

# WOULD 401(K) PARTICIPANTS USE A SOCIAL SECURITY “BRIDGE” OPTION?

BY ALICIA H. MUNNELL AND GAL WETTSTEIN\*

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## Introduction

The market for annuity products is miniscule, although annuities have significant benefits – they ensure retirees higher levels of lifetime income, reduce their likelihood of outliving their resources, and alleviate some of the anxiety associated with post-retirement investing. Explanations for the low demand include the high cost of private annuities due to adverse selection, a reluctance to hand over a pile of accumulated assets for a stream of future income, and a failure to understand the value of insurance against outliving one’s resources.

To address some of these impediments, employers could increase the availability of lifetime income by adopting a Social Security “bridge” strategy within their 401(k) plans. The bridge option would use 401(k) assets to pay retirees an amount equivalent to their Social Security benefits for several years so they can postpone claiming, thereby increasing their monthly payment when they eventually do claim.

This *brief*, which is based on a recent study, gauges workers’ potential interest in a bridge option, using an online sample representative of the relevant population, and experimentally tests whether framing the bridge as insurance or making it a default affects worker choices.<sup>1</sup>

The discussion proceeds as follows. The first section presents the background for the analysis. The second section describes the sample and the survey. The third section presents the results. The final section concludes that a substantial minority of respondents are interested in a bridge option despite its unfamiliarity, with the share of assets allocated to the bridge increasing with insurance framing and, especially, default treatments. The results do suggest that the default allocation to the bridge tested in the study – up to half the participant’s assets – may be too aggressive, and that the opt-out rate would be lower under a default with a smaller share of assets devoted to the bridge.

## Background

The first cohorts almost entirely dependent on 401(k) plans are now entering retirement. Managing these assets requires determining how to finance potentially many years of retirement, while not unduly restricting consumption. The one class of products that experts consistently recommend for this purpose is annuities, but only a small fraction of the population buys them.

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\* The authors are with the Center for Retirement Research at Boston College. Alicia H. Munnell is director and the Peter F. Drucker Professor of Management Sciences at Boston College’s Carroll School of Management. Gal Wettstein is a senior research economist. The authors would like to thank Robert Pozen for his generous support of this research and James Giles for his excellent research assistance.

Purchasing annuity products, however, is not the only way for 401(k) participants to acquire additional annuity-like income, guaranteed for life. Most individuals could annuitize more of their assets by claiming Social Security later. Specifically, they can increase their monthly benefit by at least 76 percent by claiming at age 70 (the maximum claiming age) rather than at 62 (the earliest eligibility age).

A Social Security bridge would help individuals reap the benefits of delayed claiming without having to alter their retirement age. Under the bridge proposal, employers would distribute payments to retirees from their 401(k) equal to the Social Security benefits they would get if they claimed. This stream of payments would continue as long as the funds set aside for the bridge lasted, or until age 70. This simple approach would allow retirees to enjoy an income stream consistent with their expected lifelong benefit level, while increasing that level through delayed claiming.

To make this process as seamless as possible, the proposal envisions making the bridge strategy the default, with a percentage of a worker's 401(k) assets automatically allocated to it.<sup>2</sup> A default is much more likely to be maintained by plan participants than a process requiring active choice.<sup>3</sup> Using their 401(k) assets as a substitute for Social Security benefits when they retire – as a bridge to delayed claiming – would allow participants to, in essence, buy a higher Social Security benefit (see Table 1).

Prior research has clearly demonstrated that a bridge option could significantly improve employee welfare.<sup>4</sup> Moreover, a bridge strategy could be implemented by employers without any legislative or regulatory changes.<sup>5</sup> Yet, employers have not introduced a bridge option as a default in their 401(k) plans. One reason for employer reluctance may be that they are dubious about employee interest in such a strategy.

The purpose of this study was to gauge interest in an employer-facilitated bridge by interviewing a representative sample of older workers. The bridge was briefly explained to them, and then they were asked whether they would participate and how much of their 401(k) balances they would like to allocate to the strategy. Respondents were further presented with the bridge in different ways to assess potential barriers to adoption and how to overcome them, as detailed below.

## Sample and Survey

The survey was conducted using the AmeriSpeak panel run by NORC at the University of Chicago. The panel is nationally representative, and participants were eligible for this study if they were ages 50-65, not retired, and had 401(k) balances of at least \$25,000. These restrictions ensure that the sample is representative of the population that might benefit from the bridge strategy. The survey was conducted online in July 2021, and included a total of 1,349 respondents.

The panel includes demographic information about respondents, such as gender, race, education, and marital status. To supplement this baseline information, the survey included questions about respondent and household saving, including the current account balance of 401(k)-type plans. In order to properly assess the scope for the bridge strategy and its potential impact, respondents were also asked what share of their household 401(k) balances were in the respondent's (rather than another household member's) account. Respondents also provided their planned retirement age and the typical retirement age in their workplace to inform calculations of projected balances that would be available for the bridge strategy.<sup>6</sup> Finally, respondents shared their household and personal income to allow projections of their expected Social Security benefits and 401(k) savings as a function of their eventual claiming age.

TABLE 1. ILLUSTRATION OF MONTHLY INCOME AND 401(K) ASSETS WITH AND WITHOUT A BRIDGE OPTION TO CLAIM AT 65, FOR A PERSON WITH AN AGE-62 MONTHLY BENEFIT OF \$1,500 AND \$150,000 IN A 401(K)

Age	Without bridge option		With bridge option		
	Monthly Social Security income	Total taken out of 401(k)	Monthly Social Security income	Monthly bridge option income	Total taken out of 401(k)
62 (retire)	\$1,500	\$0	\$0	\$1,900	\$23,000
63	1,500	0	0	1,900	46,000
64	1,500	0	0	1,900	69,000
65+	1,500	0	1,900	0	69,000

Source: CRR illustration.

Respondents were randomly assigned to one of four groups. Each group was presented the choice of whether to participate in the bridge option, and how much of their 401(k) assets to allocate to that option.

*Group 1: Control.* Respondents were given minimal information about the bridge option. They were then asked if they would participate in the bridge strategy and how much they would allocate. The options ranged from 0 to 50 percent of assets, in 10-percentage-point increments.<sup>7</sup>

*Group 2: Insurance Framing.* This condition framed the choice as one of insurance versus investment, highlighting the pros and cons of each. Its presentation was identical to the control group's, with the exception that Social Security benefits were described as a "Lifetime-Income Account" that provides stable income, keeps up with inflation, and continues for life. In contrast, 401(k) assets were described as a "Wealth Account" that provides liquid assets, usually increases but can decrease in value, and can run out.

*Group 3: Additional Information.* To test whether merely providing more information about the bridge option would make people more comfortable with it – rather than changing how the bridge is framed as in Group 2 – Group 3 was simply given more details about the option.

*Group 4: Default.* This treatment tested how effective making the bridge option the default would be in increasing take-up. Respondents were shown a table detailing how much of their 401(k) would be allocated to the bridge by default and what their projected Social Security benefit would be if they stayed with the default allocation. They were then asked if they wished to keep the default. If not, they were directed to click on a link that would allow them to change the amount allocated to the bridge option, much like the control group's prompt. Thus, the default in this setting is a very weak nudge, since changing the default in the survey takes just a few seconds.

Since the respondents were randomly assigned to each treatment group, the groups are similar in their demographic characteristics. Thus, simply comparing the average responses across groups should reveal the effects of the different treatments. Mechanically, the exercise was carried out using regression analysis, which provides a measure of statistical significance. The regression also allows the use of additional con-

trol variables to increase estimation precision. The results are very similar with or without these controls, so we present the results from the simplest equation with no controls for ease of interpretation.

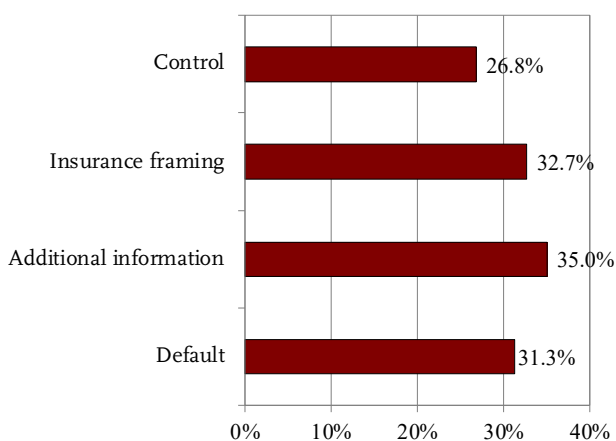
## Results

This section focuses first on workers' willingness to participate, then on allocation of assets to the program, and finally on the impact of the bridge on Social Security payments. The results illustrate how the different treatments affected interest in the bridge strategy.

### *What Share of Respondents Would Use the Bridge?*

The first question is what share of workers would be interested in using the bridge strategy if it were available. In the control group, 26.8 percent of respondents said they would use the bridge (see Figure 1). Those in the Additional Information group were marginally significantly more likely to use the bridge than the control group, yielding a total of 35 percent of this group. The other two treatment groups were between the control and Additional Information groups, at just under one third of each group, with none of the differences significant at conventional levels.

FIGURE 1. SHARE OF RESPONDENTS WHO WOULD USE THE BRIDGE STRATEGY, BY TREATMENT GROUP



Note: None of the treatment groups is statistically different from the control group at conventional levels. The difference between the Additional Information group and the control group is marginally significant ( $p < 0.1$ ).

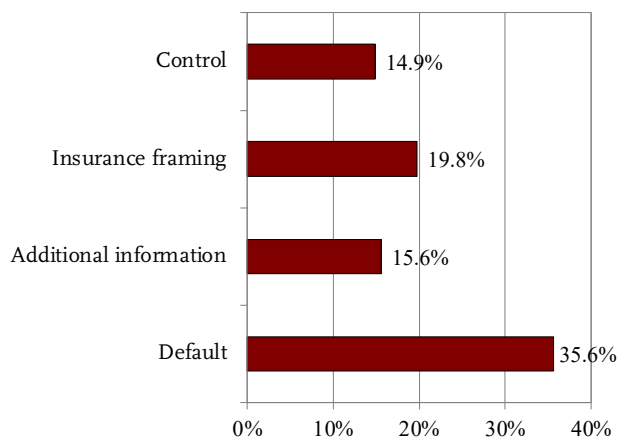
Source: Authors' calculations.

The substantial interest in the bridge strategy is noteworthy, given that the survey is likely the first time the respondents would have encountered the idea of drawing down their 401(k)s to postpone claiming Social Security. The results also compare favorably with the share of workers who choose annuities in existing plans that offer lifetime income options; for example, in 2018, 30.5 percent of TIAA beneficiaries elected a lifetime income option.<sup>8</sup> Given that any additional information seems to increase interest in the bridge approach, the popularity of the option could increase with more exposure to the concept.

### *What Share of Assets Would They Allocate to the Bridge?*

Moving beyond willingness to participate, the share of assets that individuals would allocate to the bridge provides a finer measure of interest in the strategy. For the control group, the mean share of assets devoted to the bridge is 14.9 percent (see Figure 2). The

FIGURE 2. SHARE OF ASSETS THAT RESPONDENTS ALLOCATE TO THE BRIDGE STRATEGY, BY TREATMENT GROUP



Note: The Insurance Framing and Default groups are statistically different from the control group ( $p < 0.01$ ).  
Source: Authors' calculations.

different experimental treatments yield very different levels of allocations to the bridge strategy. Most effective, by a large margin, is the default condition. Respondents in this group said they would allocate 20.7 percentage points more of their assets to the bridge than the control group ( $p < 0.01$ ). This incremental

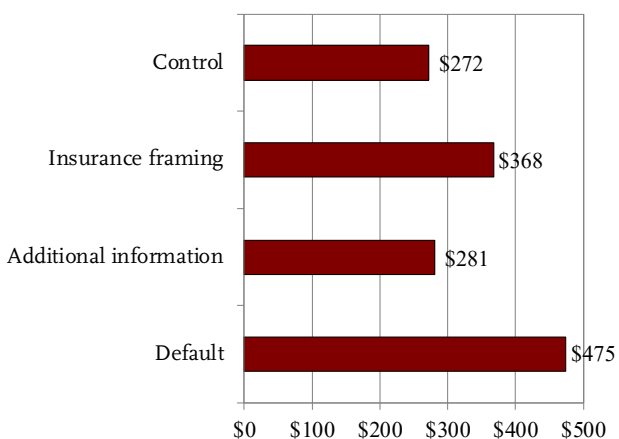
allocation more than doubles the share allocated by the control group, from 14.9 percent to 35.6 percent, a dramatic effect for a default that is very easily changed by merely clicking on a link. A smaller, but still tangible, impact is evident from framing the decision of allocation to the bridge as one of insurance (the second treatment group), while merely adding information about the bridge (the third treatment group) has a negligible effect on the allocation.

Coupled with the slight increase in willingness to participate for the Additional Information group (in Figure 1), the results suggest that workers who learn more about the bridge increasingly want to participate in it, albeit at a relatively low intensity. Further supporting this notion is the fact that those who said that they understood the bridge strategy best were more likely to want to make any use of it, though they were less likely to allocate as much of their assets to it.

### *How Much Would the Bridge Increase Social Security Benefits?*

The point of the bridge strategy is, of course, to increase Social Security benefits. The analysis therefore turns next to assessing how much each treatment is anticipated to increase monthly benefits. For the control group, monthly benefits would increase by \$272 due to their allocation of some assets to the bridge strategy (see Figure 3). In terms of the impact of the

FIGURE 3. DOLLAR INCREASE IN MONTHLY SOCIAL SECURITY BENEFITS THAT RESPONDENTS GET FROM THE BRIDGE STRATEGY, BY TREATMENT GROUP



Note: The Insurance Framing and Default groups are statistically different from the control group (with  $p < 0.05$  and  $p < 0.01$ , respectively).  
Source: Authors' calculations.

different treatments, the findings are consistent with those surrounding allocation of assets to the bridge: relative to the control group, the Insurance Framing treatment leads to mildly higher projected benefits, while the default leads to substantially larger benefits. Again, the Additional Information treatment does not change the projected benefits under any specification.

## Conclusion

This paper tested whether individuals would be willing to use a bridge option if offered by their employer, which would entail using a portion of their 401(k) assets to delay claiming Social Security. The study also experimentally examined different contexts for this choice that either provided a frame of the pros and cons of insurance versus investment, or that defaulted participants into the bridge. To distinguish the framing effect from merely providing more information, a third treatment that just gave more details about the bridge was also included.

The results show that a substantial minority would be interested in the bridge option. Furthermore, individuals presented with the pros and cons of annuitiza-

tion versus investment chose to allocate a small but meaningfully larger share of their assets to the bridge strategy. More strikingly, those defaulted into the bridge option ended up allocating much more of their assets to the bridge. These two treatments also led to corresponding increases in projected monthly Social Security benefits. If borne out in reality, these benefit increases would contribute to retirement security by giving retirees additional guaranteed income for the rest of their lives.

The results here are a first step. While they indicate interest in the bridge strategy and suggest some means of increasing take-up, future work should examine the impact of a default in a more realistic setting. The true costs to individuals of changing a default are much larger than those imposed in this experiment, since they involve hard choices, time, and effort. On the one hand, these extra costs would likely make the default much more effective in inducing take-up; on the other, they would be a real imposition on those who choose to change the default choice. In this more realistic context, testing what the default allocation to the bridge should be would also be a necessary input into the decisions of employers considering adopting a bridge strategy for their workers.

## Endnotes

- 1 Munnell and Wettstein (2021).
- 2 Munnell, Wettstein, and Hou (2021) generally found outcomes to be better the greater the amount of savings allocated to the bridge.
- 3 See, for example, Choi et al. (2002).
- 4 Koenig, Fichtner, and Gale (2018); Vernon (2018); and Munnell, Wettstein, and Hou (2020).
- 5 Some clarifying regulations, though, would likely help reassure employers considering such an arrangement.
- 6 Projecting a respondent's 401(k) balances at retirement and expected Social Security benefits involved some assumptions. Specifically, the calculations assumed an annual real return on 401(k) balances of 4.75 percent and a combined employer-employee contribution rate of 10 percent of earnings from the respondent's current age until their planned retirement age. Expected Social Security benefits were calculated to match the estimates that the Social Security Administration provides with its "quick calculator" online tool, considering birth cohort and current labor income.
- 7 For the precise wording of how the bridge option is described in the experiment, see Munnell and Wettstein (2021).
- 8 Brown, Poterba, and Richardson (2021).

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### Contact Information

Center for Retirement Research  
Boston College  
Hovey House  
140 Commonwealth Avenue  
Chestnut Hill, MA 02467-3808  
Phone: (617) 552-1762  
Fax: (617) 552-0191  
E-mail: [crr@bc.edu](mailto:crr@bc.edu)  
Website: <https://crr.bc.edu>

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