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ASSET MANAGEMENT

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Evaluating retirement income strategies for defined contribution plans

Using the Retirement Income Style Awareness (RISA) framework to align strategies with participant demographics

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Key points

- Retirement income remains a major public policy and strategic initiative within the U.S. defined contribution (DC) market. The number of in-plan retirement income products available in the market continues to grow. These products are mechanically complex and come in a variety of investment-based and insurance-based structures.

- For plan sponsors, assessing the retirement income needs and preferences of their participant base and evaluating the wide array of retirement income products available in the market can be an overwhelming endeavor.

- By leveraging the Retirement Income Style Awareness (RISA) framework (and associated retirement plan risk vulnerability score), plan sponsors can more easily and intuitively identify a retirement income strategy type that is suitable to their plan, given their plan participant demographics.

As U.S. employers continue to favor the defined contribution (DC) retirement plan model over the defined benefit (DB) model and life expectancies increase, a greater onus is placed on current and future retirees to create an effective retirement income strategy. In doing so, retirement investors must consider a set of factors that are distinct from the factors they consider during the accumulation phase of their retirement lives. These factors include spending requirements, the risk of spending shocks, longevity risk, and sequence of returns risk, among others. While the simplicity of age-based target-date funds lend themselves well to accumulation-focused defined contribution plan investors, they are not sufficient for managing retirement income.

Since the passage of the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019, asset managers and insurers have come to market with a slew of new retirement income products intended for use within DC plans. Today, there are numerous, complex in-plan retirement income product structures available to plan sponsors. For plan sponsors interested in addressing the retirement income needs of their participants, evaluating the wide array of retirement income strategy types can seem daunting. Furthermore, without a framework for determining which retirement income strategy type(s) is most appropriate for their plan, plan sponsors may go through the arduous, complex process of evaluating and selecting a retirement income product, only to find it doesn't align with the retirement income preferences and needs of their participant base.
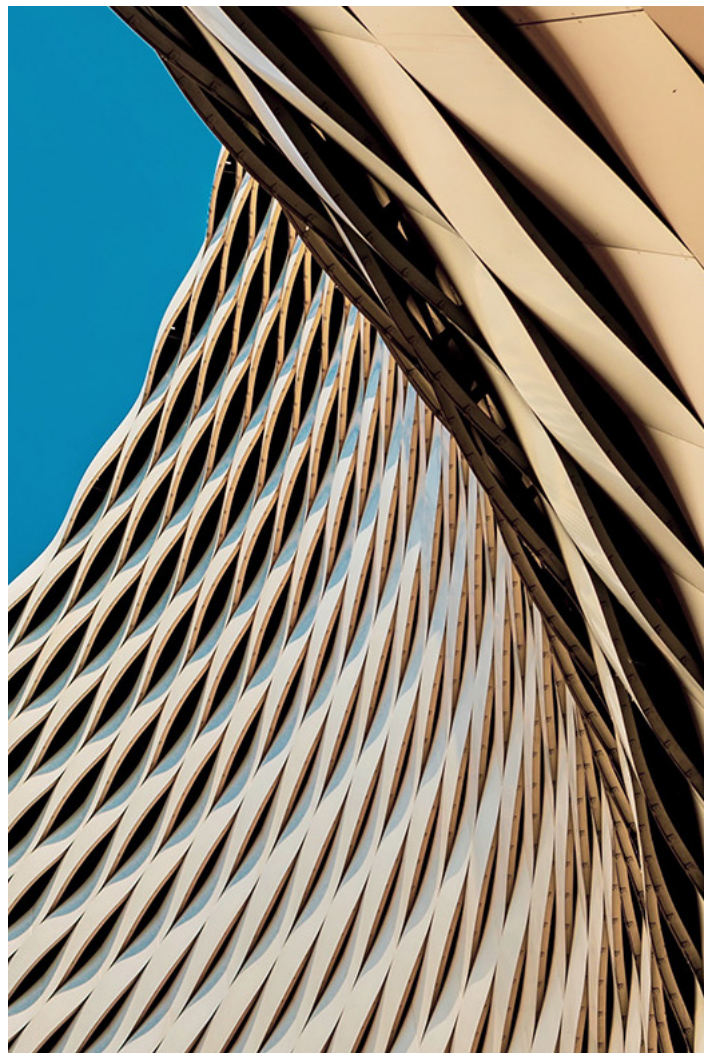
Adapting the RISA framework to inform plan-level retirement income product decisions

In 2021, Murguia and Pfau introduced the RISA framework, which helps investors nearing retirement understand their retirement income "style" preference, which they can use to develop a corresponding retirement income strategy. In an ideal world, plan sponsors could have all their DC plan participants take the five-minute RISA test to determine their retirement income style preferences and use that information to select the appropriate retirement income strategies for the plan. However, it is unreasonable to expect all of their plan participants, or even the majority of participants, to fill out the RISA assessment. Therefore, in their 2025 paper, "Constructing a Retirement Income Framework for Defined Contribution Plans," Murguia and Pfau demonstrate how sponsors can use plan-level data to determine a plan's retirement risk vulnerabilities, which can be translated to RISA retirement income style preference, and thereby used to select a retirement income strategy commensurate with the plan's average retirement risk vulnerability metric.

To be sure, no one retirement income strategy — or even subset of retirement income strategies — will be ideally suited to every participant in a DC plan. However, the RISA framework allows plan sponsors to more seamlessly innovate upon traditionally constructed DC investment lineups which, in most cases, offer participants limited capabilities when it comes to converting their retirement savings into a sustainable income stream in retirement.
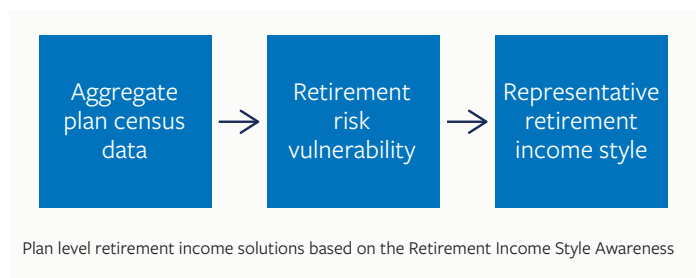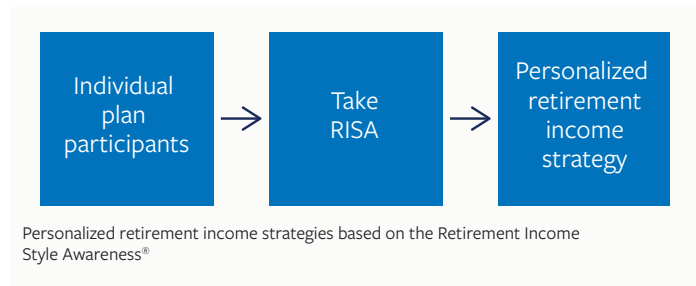
An overview of the RISA framework

It useful for plan sponsors and advisors to understand the fundamentals of the RISA framework, since it is informing the retirement risk vulnerability scores at the plan level. The RISA framework is a two-step process.

Step 1: Assess the investor's retirement style preference using two factors:

- **Probability-based vs. safety-first factor:** This details how individuals prefer to source retirement income from assets. Probability-based income sources offer the potential for market growth. A safety-first income sources include protected sources of income (e.g., annuities, Social Security) that do not expose investors to market volatility.

- **Optionality vs. commitment orientation factor:** This details the degree to which investors prefer flexibility in income strategies. Optionality reflects an investor's preference for flexibility with regards to their retirement income strategy. Commitment orientation reflects an investor's preference for income sources that provide assurance and remove uncertainty with regards to their retirement income.

| Individual plan participants | → | Take RISA | → | Personalized retirement income strategy |

Personalized retirement income strategies based on the Retirement Income Style Awareness®

| Aggregate plan census data | → | Retirement risk vulnerability | → | Representative retirement income style |

Plan level retirement income solutions based on the Retirement Income Style Awareness

Step 2: Based on these two factors, the RISA will plot the investor's retirement style preference within a matrix of available retirement strategies:

The RISA matrix

The matrix has four potential options for the investor:

1. **Total return strategy:** Investors who rely on retirement portfolio growth to support their income needs and want to maintain flexibility over their retirement investment strategies. Typically, they will generate income from a diversified, market-based portfolio without the use of insurance-based products. This approach is most widely available, and used by participants, in DC plans today.

2. **Income protection strategy:** Retirement assets are invested to match the risk characteristics of a spending or income objective. The individuals will not want rely on market returns to generate their retirement income. Rather, they will prefer to use guaranteed income sources (e.g., annuities) to cover their essential lifetime income needs, then use their remaining assets to build a diversified investment portfolio that they can use to fund discretionary expenses.

3. **Risk wrap strategy:** Investors in this quadrant prefer a retirement investment strategy that allows them to benefit from market returns, but also have a preference for guaranteed income. Annuities that allow investors to participate in capital market growth yet still provide a minimum level of guaranteed income may appeal to these investors.

4. **Time segmentation strategy:** These investors will likely prefer contractual protections that offer a degree of flexibility in their investment strategy over time. These investors may prefer to use rolling bond ladders or insurance-backed contracts to meet short-term income needs alongside a diversified investment portfolio, which can be used to meet long-term spending needs.

A separate study by RISA, in partnership with Broadridge and Fi360, shows the distribution of retirement income styles across U.S. households using data from six household surveys. 36% of U.S. households reflect an Income Protection strategy, 35% reflect a Total Return strategy, 16% reflect a Time Segmentation strategy, and 13% reflect a Risk Wrap strategy.

Distribution of retirement income styles
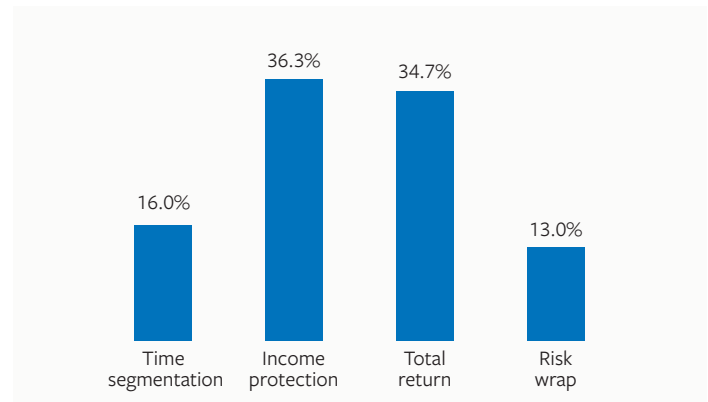
While one may argue that many DC Plans today accommodate a Total Return retirement income strategy, exhibited by 35% of the U.S. population, they largely do not meet the retirement income style preferences (and associated retirement income strategies) of the other 65% of U.S. households, who prefer to have some level of guaranteed income, or at least the option to incorporate it.

Drawing a connection between RISA and retirement risk vulnerability scores

Findings from a Broadridge/Fi360 and RISA Survey of retirement investors illustrates that investors' retirement risk vulnerabilities (as they pertain to both longevity risk and liquidity risk) are positive related to the degree of guaranteed (contracted) income included in their associated retirement income strategy associated with their respective retirement income style. Murguia and Pfau (2025) created an average retirement risk vulnerability metric by averaging the longevity and two liquidity retirement risk vulnerability scores, observing statistically significant differences in the mean scores of retirement risk vulnerabilities among the different retirement income styles. In short, an individual's retirement income style significantly influences perceptions of retirement risk vulnerability.

Usings plan census data to estimate plan-level risk vulnerability scores

Murguia and Pfau then observe statistically significant relationships between plan-level census data (and other demographic data) and retirement risk vulnerability scores. The key explanatory variables for determining retirement risk vulnerability were age, retirement status, income category, and an age/income interaction factor. Age is positively related to retirement risk vulnerability, while income is negatively related. The age/income interaction factor suggests that higher income participants tend to experience decreases in retirement risk vulnerability as they age whereas lower income participants tend to experience greater retirement risk vulnerability scores as they age. Retired participants are also less concerned about retirement risks than active participants, when controlling for age and income. Women exhibit higher risk vulnerability than men. Married individuals exhibit higher retirement risk vulnerability.

## Examples of average retirement risk vulnerability scores for a retirement plan

Based on characteristics of plan participants		
Average participant age	42.4	55.1
Plan participants - percentage retired	2%	25%
Income categories - average score	2.5	7
Age X income category	105	385
Percentage female	47%	35%
Percentage married	60%	82%

Calculating the estimated retirement income style score		
Using plan census data	3.52	3.10
Using census with expanded payroll data	3.57	3.16

Corresponding estimated retirement income style	Income protection	Total return

In practice, plan sponsors can simply plug their average plan-level data into the fitted regression model established above to estimate the retirement risk vulnerability score for the plan. Then, using that score, they can determine the retirement income style most appropriate for that plan and, from there, select a suitable retirement income solution associated with that style.
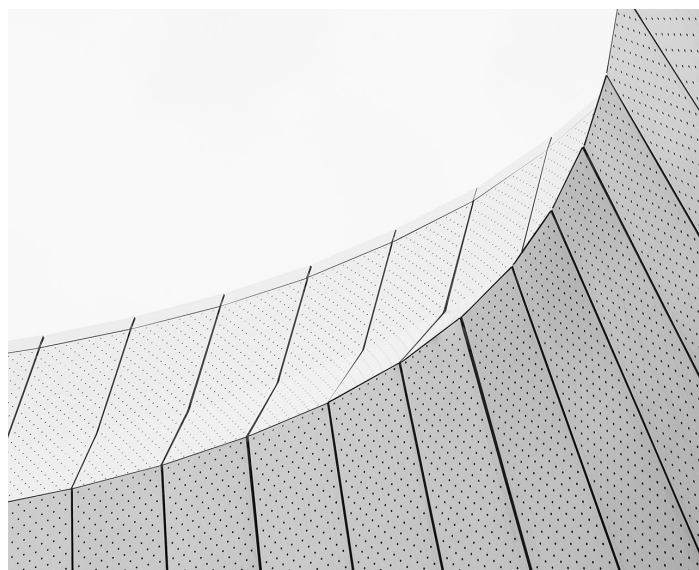
Implementing retirement income solutions in professionally managed solutions

Once plan sponsors determine which retirement income solution is most suitable to their plan, they will need to determine the most appropriate way to incorporate the solution within their plan lineup and design. Plan sponsors may want to consider implementing the solution within a professionally managed, multi-asset-class qualified default investment alternative (QDIA), such as a target-date fund. Target-date funds are the most popular QDIA in the DC market by a significant margin.

In recent years, several target-date managers have partnered with insurers to launch new target-date series that incorporate annuities into the asset allocation or apply guaranteed lifetime withdrawal benefit (GLWB) or guaranteed minimum with benefit (GMWB) riders to products offered within variable annuity contracts. Plan sponsors could select a target-date fund that allocates to a retirement income solution in accordance with the estimated retirement income style for the time segmentation, income protection, and risk wrap style plans. For instance, an Income Protection DC plan may decide to offer a target-date fund that allows investors to allocate a portion of their fixed income balance to an income annuity. Alternatively, Total Return style plans could enhance traditional target-date strategies by incorporating a transition to a managed payout fund using a liability-driven approach to managing portfolio growth and regular distributions.

Findings from a Broadridge/RISA investigation suggests there is strong retirement investor interest in asset allocations that incorporate both traditional fixed income investments and guaranteed income. Survey respondents were asked to assume they could allocate between three solutions at retirement:

- Stocks that have a higher expected return but with greater investment risks

- Safe investments such as bonds

- An instrument that provides guaranteed lifetime income like a private pension / annuity

Respondents indicated their preferred allocation percentages to these instruments with stocks held at 60%. About 80% of respondents indicated a desire to include the guaranteed income instrument, and the most popular choice was option 3, which provided an equal division between bonds and guaranteed income.

Retirement allocation preferences
Percentage of respondents choosing each option

	Option 1	Option 2	Option 3	Option 4	Option 5
Stocks	60%	60%	**60%**	60%	60%
Bonds	40%	30%	**20%**	10%	0%
Guaranteed lifetime income	0%	10%	**20%**	30%	40%
Percentage favoring:	20.1%	22.3%	**33.0%**	13.2%	11.5%

Sample size=2,000

Plan sponsors might consider offering this type of investment solution as a QDIA, or as part of a dynamic QDIA (e.g., a QDIA that starts participants off in a target-date fund then, when the reach a certain age or account balance threshold, transitions them into the professionally managed solution that incorporates the retirement income solutions associated with their retirement income style).

Alternatively, a plan sponsor offering multiple retirement income solutions could use participant demographics to automatically map participants to the retirement income solutions best aligned with their retirement income style. Again, these retirement income solutions could be part of a QDIA-eligible investment solutions, or the latter phase of the dynamic QDIA so long as the QDIA regulations are otherwise met.

Concluding action items for plan sponsors

For plan sponsors seeking to leverage this research and implement a framework for selection of an in-plan retirement income solution for participants, the RISA serves as one available option. Plan sponsors could consider these action steps:

1. Review the RISA and its associated style boxes.

2. Develop census file for plan participants that includes age, retirement status, income, sex, among other factors.

3. Census file to be incorporated into RISA regression analysis to determine most appropriate fit in the RISA matrix.

4. Match the in-plan retirement income solution type to the RISA matrix and determine if that solution will be used as a QDIA for the plan.

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