DOL punts on SECURE Act lifetime income illustrations

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MarketWatch Blog by Alicia H. Munnell

Alicia H. Munnell is a columnist for ***MarketWatch*** and director of the Center for Retirement Research at Boston College.

Ignoring future earnings and contributions produces meaningless numbers

In my view, one of the best things to come out of the SECURE Act of 2019 is the requirement that plan sponsors "give savers a realistic illustration of how much monthly retirement income they could expect to purchase with their account balance."

Shifting the focus from 401(k) balances to monthly income could 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 hope is also that if they see the connection between saving and income in retirement, people might make better saving decisions.

Indeed, a **2013 study** published by the Center for Retirement Research reported on a field experiment that tested the effect of retirement income projections on saving decisions, involving 17,000 employees at the University of Wisconsin. The study showed that providing individuals with retirement income projections, along with related material on retirement planning, modestly increased saving at very low cost.

On August 18, 2020, the Department of Labor released an interim final rule on the mechanics of moving from balances to lifetime income. The **publication of the rule** in the Federal Register on September 18 triggered a 60-day comment period. While such translating of account balances to lifetime income is harder than it sounds, the DOL seems to have punted on this one. The agency could provide more helpful information.

The concept of lifetime income illustrations is not new. In 2013, the DOL solicited comments on a possible requirement to include lifetime income measures in participant benefit statements. The DOL proposed two projections. The first was the income that participants' current account balances would provide if they were now at the normal retirement age. The second is the income they would receive at retirement assuming their current balance would grow with future contributions and investment returns. In terms of withdrawals, the proposal assumed that participants use their money to buy an actuarially fair annuity – that is, an annuity priced for the average individual (as opposed to those whose parents died in their 90s) and without marketing and administrative costs.

The 2020 proposed rule would provide an illustration only for current balances, and not offer an estimate that incorporates future earnings or contributions. That is, the lifetime income illustration would be based on the current value of a participant's account; assumes that payments start immediately (even though a participant may not be close to retirement age); and assumes the participant has reached at least age 67. The results would be expressed as both a lifetime stream of payments to the participant and a lifetime stream of payments for the joint lives of the participant and a spouse.

Apparently the DOL wanted to avoid the difficulty of establishing assumptions or defaults for rates of future contributions and investment earnings (or, perhaps, requiring plans to show multiple lifetime income illustrations), so the agency opted for a simpler approach of assuming no future contributions or investment earnings. The problem is that resulting illustrations are unlikely to be useful to participants who are not on the verge of retirement.

The DOL knows it was punting. In the preamble, the agency noted that many plans and recordkeepers currently make lifetime income calculators available that are more “interactive, stochastic, and tailored to the individual plan and plan participant,” and the DOL “encourages the continuation of these practices.”

One might say that precise calculations of future lifetime income are too difficult, so any information would be misleading. However, such a dismissal would be a mistake. While any calculation involves a number of assumptions, a sensible estimate is better than a meaningless number.