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New Research from EBRI:

Most Find Monthly Retirement Income Estimates Helpful, Unsurprising

WASHINGTON—How much would your 401(k) account provide as a monthly source of income in retirement?

Last year the U.S. Department of Labor issued a proposal to require retirement plan statements to show how a worker's current account balance would translate into an estimated lifetime income stream of payments, and new survey results by the nonpartisan Employee Benefit Research Institute (EBRI), indicates that most who are currently contributing to an employer plan are unlikely to be surprised at what they hear—and few are likely to save more or work longer as a result.

Based on an analysis of the results of the just-released 2014 Retirement Confidence Survey (RCS), the vast majority of respondents (for this analysis, only workers who were currently contributing to an employer plan were included) found the information useful; more than 1 in 3 (36 percent) of the respondents thought that it was very useful to hear an estimate of the monthly retirement income they might expect from their plan, and another 49 percent thought it was somewhat useful.

However, that information didn't seem to come as a surprise to many:

- More than half (58 percent) thought the estimated monthly income was in line with their expectations.
- Perhaps because of that, relatively few (only 17 percent of the respondents) said they would increase their retirement savings contributions as a result of hearing the monthly income estimate.
- However, of those responding that their illustrated value was much less or somewhat less than expected, more than a third (35 percent) indicated they would increase their contributions.

“It is possible that these respondents' current participation in employment-based plans has already provided them with a sense for what their retirement savings balances would provide,” noted Jack VanDerhei, EBRI research director and author of the report.

Since the concept of lifetime income illustrations on 401(k) statements is a relatively new innovation, little empirical evidence exists regarding how plan participants would respond. To find out, EBRI's new 2014 RCS included a series of questions concerning monthly income illustrations similar in many respects to those provided by the EBSA's online Lifetime Income Calculator (available online at <http://www.askebsa.dol.gov/lia/home>).

”Currently few retirees convert their entire 401(k) account and/or individual retirement account (IRA) balances to an annuity at retirement age,” noted VanDerhei. “However, the monthly income that could be purchased provides a convenient method of illustrating the approximate amounts that the account balances could generate in terms of monthly retirement income. The proposed methodology in the EBSA proposal would take this approach and expand it to include the prospective accumulation period for those not yet at retirement age.”

EBRI also notes that any such projection is necessarily required to make a number of critical assumptions—including future contribution activity, future rates of return, future asset allocation, and future annuity purchase prices. The full report, “How Would Defined Contribution Participants React to Lifetime Income Illustrations? Evidence from the 2014 Retirement Confidence Survey,” is published in the March *EBRI Notes*, online at www.ebri.org

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