



DIY, Online Slide Shows, and Sales Tactics: What Higher Ed and Nonprofit Employees Should Know About Annuities in Employer Retirement Plans

If you work in higher education or nonprofit sectors, your employer retirement plan is likely an appealing part of your benefits package. Understanding your plan is critical for long-term retirement success. But retirement planning has become more complex in recent years, as have plan options, while human resources staff have been stretched thin. Understanding how to leverage a retirement plan is often something left up to the DIY efforts, online slide shows, and a third-party provider's sales tactics disguised as advice.

This is especially concerning when it comes to annuities offered within employer-sponsored defined contribution plans such as 401(k)s, 403(b)s, 457s and more. In these plans, employees choose a percentage or fixed amount of their salary (a defined contribution) to go into the plan, making up a large portion of the savings. While annuities have long been a part of these plans, it's not unusual for employees to have little knowledge of how they work, thereby having little understanding of what is happening with their savings. In some cases, owing to the design of the plan created by the employer, employees don't even realize they are contributing to an annuity option in their plans.

Recent legislative and technological shifts have brought renewed attention to their role in retirement income planning.

What Are In-Plan Annuities?

In-plan annuities are investment options within defined contribution plans that convert a portion of your retirement savings into guaranteed income. These options can include:

- Annuities embedded within target-date funds
- Stand-alone annuity products
- Annuities outside the plan but linked to it

In-plan annuities allow plan participants to replicate the pension-like income that is increasingly rare in today's workforce. LIMRA research¹ shows that nearly 70% of workers express interest in guaranteed income products, suggesting high demand for these offerings.

The Growing Popularity—and Complexity—of Annuities

The SECURE Act helped eliminate barriers for employers to offer annuities in their retirement plans, and LIMRA notes that over 40% of plan sponsors are considering adding them. The top motivations include:

- Supporting employees in generating retirement income
- Consultant recommendations
- Belief that the workplace plan is the best location for retirement income generation
- Managing retirement-age workforce transitions

Despite their benefits, annuities can be complicated. What sounds like a great option at first can become inflexible and difficult to understand. Factors like surrender charges, liquidity restrictions, and the technical structure of different contract types can confuse even financially savvy employees. For example, some contracts only allow withdrawals via slow installment plans or impose penalties for lump sum access.

Benefits of In-Plan Annuities

- **Guaranteed Lifetime Income:** Helps hedge longevity risk—an increasing concern as retirees may spend 25+ years in retirement.
- **Predictability:** Fixed annuities provide stable, reliable payments.
- **Pension-Like Features:** For workers lacking access to defined benefit plans, annuities offer a pension substitute.
- **Tax-Deferred Growth:** Like other retirement investments, gains are not taxed until withdrawn.

Drawbacks to Consider

- **Complexity:** Contract rules vary widely from employer to employer, and can be difficult to decipher by employees without considerable guidance from knowledgeable professionals.

¹ <https://www.limra.com/en/newsroom/industry-trends/2024/in-plan-annuities-are-gaining-momentum-in-the-workplace-are-they-poised-to-be-the-next-big-thing-maybe/>

Employee facing HR staff are increasingly less familiar with the plans, and direct employees to the providers' representatives who are sometimes disincentivized to share the downsides.

- **Liquidity Restrictions:** Some annuities have limited access or surrender penalties. Unlike the typical mutual fund in a retirement plan, annuities often cannot be readily transferred to a new plan if an employee changes jobs, and when the employee retires, they may not be able to withdrawal the amount in a lump sum.
- **Costs:** Fees may be higher than other investment options.
- **Irrevocability:** If you choose to annuitize the funds after retirement, the decision is typically permanent.

Why Annuities Matter for Higher Education and Nonprofit Employees

The unique retirement plans commonly used by universities, hospitals, and nonprofit organizations have historically offered annuity products. Institutions often partner with long-standing, respected providers who create plans with unique structures that may include layers of contracts and investment options such as fixed and variable annuities, mutual funds, and real estate-based investments.

Unique among options for employees, the fixed annuities offer in these plans provide a reliable growth option with potential for lifetime income, albeit lower growth than market-correlated options. However, liquidity rules and interest guarantees can vary significantly depending on the contract type, making it essential to understand the terms before contributing. In addition, some long-standing plan rules state that employer matches, which often amount to significant additional compensation for non-profit employees, must be directed to the traditional annuity options within a plan. It's critical for employees to understand the rules surrounding contribution choices and how fund transfers work – if at all – when an employee leaves or retires. These details are spelled out in the plan's Summary Plan Document, an extensive outline of the rules surrounding individual retirement plans.

Why Understanding the Accumulation Phase Is Key

Many participants only start thinking about annuities when approaching retirement. But understanding how they work during the accumulation phase—how they earn interest, what rules govern withdrawals, and how they fit into your portfolio—is crucial. Choosing the wrong contract type or misunderstanding liquidity terms can limit your growth during your working years and your flexibility later.

For younger employees, especially Gen Z and Millennials, this is a growing area of interest. Over 60% say they would consider contributing to an in-plan annuity. The industry must now step up to provide clear, consistent education to plan participants and sponsors alike.

Final Thoughts

In-plan annuities can play a powerful role in ensuring retirement security, especially for those in higher education and nonprofit roles. But their effectiveness depends on proper understanding and usage—starting long before retirement begins.

If you're offered an annuity in your 403(b), take the time to read the Summary Plan Document, which outlines its structure, fees, and withdrawal rules. SPDs are available on request from your benefits professionals in HR, and are often posted on the HR website. If you have a relationship with a financial advisor, consider asking them to explain what's in the document. You'll want to be especially mindful of the specific contract types you're investing in. Your retirement income might just depend on it.

Registered Representative and Financial Advisor of Park Avenue Securities LLC (PAS). OSJ: 600 DELAWARE AVENUE, BUFFALO NY, 14202, 716-8177109. Securities products and advisory services offered through PAS, member FINRA, SIPC. Financial Representative of The Guardian Life Insurance Company of America® (Guardian), New York, NY. PAS is a wholly owned subsidiary of Guardian. Higher Purpose Financial is not an affiliate or subsidiary of PAS or Guardian. ALLIANCE ADVISORY GROUP, INC is not registered in any state or with the U.S. Securities and Exchange Commission as a Registered Investment Advisor. Tracking: 8643130.1 Exp: 12/2027