
Increasing Annuitization in 401(k) Plans with Automatic Trial Income

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Changing Retirement Landscape

- Shift from DB to DC – decline in lifetime pensions
- Future workers will have much larger balance in 401(k) accounts – need to manage assets to last throughout retirement
- Living longer but don't know exactly how long- risk of spending too much too soon or too little over time

Lifetime Income Products

Benefit:

- Provide payments for life

Yet Demand is Low:

- May not need additional annuitization – lifetime benefits through Social Security
- Not a good value for the average consumer
- Consumers don't understand and are biased against it

Cornerstones of the Proposal

- Help consumers understand/overcome biases:
 - **Trial income payments – temporary**
- Larger pool of consumers to lower prices:
 - **Through 401(k) plans**
- Easy access to lifetime income products:
 - **Automatic**
- Accommodate different individual needs:
 - **Ability to opt-out - voluntary**

Automatic Trial Income Payments

- Automatic: default a substantial portion of 401(k) balance into a 2-year trial income payment plan
- Participants can opt-out of 2-year trial plan
- After 2 years: participants can elect a different distribution option or continue with default permanent income plan
- Employers are encouraged (not mandated) to participate – have discretion over structure and implementation.

Goals

- Reframe retirement distribution choices – level the playing field for lifetime income products
- Provide more information and time to make more informed distribution choices
- Make it easy with automatic features