Pardon My Cynicism

By Editor Test *Wed, Aug 14, 2013*

Though well-intended, the proposal to put projections of future income on plan participants' statements may simply divert time and energy from more important issues that remain unresolved--like the fiduciary rule.

No one has yet invented a bathroom scale that makes you slim. So why does the Department of Labor believe that providing ERISA plan participants with quarterly projections of future retirement income will help them save more?

I'm all for planning. I believe that measurement drives change. And I agree that every plan's website should include a link to the DoL's handy new income calculator, which translates existing savings (and savings yet to come) into future retirement income. It's essential for participants to think of their savings in terms of income rather than accumulation.

But it's hard to muster enthusiasm for the DoL's proposal for yet another statement disclosure that most participants won't bother to read. As far as I know, there are no studies showing whether income projections will discourage or encourage greater savings.

The proposal assumes much that isn't necessarily so: that participants will convert their entire account balances to life annuities, that participants will enjoy consistent employment until their normal retirement age, or that assumptions about average growth rates mean anything with respect to a participant's personal returns.

While life annuity prices offer a convenient, reasonably standardized basis for converting account balances into estimates of future inflation-adjusted retirement income, it seems odd to use them when so many issues related to life annuities haven't been resolved.

If plan sponsors intended to make life annuities available to all participants in the same way they offer health insurance—at prices with no intermediary costs and with no increase for adverse selection—it would make sense to use life annuities as a benchmark. But there's little indication that the typical plan sponsor ever expects to offer in-plan annuities. Why suggest the presence of a link between plan assets and annuities when there is none?

In any case, as the Insured Retirement Institute points out in its response to the DoL's request for comment, the projections aren't really about retirement income; they're about inspiring people to defer more of their salaries into their 401(k) accounts. For most people, that will mean consuming less. Pardon my cynicism, but how likely is it that a projection on a quarterly or annual statement will inspire Americans to consume less?

I don't object to income projections on statements. But let's not spend an eternity debating about assumptions, disclaimers and safe harbors. The DoL and the 401(k) industry should conserve their time and energy for more pressing matters, such as achieving a compromise on a fiduciary rule for plan advisors (we’re still waiting for a re-proposal), or finding an antidote to the epidemic of excessive-fee class action lawsuits.