
The “income message” isn’t getting through: EBRI/MetLife survey

By Editorial Staff Thu, May 8, 2014

In a survey, the provision of income projections to 401(k) participants was not enough of a “nudge” to motivate many workers to contribute more to their accounts--perhaps because many workers say they are living from paycheck to paycheck.

As hard as the Department of Labor and insurance companies try to convince American workers to frame their 401(k) balances in terms as monthly income instead of lump sums, the effort doesn’t seem to be winning many hearts or minds.

Eight-five percent of respondents to a recent survey of 501 retirees and 1,000 workers contributing to employer-sponsored retirement plans described an income projection similar to the type produced by the Department of Labor’s Lifetime Income Estimate Calculator as “useful.”

But there was no evidence that the tool will encourage significant numbers of plan participants to think about converting their savings to income at retirement.

That’s reassuring news for mutual fund companies eager to retain plan participants’ assets after they retire. But it’s not what issuers of income-producing annuities hope to hear.

The survey, part of the 2014 Retirement Confidence Survey, was conducted by Greenwald & Associates, underwritten in part by MetLife and commissioned by the Washington, D.C.-based Employee Benefits Research Institute.

The illustration tool estimates monthly lifetime income based on a participant’s current account balance, contributions to their account and the projected value of their account balance at retirement, according to an EBRI release.

Just over half of current workers contributing to plans (54%) provided estimates about their own balances and contribution rates when they were asked how the calculator’s income projections compared with their own expectations for future income from their defined contribution (DC) savings.

Only 17% of those who answered the questions said the projections would cause them to increase their contributions to their plan. Among the 27% of those who said their estimate was “much” or “somewhat” less than expected, just over a third indicated they would increase their contributions.

Why? “The main reason cited by workers at all income levels... is the need to pay for day-to-day expenses, particularly since many are living paycheck-to-paycheck,” said Roberta Rafaloff, vice president, Institutional Income Annuities at MetLife.

Current retirees say they rely primarily on Social Security (62%) and defined benefit (DB) pensions (36%) as major sources for retirement income. But more than two-thirds of workers expect future Social Security benefits to be weaker than today’s, according to the release.

Only 33% and 29% of workers believe major sources of their retirement income will come from Social Security and DB pensions, respectively. While only 19% of retirees say employer-sponsored retirement plans such as a 401(k) are a major source of income in retirement, 42% of current workers do.

Thirty-percent of those surveyed didn’t know if their current plan offered an annuity option or not. Only one in five believed he or she had access to an annuity through their plans.

© 2014 RIJ Publishing LLC. All rights reserved.