



PGIM

THE EVOLUTION OF DYNAMIC QDIAs

Fiduciary Considerations for Decumulation Strategies

A whitepaper prepared by the Wagner Law Group on behalf of PGIM

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EXECUTIVE SUMMARY

Defined contribution (“DC”) retirement plans have made remarkable progress over the past three decades in helping American workers accumulate retirement savings. A significant part of this success has come from the introduction of plan features that reduce the burdens and roadblocks facing plan participants. The Pension Protection Act of 2006 (“PPA”), for example, introduced automatic enrollment and qualified default investment alternatives (“QDIAs”) to assist participants in saving more and investing appropriately. With average account balances at an all-time high and an aging workforce, employers are now increasingly looking at new decumulation strategies to assist participants in responsibly withdrawing money during their retirement years.

The target date fund (“TDF”) has become the predominant QDIA, offering a simple, age-based glide path to manage investment risk over time. While highly effective during the accumulation phase, most TDFs are not optimized for the decumulation stage when participants begin to draw down their savings.

Plan sponsors and their advisors are exploring how they can provide access to decumulation strategies and rethink the accumulation-focused plan menu while also enjoying the benefits of default plan design and fiduciary protection. This paper explores different decumulation strategies, potential benefits, the relevant regulatory framework, and implementation considerations for using dynamic QDIAs as a means to transition participants into the decumulation solutions.

1. Opportunities and Benefits in Offering Decumulation Strategies

The passage of the PPA marked a pivotal moment for DC plans, providing employers with fiduciary protection when automatically enrolling participants into QDIAs. Three QDIA options were recognized under the new law: TDFs, balanced funds, and managed accounts. When participants are automatically enrolled and fail to make an affirmative investment election, their contributions to the plan are directed into the QDIA and the employer receives safe harbor protection from liability.

QDIAs, particularly TDFs, which a large majority of plans adopted as their default option, resulted in participants experiencing much greater diversification and age-appropriate portfolios relative to them choosing their own investments. However, as workers live longer, there is growing recognition that accumulation-focused solutions may fall short of meeting income needs in retirement. Many TDFs don’t incorporate asset classes retirees could benefit from to support income generation and inflation sensitivity in retirement. Further, the one-size-fits-all approach does not account for the different retirement spending objectives of a diverse population.

Adding to the decumulation challenge, many participants choose to take lump-sum distributions. While lump sums offer simplicity and immediate control, they also expose participants to market-timing risk, longevity risk, and the need to make their own investment decisions. Withdrawal strategies such as systematic withdrawals and partial withdrawal strategies allow participants to draw income over time, thus allowing participants to remain invested while withdrawing. However, to enable successful withdrawal strategies, retirees need to make sure they are in appropriate portfolios for their retirement income objectives, have exposure to asset classes that support the unique income generating and inflation sensitive needs of someone in decumulation, and they need guidance as to appropriate spending rates.

¹ The PPA was an amendment to the Employee Retirement Income Security Act of 1974 (“ERISA”).

² See 29 CFR § 2550.404c-5.

The question for sponsors and their advisors is how to provide participants with access to these solutions while leveraging default plan design and the fiduciary protections afforded by ERISA. Several decumulation strategies, listed below, are available to address the above concerns by offering different approaches to helping participants as they move into retirement: This section will address that question.

1. Multi Asset Retirement Spending Portfolios

Multi-asset balanced funds that are specifically geared to meeting a retiree's spending objectives are a straight-forward, turn-key decumulation strategy. These portfolios can invest across various asset classes, including both public and private markets, that aren't often available in traditional target date funds or core menus but that benefit those in retirement. While these portfolios are not guaranteed, they can be designed with the objective of helping a retiree meet a sustainable level of income through retirement.

Plans can offer one or more of these portfolios to support different levels of spending. For example, a participant that already has a great portion of their spending needs covered through guaranteed sources such as a defined benefit plan and/or social security could take more risk and target a higher withdrawal rate than someone who is relying more on their DC plan to meet their essential spending needs.

2. Managed Accounts with Retirement Income Feature

Managed accounts with retirement income features provide a higher degree of personalization by tailoring investment and withdrawal strategies to individual participant data such as age, compensation, account balance, contribution rates, and anticipated retirement timing. These solutions may incorporate tailored and dynamic withdrawal rates, income replacement targets, and ongoing portfolio adjustments designed to manage market and longevity risk. Some solutions can even allocate to annuity products if available.

3. Guaranteed Income Strategies

Guaranteed income funds and products are designed specifically to generate predictable income during retirement through annuity-based components. These solutions can directly address longevity risk and may appeal to participants seeking income certainty.

Adoption of these strategies remains low, due to fiduciary complexity as these options require careful consideration of cost, liquidity, portability, insurer risk, and participant understanding. While legislative and regulatory developments have expanded fiduciary safe harbors for certain income products, these solutions are often most effective when incorporated into a broader decumulation framework rather than offered as standalone options. For example, some providers offer target date funds that embed annuities.

2. The What and Why of Dynamic QDIAs

Historically, plans have picked one QDIA solution for all participants across the lifecycle of their time in the plan, with most picking a TDF. But what if a plan sponsor chooses more than one QDIA, in which a certain trigger determines the default option for that participant? This can be particularly beneficial to help participants move from accumulation focused QDIAs to ones that focus on decumulation. This is where the concept of a dynamic QDIA comes in.

WHAT IS A DYNAMIC QDIA?

A dynamic QDIA takes a hybrid approach. In this structure, participants begin in a TDF during the accumulation years. Then, at a predetermined point—typically near or close to retirement—they are defaulted into a retirement spending-oriented investment. This two-stage approach retains the simplicity and automation of TDFs while addressing the more nuanced needs of retirees.

Several different approaches to dynamic QDIAs have been developed including:

- Age-based transitions, in which participants are automatically mapped from a traditional TDF into an income-oriented investment at a specified age or retirement date.
- Balance-based transitions, where participants shift once their account balance reaches a level sufficient to support income-focused strategies.

- Staged or tiered defaults, which move participants through multiple default phases that gradually reduce market risk and increase income focus.

The decumulation strategies listed on the prior page could be incorporated into a Dynamic QDIA framework, and here are some examples of how they could be used:

- One approach is to implement a Dynamic QDIA that moves defaulted participants from a target date vintage later in the glide path to a more personalized multi-asset retirement spending portfolio(s). These products would fall under the Balanced Fund category of the QDIA regulations.
- Another Dynamic QDIA approach in the market today is moving defaulted participants from a TDF to a managed account. Additional innovation is expected in this area in terms of availability of advice solutions across platforms that appropriately account for participants' unique spending needs, fees, and enhancing participant engagement to truly personalize.
- As mentioned earlier, some providers have embedded annuities into the dominant QDIA in the market today, TDFs. Leveraging the widely familiar QDIA makes a lot of sense. However, this one-size-fits-all approach doesn't account for the unique retirement income objectives within populations. Further, continued work is needed to help fiduciaries be comfortable with these solutions.

3. Fiduciary Best Practices To Help Participants Move Into Decumulation Solutions— Dynamic QDIAs

Under the QDIA safe harbor regulation, plan fiduciaries receive protection when participants are defaulted into a QDIA. To qualify as a QDIA, an investment option must (1) be managed by an investment manager, plan trustee, or plan sponsor committee as defined under ERISA; (2) be diversified to minimize the risk of large losses; (3) be either a product with a mix of investments that takes into account the individual's age or retirement date (e.g., a TDF), a balanced fund, or a managed account; and (4) not invest participant contributions primarily in employer securities. The decumulation strategies discussed in the prior section can be designed to meet these requirements.

From a fiduciary perspective, selecting and implementing a QDIA is one of the most consequential decisions an employer can make. Employers, acting as ERISA fiduciaries, must act prudently and solely in the interest of participants. This includes conducting a thorough evaluation of potential QDIAs, considering fees, performance, risk, and suitability for the plan's demographics. The Department of Labor ("DOL") provided critical guidance through its 2013 "Target Date Retirement Funds—Tips for ERISA Plan Fiduciaries." The DOL's 2013 Tips have been favorably cited by numerous courts. While dynamic QDIAs are a newer development, a

³ The QDIA safe harbor regulation has been successfully used by employer fiduciaries in multiple ERISA fiduciary breach lawsuits. See *Larson v. Allina Health Sys.*, 350 F. Supp. 3d 780, 794–95 (D. Minn. 2018); *Bidwell v. Univ. Med. Ctr., Inc.*, 685 F.3d 613, 618–20 (6th Cir. 2012); and *Falcone v. DLA Piper US LLP Profit Sharing & 401(K) Sav. Plan Comm.*, No. 09-5555, 2011 WL 13277203, at *5–8 (N.D. Cal. May 27, 2011).

⁴ Available at <https://www.dol.gov/sites/dolgov/files/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/target-date-retirement-funds.pdf>.

⁵ See *Pledger v. Reliance Tr. Co.*, No. 15-4444, 2019 WL 10886802, at *26 (N.D. Ga. Mar. 28, 2019); *Wehner v. Genentech, Inc.*, No. 20-6894, 2021 WL 507599, at *8 (N.D. Cal. Feb. 9, 2021);

Anderson v. Intel Corp. Inv. Pol. Comm., 579 F. Supp. 3d 1133, 1145 (N.D. Cal. 2022); *Lauderdale v. NFP Ret., Inc.*, No. 21-301, 2022 WL 422831, at *4 (C.D. Cal. Feb. 8, 2022); *Davis v. Magna Int'l of Am., Inc.*, No. 20-11060, 2023 WL 3821807, at *6 (E.D. Mich. June 5, 2023); *Johnson v. Parker-Hannifin, Corp.*, No. 21-256, 2023 WL 8374525, at *1 (N.D. Ohio Dec. 4, 2023); *Phillips v. Cobham Advanced Electronic Solutions, Inc.*, No. 23-3785, 2024 WL 3228097, at *5 (N.D. Cal. June 28, 2024).

⁶ See *Lauderdale v. NFP Ret., Inc.*, No. 21-301, 2024 WL 751005, at *28 (C.D. Cal. Feb. 23, 2024).

recent court case supports the conclusion that fiduciaries may offer custom QDIA solutions that focus on the participant's unique needs and demographics.⁶ This provides additional flexibility for Plan Sponsors and their Advisors to evaluate and implement decumulation solutions that can better address participant needs to deliver improved outcomes.⁷

Implementation Strategy and Monitoring

Investigating and adding decumulation strategies involves careful planning but can be executed smoothly with the right partners and timeline. Typically, employers will begin with a review of current QDIA design, participant demographics, and plan objectives. From there, they may work with an advisor or recordkeeper to evaluate decumulation strategies—and assess operational fit.

As an example, using the previously mentioned scenario of a Dynamic QDIA that moves defaulted participants from a target date vintage later in the glide path to a more personalized multi-asset retirement spending portfolio(s), implementation often includes a reenrollment process, which resets participant allocations into the new default and helps bring legacy assets into alignment. This process can be especially valuable for older participants who may have accumulated assets in outdated or overly aggressive allocations. A reenrollment can involve all participants or only those that remain in the plan's QDIA.

A successful transition depends heavily on participant communication. Employers should prepare a clear and consistent message explaining the rationale behind the change, the benefits of the new approach, and what participants can expect. Communications should be personalized, targeted, and delivered through multiple channels to ensure broad reach and understanding.

Finally, participant education is important. This can include in-person or online sessions—augmented by digital tools—which can provide participants with retirement income modeling, answers to common questions, and a better

understanding of their financial future. This engagement not only supports positive outcomes, but also reinforces the employer's commitment to fiduciary excellence and participant well-being.

Once a decumulation strategy is selected, employers must regularly monitor its performance and ensure it continues to meet the needs of participants. This involves reviewing investment returns, fees, and any changes in the strategy's management. If the decumulation strategy no longer meets the established criteria, fiduciaries must take appropriate action, such as replacing the strategy with a more suitable option. Additionally, the ultimate measure of a decumulation strategy's success is improved participant outcomes. Evaluation frameworks should consider both quantitative and qualitative metrics.

5. Conclusion

Implementing a dynamic QDIA with a decumulation solution represents an opportunity to address the shortcomings of static QDIA options and align more closely with the full arc of a participant's financial journey. Whether multi-asset retirement spending portfolios, managed accounts, or guaranteed income, combining the simplicity of traditional QDIAs with the personalization and benefits of decumulation solutions allows employers to offer a higher standard of default investing—one that balances fiduciary prudence with participant outcomes.

For employers seeking to differentiate their plan, reduce risk, and improve retirement readiness, implementing a dynamic QDIA with a decumulation solution can be a forward-thinking and responsible solution. As the retirement landscape continues to evolve, so too should the strategies we use to support the American worker. As with any retirement plan innovation, careful consideration of the specific workforce demographics, existing retirement benefits, and organizational objectives should guide the evaluation and implementation process.

⁷ To that end, actions through March 2026 by the President and DOL are working to provide greater protections for fiduciaries when offering retirement income and annuity products. See Executive Order 14330, Democratizing Access to Alternative Assets for 401(k) Investors, available at <https://www.whitehouse.gov/presidential-actions/2025/08/democratizing-access-to-alternative-assets-for-401k-investors/>; DOL Advisory Opinion 2025-04A, available at <https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/advisory-opinions/2025-04a>; DOL Proposed Rule "Fiduciary Duties in Selecting Designated Investment Alternatives," available at <https://www.dol.gov/newsroom/releases/ebsa/ebsa20260330>.

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Tom Clark is a partner in the Boston and St. Louis offices of The Wagner Law Group, a certified woman-owned law firm specializing in ERISA and Employee Benefits. He also serves as the firm's Deputy Managing Partner. Tom's expertise encompasses all aspects of employee benefits including a robust practice assisting service providers such as investment advisors and third party administrators in meeting their ERISA compliance needs. Tom's litigation experience includes defending plan sponsors and service providers, and has included work on landmark ERISA cases such as *Tibble v. Edison*. He also regularly defends ERISA fiduciaries against investigations by the DOL and IRS, and is often retained to assist in resolving prelitigation disputes, thus avoiding the cost and uncertainty of a court battle. Since 2013, Tom has taught ERISA Fiduciary Law as an adjunct professor at his alma mater, The Washington University in St. Louis School of Law.



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