

New Research Reveals Consumer Receptivity to In-Plan Retirement Income Solution

Concept Test Examines Lifetime Income as Asset Class in Employer-Sponsored Plans; Benefits and Objections Lead to Ideas for Product Enhancements

(Aug. 27, 2024, Rye, NY) – New qualitative research reveals fairly positive consumer reactions to a retirement income solution offered within an employer-sponsored retirement plan with caveats for firms planning to offer such products, according to [Hearts & Wallets](#), the independent data and benchmarking firm that specializes in saving, investing and financial advice.

“In-Plan Retirement Income Solution”: **Consumer Reactions to the Latest Trends in Guaranteed Income Design to Inform Product Enhancements and Reduce Barriers to Adoption** examines a target date retirement fund in employer-sponsored plans that adds lifetime income as an asset class starting at age 55, reaching a maximum allocation of 30% with the option to convert the annuity portion into lifetime income at the end of employment. This report is the first of six from the *Explore Qualitative 2024: Innovations in Investment Solutions & Customer Experience Models* series. Explore 2024 analyzes innovations in investment products, including alternatives and in-plan retirement income solutions, consumer reactions to artificial intelligence in investing and how consumers combine different models for customer experience.

Hearts & Wallets Explore Qualitative™ (EQ) research foresees how unmet needs may change the competitive landscape with a track record of anticipating competitive trends 3 to 10 years into the future, sourcing the best ideas from industry executives into carefully curated, provocative segments. This latest series uses a segmentation of highest self-reported advice category, which separates wealthy consumers in nationwide focus groups into *Uninitiated*, *Hybrid* and *Fully Advised* for comparison. The goal of the segmented conversations is to lead to breakthrough ideas for future product/service enhancements.

Overall Reactions

Overall, the concept received mostly positive marks with focus group participants recognizing the need it is trying to fill. Receptivity to “In-Plan Retirement Income Solution” has warmed compared to the 12-plus most relevant concept tests explored by Hearts & Wallets in over a decade of qualitative research.

Group participants saw the concept as appropriate for “less savvy” investors whose potential vulnerability to predatory financial institutions might be offset by employer vetting. The product was seen as better for younger, less disciplined investors rather than for themselves, said most group participants, who had a minimum of \$500,000 in investable assets, skewing to \$1 million to \$3 million and over \$3 million in investable assets.

“This concept test examines a new execution of an old idea,” Laura Varas, Hearts & Wallets CEO and founder, said. “Pensions are on the decline, more households anticipate personal asset withdrawals as they age, and there is growing receptivity to leave defined contribution funds in plan. Now is a good time to understand the dynamics that will foster adoption for this product.”

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Pension Nostalgia as a Benefit

One benefit associated with this concept was a nostalgia for pensions. Group participants mentioned pensions with fondness, and some participants noted a social safety net is “good for society” with employer scrutiny being key.

“And it is terrifying to think about young people without any kind of pension income and just the fact that it's available through the employer-sponsored retirement plans, it just makes it really easy,” said a *Hybrid* female in San Francisco.

Target Date Funds as a Barrier

One barrier was the inclusion of target date retirement funds (TDRFs) for group participants who want more control over their investments than TDRFs offer, especially the fear of not being aggressive enough in their asset allocation as they age.

“As far as target date funds right now, my retirement has that already, and the return is really bad compared to all my other funds,” said a *Fully Advised* female in San Francisco.

“I would say someone would really need to learn a little bit about how this annuity works, which takes away from the, just-dump-it-in-there in the target date fund,” said an *Uninitiated* male in Dallas.

Given focus group participant reactions, firms may want to consider shifting from target *date* funds to target *risk* funds to overcome investor reluctance associated with TDRFs and this product.

The full report contains a full examination of the benefits, barriers, mitigating factors and future enhancements for this concept test.

Methodology

“In-Plan Retirement Income Solution”: Consumer Reactions to the Latest Trends in Guaranteed Income Design to Inform Product Enhancements and Reduce Barriers to Adoption examines a target date retirement fund in employer-sponsored plans that adds lifetime income as an asset class starting at age 55, reaching a maximum allocation of 30%, which offers the option to convert the annuity portion into lifetime income at the end of employment. The report is part of the Explore 2024 series, *Innovations in Investment Solutions & Customer Experience Models*.

The Explore 2024 nationwide focus groups were held in Dallas, San Francisco and New York in June. The groups included 70 participants ages 45 to 74 with sole or shared responsibility for investment decisions and a minimum of \$500,000 in investable assets (excluding the primary residence), skewing \$1 million to under \$3 million and over \$3 million, segmented on their self-reported highest advice categories into 3 broad segments – *Uninitiated, Hybrid or Fully Advised*.

About Hearts & Wallets

Hearts & Wallets is the data and benchmarking firm that specializes in powering growth for saving, investing and financial advice businesses. Leading firms rely upon Hearts & Wallets market intelligence reports, software and benchmarking to make strategic decisions that lead to growth by improving products, distribution, pricing, positioning and targeting. The power of 2.5x: over 70% of Hearts & Wallets subscribers experienced positive net flows in 2022 as compared to just 30% of non-subscribers. For more information, visit www.heartsandwallets.com.

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