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FAST Facts

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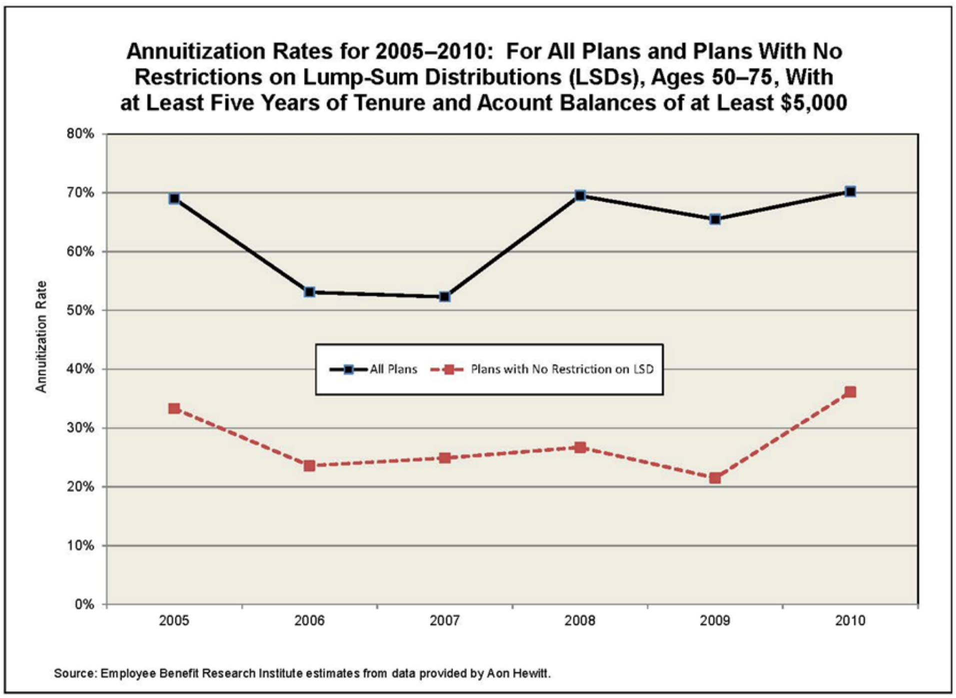
Given a Choice, Workers Still Take Their "Lumps"

Amidst growing concerns about workers outliving their retirement savings, a key focus has been on ways to encourage retirees to consider a lifetime income option—but research indicates that, given a choice, those individuals are opting for a lump sum distribution from their retirement plan instead.

According to research published earlier this year by the nonpartisan Employee Benefit Research Institute (EBRI), between 2005 and 2010, only about 1 in 4 workers (27.3 percent) covered by a defined benefit (DB) pension plan who were between ages 50–75, had a minimum job tenure of five years, a minimum account balance of $5,000, and who had no restrictions on their payout decision, chose an annuity (a lifetime income stream).

The study found that differences in DB plan rules or features result in very different annuitization rates in pension plans. In fact, the results show that the rate of annuitization varies directly with the degree to which plan rules restrict the ability to choose a partial or lump-sum distribution (LSD). In 2010, the annuitization rate for traditional DB plans with no restrictions on LSDs was 44.3 percent, while for cash balance plans with no restrictions on LSDs it was 22.3 percent.



The study was based on data from 84 ERISA-qualified plans from Aon Hewitt, and included a total of 118,730 payout decisions between the years 2005 and 2010, including both traditional defined benefit and cash balance plans. Additional information can be found in the January 2013 *EBRI Issue Brief*, no. 381, "Annuity and Lump-Sum Decisions in Defined Benefit Plans: The Role of Plan Rules," online here.

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