



PACIFIC LIFE

WEATHERING THE STORM

Combating Market Volatility with Guaranteed Income
Can Help Participants Secure their Retirement.

Plan Sponsor Responsibilities

Among the multitude of plan sponsors responsibilities in running defined contribution plans, one of the most important decisions concerns plan design and oversight. This not only includes the incorporation of auto-features to improve savings levels, but also the decisions regarding investment manager and QDIA selection that will determine investing success. Investment options will be put to the test when markets fall dramatically, impacting participants who may decide to withdrawal assets at precisely the wrong time. It doesn't take much of a down market to create concern among participants, so plan sponsors should consider how their investment line-up is positioned over the long-term, including access to lifetime income options, to help participants mitigate market volatility and prepare them for a secure retirement. This is especially important as more participants consider keeping their assets in the plan. According to a recent study by Greenwald Research of over 500 plan sponsors, nearly 50% of plan sponsors would prefer to retain assets in the plan¹, while 21% of the 1,000 participants surveyed suggested they would keep their assets in the plan. This increases to 59% once participants are introduced to guaranteed income options.

Market Volatility and Participant Behavior

Market volatility is a natural aspect of investing, particularly on the downside, where it can have a substantial impact. The turbulent markets of 2001, 2008, and 2020 are prime examples of this pattern. And for workers who have spent their careers working and

savings in their defined contribution plans, it can be particularly stressful—especially when accumulated account balances drop sharply during market downturns. These fluctuations can create significant anxiety, especially for individuals nearing retirement who fear they will outlive their savings and this fear is compounded by inflation, uncertain market performance, and the shrinking window to recover losses. In fact, the most recent EBRI Retirement Confidence Survey² of workers and retirees validates these concerns:

- 83% of workers are concerned that the increasing cost of living will make it harder to save as much as they want
- 78% of workers believe inflation will stay high for the next 12 months
- 62% of retirees believe the stock market will be increasingly volatile and unpredictable

When markets crash, retirement account balances can fall quickly, even though history shows they often recover over time. However, the emotional and financial toll of seeing years of savings diminish in a short period of time can lead to poor decision-making, such as pulling money out of the market at the worst time. The key concern becomes: "Will I outlive my money?"

While financial advisors often encourage clients not to panic during volatile markets, the panic isn't just about volatility itself, it's about when it strikes. In financial planning, this is called the Sequence of Returns Risk: the danger of suffering poor investment returns right before or early into retirement. The timing can be devastating, forcing retirees to delay or downsize long-planned goals. Unlike market

risk, this isn't something an individual can diversify away³; each person only gets one retirement path.

Historically, traditional pensions helped pool and buffer these risks across generations. Today's DC plans lack this collective protection, and most participants—many without access to a personal financial advisor—must navigate this investment risk alone. In fact, **just 35% of 401(k) participants receive professional investment advice**⁴.

What Can Plan Sponsors Do?

With this backdrop of participant's fear of outliving their money and the lack of engagement with financial advisors, how can plan sponsors help?

Plan sponsors have an opportunity to provide participants with lifetime income solutions to help ensure they won't outlive their savings in retirement, and also manage through volatility that can strike at any time. Plan sponsors can do this in multiple ways – they can offer a deferred income annuity (DIA) to participants who want to accumulate future income during their working years. Participants can benefit from a concept similar to dollar-cost averaging, with an option that allows them to buy future income units today and over time, typically between ages 55-70,

instead of one lump sum purchase at retirement which may be in a less favorable rate environment. This creates a known lifetime income stream in retirement that won't change, even in times of market volatility, and even after they retire.

Further, plan sponsors can also consider offering lifetime income “at retirement” through a single premium immediate annuity (SPIA) that allows participants a simple starting point to alleviate their fears of running out of money. A SPIA can provide monthly income for life to help cover essential expenses like housing, food, and healthcare, regardless of market conditions. Because a SPIA is a point in time decision—it uses current balances at retirement, say age 65, to purchase an annuity—it won't alleviate today's market volatility, but can be part of a broader financial plan that seeks to match future expenses with a guaranteed stream of income.

In both cases, guaranteed, monthly income is generated from the annuities for a participant's lifetime to help meet expenses in retirement. These lifetime income solutions can help reduce their reliance on the performance of their investment portfolio, helping them gain peace of mind knowing they'll have steady income no matter what happens in future down markets.

CONCLUSION: Including a guaranteed⁵ income option in the form of an annuity in a DC plan helps address the biggest retirement concerns: outliving savings, facing unexpected market downturns (especially before retirement), and ensuring consistent income for life. It allows plan participants to create a more predictable and secure retirement strategy, easing the pressure of trying to “time the market” and offering more confidence to weather inevitable market fluctuations. For many, this can mean a more stable and worry-free retirement for years to come.

Sources: ¹2024 Greenwald Research In-Plan Insights Survey; ²EBRI and Greenwald Research 2024 Retirement Confidence Survey; ³Pfau, W. D. (2013). The lifetime sequence of returns: A retirement planning conundrum. Available at SSRN 2544637.; ⁴Schwab's 2024 401(K) Participant Study; ⁵All guarantees are subject to the claims-paying ability and financial strength of the issuing insurance company.

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