Wealth Management

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Your Challenge, Our Solutions™

Will lifetime income investments assist in restoring retirement confidence?

A 2025 NFP survey[1] found that 67% of respondents lacked confidence in their ability to retire comfortably. Without going into the details of this—or any other—survey, we can acknowledge that a fair portion of the U.S. population has some misgivings about their financial confidence in retirement. Even some of those who cite that they are very confident or completely confident may be confident despite not having a realistic understanding of what they need to save for retirement to maintain the lifestyle they envision. So even though measuring financial preparedness in retirement may be difficult, it is not hard to notice that the idea of providing investments that guarantee a lifetime income stream in retirement has been gaining traction recently.

Some of this interest has been generated by the insurance industry, which admittedly has a stake in the outcome of this trend. But there may also be a more fundamental, underlying reason for renewed interest in annuity-type products as part of an overall retirement asset mix. The fear of outliving retirement

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1. NFP, 2025 NFP U.S. Retirement Trend Report.

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savings can create a belief that an investment product that will guarantee payments for life will solve the retirement security problem. In some cases, a lifetime income product may make sense, especially as one component in a thoughtful investment plan. Plan sponsors and participants alike should consider the pluses and minuses.

First, a bit of background may be beneficial. The primary role of traditional defined benefit (DB) pension plans was to provide a monthly payment for the duration of the participant's life—and for the life of the spouse, if any. As defined contribution (DC) plans, such as 401(k) plans, supplanted DB plans, the focus shifted to giving participants an appropriate menu of investment options to choose from. Since most DC plans provide for participant-direction, the burden of investment performance was shifted from the plan sponsor to the participant. Instead of plan sponsors being required to provide promised monthly benefits, irrespective of how the markets performed, DC plan participants became responsible for the size of their nest egg at retirement.

Now, guaranteed income investment products seek to split the difference, in a way. DC plan participants must still save enough for their own retirement; the employer does not guarantee a stream of income. But having access to guaranteed income investments may give participants some comfort about not outliving their savings during their decumulation phase of life. Here are several factors to consider.

For plan sponsors:

- **Fiduciary risk** — In choosing any investment option, plan sponsors must act as prudent specialists for the benefit of plan participants and beneficiaries. There are inherent risks in selecting any lifetime income solution, from routine concerns like customer service to pivotal ones like the long-term solvency of the investment provider.
- **Participant education** — Merely adding a lifetime income option to a fund lineup is likely not enough. Prudent plan sponsors will also take pains to confirm that participants are given ample opportunity to understand their investment selections. With annuity-type investments, once a participant locks into a payout scheme, they are stuck with their choice.

For participants:

- **Understanding the investment** — Annuity investments can be complex. There can be numerous payout options or riders (e.g., death benefits, guaranteed return of principal, cost-of-living adjustments)—each of which add costs to the contract. And detailed contracts may contain unfamiliar terms. Many uninitiated participants may be ill-equipped to grasp the complexities of annuity products.
- **Understanding the concept of lifetime income** — On its face, the concept may be simple: I exchange a precise dollar amount in exchange for a stream of income for the rest of my natural days. But sometimes this description seems to ignore the fact that the investment provider (e.g., insurance company) sells such products for a profit. The company takes the risk that some annuitants will live longer than expected or that the company's own investments underperform. So, exchanging retirement assets for a contractually promised payment stream may come at a cost.

As more than 10,000 people turn age 65 in the U.S. each day, the guaranteed retirement income discussions are sure to continue. A steady monthly income stream is clearly attractive to many retirees and prospective retirees. Still, plan sponsors may be reluctant to take the lead on this investment idea, especially with the constant threat of litigation for any less-than-ideal financial outcome. Congress could pave the way for broader implementation of lifetime income products. For example, Congress could put certain protections in place to encourage plan sponsors to add such options to their investment menu. Meanwhile, plan sponsors should carefully weigh the pros and cons before adding lifetime income products as plan investment options.

U.S. Congress introduces a spate of retirement plan bills

Coming off last fall's federal government shutdown, legislators have put forward a steady stream of retirement plan-related bills with varying levels of support. While several bills seem to have garnered broad endorsement, others may appeal more to a partisan faction. For many years, most pension reform bills have enjoyed bipartisan favor. But as other legislation—with perhaps less bipartisan support—takes priority with those in the majority, even popular bills may languish without final enactment. The six proposed Acts summarized below provide a glimpse into what may lie ahead for the retirement industry.

The INVEST Act

The Incentivizing New Ventures and Economic Strength Through Capital Formation Act of 2025 (H.R. 3383) combines over 20 individual bills into one package. The INVEST Act passed in the House in December with broad bipartisan support and is now under consideration in the Senate Committee on Banking, Housing and Urban Affairs. Among the retirement plan provisions is an enhancement for 403(b) plans, allowing them to invest in collective investment trusts (CITs). The INVEST Act also expands lifetime income options for 403(b) plans. Both of these provisions should place 403(b) plans on more equal footing with 401(k) plans.

The definition of accredited investor would be expanded to allow greater potential access to alternative investments. The current rules rely more on investors' wealth than on their investment knowledge. The bill would create a competency-based pathway for individuals to qualify as accredited investors. Individuals could qualify through a free certification exam, through education or job experience, or through professional certifications or licenses.

Protecting Prudent Investment of Retirement Savings Act

Passed by the House on party lines in January, this bill (H.R. 2988) would require plan fiduciaries to elevate strict pecuniary factors over non-financial goals that are driven by environmental, social and governance (ESG) factors. The act would reverse rules under the previous administration that allowed for ESG considerations in retirement accounts.

- ESG factors could be used only to resolve a tiebreaker situation—when the relative merits of two or more investment options are indistinguishable
- Fiduciaries could not consider race, color, religion, sex or national origin when selecting other plan fiduciaries or service providers
- If a plan provides for brokerage windows (or self-directed brokerage accounts), participants must receive a notice explaining that permitted investments may lack oversight by plan fiduciaries

ERISA Litigation Reform Act

Introduced in November, this bill (H.R. 6084) aims to reduce meritless class-action lawsuits against retirement plan fiduciaries by raising legal hurdles for plaintiffs. The primary change would be to require plaintiffs to plausibly allege and prove that a transaction is not exempt under the Employee Retirement Income Security Act (ERISA) before the case can proceed. This would be a significant shift from the 2025 Supreme Court ruling in Cunningham v. Cornell University, which sets a much lower standard for plaintiffs' lawsuits to move forward. This legislation reflects the current administration's seemingly more friendly stance toward plan fiduciaries.

This bill has galvanized both supporters and opponents. In light of the numerous lawsuits in recent years—often alleging substandard investment options, excessive fees or misuse of plan forfeiture accounts—supporters claim that action is needed to protect retirement plans from depletion through nuisance suits by opportunistic attorneys hoping for quick settlements from large plans. Opponents maintain that participants must be able to hold plan fiduciaries accountable for mismanagement. And the only sure way to do this, the argument goes, is to allow plaintiffs to file class action lawsuits without unduly restrictive pleading standards.

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The Retirement Simplification and Clarity Act

As its name suggests, this bipartisan bill (H.R. 6324) contains retirement plan provisions that could assist participants' retirement planning.

- It would allow those age 50 and older to take penalty-free in-service 401(k) distributions and roll them over into individual retirement annuities while still working. This would permit participants to lock in a steady, guaranteed payout earlier in their careers.
- It would also require the IRS to simplify documentation when participants have access to their retirement assets, which is intended to promote a clearer understanding of distribution options and of the tax implications of various elections. (The IRS has recently released its newest version of this distribution notice (the 402(f) notice), which would have to be revised again.)

Introduced in November, this bill has been referred to the House Ways and Means Committee. It is also undergoing committee review as part of a broader 2026 retirement policy agenda—with multiple provisions—sometimes referred to as SECURE 3.0.

Retirement Rollover Flexibility Act

This is another bipartisan bill (H.R. 6450/S. 3352), introduced in both chambers of Congress in December, that would allow individuals to roll over Roth IRA assets into employer-sponsored retirement plans (e.g., 401(k), 403(b), governmental 457(b) plans). Currently, Roth IRA and other after-tax assets cannot be rolled over into such plans, reflecting a decades-old regulatory gap that has been left unaddressed. On the other hand, designated Roth account assets and other after-tax assets from a 401(k) (or other similar plan) have long been allowed to be rolled over to a Roth IRA. Creating parity between IRAs and non-IRA employer-sponsored plans should assist in preventing retirement plan leakage and would promote asset consolidation, thereby reducing fees and creating efficiency for savers.

Automatic IRA Act of 2025

Another December bill (H.R. 6722), this proposal would require employers with more than 10 employees to automatically enroll them in an IRA if the employer does not already offer a retirement plan. This bill, which would also include gig workers and contractors, is similar to the many state-facilitated IRA programs that have addressed the lack of retirement plan options for many workers.

- Covered workers would be defaulted into a 6% contribution, with annual 1% increases to 10% by the fifth year
- No employer contributions would be required, but a modest employer credit would still apply for businesses with 100 or fewer employees
- Contributions default into a Roth IRA, and they would be placed into a target-date/life-cycle fund unless the IRA owner elects a different qualified investment (e.g., principal preservation or balanced option)

Existing state-facilitated IRA programs could continue, but this act would preempt similar state laws passed after December 31, 2027. The bill has been referred to the House Ways and Means Committee and would be effective for plan years beginning on or after January 1, 2028.

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Annuities are designed to be long-term investments and frequently involve substantial charges such as administrative fees, annual contract fees, mortality & risk expense charges and surrender charges. Early withdrawals may impact annuity cash values and death benefits. Taxes are payable upon withdrawal of funds. An additional 10 percent IRS penalty may apply to withdrawals prior to age 59-1/2. Annuities are not guaranteed by FDIC or any other governmental agency and are not deposits or other obligations of, or guaranteed or endorsed by any bank or savings association. With fixed annuities, both the money you invest and the interest paid out are guaranteed by the claims-paying ability of the insurer. Investments in variable products will fluctuate and values upon redemption may be less than the original amount invested. Investors should consider the investment objectives, risks, and charges and expenses of an annuity carefully before investing. Prospectuses containing this and other information about the annuity are available by contacting your RBC Wealth Management financial advisor. Please read the prospectus carefully before investing to make sure that the annuity is appropriate for your goals and risk tolerance.

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