

Consumer Preferences for Lifetime Income Estimates on 401(k) Statements



January 2015

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The Insured Retirement Institute (IRI) is the leading association for the retirement income industry. IRI proudly leads a national consumer coalition of more than 30 organizations, and is the only association that represents the entire supply chain of insured retirement strategies. IRI members are the major insurers, asset managers, broker-dealers/distributors, and 150,000 financial professionals. As a not-for-profit organization, IRI provides an objective forum for communication and education, and advocates for the sustainable retirement solutions Americans need to help achieve a secure and dignified retirement. Learn more at www.irionline.org.



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OVERVIEW

IRI engaged Woelfel Research Inc. in September 2014 to conduct a survey of 401(k) plan participants to determine their preferences for the inclusion of lifetime income estimates on their 401(k) plan statements. These lifetime income estimates would provide plan participants with an estimate of how much retirement income could be generated from their retirement plans. Survey respondents were shown sample statements with no income estimate, an estimate based on current plan balance, an estimate based on their projected plan balance at age 65, and estimates based on both current and projected plan balances. They were then asked to select the one they most preferred. While responses varied as to how they preferred the estimates be calculated, the overall results showed that plan participants overwhelmingly prefer to see income estimates on their 401(k) statements, find such estimates helpful in preparing for retirement, and most said the lifetime income estimates would motivate them to increase their retirement plan contributions.

KEY FINDINGS

- People want to see retirement income estimates: Over 90% of survey respondents – regardless of age, income level, or 401(k) plan balance – want their 401(k) statements to include estimates of lifetime retirement income.
- People vary as to how they want their retirement income estimates calculated: The survey found no overwhelming preference for one type of retirement income estimate, and some correlation of preferences were seen with age, income, and plan balance levels. For example, younger respondents were more likely to prefer estimates based on current balance or both current and projected. This finding indicates that plan sponsors should have flexibility in the calculation methodologies employed, provided all methodologies are based on sound financial and actuarial principles.
- Retirement income estimates are beneficial: Over 90% of survey respondents believe lifetime retirement income estimates are helpful in preparing for retirement.
- Retirement income estimates motivate people to take positive action: More than 75% of survey respondents stated they would increase their contribution level by four percentage points or more after seeing estimates of lifetime retirement income.
- Retirement income estimates motivate people to take an active role in planning for retirement: Over 90% of survey respondents stated they want their employers to provide them with online retirement income calculators so they can use their own assumptions to calculate estimates of lifetime retirement income.

METHODOLOGY

The Consumer Preferences for Lifetime Income Estimates on 401(k) Statements study was conducted by IRI and Woelfel Research in September 2014. Interviews were conducted with 1,500 respondents. The interviews were completed via internet between September 18 and September 23, 2014. Respondents were screened to include only those between the ages of 21 and 65 with a current balance in a 401(k). Sample margin of error \pm 2.5%.

Survey Objectives

- IRI and the Department of Labor want to understand how 401(k) plan participants would react to the addition of retirement income estimates to their plan statements
- The primary objective was to understand how participants felt about the information participants want on their benefit statements, and what actions they would take upon viewing income estimates
- Secondary objectives were to understand the extent to which participants are aware of their current retirement readiness and what steps they have taken, or would take, to increase their preparedness

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Key Messages

- Plan participants overwhelmingly want to see illustrations of estimated retirement income on their benefit statements.
- Providing illustrations of estimated retirement income will drive plan participants to increase their savings by significant amounts.
- Different plan participants want different information about how much lifetime income their savings might generate, and plan sponsors should have the flexibility to provide that information in the way their employees want it.
- Plan participants want the ability to create more personalized estimates using on-line retirement planning and income calculators and tools.

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Key Findings

1. Over 90% of respondents (across all age, income, and plan balance levels) expressed a desire to have retirement income estimates on their 401(k) statements
2. Different ways of presenting retirement income estimates were more appealing to different segments of the respondent pool
 - 75% - 90% preferred a statement with illustrations based on their projected future balance at retirement
 - 80% - 90% preferred a statement with illustrations based on their current account balance
 - 55% - 75% wanted to see both illustrations

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Key Findings

3. Over 90% of respondents believe retirement income estimates are very or somewhat helpful in preparing for retirement
4. 75% - 90% of respondents would increase their contribution level by 4% or more after seeing retirement income estimates
5. The greatest positive impact was found among those respondents who were most likely to see lower retirement income estimates:
 - 55% to 70% of younger, lower income, smaller balance respondents would increase contributions
 - Among those closer to retirement and/or with higher plan balances, only 40% to 50% would increase contributions

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Key Findings

6. There is a significant disconnect between respondents' retirement income needs and the amount of income that could be produced by their actual savings
 - 60% - 80% of respondents believe they will need 70% or more of pre-retirement income in retirement
 - 50% or less believe they will actually be able to replace that percentage of their pre-retirement income, while another 20% - 30% don't know how much of their pre-retirement income they will be able to replace
7. Only 40% to 60% of younger, lower income, smaller balance respondents have calculated the amount they think they will need to retire

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Key Findings

8. Over 90% of respondents are very or somewhat interested in using on-line retirement planning and income calculators
 - Over 90% of respondents want their employers to provide them with access to calculators
9. Initial attempts to explain how participants should interpret illustrations of estimated retirement income amounts were effective with a majority of respondents
 - Additional work is necessary to refine this language to ensure that plan participants do not interpret illustrations as guarantees of retirement income

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Sample 401(k) Plan Statements

Respondents were shown excerpts from the following four sample 401(k) statements:

- Statement 1 shows the participant's current account balance but not estimated monthly income during retirement
- Statement 2 shows the information included on Statement 1 plus estimated monthly income during retirement based on the current balance, assuming the respondent is currently 65 years of age
- Statement 3 shows the information included on Statement 1 plus estimated monthly income during retirement based on respondents' estimated account balance at age 65, assuming a certain level of growth in the account value from future contributions and investment returns
- Statement 4 shows both the information included on Statement 2 and the information included on Statement 3

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Sample 401(k) Plan Statements

Statement 1: Commonly used current statement format with no illustration of estimated monthly income during retirement

Quarterly Retirement Plan Portfolio Statement		
July 1, 2014 - September 30, 2014		
Portfolio Summary		
	This Period	Year-to-Date
Beginning Account Balance	\$30,000.00	\$27,000.00
Additions	\$3,656.25	\$10,968.75
Reductions	\$0.00	\$0.00
Gain/Loss	\$5,831.25	\$1,518.75
Ending Account Balance	\$39,487.50	\$39,487.50

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Sample 401(k) Plan Statements

Statement 2: Estimated monthly income during retirement based on current balance

Quarterly Retirement Plan Portfolio Statement		
July 1, 2014 - September 30, 2014		
Portfolio Summary		
	This Period	Year-to-Date
Beginning Account Balance	\$30,000.00	\$27,000.00
Additions	\$3,656.25	\$10,968.75
Reductions	\$0.00	\$0.00
Gain/Loss	\$5,831.25	\$1,518.75
Ending Account Balance	\$39,487.50	\$39,487.50

Estimated Retirement Income Calculations		
The Estimated Monthly Income During Retirement values below are purely hypothetical, are not intended to represent past or future performance, and the amounts shown are not guaranteed.		
	Estimated Monthly Income During Retirement	
	Income for Your Life	Income for Your Life + 50% Survivor Benefit
Based on Current Account Balance of \$39,487.50:	\$197.44	\$178.09
Estimated Monthly Income During Retirement is based upon your Current Account Balance and assuming you are 65 and retiring today. Income is calculated based on payments continuing only for your lifetime, and for your life and continuing at 50% of the amount shown for the life of a spouse who is assumed to be the same age as you. Estimated Monthly Income During Retirement is based on your life expectancy using mortality as reflected in the applicable mortality table under section 417(e)(3)(B) of the Internal Revenue Code and an assumed interest rate equal to the 10-year constant maturity Treasury securities rate as of the first day of the last month of the statement period.		

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Sample 401(k) Plan Statements

Statement 3: Estimated monthly income during retirement based on estimated account balance at age 65, assuming future contributions and investment returns

Quarterly Retirement Plan Portfolio Statement		
July 1, 2014 - September 30, 2014		
Portfolio Summary		
	This Period	Year-to-Date
Beginning Account Balance	\$30,000.00	\$27,000.00
Additions	\$3,656.25	\$10,968.75
Reductions	\$0.00	\$0.00
Gain/Loss	\$5,831.25	\$1,518.75
Ending Account Balance	\$39,487.50	\$39,487.50

Estimated Retirement Income Calculations		
The Estimated Account Balance and Monthly Income During Retirement values below are purely hypothetical, are not intended to represent past or future performance, and the amounts shown are not guaranteed.		
	Estimated Monthly Income During Retirement	
	Income for Your Life	Income for Your Life + 50% Survivor Benefit
Based on Estimated Account Balance at age 65 of \$614,360:	\$3,071.80	\$2,770.76
Estimated Monthly Income During Retirement is based on your Estimated Account Balance (your Current Account Balance plus contributions increasing by 3% per year) growing at 7% per year until age 65. Income is calculated based on payments continuing only for your lifetime, and for your life and continuing at 50% for the life of a spouse who is assumed to be the same age as you. Estimated Monthly Income During Retirement is based on your life expectancy using mortality as reflected in the applicable mortality table under section 417(e)(3)(B) of the Internal Revenue Code and an assumed interest rate equal to the 10-year constant maturity Treasury securities rate as of the first day of the last month of the statement period. The dollar amounts show based on the Estimated Account Balance at age 65 have been discounted at 3% annually in order to express the income amount in today's dollars.		

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Sample 401(k) Plan Statements

Statement 4: Estimated monthly income during retirement based on both current balance, and estimated account balance at age 65, assuming future contributions and investment returns

Quarterly Retirement Plan Portfolio Statement		
July 1, 2014 - September 30, 2014		
Portfolio Summary		
	This Period	Year-to-Date
Beginning Account Balance	\$30,000.00	\$27,000.00
Additions	\$3,656.25	\$10,968.75
Reductions	\$0.00	\$0.00
Gain/Loss	\$5,831.25	\$1,518.75
Ending Account Balance	\$39,487.50	\$39,487.50

Estimated Retirement Income Calculations		
The Estimated Account Balance and Monthly Income During Retirement values below are purely hypothetical, are not intended to represent past or future performance, and the amounts shown are not guaranteed.		
	Estimated Monthly Income During Retirement	
	Income for Your Life	Income for Your Life + 50% Survivor Benefit
Based on Current Account Balance of \$39,487.50:	\$197.44	\$178.09
Based on Estimated Account Balance at age 65 of \$614,360:	\$3,071.80	\$2,770.76

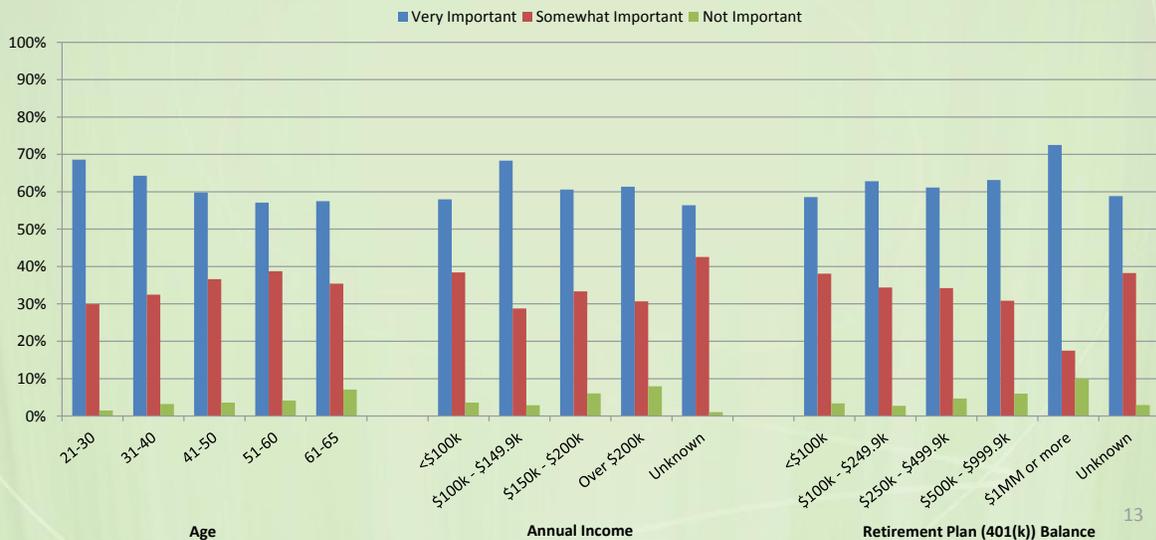
Estimated Monthly Income During Retirement is shown under two scenarios: one based on your Current Account Balance assuming income payments begin today and you are age 65, and one where the Estimated Account Balance (your Current Account Balance plus contributions increasing by 3% per year) grows at 7% per year until age 65. In both scenarios income is calculated based on payments continuing only for your lifetime, and for your life and continuing at 50% for the life of a spouse who is assumed to be the same age as you. Estimated Monthly Income During Retirement is based on your life expectancy using mortality as reflected in the applicable mortality table under section 417(e)(3)(B) of the Internal Revenue Code and an assumed interest rate equal to the 10-year constant maturity Treasury securities rate as of the first day of the last month of the statement period. The dollar amounts show based on the Estimated Account Balance at age 65 have been discounted at 3% annually in order to express the income amount in today's dollars.

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Retirement Income Needs and Expectations

Key Finding: More than 90% of respondents believe it is very or somewhat important to have a set income in retirement

Importance of a Set Income in Retirement by Age, Annual Income, and Retirement Plan Balance

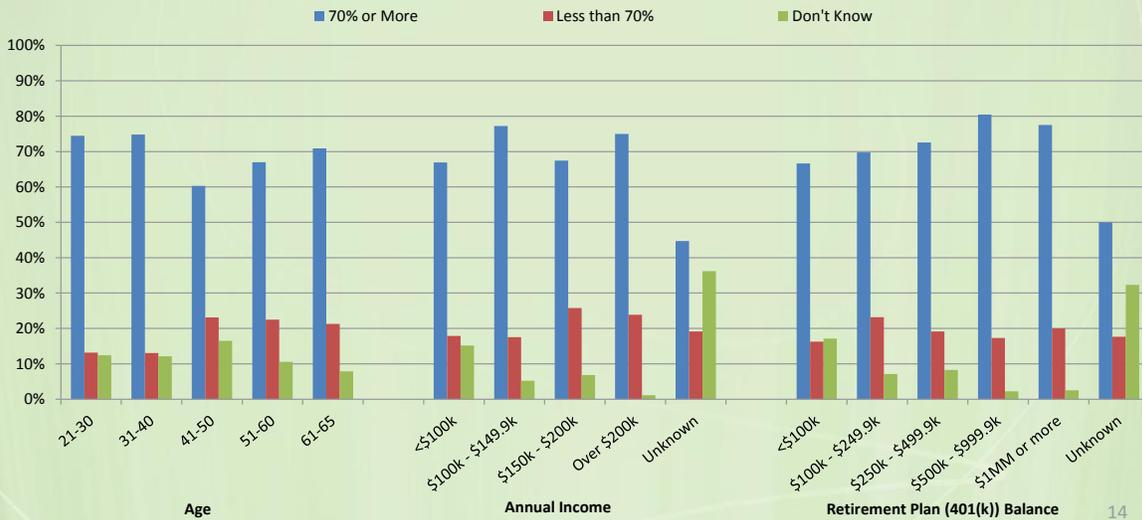


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Retirement Income Needs and Expectations

Key Finding: 60% - 80% of respondents believe they will need 70% or more of their pre-retirement income to live comfortably in retirement

Percentage of Pre-Retirement Income Needed to Retire by Age, Annual Income, and Retirement Plan Balance

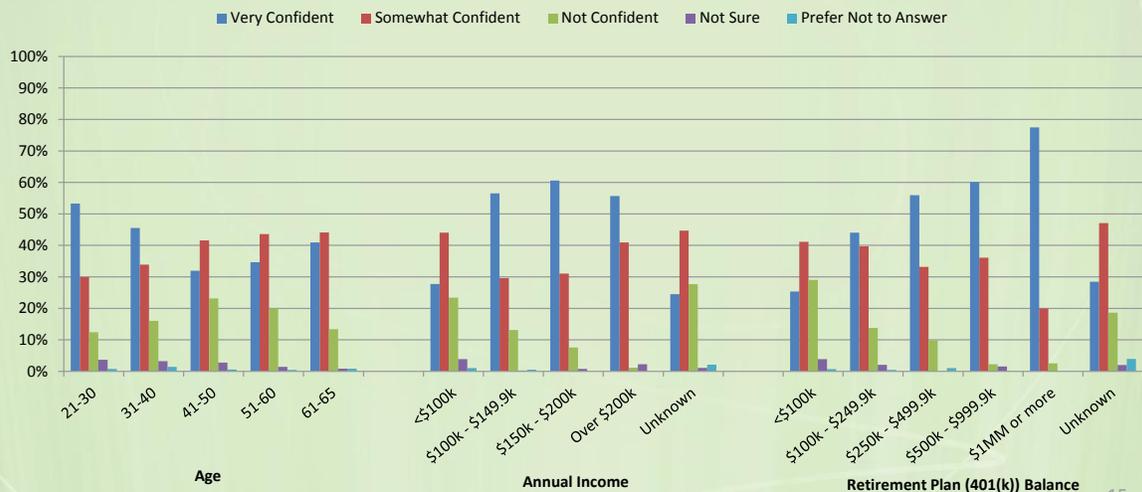


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Retirement Income Needs and Expectations

Key Finding: Less than 60% of respondents are very confident that they will have enough money in retirement, and confidence levels are notably lower among respondents with lower incomes and plan balances

Confidence That You Will Have Enough Money in Retirement to Live Comfortably by Age, Annual Income, and Retirement Plan Balance

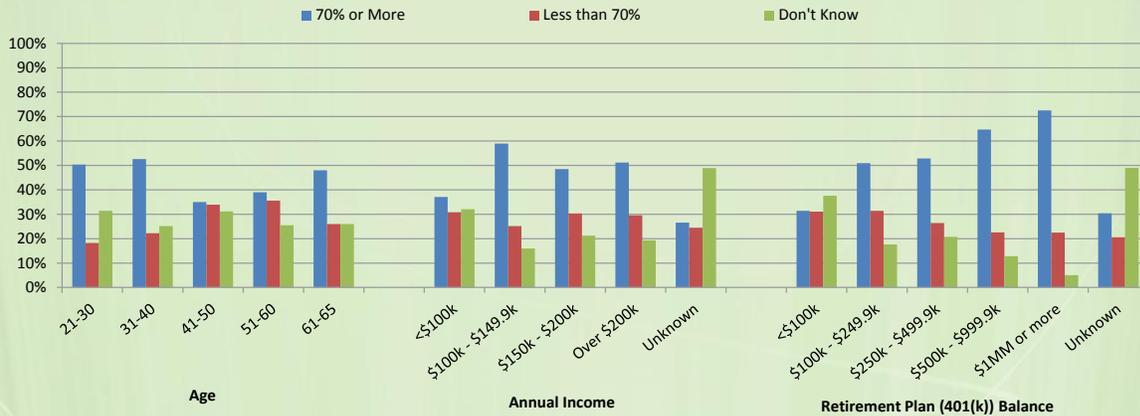


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Retirement Income Needs and Expectations

Key Finding: 50% or less of respondents believe they will have saved enough by the time they retire to replace at least 70% of their pre-retirement income, and another 20% - 30% don't know how much of their pre-retirement income they will be able to replace

Percentage of Pre-Retirement Income You Expect to Replace In Retirement by Age, Annual Income, and Retirement Plan Balance

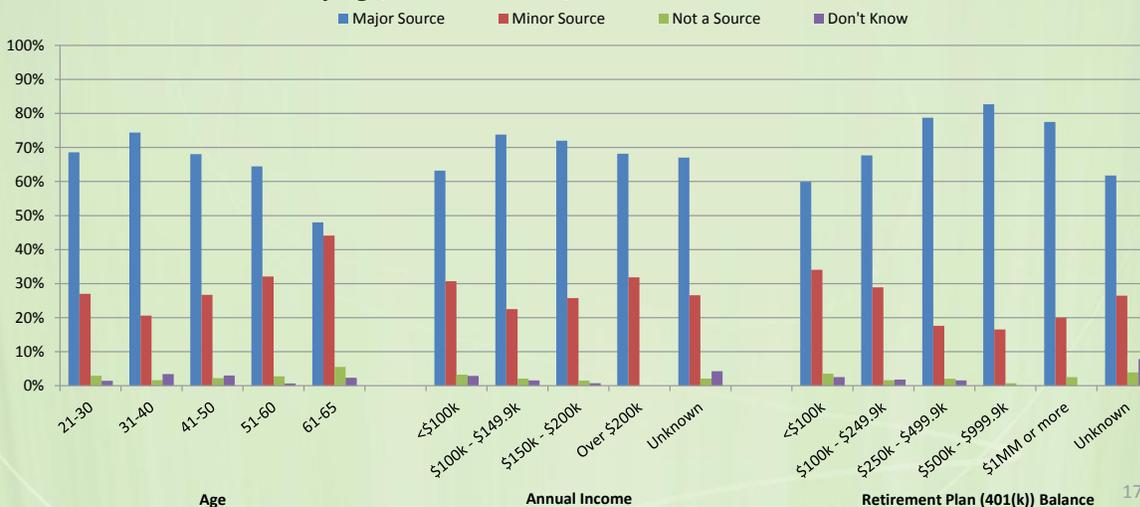


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Retirement Income Needs and Expectations

Key Finding: 401(k) plans are expected to be a major source of retirement income for 65% - 75% of respondents

Sources of Income In Retirement: 401(k) by Age, Annual Income, and Retirement Plan Balance

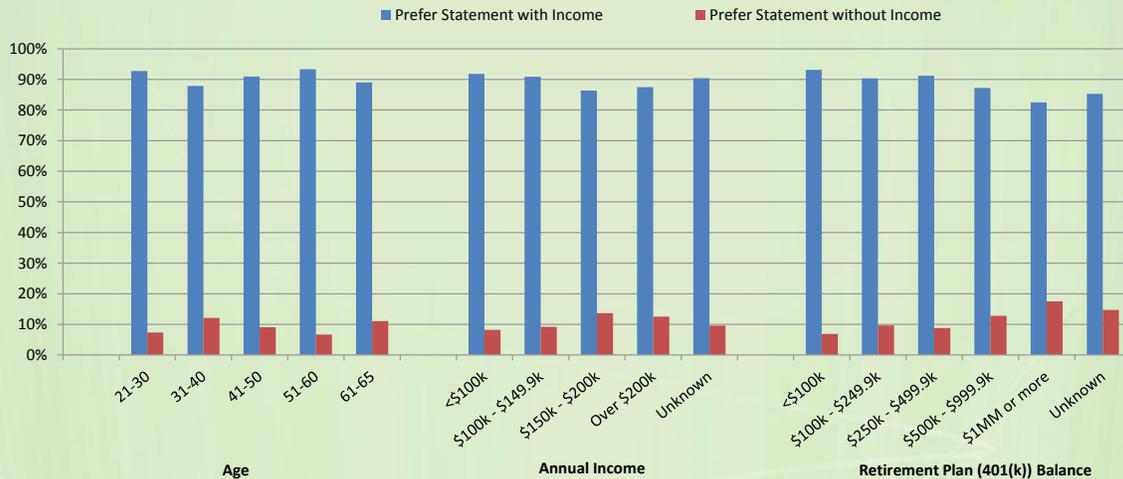


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Information Participants Want

Key Finding: Across all age, income and plan balance ranges, approximately 90% of respondents want to see some form of retirement income estimate on their 401(k) statements

Preference for Inclusion of Estimated Retirement Income on a 401(k) Statement by Age, Annual Income, and Plan Balance

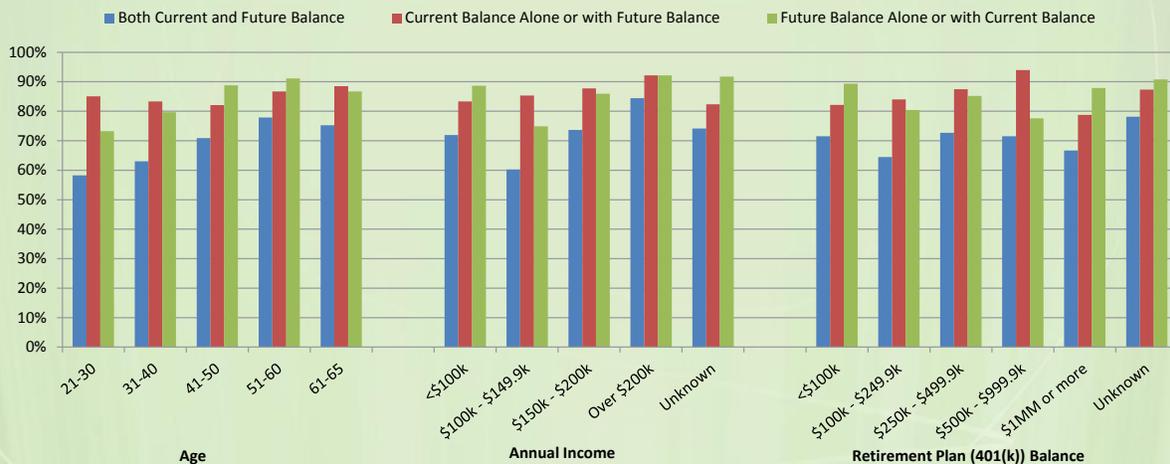


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Differing Perspectives on Illustration Style

Key Finding: 75% - 90% of respondents wanted to see illustrations based on their projected future balance at retirement; 80% - 90% expressed a desire for illustrations based on their current account balance; 55%-75% wanted both numbers

Preference for Presentation of Estimated Retirement Income by Age, Annual Income, and Retirement Plan Balance

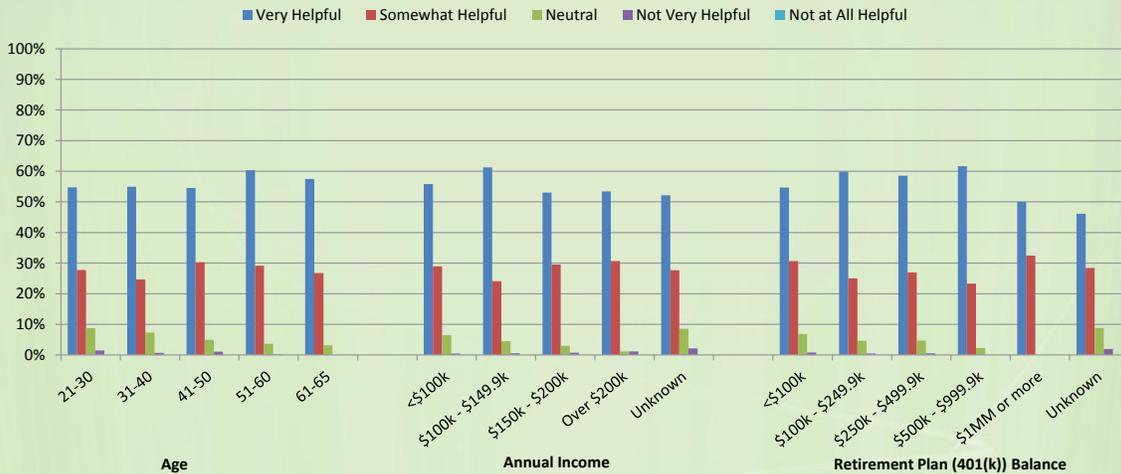


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Helpfulness of Illustrations

Key Finding: Over 90% of respondents believe retirement income estimates are very or somewhat helpful in preparing for retirement

Helpfulness of Estimated Retirement Income in Preparing for Retirement by Age, Annual Income, and Retirement Plan Balance

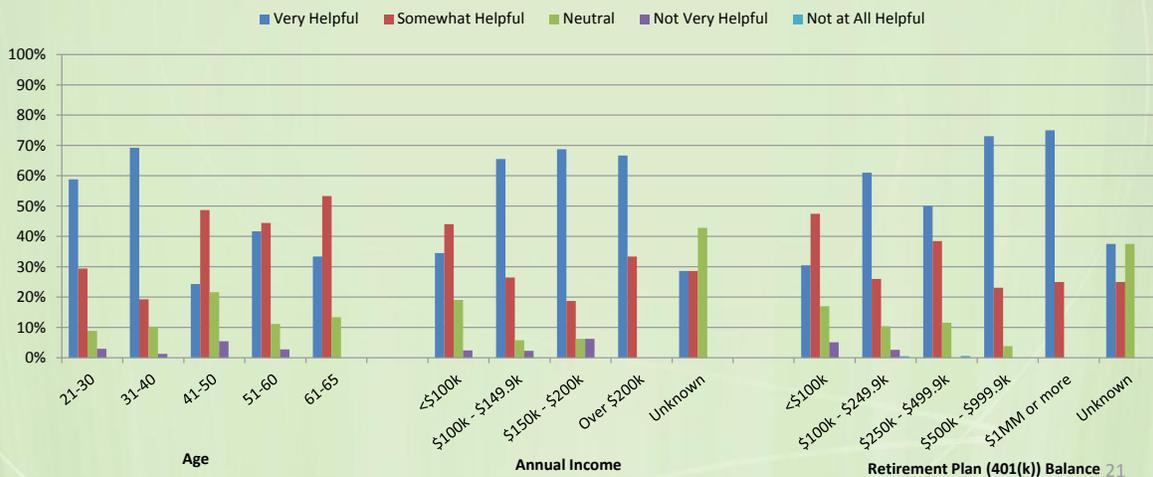


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Helpfulness of Illustrations – Current Account Balance

Key Finding: Younger participants are not discouraged by illustrations based on their current account balance – 60% to 70% of respondents between 21 and 40 who preferred illustrations based only on current account balance found them “very helpful”

Helpfulness of Estimated Retirement Income in Preparing for Retirement by Age, Annual Income, and Retirement Plan Balance

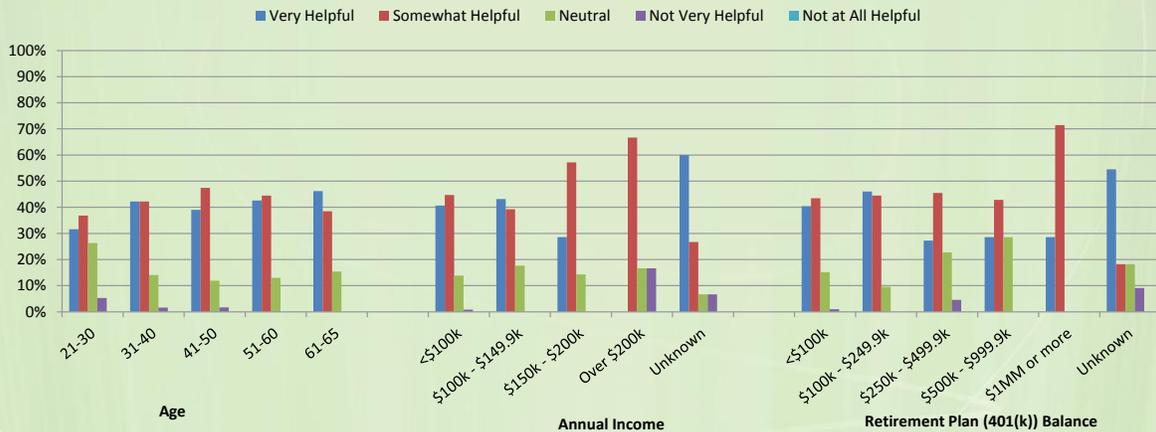


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Helpfulness of Illustrations – Future Account Balance

Key Finding: More than 70% of respondents who preferred illustrations based only on projected future account balance at age 65 found the information helpful, but the split between “very” and “somewhat” helpful was more even than for other options

Helpfulness of Estimated Retirement Income in Preparing for Retirement by Age, Annual Income, and Retirement Plan Balance

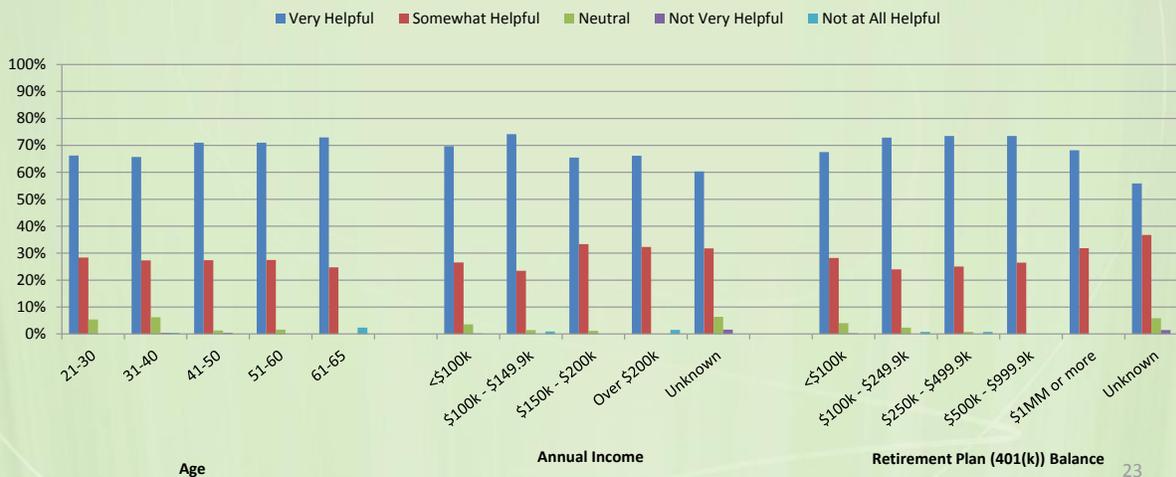


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Helpfulness of Illustrations – Current and Future Balances

Key Finding: Similar to the results for illustrations based only on current account balance, more than 65% of respondents between 21 and 40 who wanted to see illustrations of current and future balances found them “very helpful”

Helpfulness of Estimated Retirement Income in Preparing for Retirement by Age, Annual Income, and Retirement Plan Balance

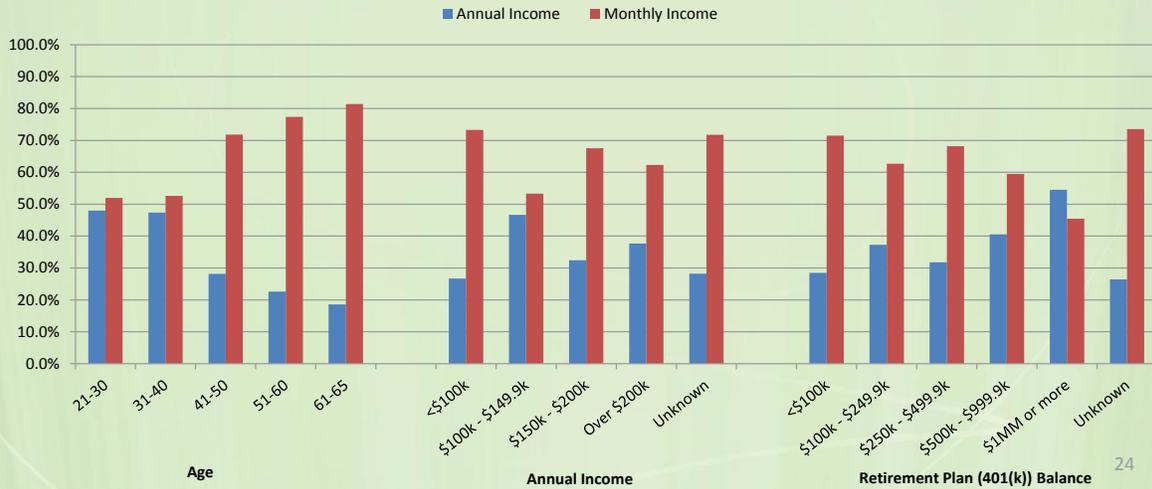


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Preference for Estimates – Monthly or Annual

Key Finding: Excluding respondents with account balances over \$1MM, all respondent segments expressed a preference for estimates to be presented in form of monthly income rather than annual income

Preference for Annual or Monthly Income Estimates by Age, Annual Income, and Retirement Plan Balance

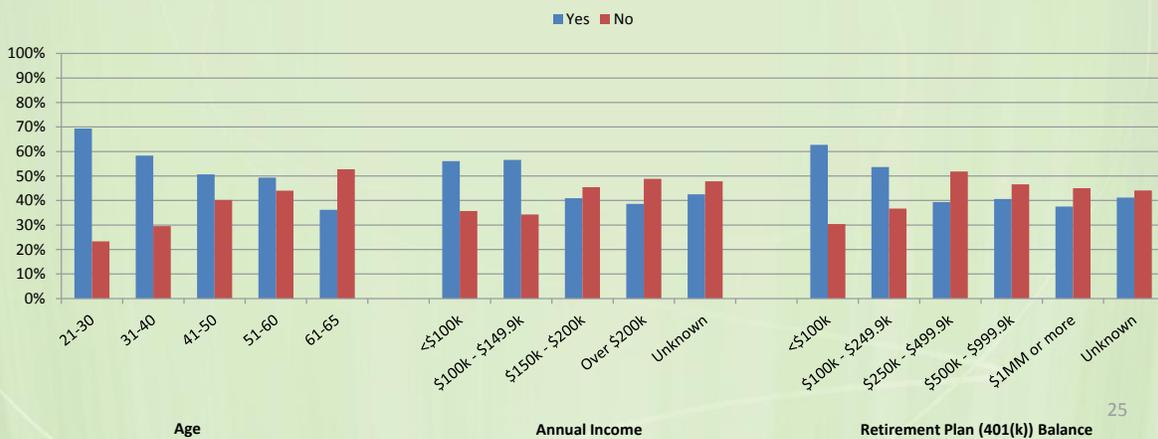


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Impact of Income Estimates

Key Finding: 55% to 70% of respondents likely to see lower income estimates (i.e., younger, lower income, lower plan balances) would increase their 401(k) contributions after seeing income estimates

Would You Increase Your 401(k) Contribution Amount After Seeing Retirement Income Estimates? by Age, Annual Income, and Retirement Plan Balance

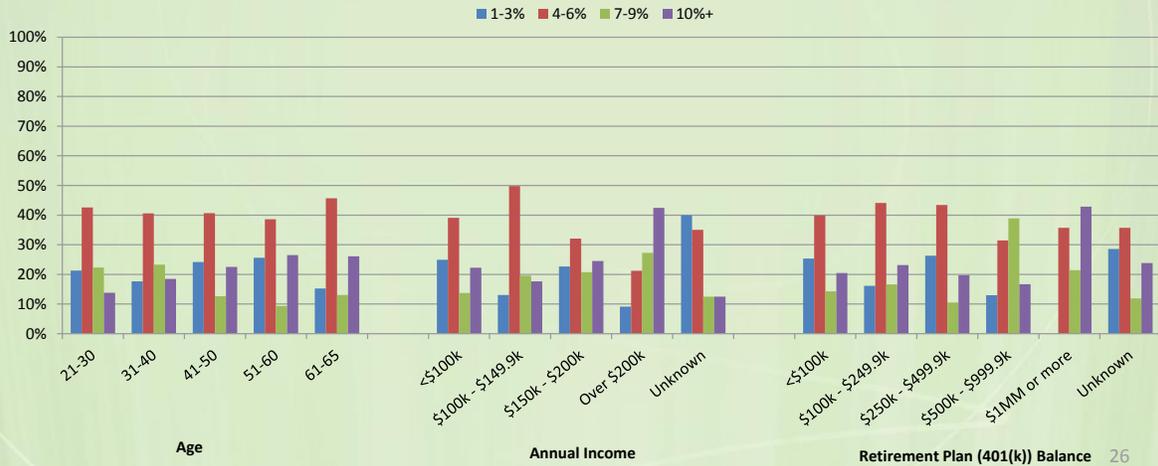


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Impact of Income Estimates

Key Finding: 75% - 90% of respondents would increase their contribution level by 4 percentage points or more after seeing retirement income estimates

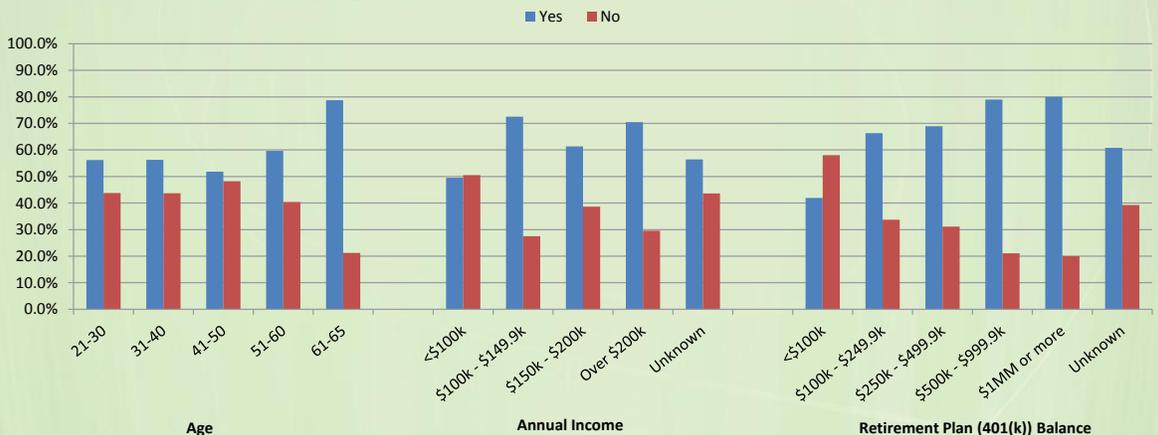
**Amount of Contribution Increase
by Age, Annual Income, and Retirement Plan Balance**



Need for Access to Retirement Income Calculators

Key Finding: 60% - 80% of older respondents (age 51 and above), and those with higher income and plan balances, have calculated the amount of savings they will need to retire; middle aged and lower income are less likely to have taken this step

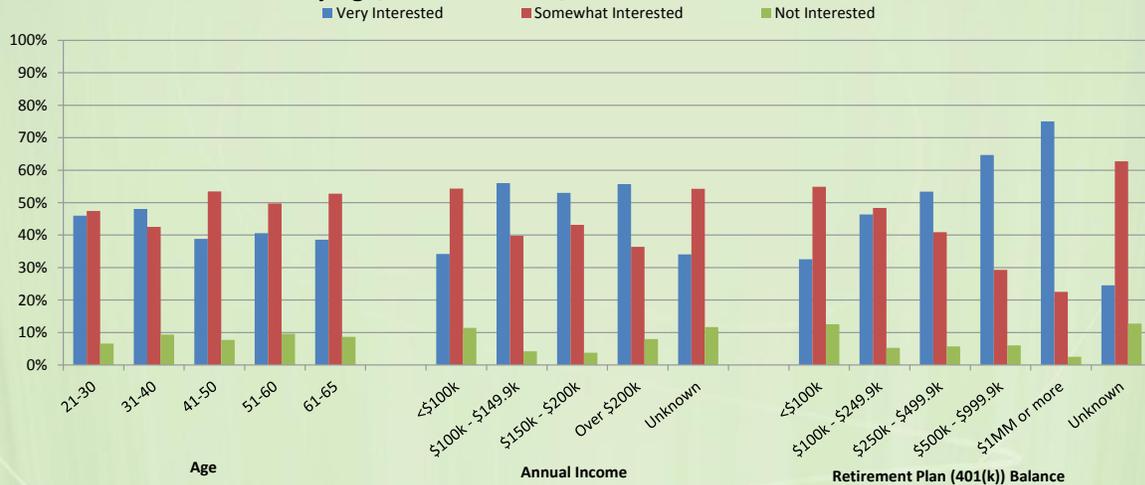
**Have You Calculated How Much You Will Need to Have Saved to Retire?
by Age, Annual Income, and Retirement Plan Balance**



Need for Access to Retirement Income Calculators

Key Finding: Over 90% of respondents are very or somewhat interested in using a retirement income calculator

Interest in Using a Calculator to Estimate Retirement Income by Age, Annual Income, and Retirement Plan Balance

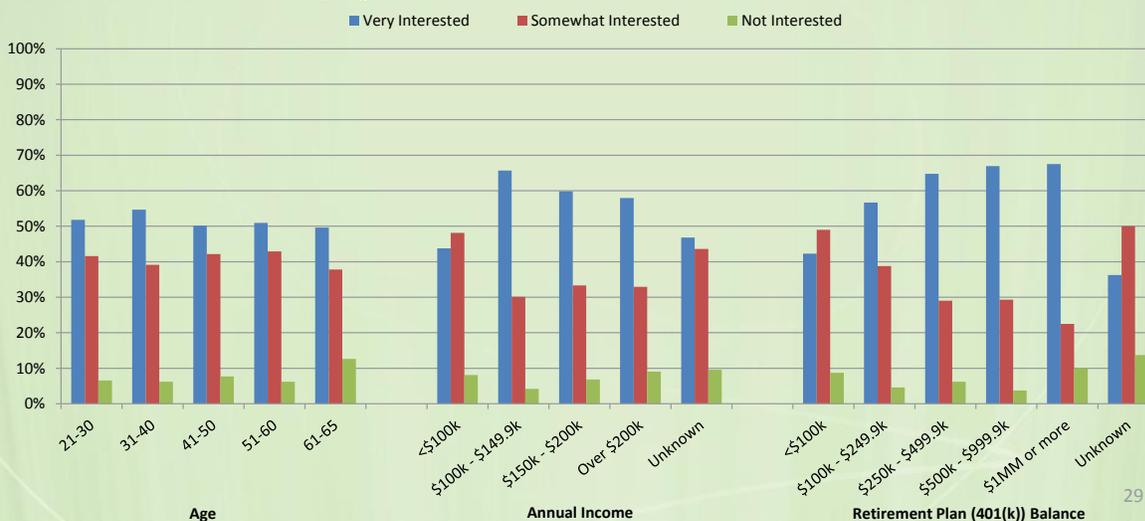


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Need for Access to Retirement Income Calculators

Key Finding: Over 90% of respondents were very or somewhat interested in using an employer provided retirement income calculator

Interest in Using an Employer Provided Calculator to Estimate Retirement Income by Age, Annual Income, and Retirement Plan Balance

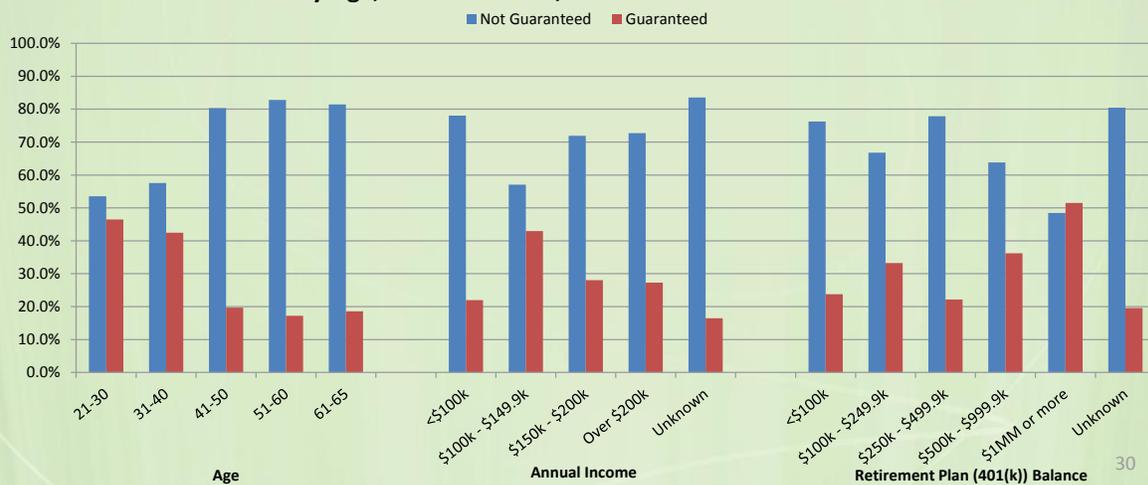


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Income Estimate Disclosure

Key Finding: Based on language crafted for purposes of survey, 70% - 80% of respondents in most groups understood that the income estimates were not guarantees; With some additional work, language can be refined to achieve even more positive outcome

**Do You Interpret the Retirement Income Estimates as a Guarantee?
by Age, Annual Income, and Retirement Plan Balance**





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