

Evaluating Target-Date Strategies With Annuities

How to assess these funds as they grow in popularity.

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Jason Kephart
Senior Principal, Manager Research
jason.kephart@morningstar.com

Contributor

Spencer Look
Associate Director, Retirement Studies

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Key Takeaways

- ▶ Multi-asset portfolios that include an in-plan annuity option had more than USD 115 billion in assets at the end of March 2026, up 150% from March 2024.
- ▶ More than half those assets are in managed accounts for 403(b) plans, but momentum is growing in 401(k) plans for target-dates that include annuities.
- ▶ Assets in target-date strategies that include an annuity component for lifetime income grew to USD 44 billion at the end of March 2026, up from USD 25 billion a year earlier.
- ▶ New entrants, like Vanguard, and recent US Department of Labor guidance are expected to accelerate adoption of target-dates with annuities.
- ▶ So far, growth has been driven by two series: BlackRock LifePath Paycheck (USD 26 billion in assets at the end of March) and custom target-date AB Lifetime Income (USD 14 billion).
- ▶ Evaluating these strategies well means looking beyond traditional fund metrics to assess factors like insurer financial strength, how income guarantees are structured and protected, and whether participants will actually understand what they're getting.

Introduction

If you've seen one target-date fund with a built-in annuity, you've seen one target-date fund with a built-in annuity. More than a dozen target-date series now offer some form of guaranteed income in retirement, and it's rare that even two take the same approach. That makes evaluating whether they are a good fit for a 401(k) plan a genuine challenge for plan sponsors, investment consultants, and plan participants.

Part of that challenge is perception. Few financial products evoke skepticism more than annuities. But the in-plan variety can sidestep some of the most common complaints about retail annuities: the commission structures, the aggressive sales tactics, the limitless variations. And the category just received a significant vote of confidence: In December 2025, Vanguard announced its first new target-date series in more than two decades, featuring a built-in annuity option. When a firm managing roughly a third of all target-date assets jumps on the trend, it's a signal that the trend is only getting started.

The regulatory environment is moving in lockstep. The US Department of Labor's recently proposed rule, which outlines a fiduciary process for selecting alternative investments in defined-contribution plans, explicitly includes lifetime income within its framework. For plan sponsors, that guidance is a relief; navigating fiduciary liability is a real constraint, and clarity on safe harbors may embolden plan sponsors to look beyond traditional target-dates. And the promise of guaranteed income in retirement is probably an easy sell to participants.

This paper outlines a framework for assessing these strategies, looking beyond traditional fund metrics to explore factors like insurer strength, payout structures, and communication clarity. Our goal is to provide a lens for determining not only if these products meet fiduciary standards but also how effectively they might deliver on the promise of a reliable paycheck in retirement.

The Problem With Living Happily Ever After

For many, the biggest fear in retirement is outliving their money. The average 65-year-old in the US can expect to live well into their 80s or beyond, according to the Social Security Administration's 2025 Trustee Report.¹ Stretching the typical nest egg over two or possibly three decades can cause anxiety for some investors. Delaying Social Security until age 70 to maximize that retirement-income benefit can help, but many investors may not have that option. Annuities are designed to solve this problem by replacing that uncertainty with the guarantee of paychecklike income. Until recently, however, using 401(k) savings to secure that guarantee was anything but simple. It typically required individuals to withdraw assets from their retirement plans and venture into the retail market, where participants who were seeking annuities might encounter commission-driven sales pitches for complex contracts with opaque fee structures that are rife with potential conflicts of interest.

The in-plan versions of these products look completely different. Annuities offered within defined-contribution plans typically involve no commissions, and costs tend to be lower, given that they typically get group institutional pricing rates.

In 401(k) plans, target-date strategies have become a common vehicle for offering annuities to participants. As the default investment option in many plans, target-date funds already serve as the foundation of most participants' retirement savings. At the end of 2025, 63% of participants on Fidelity's recordkeeping platform, the largest in the US, had all their retirement savings in a target-date strategy, with younger investors most likely to go all-in; 80% of Generation Z participants had all their savings in a target-date, according to Fidelity's Q4 2025 Building Financial Futures² report. These funds automatically adjust asset allocation over time, reducing risk as retirement approaches, which makes them an appealing hands-off solution for investors. That simplicity, and features like auto-enrollment into the default option, has helped drive their growth to more than USD 4.8 trillion in assets at the end of 2025, according to Morningstar's 2026 Target-Date Fund Landscape.³

Momentum Is Building for Target-Dates With Annuities

While the DOL's investment selection proposal specifically targets Employee Retirement Income Security Act of 1974-regulated 401(k) plans, non-Erisa plans, like 403(b)s, have long served as a proving ground for in-plan annuities. For example, TIAA's RetirePlus, a managed account program that functions similarly to a target-date series with an annuity component, held approximately USD 75 billion in assets as of March 2026, mostly in 403(b) plans.

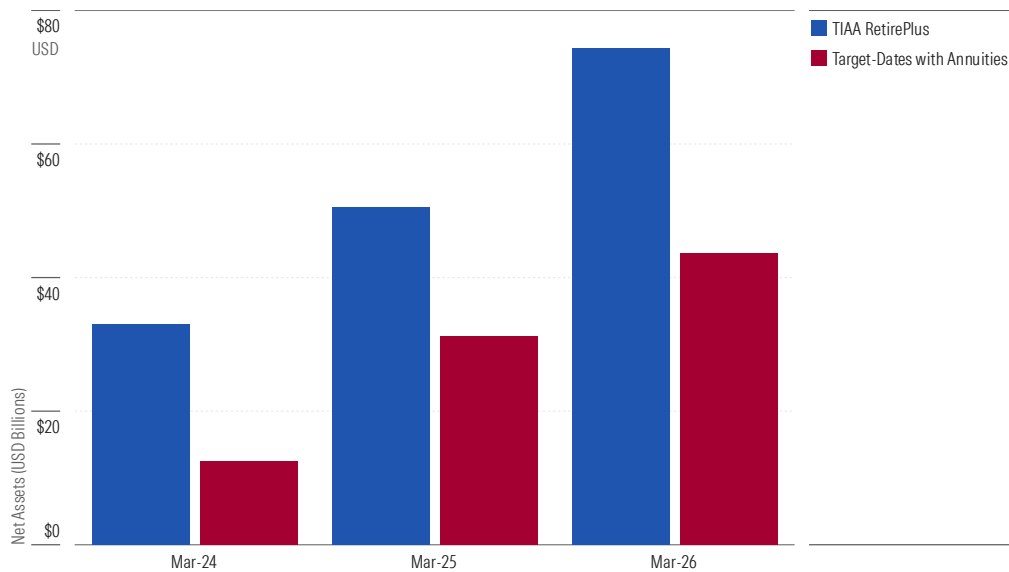
When combined with emerging target-dates with annuities, total assets in multi-asset portfolios with embedded annuities now exceed USD 117 billion, a big jump from just USD 45 billion two years ago. This growth suggests that, as regulatory clarity improves for Erisa plans, there may be more demand for target-dates with annuities.

¹ Social Security Actuarial Life Table.

² Fidelity. 2026. "Q4 2025 Building Financial Futures Report."

³ Roy, M. 2026. 2026 Target-Date Fund Landscape. <https://www.morningstar.com/business/insights/research/tdf-landscape>

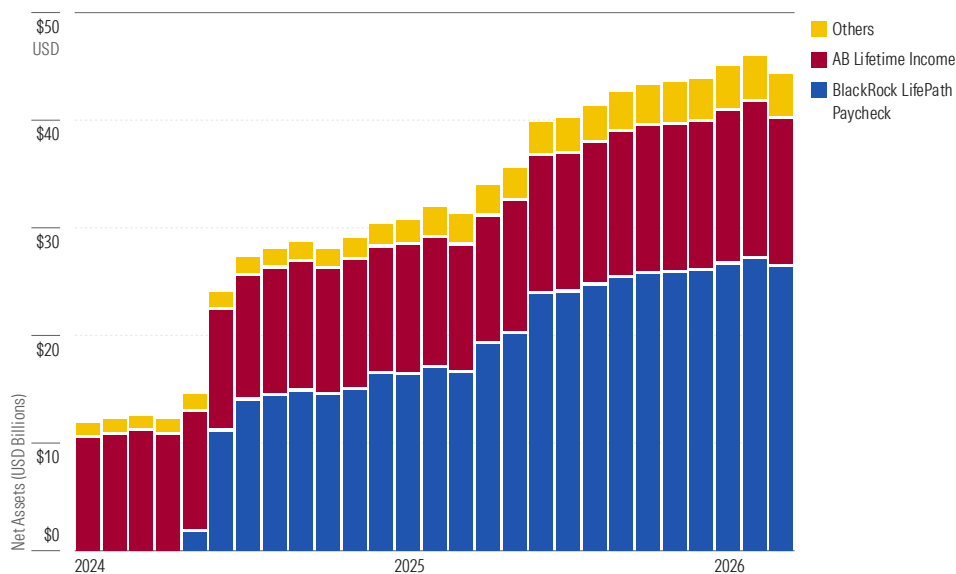
Exhibit 1 Assets in Multi-Asset Portfolios With In-Plan Annuities Have Grown 150% Since 2024



Source: Morningstar Direct, TIAA-CREF. Data as of March 31, 2026.

Target-dates with annuities are still a small drop in the ocean of target-date assets, but there are signs that more plans are adopting these strategies and reasons to believe the growth will accelerate. Assets in target-dates with annuities totaled USD 42 billion across 13 target-date series at the end of March, up almost 70% from the same time last year.

Exhibit 2 Target-Dates With Annuities Approach USD 50 Billion in Assets



Source: Morningstar Direct, AllianceBernstein. Data as of March 31, 2026.

BlackRock LifePath Paycheck has driven most of the growth. It was launched in 2024 and has quickly grown to more than USD 25 billion in assets. The series serves as a high-profile example of an integrated approach: It uses the research and glide path of BlackRock’s traditional target-date offering, but it incorporates an annuity component as participants approach retirement. At retirement,

participants can opt into the annuity and begin receiving payments, or they can choose to stay the course and have a similar experience as someone in a traditional target-date strategy.

We expect a significant portion of early plan adoption to be plan sponsors transitioning from the traditional series to an annuity-embedded version from the same provider, building on their existing comfort with a manager's asset allocation and glide path philosophy rather than underwriting a new series. While structures vary, ranging from deferred-income annuities to guaranteed withdrawal benefits, the entry of massive incumbents like Vanguard (USD 1.8 trillion in target-date fund assets as of the end of 2025), JPMorgan (USD 116 billion), and Principal (USD 107 billion) suggests that the market for these strategies is poised for a substantial expansion.

The 2 Types of Annuities You Meet in Target-Dates (So Far)

There are two general types of annuities embedded in these strategies: income annuities and guaranteed lifetime withdrawal benefits. Each approaches the retirement-income problem differently, and each comes with its own trade-offs around two things that matter most to participants: how much access they retain to their money and how much it costs. The exhibit below shows a sampling of target-date funds, the annuity type each uses, and key features on both fronts.

Exhibit 3 A Sampling of How Target-Dates Offer Lifetime Income

Target-Date Series	Annuity Type	Annuity Liquidity Before Retirement	Annuity Liquidity in Retirement	Annuity Fee	Investor Choice
BlackRock LifePath Paycheck	Income	Yes	None	Implicit	Opt-in
Vanguard Target Retirement Lifetime Income	Income	Yes	None	Implicit	Opt-in
Nuveen Lifecycle Income Index	Income	Yes	None	Implicit	Opt-in
AB Lifetime Income	Guaranteed Lifetime Withdrawal Benefit	Yes	Yes	Max 1%	Opt-out
JPMorgan SmartRetirement Lifetime Income	Guaranteed Lifetime Withdrawal Benefit	Yes	Yes	Max 1%	Opt-out

Source: Firms listed. Data as of April 30, 2026.

Income Annuities

BlackRock, Vanguard, and Nuveen each offer income annuities, though they take different paths to get there. BlackRock begins allocating to lifetime income units, which are convertible into an annuity, starting at age 55. Those units behave similarly to long-term bonds, and the overall portfolio is constructed to match the duration of a traditional target-date series. Participants can then choose to convert those units at retirement, with BlackRock fixing the annuitization amount at 30% of assets in the target-date. Vanguard and Nuveen both use the TIAA Secure Income Account, which behaves more like a stable-value fund, as the on-ramp to annuitization. Nuveen begins allocating to the account as early as age 25, while Vanguard starts at 55. Both give participants flexibility over how much of the account they can convert.

In all three cases, opting in means surrendering that portion of savings to an insurance company in exchange for guaranteed payments that last for life. The appeal to these products is straightforward. Income starts immediately, bringing structure and predictability to retirement spending. And because retirees may not need to lean as heavily on portfolio withdrawals during market downturns, an income annuity can meaningfully reduce sequencing risk, one of the more underappreciated threats to a

retirement portfolio in its early years. For the right participant, that guaranteed floor is genuinely valuable.

But that guarantee comes with real trade-offs. The most immediate is liquidity: Once the money is handed over to the insurance company, it's gone and unavailable for emergencies, large expenses, or heirs. Participants can often elect to have payments continue to their beneficiaries for a set number of years if they die early, but that added protection comes at the cost of a lower monthly payout. Then there's inflation. The payments are fixed, and even a modest 2% annual inflation rate quietly erodes purchasing power over time. TIAA periodically offers payment step-ups, but they're neither tied to inflation nor guaranteed. Finally, there's no explicit fee. Instead, the cost is embedded in the payout rate itself, which makes it difficult to know whether you're getting a good deal.

Guaranteed Lifetime Withdrawal Benefits

The other popular approach addresses the liquidity problem head-on. GLWBs, like those offered by the JPMorgan and AllianceBernstein series, let participants keep control of their savings while still offering protection against the risk of outliving them. Rather than handing over a lump sum, participants stay invested and are guaranteed the ability to withdraw a set percentage of their savings each year for life, even if the account is eventually drawn down to zero.

The appeal is flexibility. The money remains accessible, which addresses the liquidity concern that makes immediate income annuities a harder sell for some. If the market performs well, the account can grow, and crucially, most GLWBs will lock in that growth through a high-water-mark mechanism, resetting the benefit base to the new peak and permanently increasing the guaranteed income floor. Whatever is left at death can pass to heirs, unlike a traditional annuity, where the insurance company keeps what remains. But flexibility comes at a cost, and unlike income annuities, this one can show up as an explicit fee, typically around 1% per year. That fee is charged regardless of whether the participant ever uses the guaranteed income, meaning those who need to withdraw all their money early have paid for something they didn't need. Also, the guaranteed withdrawal rate is generally conservative, so the income floor may end up lower than what an income annuity would have provided with the same money. And flexibility has limits: If a participant withdraws more than the guaranteed amount in any year, the guaranteed income floor can be permanently reduced going forward, which can catch retirees off guard during years when unexpected expenses arise.

What to Consider When Evaluating Target-Dates With Annuities

Regardless of the general type of annuity, both could help improve retirement spending in the right scenarios. But because individual factors, outside income sources, bequest motives, health, and risk tolerance vary widely across participants, plan sponsors face a genuine challenge in selecting a single solution for their entire workforce.

That challenge makes rigorous evaluation even more important. The DOL has identified six factors a fiduciary should consider when evaluating investment options for a 401(k) plan:

- ▶ Fees
- ▶ Complexity
- ▶ Performance
- ▶ Benchmarking

- ▶ Liquidity
- ▶ Valuation

Because target-date funds with annuities introduce insurance-specific risks that are not present in standard funds, we also add a couple other considerations:

- ▶ Financial strength of the underlying insurer

Below, we examine each factor as it applies specifically to target-date funds with annuities.

Fees

Fees are critical for every investment option. For traditional investments, the trade-off is simple: The less you pay, the more you keep. Evaluating fees for the annuity component of a target-date fund is more complicated.

For funds offering guaranteed lifetime withdrawal benefits, there's typically an explicit fee of around 1%. The contrast with traditional target-date funds is stark: More than half of traditional target-date assets are in share classes charging 0.08% or less. For funds using income annuities, costs are implicit and undisclosed, though they should be reflected in the income rates offered to participants.

The DOL's proposed rule directs fiduciaries to weigh higher costs against the value the annuity provides. At the plan level, that's a difficult judgment across a diverse workforce. Some populations will derive more value than others—employees in industries with longer life expectancies are a natural example.

One approach the DOL suggests is a breakeven analysis: How long would a participant need to live for the insurance benefit to justify the additional cost? It's a reasonable framework but a complex one that most plan sponsors are not equipped to run independently. The likely solution is to lean on the asset manager for analytical support, and this raises its own questions of independence when that same manager is under evaluation.

For income annuities, a more tractable approach is to compare the rates offered to participants against market rates for similar products. Given the potential scale of these target-date funds, group pricing should translate into meaningfully better-than-average rates. If that data is provided by the manager, it offers a more reliable signal than breakeven analysis, where small changes in assumptions can produce significantly different conclusions.

Complexity

Embedding an annuity within a target-date fund unquestionably adds complexity compared with a traditional set-it-and-forget-it offering. And while plan sponsors and their investment consultants may feel confident that they understand how these products work in practice, participant comprehension matters just as much. A misunderstood product is a misused or unused product. If participants disengage, the added complexity and potentially higher fees deliver little value at a higher price. Worse, participants who only partially understand these products may misuse them in ways that produce poor retirement outcomes.

That's why clear, accessible participant education is a must-have. Plan sponsors should expect providers to show up with the basics: plain-language disclosures, retirement-income calculators, and guidance that helps participants understand what they're getting and why it matters. Providers that can't demonstrate these fundamentals should be crossed off the list.

Performance

Evaluating these products' performance requires accepting upfront that forecasting is hard. The DOL's framework reflects that reality. It's built around process rather than outcomes, rewarding rigorous and well-documented decision-making over attempts to predict the future. That's a useful starting point because the performance question is more complex than it first appears.

For a traditional stock and bond target-date fund, forward-looking performance is mostly about expected risk-adjusted returns across the glide path. Capital market assumptions are the standard tool for that kind of analysis, and there's no shortage of them; most large asset managers and consultants publish their own. But plan sponsors shouldn't rely too heavily on them when comparing target-date series. Small differences in assumptions about inflation, gross domestic product growth, or interest rates can lead to very different long-term projections, and no provider consistently gets it right. A more durable approach is to focus on whether the portfolio is broadly diversified across asset classes, geographies, and risk factors. Diversification may not be optimal in every scenario, but it remains one of the best defenses against unforeseen outcomes.

The same mindset applies to the annuity component. Instead of relying on a single forecast, plan sponsors should evaluate how guaranteed withdrawal or payout rates perform across a range of interest rate and stock market environments. Comparing providers under the same assumptions is often more informative than trying to predict absolute outcomes because it makes differences in pricing and payouts easier to identify.

For guaranteed lifetime withdrawal benefits, it's also useful to examine how providers have adjusted withdrawal rates over time. That can offer insight into how stable and dependable those guarantees have been. Reviewing the actuarial assumptions behind payout rates, such as mortality tables, interest rate assumptions, and expense loads, doesn't require plan sponsors to become actuaries, but it does allow for a more meaningful comparison.

Benchmarking

Benchmarking performance before retirement is relatively straightforward. Most target-date series with annuities have a sibling series built on the same glide path, asset allocation, and underlying investments. The main difference is usually the addition of an annuity within the fixed-income allocation. That sibling series provides a natural benchmark because it is fully liquid and investable and shows how the strategy would have performed without the guarantee. If a meaningful performance gap emerges as participants approach retirement, it's worth examining whether the annuity's cost is creating more drag than expected. Comparing both series against the broader target-date peer group adds more perspective by showing how the strategy stacks up against competing approaches, regardless of the annuity feature.

Benchmarking after annuitization is more difficult. Once participants begin using the annuity, the focus splits: The annuitized portion is evaluated on income reliability. If the annuitization results in assets

leaving the plan to go to the insurer, the remaining portfolio can be monitored using traditional performance metrics.

Participants receiving guaranteed income through a GLWB or income annuity are benefiting from something traditional performance comparisons do not capture. This is where the Department of Labor's emphasis on meaningful benchmarks becomes especially challenging for these products and where plan sponsors may need to rely more heavily on scenario analysis than peer comparisons. The key question becomes how well the product delivered on its income promise across different market environments. That is ultimately the performance measure that matters most in retirement, even if it is the hardest one to evaluate cleanly.

Liquidity

For participants, the target-date fund itself remains fully liquid unless they elect to convert a portion of their balance into an income annuity. At that point, those assets become irrevocable, exchanging liquidity for a guaranteed income stream. Products that use a GLWB structure avoid this trade-off entirely, preserving full liquidity while still providing an income guarantee, with the caveats discussed earlier.

Liquidity at the plan level is a different matter. Target-date funds that incorporate stable value to support the lifetime income guarantee may require up to 12 months' notice to unwind. It's a function of the underlying stable-value contract, not the annuity itself. Plan sponsors considering a provider change or menu restructuring should factor that runway into their timeline. That said, plan-level transitions rarely happen quickly, regardless, so for most sponsors, the notice period is a manageable constraint rather than a dealbreaker.

Valuation

Including an annuity generally shouldn't raise the kind of valuation concerns at which the DOL framework is primarily aimed; those seem squarely directed at private markets, where stated prices may not reflect the actual market prices of securities. Target-date funds with annuity features will still post daily net asset values at which participants can buy and sell.

That said, valuation takes on a different dimension with these products. The daily NAV reflects what a participant's account is actually worth. But GLWB structures also maintain a separate benefit base, which works like a high-water mark: It locks in at the account's highest value and doesn't fall with markets. It's that benefit base, not the account value, that determines what a participant's guaranteed income will be. The two numbers can diverge significantly after a market downturn, and a participant who only looks at their account value may underestimate what their income guarantee is worth. For products that offer annuitization, the conversion rate that translates account value into monthly income is set by the insurer and can change, introducing a form of pricing uncertainty that sits outside the standard NAV framework. These aren't reasons for concern so much as reminders that daily NAV, while necessary, doesn't tell the whole valuation story.

Financial Strength and the Insurer's Credit Rating

The credit rating of the insurer, or insurers, backing the annuity is not explicitly part of the DOL's framework, but it belongs in any serious analysis of these products. Investment-grade ratings aren't a guarantee of safety, but selecting a highly rated carrier is a defensible baseline and a signal that the


institution backing participants' retirement income is financially sound. While state guaranty associations provide a backstop if an insurer fails, coverage limits vary by state, and falling back on that protection is a scenario worth working hard to avoid.

Equally important is evaluating the target-date manager's process for selecting and monitoring the insurer. Whether they use a single carrier or multiple and whether they retain the ability to replace an insurer if its financial condition deteriorates are both meaningful indicators of the robustness of the selection process. Plan sponsors and investment consultants shouldn't be expected to underwrite insurance companies themselves; that's not a realistic or appropriate burden. But a rigorous selection process from the target-date manager, paired with stable investment-grade ratings from third-party agencies, can together provide reasonable assurance that the institution standing behind participants' guaranteed income is built to last.

With Great Promise Comes Great Scrutiny

Target-date funds with built-in annuities represent a meaningful shift in how the retirement industry approaches the move from saving for retirement to living off retirement income. The appeal is clear: These strategies can help create more-reliable lifetime income, reduce sequence-of-returns risk, and make guaranteed income available in a more accessible way than traditional retail annuities. Growing adoption, Vanguard's entry into the market, and a more supportive regulatory backdrop all suggest this category is becoming too important to ignore.

But greater adoption should come with greater scrutiny. These products introduce risks and trade-offs that traditional target-date fund due diligence was not built to evaluate, including insurer credit risk, liquidity limitations, complex benefit structures, and the challenge of measuring retirement-income outcomes. The Department of Labor's six-factor framework provides a strong starting point, but plan sponsors and consultants will likely need to apply a broader and more detailed review process. Fortunately, that process is manageable, though not necessarily easy. Plan sponsors can evaluate whether fees are reasonable relative to the benefits provided, test how income guarantees hold up across different market and interest rate environments, assess insurer financial strength, and ensure participants clearly understand the product's trade-offs. None of this requires becoming an actuary or insurance expert. It does require asking thoughtful questions and approaching the evaluation process with care and discipline.

For participants, the goal is straightforward: dependable income that lasts through retirement. Ultimately, that is the standard these products should be judged against. 

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