New bill requiring 401(k) income projections is a good idea

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MarketWatch Blog by Alicia H. Munnell

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Showing the connection between saving and income in retirement could improve saving decisions

Very little is happening on Capitol Hill with regard to retirement. Hence, I'm always delighted to find a piece of legislation – big or small – that moves the system in the right direction. The Retirement Enhancement and Savings Act of 2018, a bundle of small changes aimed at increasing voluntary retirement savings, is **one such bill**. Another is **the Lifetime Income Disclosure Act** (H. R. 2055), which would amend the Employee Retirement Income Security Act of 1974 (ERISA) to require pension benefit statements to include a lifetime income disclosure at least once a year. The disclosure, which would cover 401(k)s and other employer-sponsored plans, would show the lifetime income stream equivalent of the total assets accrued by the participant. The Department of Labor (DOL) would issue assumptions that plan administrators could use, without concern of liability under ERISA, to convert total accrued benefits into lifetime income stream equivalents.

Shifting the focus from stocks (401(k) balances) to flows (monthly income) would provide participants with a much better sense of the portion of required expenses that their 401(k) accumulations can cover once they stop working. The DOL has recognized the need for such information and, in 2013, issued for comment an advanced notice of proposed rulemaking that would encourage the sponsors of 401(k)s to project how much income a participant's balance would provide at retirement. That effort appears to have died. However, a number of financial firms (Fidelity, TIAA, BlackRock, Vanguard, Voya, Bank of America Merrill Lynch, Principal Financial Group, T. Rowe Price, Empower and perhaps many others) provide publicly available calculators that include retirement income as an output. And we academics, as participants, know for sure that TIAA provides income estimates automatically on our web page; other providers might as well.

The hope is that showing the connection between saving and income in retirement might help people make better saving decisions. Unfortunately, very little research exists on this topic. One of the few empirical studies I know is a **2012 field experiment**, which tested the effect of retirement income projections on saving decisions for 17,000 employees at the University of Minnesota and showed that providing individuals with retirement income projections, along with related material on retirement planning, modestly increased saving at very low cost.

In its 2013 request for comment, the DOL asked for suggestions on how best to estimate a stream of lifetime income and also offered two suggestions. The first was the income that participants' current account balances would provide if they were now at the normal retirement age. The second was the income they would receive at retirement assuming their current balance would grow with future contributions and investment returns. The assumption is that contributions would increase by 3 percent per year and that the nominal return is 7 percent. The projected balance would then be deflated by 3 percent a year to get it back into today's dollars. Eliminating inflation from the calculation is extremely important or else everyone would look like projected millionaires. Social Security's online benefit statement calculations also present projected benefits in terms of today's dollars.

Some might say that precise calculations are too difficult, so any information would be misleading. Such a dismissal would be a mistake, however. While any calculation involves a number of assumptions, a sensible estimate is better than nothing.