants take in information very differently across the age spectrum. Gen Z tends to respond better to shorter, social media–style snippets of helpful information. At AB, we believe always having a call to action also helps to motivate participants.

"Many sponsors are still messaging in a tight box but should be thinking more about communicating generationally across the lifecycle," added Kelly Monahan, PhD, Managing Director of the Future of Work Research Institute at Upwork.

We also discovered what participants believe are the most important features in their DC plan's investment options; "provide a steady income stream" topped the list. While more are turning to retail annuities to get that secure income (a record $434 billion in sales in 2024 alone, according to LIMRA), AB's Inside the Minds survey revealed that participants might prefer to access steady income within their plans. About nine of 10 respondents were either "somewhat likely" or "very likely" to invest in an in-plan guaranteed income feature if their employer offered one.

AB also unveiled a video that highlighted responses of random passersby in New York City and Nashville to questions about their retirement readiness. Answers ranged in tone from slight concern to relative panic, with some interviewees revealing deep-seated anxieties about their future financial security.

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Meeting Lifetime Income Needs Amid New Markets and Old Myths

Retirement Income Research in Action

With strong demand for lifetime income solutions front and center, the logical next step is to put them in place. The marketplace has no shortage of options for delivering lifetime income to participants, however, and making uniform comparisons can be daunting for plan sponsors.

The differences are multifaceted, which may make the various options hard to compare using common frameworks for analyzing investment solutions. In one session, however, AB's research outlined how [a more holistic framework can help plan sponsors fill in significant information gaps] to evaluate the different approaches in a consistent way. For example, plan sponsors and consultants should look at key value measures of outcomes, such as the net impact of explicit fees and implicit costs, individual (not average) participant needs, and income in years well into retirement…not just on day one.

The research also directly linked solution design and participant engagement to potentially better outcomes. For instance, a target-date fund (TDF) could incorporate nearly double the growth exposure up to and into retirement when integrated with a guaranteed lifetime withdrawal benefit (GLWB) compared to a deferred annuity. Moreover, new research showed that participants who engaged with an income solution via tools that translate their savings into income projections boosted their savings rates by 1%.

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Debunking Myths About Guaranteed Income Solutions

We believe the industry has reached an inflection point: participant need is there, sponsor interest is high, and regulators are supportive. Product innovation, implementation technology and recordkeeper support have also advanced.

While more plan sponsors—including some who were in attendance—have implemented a lifetime income solution, too many continue to hold out. We think the delay stems partly from misconceptions about risks, flexibility and liquidity, all of which were convincingly batted away by our select panel of industry experts.

1 **Myth:** The "average" participant doesn't need lifetime income.

Fact: A 2025 study from the Nationwide Retirement Institute and The American College of Financial Services showed that if you increase your years in retirement by just five, your chances of running out of money jump to 41%. Longevity risk is very real for nearly everyone, yet it is a unique experience for every individual.

2 **Myth:** Lifetime income solutions heighten fiduciary risk.

Fact: Sponsors' liability concerns are understandable but may be overstated. Fiduciaries should prioritize doing the right thing for participants, not avoiding lawsuits. Moreover, the SECURE Act's safe-harbor umbrella has given plan sponsors some comfort on income solutions. With that as a starter, we have the opportunity, if not the obligation, for robust dialogue around income to help sponsors holding out for a "magic bullet" to take steps toward action.

3 **Myth:** Participants of public sector pensions have access to defined benefit (DB) plans, so they don't need these solutions.

Fact: Some DB plans remain robust, but they're exceptions to the norm. Many are changing their structure or introducing new, less-generous tiers for newer entrants into the workforce to offset underfunding. Meanwhile, 25% of public employees aren't eligible for Social Security. Facing this outlook, it's imperative for public plan sponsors to consider the income gaps that may exist among members.

4 **Myth:** All annuities, the underlying vehicles for lifetime income, are complex, expensive and require "give-ups" like surrendering assets.

Fact: Some lifetime income solutions incorporate TDFs, which are already considered relatively straightforward. Their fees can be institutionally priced, less expensive than retail annuities, and generally free of surrender charges that some annuity types require. And including annuities in income solutions doesn't always equate to automatic surrender of assets (annuitization). Some types of insurance are fully liquid and portable—familiar qualities that participants see in other retirement options.

5 **Myth:** Annuities are like tattoos—together forever or painful if you change your mind.

Fact: Much of this sentiment stems from a reluctance to get stuck with a product you can't get out of and a general belief that all annuities work the same. This can also lead to some waiting on the sidelines for the perfect product to come along, which ties back to concerns about fiduciary litigation. Until true portability and fungibility are realities for all options, it's still a good idea to take action and consider approaches to lifetime income sooner rather than later, especially when the need is so strong.

6 **Myth:** Default income solutions are "one size fits all" and not customizable.

Fact: Not exactly. Considerable progress has been made to provide tools that personalize income at the plan sponsor and participant level. Sponsor and recordkeeper capabilities will also improve as data from more experience factors in. AI will have a lot to contribute to this very soon as well (see Harnessing the Power of AI in the Participant Experience, below).

Lifetime Income Solutions Through the Consultant's Lens

With the number of DB plans in sharp decline, the need for secure retirement income has never been greater. But with myriad options out there, plan sponsors increasingly turn to institutional consultants to navigate the evolving landscape. Several leading consultants presented at the symposium.

"You have to help them ask the right questions to get the right answers," said one consultant. "Like, 'What's convincing your participants to stay in the plan for 30 years?' That alone can help us see what's working and what could be missing."

Finding ways and means to overcome obstacles to adopting lifetime income solutions was said to be another arrow in the consultant's quiver. Many plan sponsors say low levels of participant adoption for opt-in solutions is why some plan sponsors won't implement one. "You have to start somewhere, I tell them, and that they should continue to lean in to building scale just like any other benefit," said one consultant.

Savings levels, auto-enrollment and auto-escalation features, portability and downside protection were also listed as hot-button topics that consultants frequently work through with sponsors. Annuities come up a lot too. "We spent 12 months just researching annuity offerings, and the short end to that story for sponsors is that all income solutions benefit from them," said another consultant.

In summing it up, one speaker offered their holistic view: "As an industry, we've done well to get people saving. Now, any help we can give on the payout side of the equation will be equally if not more appreciated by plan sponsors."

Plan Sponsors and Service Partners Weigh In

The approach to implementation is also a key consideration, with participating plan sponsors and recordkeepers sharing just how unique implementation experiences can be.

Adding income solutions to managed accounts is also gaining traction. Meanwhile, some sponsors admitted grappling with switching their qualified default investment alternative (QDIA) to one that can better accommodate a lifetime income solution. Advancements in middleware technology were said to make it significantly easier and more cost-effective to facilitate a switch. Dynamic QDIAs are also earning attention and are widely thought to make it easier to add an income option as the default down the road.

"One size does not fit all," said one speaker, "which meant choice and flexibility had to be key components of the solution we went with." To ensure that participants understood the solution, one speaker launched "omnichannel" communications across online participant hubs, local branches and national service centers.

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As an industry, we've done well to get people saving. Now, any help we can give on the payout side of the equation will be equally if not more appreciated by plan sponsors."

Retirement Benefits as a Competitive Tool for Talent

As workforce dynamics change, employers will need to shift their benefits strategies around new and disparate needs to stay competitive.

The future will look very different in terms of how and where we work, as well as who makes up the labor force, according to Kelly Monahan of Upwork, a leading author on the topic. "How we work will shift toward higher-value, human-centric tasks."

Dr. Monahan added that workforce demographics are also shifting, with Generation Z now surpassing baby boomers as the largest age group in the US. "As a cohort, Gen Z is struggling the most," she said. "They want workplace flexibility and autonomy, and the classic work model just doesn't do it for them."

Some baby boomers and Gen X have their own distinct challenges, with many of them facing supporting their children and aging parents while trying to ensure their own retirement readiness. "[This] sandwich generation could really struggle in its later retirement years," Dr. Monahan said. More baby boomers are also delaying retirement, adding another dimension to the savings/income dynamic.

Financial wellness programs play a crucial role in motivating all age groups, according to a 2024 EBRI study. In fact, only 40% of employees are either extremely or very satisfied with their benefits. When asked what they'd like to see changed or added, their top answer was for their employer to make greater financial contributions to their retirement plan, followed by a request for resources to help them understand what they're invested in.

A 2020 Accenture study also suggests that employers who respond to top participant needs should see tangible benefits. For instance, 64% of a company's employee work potential is explained by addressing what Accenture calls a "Net Better Off" framework of financial, relational, emotional and other wellness dimensions.


Seeing the Potential in Private Markets

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...in an environment that’s likely to feature lower–public market returns and higher inflation, we believe sponsors need to consider private assets to address the myriad risks retirement savers face.”

Participants’ needs along market environments have changed over the years. Better investment outcomes are especially important now, which tasks sponsors with exploring new avenues that might deliver. Among these are private markets.

Private markets have surged as an investment in DB plans over the past decade, but they remain underrepresented in DC plans today. However, with target-date solutions playing a critical role in retirement outcomes, we believe that adding private assets to the glide path may boost return potential, add needed diversification, and improve retirement outcomes.

Performance has also been compelling. Private assets have outperformed their public counterparts over the last decade. So, in an environment that’s likely to feature lower–public market returns and higher inflation, we believe sponsors need to consider private assets to address the myriad risks retirement savers face.

Another reason to consider private assets is the changing dynamic between equities and fixed income. Correlations between public stocks and bonds have risen in recent years, and with inflation likely to stay higher for longer, these assets alone may not generate enough purchasing power for plan participants when they retire or provide the diversification they need to manage risk.

Discussion at the symposium then turned to key considerations and how they’re inhibiting sponsors from adding private assets. Legal challenges are frequently tied to fee structures, and whether plan participants are getting adequate value for the cost of their investments.

Some experts suggested that the focus should be on determining whether a private strategy has consistently delivered after-fee returns above public equivalents. “It’s important to ensure that return history—and potential future returns—justify the added cost,” said David Hutchins, Portfolio Manager, Multi-Asset Solutions at AB.

Litigation risk surfaced as the most significant roadblock, but one panelist respectfully countered that notion: "Plan sponsors harbored similar concerns decades ago about introducing target-date funds. As familiarity grew, those concerns diminished," said Michael Kreps of Groom Law Group.

Liquidity is a concern for some plan sponsors too. But even on this score, many private investment strategies are becoming more DC friendly, thanks to three inherent features that create natural liquidity:

- Target-date fund assets are diversified across a wide range of ages, so when older participants need to make withdrawals, younger ones continue to contribute regularly through payroll deductions, naturally replenishing the fund's liquidity.
- Target-date funds are multi-asset portfolios that typically include public assets, which can be used as an additional source of liquidity.
- The proliferation of evergreen fund structures has enhanced the ability of private strategies to meet participant liquidity needs.

Support for private assets seemed universal on the panel, but the speakers agreed that it's also important to vet individual investment options carefully, since private assets have wide-ranging characteristics. Asset-manager selection will be important, too, since performance dispersion is significant.

"We're at the precipice of a changing marketplace," noted one speaker. "New innovations are dealing with initial hurdles like liquidity and daily valuation, so I believe we'll see a quicker pace of private-asset adoption in the coming years."

Harnessing the Power of AI in the Participant Experience

As AI evolves, the phase of self-improvement and reinforcement learning will enable companies to serve their customers and make informed decisions. The general thinking among attendees is that few industries are better primed to harness this technology than retirement planning.

"AI is happening. It's very real, and it's going to change how we work…," said one panelist.

Participants are embracing the idea of AI in their world too, according to AB's 2025 *Inside the Minds of Plan Participants* survey. About 65% of respondents said they were at least open to making decisions based on AI-generated advice. Only 15% flat out rejected the idea. Human advisors remain the preferred go-to over AI, but barely. Interestingly, 36% said "maybe," while 10% (mostly younger) skewed hard to AI.

How can AI improve retirement outcomes?

We see five categories as a start:

Personalized investment strategies: tailor-made portfolios based on age, risk tolerance, income and goals

Predictive analytics: applying past and present data to forecast retirement plan performance, estimate future savings needs and suggest optimal contribution levels

Plan-management automation: handling administrative tasks, generating plan data summaries and optimizing benefit offerings for plan sponsors

Enhanced user engagement: AI agents, chatbots and nudging systems to provide real-time financial advice, portfolio recommendations and notifications

Simplified knowledge access: quickly accessing retirement rules, tax codes and financial education in customer service environments

Like every groundbreaking technology since the invention of the wheel, AI has been game-changing and affecting. It's already transforming plan sponsor capabilities and the resources available to participants.

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It’s understandable that fiduciaries are concerned about litigation risk, but it’s important that we not let fear paralyze us. At the end of the day, fiduciaries have a duty to do what’s in the best interest of participants, and many participants would benefit from new solutions…”

Michael Kreps—Principal, Retirement Services Chair of Groom Law Group

Challenging markets, diverse workforces and longer lifespans are among the reasons why defined contribution plan sponsors should elevate their retirement plans to attract and retain talent. Participants are demanding more from their retirement benefits, with securing their retirement and having enough income for the rest of their lives at the top of the list.

But retirement outcomes are a distinctly unique experience. And with the help of AI, access to private markets and innovative guaranteed income solutions, sponsors can deliver on that. In our view, exploring such solutions to help those who matter most—participants—goes a long way toward designing a plan for distinction in an increasingly competitive labor market.

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