United States General Accounting Office

GAO

Report to Congressional Requesters

July 2003

PRIVATE PENSIONS

Participants Need Information on Risks They Face in Managing Pension Assets at and during Retirement

G A O

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GAO-03-810

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Highlights

Highlights of GAO-03-810, a report to Congressional Requesters

Why GAO Did This Study

The decisions that retiring workers make about how and when to draw down their pension plan assets determine in part whether they will have pension income that lasts throughout retirement. Individuals will need pension and other retirement income to sustain them over a longer period of time than in the past. Moreover, the continuing trend towards pension plans with individual accounts has increased participants' responsibility for managing their pension assets during retirement. As such, our objectives were to determine: (1) what benefit payout options and accompanying information pension plans make available to participants at retirement, (2) what benefit payouts plan participants receive at retirement, and (3) the actions available to help retiring participants preserve their pension and retirement savings plan assets.

What GAO Recommends

GAO is not recommending executive action. However, to improve public awareness and understanding of important considerations related to managing pension and retirement assets in retirement, the Congress may wish to consider amending the Employee Retirement Income Security Act to require plan sponsors to provide participants with a notice on risks that individuals face in managing their income and expenditures at and during retirement. The Congress could consider stipulating that this notice must be provided at certain key milestones.

www.gao.gov/cgi-bin/getrpt?GAO-03-810.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Barbara Bovbjerg at (202) 512-7215 or bovbjergb@gao.gov.

July 2003

PRIVATE PENSIONS

Participants Need Information on Risks They Face in Managing Pension Assets at and during Retirement

What GAO Found

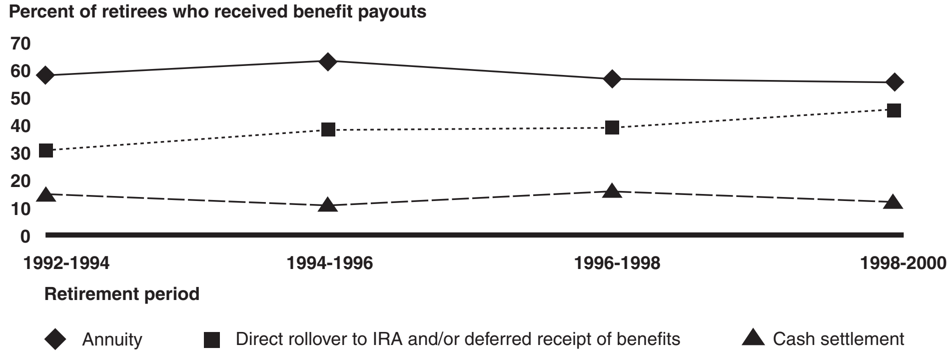
Defined benefit (DB) plans make annuities available to all participants at retirement, while defined contribution (DC) plans make lump sums available to almost all participants. Recent data also show that about half of private sector workers who participated in DB plans had a lump sum option at retirement, and over a third of their counterparts in DC plans had an annuity option. Plan sponsors GAO spoke with provide retiring participants with applicable notices about their benefit payout options available under the plan. Additional information provided by plan sponsors GAO spoke with primarily focused on saving for retirement. Risks that can affect retirement income, or other considerations relevant to managing pension assets at and during retirement were generally not discussed.

According to GAO's analysis, while 60 percent of recent retirees received annuities, an increasing percentage from 1992 to 2000 directly rolled over lump sum benefits into an individual retirement account or deferred their receipt by leaving these assets in the plan, a trend in part explained by the shift toward retirees with DC plan benefits. Additionally, GAO found that a growing percentage of those retirees who reported having a choice of benefit payouts chose to directly roll over their lump sum benefits or leave benefits in the plan rather than receive annuities.

Actions available to help retiring participants preserve their pension and retirement savings plan assets range from options that would encourage the receipt of annuities to providing information to help participants make better decisions about managing their pension assets at and during retirement. According to an expert panel GAO used as part of this study, retirees need to be aware of the risk of outliving one's assets in retirement and the financial risks individuals face in retirement. Over 90 percent of GAO's panelists rated providing information on such risks as very or extremely effective in helping retiring participants make decisions about managing their pension assets.

Types of Pension Payouts Received by Retirees

Percent of retirees who received benefit payouts



Source: GAO analysis of weighted HRS data 1992-2000.

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Abbreviations

BLS	Bureau of Labor Statistics
DB	defined benefit
DC	defined contribution
DOL	Department of Labor
EBSA	Employee Benefits Security Administration
ERISA	Employee Retirement Income Security Act of 1974
HRS	Health and Retirement Study
IRA	Individual Retirement Account
IRC	Internal Revenue Code
NCS	National Compensation Survey
NIA	National Institute on Aging
QJSA	qualified joint and survivor annuities
RSEC	Retirement Savings Education Campaign
SAVER	Savings Are Vital to Everyone's Retirement Act
SSA	Social Security Administration

GAO

Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

July 29, 2003

The Honorable Earl Pomeroy
The Honorable Rob Portman
The Honorable Ben Cardin
The Honorable Phil English
House of Representatives

The decisions that retiring workers make about how and when to draw down their pension and retirement savings plan assets determine in part whether they will have pension income that lasts throughout retirement. Individuals are living longer on average once they retire and will need pension and other retirement income to sustain them over a longer period of time than in the past. Moreover, the continuing trend away from traditional defined benefit (DB) pension plans that can guarantee a stated level of income for life towards defined contribution (DC) plans with individual accounts has made participants more responsible for managing their pension assets during retirement.[1] Increasingly, retirees have access to their pension and retirement savings plan assets and the flexibility to choose how and when to invest and draw down these assets.

The type of pension or retirement savings plan workers participate in could influence the benefit payment options they have available. Private employers may sponsor DB and/or DC pension plans for their employees. DB plans must make available a joint and survivor life annuity to retiring participants—a series of periodic payments that begin at retirement and continue through the life of the participant (or other specified period) and at the death of the participant, to the surviving spouse. These plans may also offer a lump sum—a cash amount—as an alternative payout option to the annuity. While some DC plans are required to make available a joint and survivor annuity,[2] DC plans typically make benefits available as a lump

[1]DB plans promise to provide a benefit that is generally based on an employee's salary and years of service. Under a DC plan, employees have individual accounts to which the employer, employee, or both make periodic contributions. DC plan benefits are based on contributions to and investment returns on individual accounts, and participants may access their accounts before, at, or during retirement. According to Bureau of Labor Statistics data, 36 percent of private sector workers participated in a DC plan, while 19 percent of private sector workers participated in a DB plan in 2000.

[2]Certain DC plans are required to make an annuity payout option available to participants. These plans are called money purchase plans.

sum[3] (i.e., the participant's account balance) or installment payments—periodic withdrawals paid until account balances are exhausted. DC plans may offer to purchase an annuity.[4]

Pension plan sponsors must provide certain disclosures and notices to retiring participants about their pension benefit payment options. These requirements vary based on type of plan and benefit options available under the plan. For all DB plans as well as those DC plans subject to the joint and survivor annuity requirement, plans must provide, among other information, a written explanation of the terms and conditions of the joint and survivor annuity, including information about other payout options made available under the plan and the rights of the participant's spouse.

Annuities and lump sums present different advantages and risks to retirees. A life annuity, whether received from a plan or purchased, generally provides insurance that a retiree will not run out of income no matter how long he or she lives. However, if a retiree dies soon after choosing or purchasing an annuity, he or she would likely receive considerably less than if he or she had taken a lump sum and will be unable to leave that asset as a bequest. Also, income from fixed annuities may not be adequate to pay for unexpected large expenses or provide protection against inflation.[5]

Retiring participants who receive lump sums have the flexibility to preserve or draw down these assets as they wish, but could risk running out of pension assets if they live longer than expected, draw down assets too rapidly, or suffer poor investment returns on their assets. A retiree may choose to receive a lump sum directly from the plan as a cash settlement and then invest or spend some of or the entire amount. Alternatively, retirees who receive lump sums may preserve these assets by purchasing an annuity with some or all of the proceeds to provide a stream of income throughout retirement.

[3]In this report, we refer to lump sums received directly by participants as cash settlements.

[4]DC plans with individual accounts that offer an annuity must provide them on a gender-neutral basis. See *Norris v. Arizona Governing Committee*, 463 U.S. 1073 (1983).

[5]Certain life annuities that plans and insurance companies may offer are available to address such needs. For example, life annuities with guarantee periods or refunds that pay the remaining balance to a beneficiary if an annuitant dies, as well as annuities that offer inflation protection are available.

Because of concerns about whether retirees will preserve their pension assets you asked us to determine: (1) what benefit payout options and accompanying information pension plans make available to participants at retirement; (2) what benefit payouts plan participants receive at retirement; and (3) the actions available to help retiring participants preserve their pension and retirement savings plan assets.

To determine what benefit payout options and accompanying information DB and DC plans make available to participants at retirement, we reviewed applicable laws and regulations to identify benefit payout options plan sponsors must and may provide at retirement and the types of accompanying information they must furnish to participants. We obtained data on the types of payout options available to participants from the Bureau of Labor Statistics' (BLS) National Compensation Survey for 2000. We interviewed pension experts and convened a Web-based expert panel to identify factors that may affect the benefit payout options plans make available. To examine how retiring plan participants receive their pension benefits, we used publicly available data from the University of Michigan's Health and Retirement Study (HRS), covering the period from 1992 to 2000. In addition, we interviewed plan sponsors and practitioners to obtain information and views on the benefit payouts retirees choose when they have payout options and reasons why retirees prefer (or do not prefer) different benefit payouts. To identify actions that could help retiring participants preserve their pension and retirement savings plan assets and obtain expert opinions and views, we interviewed pension experts and surveyed our Web-based expert panel. A range of experts, including academics, plan practitioners, and representatives of insurance providers, employers, and public interest groups, participated on our expert panel.

We conducted our work between August 2002 and July 2003 in accordance with the generally accepted government auditing standards. (See app. I for more details on our data, scope, and methodology.)

Results in Brief

In general, DB plans are more likely than DC plans to make annuities available at retirement, while DC plans are more likely than DB plans to make lump sums available. The most recent BLS data show, not unexpectedly, that of those private sector workers who participated in DB plans, all had an annuity option available. Moreover, slightly less than half of these DB participants had a lump sum option. In comparison, almost all private sector workers who participated in DC plans had a lump sum option available, just over a third had an annuity option, and over half had an installment payment option. Plan sponsors we spoke with provide retiring participants with applicable notices about benefit payout options available under the plan. While some plan sponsors we spoke with provide more than these notices, this additional information primarily focuses on saving for retirement. These plan sponsors generally did not provide information on considerations relevant to managing pension assets at and during retirement, such as on the potential risks that retirees face in managing their assets or on how to assess needs in retirement.

When we analyzed the types of payout employees actually received at retirement, we found retirees increasingly selected benefit payouts other than annuities. About 60 percent of retirees received annuities from 1992 to 2000,[6] but during that period an increasing proportion of more recent retirees chose to directly roll over lump sum benefits into an Individual Retirement Account (IRA) or to defer their receipt by leaving them in the plan. Specifically, retirees choosing these payouts represented about 32 percent of the group that retired between 1992-94 and grew to 47 percent by 1998-2000. Only about 14 percent of retirees took their pension benefits as cash settlements, a figure that changed little over the period. Retirees who received benefits from DB plans were most likely to receive annuities, while those who received benefits from DC plans were most likely to roll over benefits into an IRA or to defer receipt. The shift toward retirees with DC plan benefits in part explains why we observe a trend away from annuities and toward other payouts. Additionally, we found that a growing percentage of those retirees who reported having a choice among benefit payout options chose payouts other than annuities.

Pension experts identified a range of actions available to help retiring participants preserve their pension and retirement savings plan assets. Some policy options would increase or encourage annuitization of pension assets at retirement. Such options include imposing new requirements on plan sponsors to offer annuities to retiring participants. Other options include modifying certain rules to make it easier for plan sponsors to offer annuities or providing an incentive to retiring participants to choose annuities. Besides options that focus exclusively on annuities, information and education could be provided to participants to help them make decisions about how to manage pension assets during retirement. For example, our expert panel indicated that participants could make more

[6]Some respondents had one or more pensions with and received more than one type of pension payout. As a result, some respondents are included in more than one benefit payout category. Therefore, because of the overlap across pension payout categories, individual percentages cannot be summed.

informed decisions if they were aware of various risks that affect the level of income they need during retirement, such as the risk of outliving their assets and the risk of declining purchasing power. Participants also need help understanding how to assess needs in retirement, strategies for drawing down pension assets during retirement, and how annuities provide retirement income.

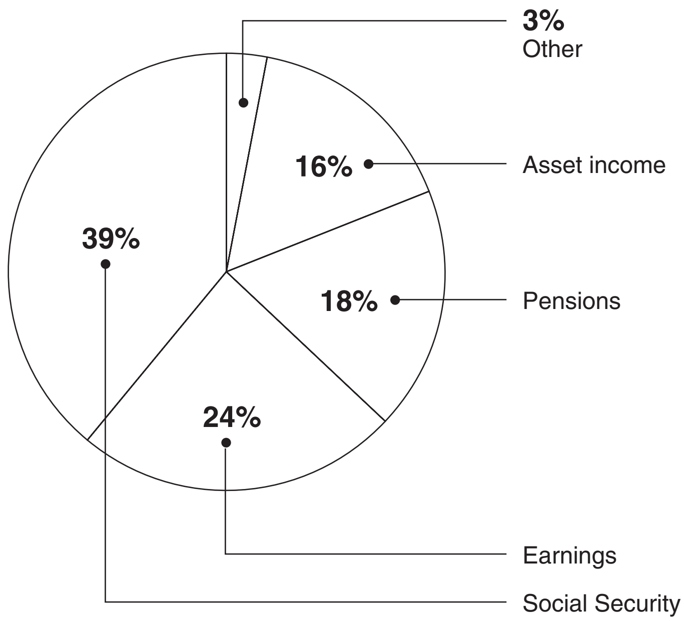
This report includes a matter for congressional consideration to require plan sponsors to provide a notice on risks that individuals face when managing their income and expenditures at and during retirement.

We provided a draft of this report to the Department of Labor (DOL) and the Department of the Treasury. Both agencies provided us with technical comments, and we incorporated each agency's comments as appropriate. Additionally, DOL officials stated that the Secretary of Labor does not currently have the legal authority under ERISA to require plan sponsors to provide such information. Consequently, we changed our recommendation to a matter for consideration for the Congress to amend ERISA to require plan sponsors to provide a notice to participants on risks they face when managing their pension and retirement savings plan assets in retirement.

Background

The standard of living of the elderly depends on total retirement income, which includes Social Security, pensions, income from assets, and earnings from employment. While Social Security provides a foundation for retirement income, savings through pension and retirement savings plans, as well as by individuals on their own behalf, can contribute substantially to ensuring a secure retirement. For example, the Social Security Administration reports that while 39 percent of income for persons 65 and over came from Social Security income in 2001, 18 percent of their income came from pensions (see fig. 1).

Figure 1: Shares of Aggregate Income for Persons 65 and Over, by Source, 2001



Source: Income of Aged Chartbook, 2001. Social Security Administration, Office of Policy; Office of Research, Evaluation, and Statistics.

To encourage employers to establish and maintain pension plans for their employees, the federal government provides preferential tax treatment under the Internal Revenue Code (IRC) for plans that meet certain requirements. A purpose of tax preferences for employer-sponsored pensions is to encourage savings for workers' retirement. Pension tax preferences are structured to strike a balance between providing incentives for employers to start and maintain voluntary, tax-qualified pension plans and ensuring participants receive an equitable share of the tax-favored benefits.

A qualified pension plan is a retirement plan that satisfies certain requirements set forth in the Internal Revenue Code. In order to be tax-qualified, private pension plans must satisfy a number of requirements, including minimum requirements on coverage and benefits. Private pension plans must also generally meet the requirements of the Employee Retirement Income Security Act of 1974 (ERISA). Title I of ERISA, among other requirements, contains requirements regarding information that plan sponsors must provide to participants and defines the obligations of the individuals who administer employer-sponsored plans.

There has been a continuing trend from DB to DC plans over the last 2 decades. DOL reports that private sector employers sponsored over 56,000 tax-qualified DB plans in 1998 down from over 139,000 in 1979, while the number of tax-qualified DC plans sponsored by private employers more than doubled from over 331,000 to approximately 674,000 during this same period. Along with this continuing trend to sponsoring DC plans, there has also been a shift in the type of plans that private sector workers participate in. DOL reports that the percentage of private sector workers who participated in a primary DB plan has decreased from 37 percent in 1979 to 21 percent by 1998, while the percentage of such workers who participated in a primary DC plan has increased from 7 to 27 percent during this same period. Moreover, these same data show that, by 1998, the majority of active participants (workers participating in their employer's plan) were in DC plans, whereas nearly 20 years earlier most of them were in DB plans.

Employers who sponsor DB plans are responsible for making contributions that are sufficient for funding the promised benefit, investing and managing the plan assets, and bearing the investment risk because the employer, as plan sponsor, agrees to make future payments during retirement. However, under DC plans, workers bear the investment risk because there is no promise made by the employer that money will be available during retirement. Thus, as a result of this shift from DB to DC plans, an increasing share of the responsibility for providing for one's retirement income has shifted from the employer to the employee.

DB plans sponsored by private employers are required to offer joint and survivor annuities[7] to married participants beginning at the plan's normal retirement age. These annuity payouts, called qualified joint and survivor annuities (QJSA), guarantee a benefit for the life of the participant and the participant's surviving spouse. DB plans may also offer a single-life annuity to unmarried participants. With respect to DC plans, there is no uniform requirement regarding benefit payouts they must offer. Rather, certain DC plans must adhere to the QJSA requirements because, similar to DB plans,

[7]29 U.S.C. 1055(a)(1). These plans must also provide for a qualified preretirement survivor annuity (QPSA) providing that where a vested participant dies before the annuity starting date, the QPSA shall be provided to the surviving spouse. 29 U.S.C. 1055(a)(2).

they are subject to minimum funding standards.[8] Other DC plans are not subject to the QJSA requirements if the plan provides for payment in full of the participant's accrued benefit under the plan to the spouse on the death of the participant and the participant has not elected to receive a life annuity.[9]

Plans subject to the QJSA requirements must provide participants with a written explanation of the terms and conditions of the QJSA. As part of this notice, participants must be furnished with a description of other benefit payouts that the plan offers as options to the QJSA—including information on their features and value of a participant's benefits under such options. In addition, the plan must provide participants with an explanation of the participant's right to make, and the effect of, an election to waive the QJSA form of benefit, the rights of the participant's spouse, and the right to revoke an election to waive the QJSA form of benefit.

Because of concerns that participants who are offered QJSA benefits do not have adequate information to compare these benefits with other optional payouts, IRS has proposed regulations to strengthen the requirements regarding the written explanation of a QJSA that plans must provide. Specifically, the proposed regulations provide additional guidance regarding information that plans furnish to describe the value of a participant's benefits under optional payouts compared with the value of a participant's QJSA benefits. The comparison must show what the participant would receive under each optional payout relative to the QJSA (including for those benefit payouts that are subsidized) in a way that is meaningful. Additionally, this comparison must include information that is more readily understandable to participants.[10]

There is also required information that plans must provide retiring participants about lump sum payouts. Plans that offer a lump sum payout must provide a rollover notice to retiring participants. The rollover notice

[8]Minimum funding standards establish the minimum amounts that plan sponsors must contribute to ensure that their plans have sufficient assets to pay benefits when due. While technically complex, these standards are designed to ensure that the value of benefits accumulated to date under the plan and the plan's assets bear a reasonable relationship to one another such that the plan can pay benefits due participants when they retire.

[9]In addition, the plan is subject to the survivor annuity requirements to the extent that they are transferee plans of plans that are otherwise subject to the requirement. 29 U.S.C. 1055(b)(1)(C)(iii); 26 C.F.R. 1.401(a)(20) A-5.

[10]*Federal Register* Vol., 67, 62419, Oct. 7, 2002 (notice of proposed rulemaking).

must discuss the participant's ability to have such payouts directly transferred by the plan to another eligible retirement plan. Rollover notices must also include information about the tax consequences of choosing various payout options, such as rolling the assets to another account or taking a lump sum directly as a cash settlement.

Retiring participants who have the option to receive benefits as a lump sum amount (i.e., cash settlement) may also choose to directly "roll over" their assets to another qualified retirement plan, such as an IRA.[11] DB plans that permit lump sums must adhere to certain rules regarding the calculation of lump sum amounts. Lump sums must be at least as large as the actuarial equivalent (i.e., present value) of a participant's accrued benefit (i.e., the value of the deferred annuity that the participant is entitled to receive or at the plan's normal retirement age).[12]

DC plan participants also have the option to defer receipt of benefits by leaving assets in their individual accounts.[13] Both directly rolling over assets into another qualified retirement plan and leaving benefits in the plan preserve pension assets at the point of retirement. Also, DC plan participants may have the option to receive their benefits as a series of installment payments at retirement that he or she may spend or save as desired. However, unlike a DB plan, a DC plan cannot itself provide a life annuity, but can offer to purchase an annuity from an insurance company. Retirees that do not choose or purchase annuities at the point of retirement assume personal responsibility for managing their pension and retirement savings plan assets to provide retirement income. In particular, these retirees must decide how pension assets are saved or invested and determine the timing and amount of withdrawals.

Increasingly, retirees will—on average—need to balance income and expenditures over a longer period of time than in the past. This is in part due to the long-term trend towards earlier retirement throughout most of the twentieth century. Nearly half of all men now leave the labor force by age 62 and almost half of all women are out of the workforce by age 60. Moreover, the decline in the average retirement age has occurred in an

[11]26 U.S.C. 401(a)(31).

[12]Section 417(e) of the Internal Revenue Code specifies a set of mortality factors and a discount rate that DB plan sponsors must use to calculate lump sums.

[13]DB participants who are eligible to receive benefits earlier than their plan's normal retirement age may also choose to defer receipt of benefits.

environment of rising longevity for the elderly. Falling mortality rates have added almost 4 years to the expected life span of a 65-year-old man and more than 5 years to the life expectancy of a 65-year-old woman since 1940.

Individuals face a variety of risks in managing their assets, income, and expenditures at and during retirement. For example, retirees may outlive their pension or retirement savings plan assets. In addition, inflation may erode the purchasing power of their income, investments may yield returns that are less than expected or decline in value, and large unplanned expenses, such as those to cover long-term care, may occur at some point during retirement.

Annuities offer a means to mitigate much of the financial uncertainty that accompanies living to very old ages, but may not necessarily be the best approach for all retirees. For example, an individual with a life shortening illness might not be concerned about the financial needs that accompany living to a very old age. Also, some individuals may want to continue to accumulate assets during retirement and could invest their pension assets in IRAs or financial products, in which such assets could be more heavily invested in equities. Strategies to manage risk during retirement, when most are decumulating rather than accumulating assets will necessarily be highly individualized.

The Internal Revenue Service, DOL's Employee Benefits Security Administration (EBSA), and the Pension Benefit Guaranty Corporation are primarily responsible for enforcing laws that govern private pension plans. The Internal Revenue Service enforces provisions of the IRC that apply to tax-qualified pension plans. EBSA enforces ERISA's reporting and disclosure provisions and fiduciary responsibility standards, which among other things concern the type and extent of information provided to plan participants. The Pension Benefit Guaranty Corporation insures the benefits of participants in certain tax-qualified private sector defined benefit plans.

Recognizing the importance of retirement savings, the Congress enacted the Savings Are Vital to Everyone's Retirement (SAVER) Act of 1997 to advance the public's knowledge and understanding of the importance of retirement savings. The act requires DOL to, among other things, maintain an ongoing outreach program to the public to effectively promote retirement savings and to disseminate specific educational materials related to retirement savings and the principles of saving and investment. DOL's Retirement Savings Education Campaign (RSEC), which began

2 years prior to passage of the SAVER Act, is an outreach program that targets owners of small businesses, women, minorities, and youth to change the way they think about, and act on, their retirement saving needs. As part of its campaign, DOL is partnering with outside organizations to develop informational materials and tools to help individuals understand their retirement benefit options and make informed decisions about retirement, including managing assets during retirement.

DB Plans More Likely to Offer Annuities and DC Plans to Offer Lump Sums, and Plans Provide Only Applicable Notices on Benefit Payout Options

DB plans are more likely to make annuities available to retiring participants because they are required to do so, while DC plans are more likely to make lump sums available. Additionally, nearly half of private sector workers who participated in a DB plan have a lump sum available at retirement, while over a third of DC plan participants have annuities available. Pension plan sponsors we spoke with provide participants with applicable notices about their benefit payout options available under the plan. Some plan sponsors we spoke with provide information beyond these notices, but this information primarily focuses on saving for retirement and not on issues related to managing pension assets at and during retirement.

Nearly Half of DB Plans Make Lump Sums Available and Just Over a Third of DC Plans Make Annuities Available

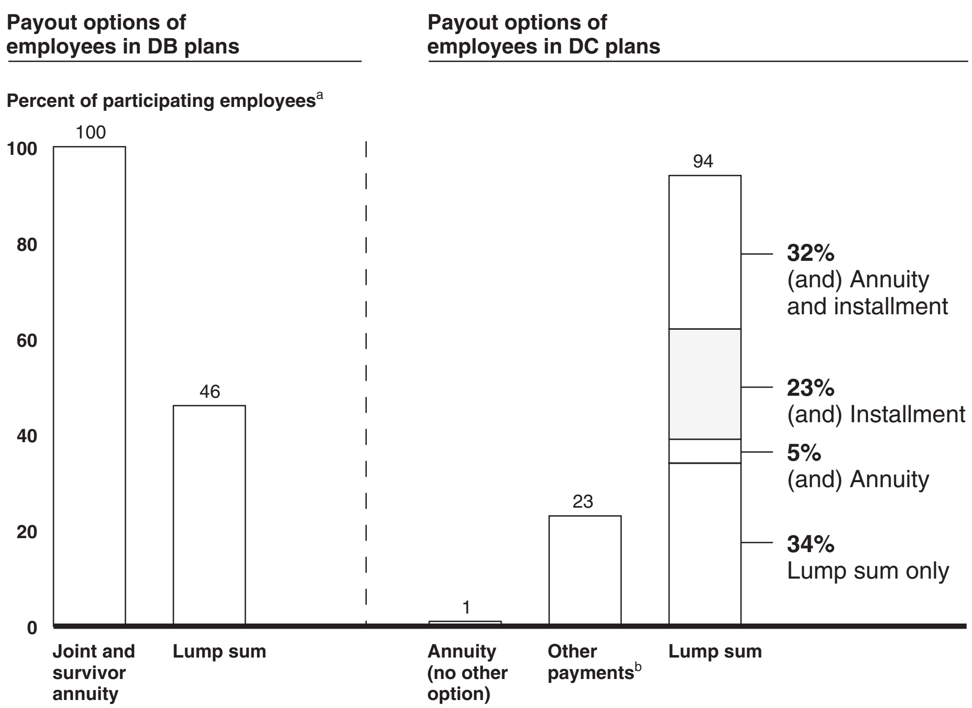
DB plans are more likely than DC plans to make annuities available at retirement, while DC plans are more likely than DB plans to make lump sums available. The most recent BLS data (2000)[14] show that, not unexpectedly, all private sector workers who participated in DB plans had an annuity option[15] available at retirement, while only 38 percent of their DC counterparts had this option. Almost all private sector workers who participated in DC plans (94 percent) had a lump sum option available and just under half (46 percent) of their DB counterparts had this option available. Additionally, over half of these workers in DC plans had an installment payment option (55 percent) available.

[14]For more information on how we reviewed BLS data, please see appendix I.

[15]Data were not available to obtain detailed figures on the types of annuities that plans make available at retirement. For example, besides the QJSA annuity, DB plans may offer subsidized annuities at a plan-specified early retirement age (“early retirement subsidies”) or annuities with a guarantee period (“period-certain” annuities).

Some private sector workers in each type of plan also had more than one benefit payment option available at retirement (see fig. 2). BLS data show that 46 percent of private sector workers in DB plans had both an annuity and lump sum option available. Also, 32 percent of all private sector workers who participated in DC plans had a lump sum, an annuity and an installment payout option available at retirement.

Figure 2: Percent of Employees Participating in Types of Plans, by Choice of Payment Options Provided (2000)



Source: Bureau of Labor Statistics, National Compensation Survey, 2000.

[a]Percentages of employees calculated based on the number determinable responses for each type of plan.

[b]Other options such as rollover into an Individual Retirement Account were not tabulated separately.

Two surveys conducted on the incidence of payout options plans make available found similar results. These surveys indicated that almost all DC plans offer a lump sum to retiring participants, and all DB plans offer an annuity. In 2001, a study by Hewitt Associates on certain DB plans found that 40 percent of these plans offered all participants a lump sum option.[16] A survey of certain DC plans by the Profit Sharing Council of America[17] shows that, in 2001, about 99 percent of the DC plans surveyed offered a lump sum at retirement, 56 percent offered an installment option, and 28 percent offered an annuity. Plan sponsors we spoke with also confirmed our findings from the BLS data.

Several factors may affect the benefit payout options plans made available to retiring participants. Our expert panel suggested that DC plans do not offer an annuity because of certain challenges associated with providing this payout option.[18] For example, members of the expert panel suggested that current QJSA regulations—which require plans that offer an annuity to offer a QJSA annuity and adhere to spousal consent rules—may be administratively burdensome to plan sponsors. Also, some plans do not offer an annuity in part because of the concern about being held liable for any losses to participants in the event the annuity provider cannot meet its financial obligations.

Our expert panel also identified worker preferences as an important factor affecting the pension benefit payout options plans offer to retiring participants. In part, plan sponsors offer lump sums in response to employee demand for this option and choose not to offer annuities absent employee demand for them. Also, pension experts and plan sponsors we spoke with agreed that plans offer lump sums because workers generally prefer them to annuities. A funding provider for defined contribution plans, which used to only offer annuity payouts at retirement, expanded the payout options it makes available to retiring participants in response to participants' desire for more options and control in managing their pension and retirement savings plan assets.

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[16]"*Salaried Employee Benefits Provided by Major U.S. Employers, 2001-2002*." Hewitt Associates. This report summarizes the principal benefit plans for salaried employees of 945 major U.S. employers. All information is based on plan-by-plan specifications collected directly from participating plan sponsors in 2001-2002 Hewitt Associates Specbook.

[17]"*45th Annual Survey of Profit Sharing and 401(k) Plans*." Profit Sharing/401(k) Council of America. This survey summary reports the 2001plan year experience of 937 plans with nearly 3.2 million participants. Respondents consist of 79 profit-sharing plans, 414 401(k) plans, and 444 combination profit sharing/401(k) plans.

[18]See appendix III for detailed results on factors that may affect benefit payment options offered to or elected by retiring participants identified by our expert panel.

Plans Provide Participants with Notices about Benefit Payout Options, but Information on Managing Assets during Retirement Is Not Widely Available

Plan sponsors we spoke with indicated that they provide retiring participants with applicable notices about benefit payout options available under the plan. For example, those sponsors that offer an annuity payout told us that they provide the required QJSA and spousal consent notices to participants. Also, those plan sponsors that offer a lump sum told us that they provide participants with the required rollover notice that reviews the tax consequences of choosing various payout options. Additionally, these sponsors provide retiring participants with various accompanying materials to the notices that further describe all the benefit payout options available under their plans.

While plan sponsors we spoke with provided some additional information on saving for retirement, they generally did not provide information on considerations relevant to managing pension and retirement savings plan assets at and during retirement. For example, some of these sponsors provide information on investment alternatives and the potential impacts of various investment strategies on accumulating assets for retirement. Some provide calculators or annual reports that, based on a participant's current account balance, estimate retirement income using various saving strategies and age scenarios.

However, the information provided by the plan sponsors we spoke with generally does not discuss considerations relevant to managing pension and retirement savings plan assets at and during retirement. These plan sponsors generally do not discuss the potential pros and cons of available payout options as related to managing pension assets during retirement. For example, these sponsors do not provide information that shows income payments a retiring participant could receive from an annuity compared with income payments the participant might receive from personally investing and drawing down a cash settlement. Additionally, they typically do not discuss risks retirees may face in managing their assets during retirement, or provide information on how to assess needs at or during retirement.

Plan sponsors are hesitant to provide information and education on managing assets during retirement because of liability concerns. Although plan sponsors are permitted to provide information and education to participants, there is no specific guidance that plan sponsors may follow to provide retiring participants with information on issues related to managing their pension assets during retirement. If a plan sponsor provides what is considered to be advice, the sponsor may be held liable for any monetary losses a participant experiences for making an unfavorable decision–with respect to choosing a benefit payout at retirement or managing pension assets—based on information they provide. Plan sponsors are, therefore, careful not to provide information that may be perceived as advice and could result in litigation if participants choose benefit payout options or assets management strategies that ultimately reduce their retirement income.

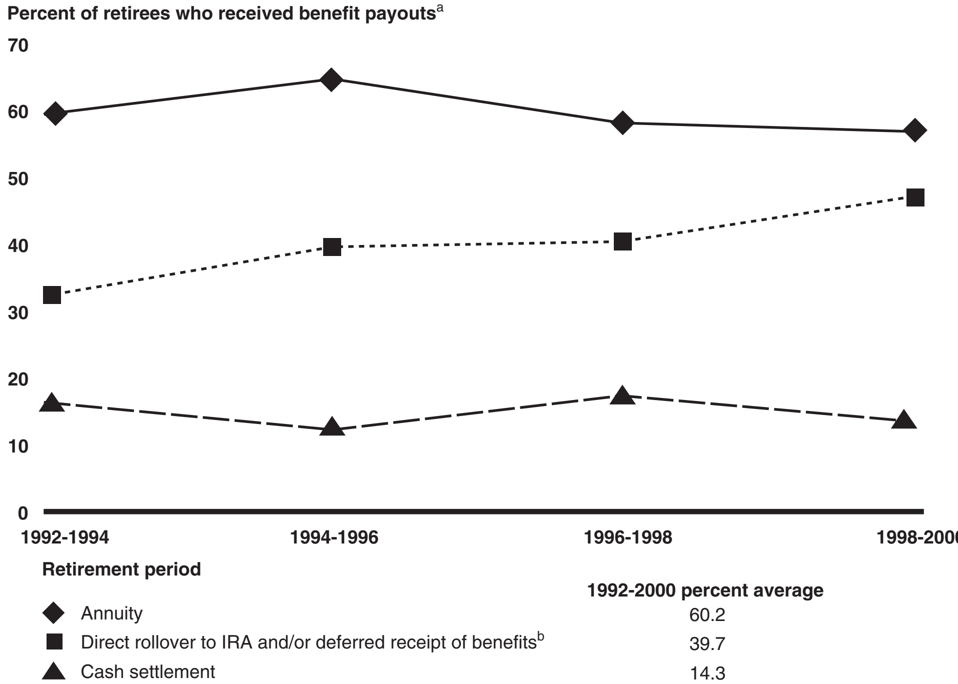
A funding provider for defined contribution plans we spoke with does, however, provide information and education on potential risks retirees face and other considerations for managing assets during retirement. This organization provides information on three risks to retirement income, including eroding purchasing power due to inflation, outliving one's pension and retirement assets, and the possibility of getting lower than anticipated investment returns due to market conditions. Participants near and at retirement also receive information to better understand how each of the various payout options they may choose from could be most useful in meeting their individual retirement income needs and preferences. Information and education is provided at key stages of an employee's participation in the plan using multiple communication approaches, including seminars, Web-based planning tools, written materials, worksheets, and one-on-one counseling. Representatives from this organization cited several reasons for providing this type of information, including an increase in payout options available and participant demand for more information and education.

Most Retirees Receive Annuities, but an Increasing Percentage Receive Other Types of Benefit Payouts

When we analyzed the types of payout employees received at retirement, we found retirees increasingly selecting benefit payouts other than annuities. Although we found that about 60 percent of retirees received annuities, over time an increasing percentage of more recent retirees chose to directly roll over their lump sum benefits into an IRA or to defer their receipt by leaving them in the plan. On the basis of our statistical analysis, we found that retirees who received benefits from DB plans were most likely to receive annuities, while those who received benefits from DC plans were most likely to directly roll over these assets into an IRA or defer the receipt of benefits. We found that participation in a DB plan was the primary factor in choosing to receive an annuity.

Our analysis of recently retired workers with pensions indicates that while most received annuities, many received other types of payouts. As shown in figure 3, from 1992 to 2000 about 60 percent of new retirees with pensions received an annuity.[19] However, about 40 percent reported directly rolling over benefits into an IRA or deferring receipt by leaving benefits in their plan, and approximately 14 percent of retirees took pension assets as a cash settlement.

Figure 3: Types of Pension Payouts Received by Retirees



Source: GAO analysis of weighted HRS data 1992-2000.

Note: For our analysis, “retirees with pensions” are survey respondents who reported leaving a preceding-wave job to retire and reported receiving a pension payout from that job. Figures in subcategories should not be added because some respondents report receiving multiple pension payouts.

[a]Includes respondents who received pension benefit payouts from both DB and DC plans.

[b]For retirees with DB plans, includes respondents who expect to receive benefits in the future. For those with DC plans, includes respondents who reported leaving their assets in a plan account.

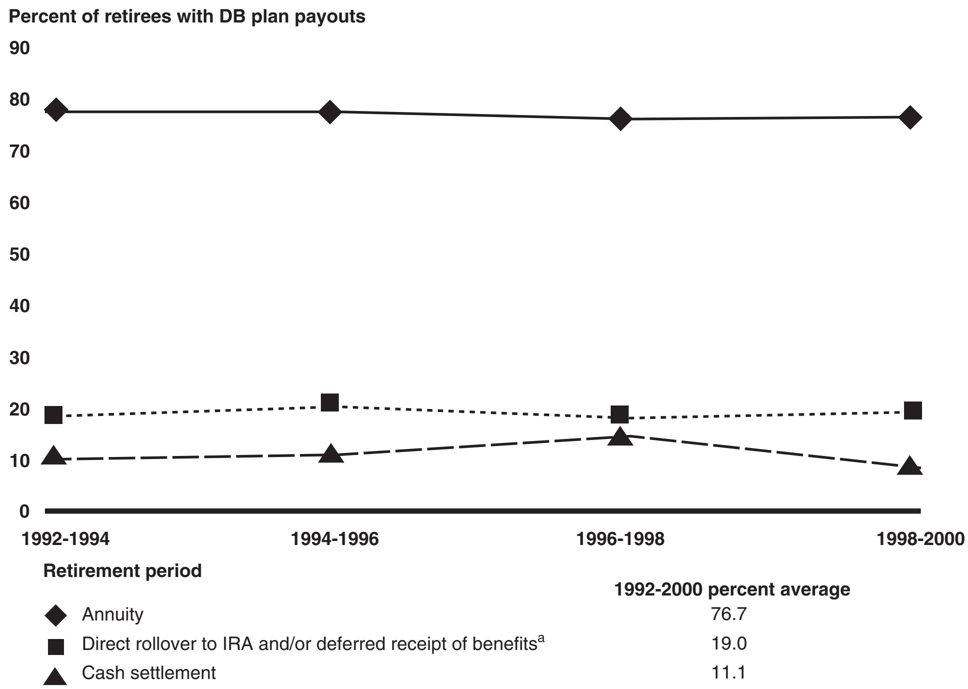
While three-fifths of all retirees took annuities, over time an increasing percentage of more recent retirees received other types of payouts.

[19]Some respondents had more than one pension and some had more than one form of pension payout. As a result, the addition of individual percentages may not equal their combined sum.

Specifically, the percentage of all retirees who either directly rolled over benefits into an IRA or deferred their receipt increased from about 32 to 47 percent, while the percentage who received cash settlements directly from their plan changed little. In contrast, the percentage of retirees receiving annuities ranged from a peak of about 65 percent to about 57 percent.

Most retirees participated in DB plans between 1992 and 2000, and payouts received by retirees with DB benefits tended to be markedly different from payouts received by retirees with DC benefits, which helps to explain why most retirees received annuities. About 77 percent of retirees with DB plan benefits received an annuity from those plans (see fig. 4), while only 8 percent of retirees with DC plan benefits received or purchased annuities with their benefits (see fig. 5). Conversely, over three-quarters of retirees with DC plan benefits directly rolled over assets into an IRA or deferred receipt of benefits by leaving assets in their plan.

Figure 4: Types of Pension Payouts Received by Retirees with DB Payouts

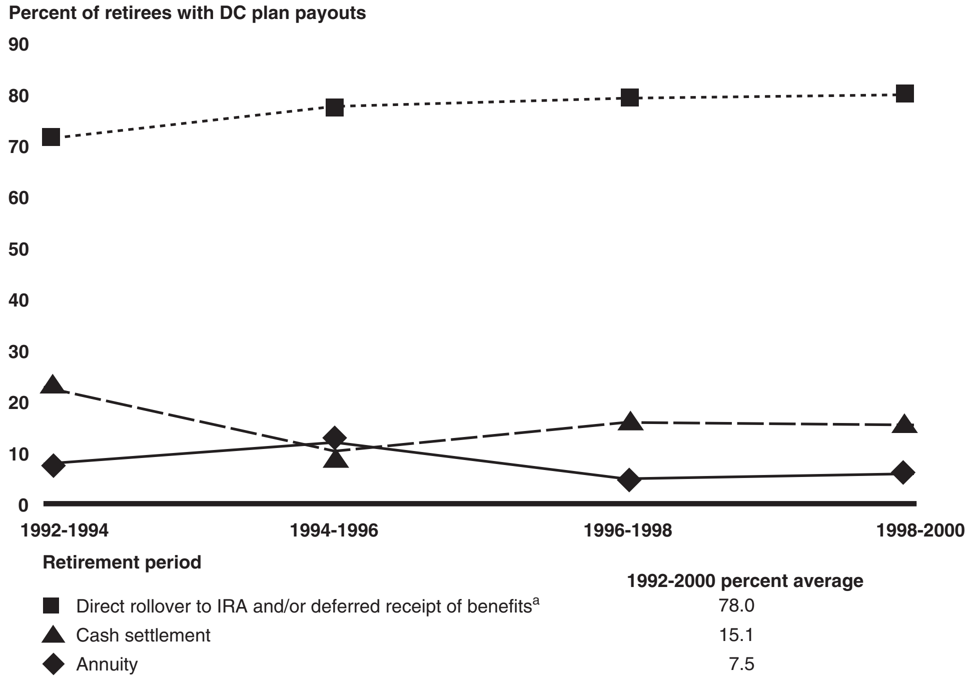


Source: GAO analysis of weighted HRS data 1992-2000.

Note: For our analysis, "retirees with pensions" are survey respondents who reported leaving a preceding-wave job to retire and reported receiving a pension payout from that job. Figures in subcategories should not be added because some respondents report receiving multiple pension payouts.

[a]For retirees with DB plans, includes respondents who expect to receive benefits in the future. For those with DC plans, includes respondents who reported leaving their assets in a plan account.

Figure 5: Types of Pension Payouts Received by Retirees with DC Payouts



Source: GAO analysis of weighted HRS data 1992-2000.

Note: For our analysis, “retirees with pensions” are survey respondents who reported leaving a preceding-wave job to retire and reported receiving a pension payout from that job. Figures in subcategories should not be added because some respondents report receiving multiple pension payouts.

[a]For retirees with DB plans, includes respondents who expect to receive benefits in the future. For those with DC plans, includes respondents who reported leaving their assets in a plan account.

The growing trend towards payouts other than annuities may reflect, at least in part, the continuing trend in coverage towards DC plans. Among all retiring participants who received pension benefits, the percentage who had participated in DC plans increased considerably over time, while the percentage who had participated in DB plans decreased somewhat after peaking in 1994. Also, little change occurred in the types of payouts received by those with benefits from either DB or DC plans. For example, about 90 percent of retirees with DC plan benefits received payouts other than annuities over the entire period we examined. Similarly, during this same period, retirees with DB plan benefits received their payouts largely through annuities, with little change.

One likely reason why many retirees with DB plans receive annuities is that many DB retirees do not have other payout options available. About 38 percent of the DB retirees we analyzed reported having a choice of receiving a payout other than an annuity. We narrowed our analysis to examine the payout choices made by retirees, eliminating from our analysis DB retirees with no payout choice other than an annuity. Thus, in addition to examining how all retirees receive their pensions, we also analyzed only retirees who report having a choice of receiving benefits as an annuity or as a lump sum amount.[20] Over the period, the percentage of retirees who chose to directly roll over their lump sum benefits to an IRA or to defer receipt of benefits rose substantially, from around 44 percent of retirees to about 66 percent (see table 2 in app. II). The percentage choosing annuities and cash settlements, however, remained flat, indicating that more retirees chose multiple payouts. Additionally, we found that 64 percent of DB retirees with a choice still choose annuities over other options. As with the full sample of retirees, the changes over time among those with a choice of payout appears to be attributable largely to the trend toward participation in DC plans, as we do not observe many changes in payout choices within either plan type.

Currently, pension experts and plan sponsors we spoke with told us that most retirees do not choose annuities when they have a choice of payout options. For example, one plan administrator we spoke with indicated that about two-thirds of retirees in the DB plans they administer choose payouts other than an annuity when a choice of payout options is offered. Additionally, a funding provider for DC plans reports that the percentage of their participants who chose an annuity (single or joint life) as their initial income selection fell from 78 percent to 45 percent from 1995 to 2001. Nevertheless, our analysis is not necessarily inconsistent with this information. Although we found that most retirees with pension benefits received an annuity, we also found that a growing percentage of all retirees with a choice of payout options received benefit payouts other than an annuity. Moreover, the majority of those retirees who received DC plan benefits and who had a choice of payout options choose to receive payouts other than an annuity (see table 2 in app. II).

[20]Specifically, we use the following criteria to identify a participant as having a choice of benefit payouts: retired DB participants who receive or report they had the option to receive benefits as a lump sum; and all DC participants. Although few DC plans offer to pay an annuity, DC retirees can use their DC plan benefits to purchase an annuity outside of their plan. Consequently, all retirees with a choice of payouts have an annuity payout available or can use plan assets to purchase an annuity privately at retirement.

It is also possible that the receipt of lump sums from DB plans, whether as cash settlements or through directly rolling over lump sum benefits to an IRA, has increased since 2000. Recently, 30-year Treasury bond rates, which DB plan sponsors must use to determine lump-sum amounts, have fallen from their overall 1990's levels. As a result, lump sums from DB plans have increased in value relative to participants' annuity benefits, and retiring participants may find lump sums more attractive when they are available under their plan.

We further analyzed retirees with a choice of payouts to determine statistically which factors may influence retirees to choose annuities. Not unexpectedly, participation in a DB plan was the strongest predictor of annuity choice. Also, retirees with lower total household assets (excluding pensions and other retirement assets) and retirees with more years in the workforce were more likely to choose an annuity, all else being equal. In addition, different factors seemed to influence payout choices for retirees with DC benefits as compared with those with DB benefits. For example, retirees with DC plan benefits were more likely to be influenced by the price[21] of an annuity and by their perceived health status (with those reporting they were in better health more likely to choose an annuity), while these factors did not appear to affect retirees with DB plan benefits.[22]

Pension experts we spoke with suggested that annuities may appeal to individuals with certain characteristics or preferences, while others prefer to have control of their assets. Annuities may appeal to individuals who expect to live long, are concerned about outliving their resources in retirement, value a predictable, guaranteed income stream, or do not wish or expect to leave a bequest.[23] However, some retirees may decline to consider annuities because such payouts are generally irrevocable, instead preferring the flexibility that other payouts offer. Such retirees may believe they can receive more income and better protect themselves against inflation by investing assets on their own. Also, some retirees may want to manage their pension assets because they have difficulty comparing the value of a lump sum amount to its equivalent annuity

[21]The price per annuity dollar decreases with the age at retirement and with the prevailing rate of interest.

[22]See appendix II for additional results from our statistical analysis.

[23]Retirees may choose to annuitize a portion of their pension benefits and keep a portion as a cash settlement.

income stream. As such, retirees may believe lump sum amounts are worth more than income payments from annuities.

Although not all retirees have the option to receive their pension as an annuity, they may purchase individual annuities[24] to pay income during retirement directly from insurance companies. However, few retirees use their pension benefits or other assets to purchase individual life annuities. Some retirees may choose not to purchase an individual life annuity because the availability of these annuities is limited, individual life annuities have associated administrative and other expenses, and such annuities generally do not provide protection against inflation. Additionally, one individual annuity provider told us that the average premium, or one-time payment an individual makes, to purchase an individual life annuity is approximately $130,000.

The demand for individual annuities may grow as the market continues to develop innovative annuity products that appeal to consumer preferences. For example, demand for individual variable annuities, which offer the potential for higher income payouts based on investment returns[25] is growing. Additionally, as more individuals will be approaching retirement with responsibility for managing a larger share of their pension assets, the demand for individual life annuities may increase.

Range of Actions Available to Help Retiring Participants Preserve Their Pension Assets

Pension experts identified a range of actions that could help retiring participants preserve their pension and retirement savings plan assets. Some policy options would require plans to payout or offer annuities to retiring participants, while others would make it easier for plans to offer annuities at retirement, or encourage retiring participants to choose annuities. Additionally, pension experts generally agreed that information and education could be provided to participants to help them make better decisions regarding how they manage their pension assets during retirement. For example, they noted that participants need to be aware of various risks that may affect how participants manage and draw down

[24]Individual annuities that pay income are referred to as immediate annuities. Income payments provided by immediate annuities may be fixed or variable.

[25]Variable annuities can be used either to accumulate assets or to provide payments at regularly scheduled intervals. Unlike fixed annuities, variable annuities provide income payments that fluctuate in amount based on the market performance of the annuitant's underlying annuity portfolio.

their pension assets to provide income during retirement. At present, public education focuses primarily on saving for retirement.

Actions Available to Increase or Encourage Receipt of Annuities

Some actions that could help retiring participants preserve their pension and retirement savings plan assets include options intended to increase or encourage the receipt of annuities.[26] While annuities are not the only way plan participants can preserve their pension assets at retirement, they can provide guaranteed income throughout retirement. Thus, we asked an expert panel to identify options that could encourage more annuitization of pension and retirement savings plan assets at retirement.

Some options are intended to increase the number of retiring participants who receive annuities by imposing new requirements on plan sponsors. One option is to require that all pension and retirement savings plans pay life annuities to retiring participants.[27] Such a mandate would ensure all retiring participants have pension income for their remaining lifetimes. A variation on mandatory annuitization would make life annuities the default payout option in all DC plans. This could be achieved by requiring all tax-qualified DC plans to offer a life annuity at retirement and retiring participants to actively choose to receive some other payout (e.g., a cash settlement) instead of an annuity. While annuities would not be compulsory, it is likely that more retiring participants would choose annuities because choosing to receive some other payout would require an affirmative choice. This is because some retiring participants may not take the necessary steps to choose another type of payout available under their plan.

Another somewhat less stringent option than mandatory annuitization is to require tax-qualified DC plans to offer annuities to retiring participants like DB plans are required to do. This option would provide more retirees with the opportunity to preserve retirement savings by choosing an annuity from their plan without requiring that they do so. Also, concerns that some participants might have about the expense of purchasing an

[26]See appendix III for additional results from our expert panel.

[27]Mandatory annuitization could be achieved by requiring all tax-qualified pension plans to payout benefits to participants at retirement as a life annuity. For example, such a mandate could prescribe that the portion of a participant's accrued benefits below a certain dollar level be payable entirely as an annuity.

individual annuity and potential difficulty in searching for an annuity product could be mitigated if annuities were available under their plan.

Although these actions would increase the number of retirees who receive annuities thus ensuring retirement income throughout their lives, they also have drawbacks. For example, requiring that pension plans provide life annuities to retiring participants would reduce people's ability to tailor the receipt of benefits to their particular circumstances. Depending on one's individual circumstances and preferences, an annuity may not be the best payout option for managing pension assets during retirement. A retiring participant who is in poor health or needs cash to cover certain expenses may not want to receive an annuity. Also, some retirees might increase their income by rolling over benefits directly to an IRA, thus enabling them to invest and draw down their pension assets during retirement.

Requiring all tax-qualified DC plans to offer annuities to retiring participants—as the default payout option or not—might not substantially increase the number of retirees who choose annuities. Our analysis shows that recent experience with retiring participants who have a choice of payout options indicates that these retirees increasingly choose to directly roll over their lump sum benefits into an IRA or defer the receipt of benefits. Also, some plan sponsors and pension experts we spoke with indicated that retiring participants generally do not choose annuities when they have other payout options available.

A common drawback of such requirements on plans to offer annuities at retirement is that they could increase the administrative and regulatory burdens plan sponsors face. DC plans would have to comply with applicable laws and regulations that must be satisfied when annuities are provided, such as offering annuities that provide income for the life of the participant and spouse or beneficiary. And those plans that do not currently offer an annuity payout option at retirement would have to contract with an annuity provider. Imposing new requirements on plans to pay or offer annuities at retirement represent prescriptive approaches that do not necessarily help retiring participants understand their pension payout options or make decisions suited to their individual needs or preferences.

While requiring plan sponsors to pay or offer annuities represents one set of options for increasing annuitization, other options involve modifying certain requirements to make it easier for qualified plans to offer annuities. One such modification could be providing regulatory relief to plan sponsors from potential fiduciary liability they assume in selecting an annuity provider. Because plan sponsors must generally select the safest available annuity for participants, those that do not offer annuities may be concerned about being held liable for any losses to participants in the event the annuity provider cannot meet its financial obligations. Another modification could be exempting DC plans that are not required to offer an annuity but choose to do so from having to make a joint and survivor annuity the default payout or from satisfying associated spousal consent requirements. These modifications could encourage more DC plans to offer annuities to the extent they reduce administrative or regulatory burdens that plans would incur otherwise. However, these modifications could lessen certain protections available to plan participants that receive or choose annuities.

In addition to options that focus on plan sponsors, our expert panel identified other policy options that focus on encouraging more retiring participants to choose annuities or purchase them with their pension assets. For example, lowering taxes on annuity income from qualified plans[28] could encourage some retiring participants, who would not otherwise do so, to choose or purchase an annuity. Such an incentive would not involve any new requirements on plan sponsors to payout or offer annuities at retirement. Nor does it constrain an individual's choice because retiring participants who receive lump sum benefits could partially annuitize their pension assets and maintain some assets they could more easily access to cover immediate and/or large expenses. Also, a tax incentive for qualified plan annuities could potentially help to reduce the long-term burden on government assistance programs, such as the Supplemental Security Income and Medicaid programs, to the extent that fewer retirees deplete their assets during retirement.

However, a tax incentive for income provided by qualified plan annuities could also have drawbacks. For example, such an incentive might be limited to only those assets held in qualified retirement plans. Also, annuities could be made more attractive to some retiring participants for whom another payout option might be more advantageous, such as those in ill health who need large sums of cash to cover medical expenses. Moreover, some participants, who would elect an annuity from their plan even in the absence of such an incentive, would benefit. To the extent this

[28]For example, capital gains tax rates could apply to income received from qualified plan annuities instead of income tax rates that currently apply. Another way to provide favorable tax treatment of annuity income would be to exempt a certain portion of such income (up to a specified amount) from taxation.

option encourages more retirees to choose or purchase annuities, it would result in the federal government forgoing some amount of revenue.

Another option that could encourage more retiring participants to choose annuities would involve modifying the mandatory interest rate that DB plan sponsors must use to calculate lump sums. By law, DB plans must use the interest rate on 30-year Treasury bonds, which some pension experts and plan sponsors consider to be low and thus inflate the value of lump sums relative to annuities.[29] A higher mandatory interest rate would generally decrease and potentially equalize the value of lump sums from DB plans relative to participants' annuity benefits. As a result, smaller lump sums may not be as economically attractive to some retirees. However, the extent to which more retiring participants with DB benefits would choose annuities instead of lump sums when they are both offered is uncertain.

Alternatively, the taxes that apply to lump sums (i.e., cash settlements) received directly by individuals prior to retirement could also be applied to cash settlements received by retiring participants. Currently, lump sums that are received directly by participants as cash settlements (prior to attaining age 59-½) are subject to certain taxes.[30] Less favorable tax treatment of cash settlements, while not requiring retiring participants to take an annuity or any other type of payout, could encourage retirees to preserve their pension benefits. However, this option could be disadvantageous for some retiring participants. For example, those participants who are in poor health and need cash to pay for medical expenses may want the access to large sums of cash and flexibility that a cash settlement provides. Moreover, to the extent retiring participants have difficulty comparing the value of annuity income payments with lump sum amounts, options that seek to influence the payouts chosen by retiring participants might have limited impact.

[29]For more information on the mandated interest rate DB plans must use to determine lump sum payouts and in other important pension calculations, see U.S. General Accounting Office, *Private Pensions: Process Needed to Monitor the Mandated Interest Rate for Pension Calculations*, GAO-03-313 (Washington, D.C.: Feb. 2003).

[30]Currently, if a departing participant, prior to attaining age 59-½, chooses to receive a lump sum directly and does not have his or her employer transfer the amount directly to an IRA or another qualified plan, the lump sum amount is subject to an excise tax of 10 percent in addition to ordinary income taxes. Also, the employer is required to withhold 20 percent of lump sum amount if the participant elects to receive it directly.

Increased Information and Education Could Help Participants Make More Informed Decisions

Beyond options focusing exclusively on annuities, pension experts we spoke with generally agreed that retiring participants need information and education to help them make decisions about how to manage their pension assets during retirement. While annuities reduce the risk of outliving one's assets, they may not always be the best choice for addressing individual retirement needs and preferences. Moreover, retiring participants may have a choice of benefit payout options, and the payouts they choose may or may not address their individual retirement income needs and preferences.

According to our expert panel, retiring participants need information and education on various risks that affect the level of income needed during retirement.[31] These risks include outliving one's assets during retirement (i.e., longevity risk) and financial risks, such as declining purchasing power of retirement income (i.e., inflation risk) that affect how retirees balance income and expenses. Almost all of the respondents from our expert panel rated information on the financial risks individuals face in retirement (96 percent) and the risk of outliving one's assets in retirement (91 percent) as very or extremely effective in helping retiring participants make decisions about how to manage pension assets.[32] Furthermore, a recent study by the Society of Actuaries on retirement risks indicates that both retirees and individuals approaching retirement age tend to underestimate the average life expectancy of individuals at age 65. This study also reports that 63 percent of pre-retirees and 55 percent of retirees surveyed are somewhat or very concerned about not being able to keep the value of their savings and investments growing faster than inflation.[33]

Our expert panel also noted the importance of information and education on other considerations relevant to managing pension and retirement savings plan assets during retirement. Such considerations include how to assess needs in retirement, how to compare annuity and lump sum amounts, the value of expected benefit from DB and DC plans, how annuities provide retirement income, and strategies for drawing down

[31] See appendix III for additional results on types of information and education identified by our expert panel.

[32] These figures are based on the total number of responses to phase II of our expert panel, in which 22 of the 24 participants who completed phase I of this process submitted completed responses to the phase II questionnaire.

[33] "Retirement Risk Survey: Report of Findings." Matthew Greenwald and Associates, Inc., and the Employee Benefits Research Institute. January 2002.

pension assets during retirement. At least 60 percent of our expert panel participants rated such considerations as very or extremely effective in helping retiring participants make decisions about managing their pensions during retirement.

Overall, federal efforts to provide information and education on retirement planning have focused on accumulating pension assets and not on how to manage these assets to provide income throughout retirement. Under its authority to implement the SAVER Act, current DOL outreach efforts are primarily aimed at advancing public awareness and understanding about the importance of saving for retirement. For example, DOL convened two national summits focusing on challenges to saving for retirement. Also, as we previously reported, DOL conducts a range of outreach activities, including developing and distributing publications and using public service announcements.[34]

DOL has begun to broaden the focus of its education initiatives to include managing assets during retirement. For example, DOL is developing a tool kit for those near retirement that will include some information on considerations relevant to managing retirement assets during retirement. However, some pension experts told us that there is a need for more focus on managing pension and retirement savings plan assets during retirement. These experts generally agreed that the federal government could improve public awareness and understanding about issues related to managing pension assets during retirement.

Also, pension experts we spoke with generally agreed that participants need information and education in several areas to help them make decisions about how to manage their pension assets during retirement. Some of these experts told us that many participants do not accurately assess the risk that they could live to very old age and have little income to meet their needs. Others indicated that retiring participants do not understand how annuities provide retirement income or how to assess retirement income needs.

At present, federal pension law does not generally address managing pension and retirement savings plan assets during retirement. Disclosures plan sponsors must provide to participants about their pension benefits

[34]See U.S. General Accounting Office, *Retirement Saving: Opportunities to Improve DOL's SAVER Act Campaign*, GAO-01-634 (Washington, D.C.: June 2001).

are intended to give them information about rights and obligations under the plan. There are no additional requirements on plan sponsors to provide information and education to participants regarding managing pensions during retirement. Also, while DOL issued regulatory guidance for plan sponsors who want to provide investment information and education to their participants, it has not issued similar guidance regarding the provision of education on retirement planning. Recognizing the need for more information on retirement planning, DOL's Employee Retirement Income Security Act Advisory Council Working Group on Planning for Retirement issued a report that recommended DOL explore regulatory measures to encourage employers to provide retirement planning advice to their employees.[35]

Conclusions

The decreasing number of employer-sponsored pension plans that offer only life annuities at retirement and the increasing percentage of retiring participants who choose benefit payouts other than annuities suggest that, in the future, fewer retirees may receive pension income guaranteed to last throughout retirement. The growth in the number of DC plans, along with the increasing availability of lump sums from DB plans, means that retirees will face greater responsibility and choices for managing their pension and other assets at and throughout retirement. Depending on their choices, retirees could be at greater risk of outliving their pension and retirement savings plan assets or ultimately having insufficient income to maintain their standard of living through their retirement years.

Such risks underscore the need for providing enhanced information and education to participants about their available payout options, the issues they may face in managing retirement assets, and how different options may mitigate, or increase, these risks. As part of their responsibility, retirees will have to weigh certain pros and cons of different ways to manage and preserve pension assets. Currently, the notices that plan sponsors must furnish to retiring participants are not sufficient to help them choose payout options that suit their individual circumstances, while assuring adequate levels of such income to the extent possible. Our expert panel suggested that providing several types of information, such as on risks that could affect retirement income security, could help retiring

[35]Report of the Working Group on Planning for Retirement. U.S. Department of Labor, Employee Benefits Security Administration. November 14, 2001.

participants make more informed decisions regarding how they balance income and expenditures during retirement.

Matter for Congressional Consideration

To improve public awareness and understanding of important considerations related to managing pension and retirement savings plan assets at and during retirement, the Congress should consider amending ERISA so that it specifically requires plan sponsors to provide participants with a notice on risks that individuals face when managing their income and expenditures at and during retirement. Also, the Congress could consider stipulating that this notice must be provided to participants at certain key milestones, such as at enrollment in the plan, when participants receive or when changes are made to certain plan documents, when participants reach various years of service, when a participant separates from service, and/or at retirement among other instances.

Agency Comments

We provided a draft of this report to the Department of Labor and the Department of the Treasury. We received technical comments from both agencies that we incorporated as appropriate.

In the draft of this report we sent to agency for review, we recommended that the Secretary of Labor direct the Assistant Secretary, Employee Benefits Security Administration, to require plan sponsors to provide participants with information on risks that individuals face when managing their income and expenditures during retirement. DOL officials said that the Secretary does not currently have the legal authority under ERISA to require plan sponsors to provide such information. Consequently, we changed our recommendation to a matter for consideration for the Congress to amend ERISA so that it requires plan sponsors to provide a notice to participants on risks that may affect an individual's ability to manage income and expenditures at and during retirement.

In addition, we received a letter from the Department of the Treasury that neither agrees nor disagrees with our findings and conclusions. Instead, the letter highlights the Administration's proposal to replace the 30-year Treasury rate as the mandated discount rate used in many pension calculations. Of relevance to this report, the letter notes that the Administration's proposal would affect the calculation of lump sum payments (see app. V).

We are sending copies of this report to the Secretary of Labor, the Secretary of the Treasury, and interested congressional committees. We will also make copies available to others on request. In addition, the report will be available at no charge on GAO's Web site at http://www.gao.gov.

If you have any questions concerning this report, please contact me at (202) 512-7215 or George A. Scott at (202) 512-5932. Other major contributors to this report include Jeremy Citro, Mark M. Glickman, Gene Kuehneman, Luann Moy, Nyree M. Ryder, Patrick DiBattista, Joseph Applebaum, and Roger Thomas.

Barbara D Bovbjerg

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Director, Education, Workforce,
and Income Security Issues

Appendix I: Data, Scope, and Methodology

We used a variety of data sources to examine the pension payouts plans make available to retiring participants and the benefit payouts they receive, as well as to identify what available actions could help retiring participants preserve their pension and retirement savings plan assets. We used National Compensation Survey (NCS) data from the Bureau of Labor Statistics (BLS) to determine the availability of various pension payout options. Further, we analyzed Health and Retirement Study (HRS) data covering individual respondents that retired between 1992 and 2000 to determine the pension payouts retirees receive and what factors influenced their choice of payout.

Generally, the estimates in this report of the availability and the receipt of pension payouts are derived from a sample of usable responses (i.e., NCS and HRS) and therefore are subject to sampling and nonsampling errors. Sampling errors are the differences that can arise between results derived from a sample and those computed from observations of all units in the population being studied. When probability techniques are used to select a sample, statistical measures called "standard errors" can be calculated to measure possible sampling errors.

Nonsampling errors also affect survey results. They can be attributed to many sources: inability to obtain information about all establishments in the sample; definitional difficulties; differences in the interpretation of questions; inability or unwillingness of respondents to provide correct information; mistakes in recording or coding the data; and other errors of collection, response, processing, coverage, and estimation for missing data. Computer edits of the data and professional review of both individual and summarized data reduce the nonsampling errors in recording, coding, and processing the data. These nonsampling errors can influence the accuracy of information presented in the report, although the magnitude of their effect is not known.

Finally, we convened a virtual expert panel—using a Delphi method—to identify and evaluate the actions available to help retiring participants preserve their pension and retirement savings plan assets at and during retirement. We performed our work between August 2002 and July 2003 in accordance with generally accepted government auditing standards.

Data

BLS Employee Benefits Data

BLS collects information covering incidence and detailed provisions of selected employee benefit plans as part of the NCS. The portion of the NCS from which reported estimates on employee benefits were made covers all private-sector establishments in the United States, with the exception of farms and private households. The most recent (2000) NCS obtained data from 1,436 private industry establishments, representing over 107 million workers; of this number, nearly 86 million were full-time workers and the remainder—nearly 22 million—were part-time workers. NCS collects incidence and provisions data for both defined benefit and defined contribution retirement plans. Excluded from the survey are self-employed persons, proprietors, major stockholders, members of a corporate board who are not otherwise officers of the corporation, volunteers, unpaid workers, family members who are paid token wages, the permanently disabled, partners in unincorporated firms, and U.S. citizens working overseas. BLS statistics based on NCS data are estimates derived from a sample of usable occupation quotes selected from the responding establishments. They are not tabulations based on data from all employees in private establishments within the scope of the survey. BLS did not calculate estimates of sample error for these statistics. Summary, data collection, and survey methodology information for the NCS is publicly available through the Bureau of Labor Statistics' World Wide Web site at http://www.bls.gov/ncs/home.htm.

HRS Retirement Data

HRS is a national panel study intended to provide data related to retirement, health insurance, saving and economic well-being. The HRS began with an initial (1992) sample of over 12,600 persons in 7,600 households.[1] The HRS baseline is drawn from in-home, face-to-face survey interviews conducted in 1992 for the 1931-1941 birth cohort (and their spouses, if married, regardless of age); and in 1998 for newly added 1924-1930 and 1942-1947 birth cohorts. Follow-ups are administered by telephone every second year, with proxy interviews after death. Future data collections will largely replicate the 1998 HRS in design, format, coverage, structure, and measurement. Data is collected by the Institute for Social Research, University of Michigan, and is supported by funding from the National Institute on Aging (NIA), the Social Security

[1] HRS oversamples (100%) Hispanics, Blacks, and Florida residents.

Administration (SSA), the Department of Labor, the state of Florida Department of Elder Affairs, and the Assistant Secretary for Planning and Evaluation at the Department of Health and Human Services. HRS is an ongoing survey that plans to be continually representative of the complete U.S. population over the age of 50 by adding additional cohorts every 6 years while continuing to follow up with existing cohorts. Further information on the design, history, content, and use of HRS study components is available at http://hrsonline.isr.umich.edu/intro/sho_intro.php?hfyle=uinfo.

RAND HRS Data

The RAND HRS data file is a cleaned and streamlined version of the Health and Retirement Study with derived variables covering a broad, though not complete range of measures and which are named consistently across waves. NIA and SSA support the development and continued maintenance of the RAND HRS data. As of late 2001, RAND HRS data included the HRS cohort (1931-1941 birth cohort, plus spouses) and is based on 1992, 1994, and 1996 public releases and the 1998 and 2000 preliminary releases.

Methodology

Determining Defined Benefit and Defined Contribution Payout Options and Accompanying Information Available at Retirement

We reviewed applicable laws and regulations to identify benefit payout options plan sponsors must and may provide at retirement and the types of accompanying information they must furnish to participants. We obtained data from NCS on the types of payout options available to participants. Specifically, we tabulated supplementary NCS data published by BLS in the *Monthly Labor Review* (April 2003). We recalculated the percent of participants with each payout option to include only those for which benefit options were determinable. Also, we interviewed plan sponsors and practitioners to supplement BLS data and to determine what benefit payout options DB and DC plan sponsors typically make available to participants at retirement. Further, we asked our Delphi panel to identify factors that affect the benefit payout options offered to retiring participants, as well as conducted interviews with plan sponsors and practitioners to determine some of the factors that affect the options offered.

We determined what information DB and DC plan sponsors must provide to retiring participants about their benefit payout options by reviewing relevant provisions of pension laws and regulations. We also interviewed plan sponsors to determine the information plan sponsors do and do not provide to retiring participants and some factors that influence the types of information they provide. While we did not have a specific selection criteria for interviewing pension plan sponsors, we sought a range in terms of the type of company (i.e., we interviewed an insurance, a manufacturing company, a pharmaceutical, a tobacco company, a funding provider for educational institutions, and a law firm) and in the types of plans (i.e., we interviewed both DB and/or DC plan sponsors).

Determining Benefit Payouts Plan Participants Receive at Retirement

We analyzed HRS data to determine the benefit payouts pension plan participants receive at retirement. We examined benefit payouts for 1,523 HRS respondents that reported being covered by a pension on a job they held in the preceding survey wave and left to enter retirement. This information was collected for HRS in 1994, 1996, 1998, and 2000 (survey waves 2-5) and included respondents that retired between 1992 and 2000. We used information reported by individual respondents on the type of plan they participated in and on the corresponding pension payouts received. We only examined pension payouts received at the earliest time at which a respondent reported leaving a job to retire. For example, a respondent who reported being retired in 1994, reported resuming work in 1995, and again reported retiring in 2000 would be categorized as a 1994 retiree and not as a 2000 retiree.

Our analyses depend upon the accuracy of reported plan type among the recently retired who received or deferred a pension payout in connection with their recent retirement. Some experts have expressed concerns regarding the accuracy of HRS respondents with respect to pension availability and type of pension. Workers who are years away from retirement may not have good information about their plan type. To mitigate this concern, we limit our analyses to respondents who leave a job they held in the previous wave to retire. We believe that these respondents are likely to have more accurate information about their pension plans because they likely will have received recent information on their plans and payout choices. Accordingly, we confirm a respondent's reported plan type and choice of payouts by examining the respondent's actual payout from a DB or DC plan, and where discrepancies exist between a respondent's plan type description and actual receipt of benefits from a type of plan we use the information from the actual receipt. There is a range of sampling errors for the estimated percentages of retirees that receive each type of pension payout as reported in tables 2-4. Except as noted in these tables, all estimated percentages had sampling errors less than plus or minus 6 percentage points at the 90 percent confidence level.

To determine the payouts plan participants receive at retirement, we tabulated the number and percent of participants for four benefit payout option categories. These four categories include receiving or purchasing an immediate annuity, rolling over assets directly into an Individual Retirement Account (IRA), deferring receipt of benefits by leaving them in the plan, or receiving benefits directly from their plan as a cash settlement directly from their plan (i.e., lump sum amount). We tabulated figures for the receipt of pension payouts, as well as payouts elected by those retirees with a choice of payout options, for HRS waves two through five. The numbers and percent receiving any given pension payout may exceed the totals because individuals may have more than one pension and because respondents may receive more than one payout from a pension (e.g., a respondent with a DB pension may take a partial cash settlement and receive an annuity for the remainder).

There are payout categories where the effect on receipt of pension benefits differs between retirees with benefits from DB plans and those with benefits from DC plans. The payout category "deferring benefit receipt" for retirees with benefits from DB plans generally means delaying the receipt of an annuity, while for retirees with benefits from DC plans this payout category generally means maintaining the DC account balance with the plan sponsor. Also, while retirees with annuities from DB plans receive an immediate annuity from their plan sponsor, retirees with annuity payouts from DC plans may have converted their account balance into an annuity through their pension plan sponsor or used their account balance to purchase an annuity privately. The HRS data on annuity payouts received by retirees with DC plan benefits do not permit us to determine whether these annuities are from plans or were purchased privately. A further possibility is that retirees with DC plan benefits that receive a cash settlement and privately purchase an annuity might categorize this payout as a cash withdrawal or as an annuity. We categorize DC participants pension payouts based on the retiree's survey responses.

We further tabulated pension payouts separately for DB and DC pensions. We excluded 49 respondents from this tabulation because their survey responses did not distinguish whether the pension payouts they reported corresponded to their DB or DC pension. We tabulated DB and DC pension payouts using the same four categories as for the overall tabulations. Additionally, we tabulated benefit payouts for retirees with a choice of benefit payouts. This group includes all retirees participating in a DC pension[2] as well as DB participants that reported having a choice or demonstrated having such a choice by receiving all or part of their DB pension in a form other than an annuity.

We also conducted logistic regressions on retiree payout choices to evaluate factors that might influence retirees to choose an annuity versus other payouts. We augmented the main HRS information with accompanying information from the RAND HRS data set. Survey sample weights were used throughout our analysis because HRS data is collected from a stratified sample. We used the individual sampling weights from the first survey wave in our regressions and to calculate associated standard errors. We used STATA software to estimate logistic regression parameters and associated standard errors. Results of our regression analyses are presented in appendix II.

To supplement results from our analysis of HRS data, we interviewed plan sponsors and practitioners to obtain testimony and data on the payouts participants receive at retirement, as well as the benefit payouts retiring participants choose when offered a choice of payout options. In addition, we obtained plan sponsors and practitioners' views on why retiring participants choose (or do not choose) certain payout options, such as annuities or lump sums. We also asked our Delphi panel to identify the most significant factors that affect the payout options retiring participants elect.

[2]We included all DC retirees since in addition to managing one's DC account balance, DC participants generally have the opportunity to purchase an annuity privately, even if the DC plan does not offer an annuity directly. Because employers may require DB participants to receive a pension as a lump sum if the cash equivalent amount is below a specific dollar threshold, DB participants that took a lump-sum payout at or below this threshold in our count of retirees were not assumed to have demonstrated a choice of pension payout by receiving a lump-sum payout.

Identifying Actions Available to Help Retiring Participants Preserve Their Pension and Retirement Savings Plan Assets

We convened a virtual panel on the Internet of 27 experts in the area of pensions and retirement to address the third study objective. The panelists were asked to identify factors affecting benefit payout options offered to and/or elected by retirees, policy options that could encourage more annuitization of pension and retirement plan savings, and the role that education and information could play in helping retirees make optimal decisions about retirement income management. We employed a modified version of the Delphi method[3] to organize and gather opinions from experts in the area of pensions and retirement using a Web-based forum.[4] The panel was selected from a list of experts, including from participants in the Comptroller General's Retirement Advisory Panel, referrals from interviews, experts cited in the literature, and representatives of other important players in the pension and retirement field. To ensure we had a range of views, we asked participants from several different backgrounds including: academic, practitioners, legal experts, plan sponsors, consumer and public interest groups, and insurance providers, to participate in our survey. Of the 30 experts we contacted, 27 agreed to participate. The identity of respondents, as well as their comments and answers, remained anonymous to other participants.

Our Delphi process entailed 3 questionnaire phases. Phase I asked the panel to identify the most significant factors that affect pension and retirement savings plan benefit payout options offered to and elected by retiring participants; identify options that could be considered to encourage more annuitization of pension and retirement plan savings and the likely effects and tradeoffs of these options; and discuss the role of information and education. Phase II presented 7 follow-up questions where respondents were asked to either rank or rate the responses from phase I (all responses were included in follow-up questions). The Phase III survey provided panelists with some of the key findings from phase II and solicited their feedback about these findings. Phase III also asked the panel to identify options to encourage retiring participants to preserve their pension assets at retirement by deferring the receipt of benefits (i.e., leaving assets in an account balance), or rolling over assets directly to an IRA at retirement. A full discussion of this expert panel, including the process we employed and methodology, and highlights of results from

[3]Harold A. Linstone and Murray Turnoff, eds., *The Delphi Method: Techniques and Applications* (Reading, Massachusetts: Addison-Wesley, 1975).

[4]The Delphi method, developed by the RAND Corporation in the 1950s, is most commonly applied in a group-discussion forum. We modified the approach to have the group discussion take place in the form of a Web-based forum.

phases I and II are presented in appendix III. A copy of the phase II questionnaire can be viewed at http://www.gao.gov/cgi-bin/getrpt?gao-03-990sp.

Appendix II: Descriptive Statistics and Regression Analyses

This appendix presents more detailed descriptive statistics for our analysis of the relationship between the choices to receive an annuity versus other pension payouts. It includes further discussion of pension payout categories and retiree choice, characteristics of retirees by payout choice, and regression statistics.

Pension Payout Categories and Retiree Choice

Pension Payout Categorization

For each respondent in the Health and Retirement Study (HRS) who reports leaving a job to retire, HRS collects information on how the respondent received his DB and/or DC pension payouts. Retirees with DB pensions are asked whether they (1) expect future benefits, (2) are receiving benefits now, (3) received a cash settlement, (4) rolled benefits into an IRA, or (5) lost benefits. Retirees with DC pensions are asked whether they (1) withdrew the money, (2) rolled assets into an IRA, (3) left plan assets to accumulate, or (4) converted assets to an annuity. We characterize these pension payouts in four categories:

- *Annuities* include DB respondents receiving benefits now and DC respondents who converted assets to an annuity.
- *Cash settlement* includes DB respondents who received a cash settlement and DC respondents who withdrew the money from their plan.
- *Direct rollover into IRA and/or deferred benefits* includes DB and DC respondents who rolled plan assets into an IRA directly from their plan,[1] includes DB respondents who expect future benefits and includes DC respondents who left plan assets to accumulate.

We used these categories for all HRS retirees receiving one or more pension payout. These payouts are reported in table 1.

[1]DB respondents who reported receiving a cash settlement are asked by the HRS what they did with the money. One response for these retirees includes “Rolled over money into an IRA,” but because we could not obtain analogous information on DC respondents, we counted these respondents as having taken a cash settlement rather than as having rolled benefits into an IRA.

Table 1: Types of Pension Payouts Received by Retirees

Retirement period	1992-94	1994-96	1996-98	1998-2000	1992-2000
Percent of retirees with pension plan benefits[a]					
Annuity	59.7	65.1	58.4	57.1	60.2
Cash settlement	15.8	11.6	16.8	12.9	14.3
Direct rollover to IRA and/or deferred receipt of benefits[b]	32.0	39.5	40.3	47.1	39.7
Number of retirees with pension plan benefits	353	408	405	357	1,523
Percent of retirees with DB plan benefits					
Annuity	77.3	77.3	75.9	76.3	76.7
Cash settlement	10.0	10.9	14.5	8.3	11.1
Direct rollover to IRA and/or deferred receipt of benefits[b]	18.3	20.2	18.0	19.2	19.0
Number of retirees with DB plan benefits	236	324	302	257	1,119
Percent of retirees with DC plan benefits					
Annuity	7.8	12.0	4.9	5.9	7.5
Cash settlement	22.8[c]	10.3	15.9	15.4	15.1
Direct rollover to IRS and/or deferred receipt of benefits[b]	71.2[c]	77.6	79.2	79.9	78.0
Number of retirees with DC plan benefits	68	137	149	168	522

Source: GAO analysis of weighted HRS data 1992-2000.

Notes: For our analysis, “retirees with pensions” are survey respondents who reported leaving a preceding-wave job to retire and reported receiving a pension payout from that job.

Figures in subcategories may not add up to 100 percent because some respondents report multiple pension dispositions.

[a]Includes respondents who received multiple pension benefit payouts.

[b]For retirees with DB plans, includes respondents who expect to receive benefits in the future. For those with DC plans, includes respondents who reported leaving their assets in a plan account.

[c]The estimated percentage had a sampling error greater than plus or minus 6 percentage points at the 90-percent confidence level.

Choice

In addition to tabulating the form in which retirees receive their pensions, we also analyzed the pension payouts received by retirees who had a choice among different pension payout options. We identify this subset of retirees from HRS answers about the available options for payout of a pension associated with the job from which a respondent retired. For DB participants, we used information from HRS waves prior to retirement, since questions about options for pension payouts are asked only when the respondent has a current job, not retrospectively about a job from which a respondent has retired. We define “choice” as having the option to take a pension as either a lump sum amount (i.e., as a cash settlement or as a direct rollover to an IRA) or as an annuity. We include in this definition all DC participants. This is because all DC participants have the option to take a rollover IRA, almost all have the option to take a cash settlement, and all have the option of purchasing an annuity on the private market. We also include DB participants who annuitize and who report in the prior wave that they had the option of taking a pension as a lump sum or in installments. Additionally, we consider DB participants whom we observe a cash settlement or IRA rollover to have had a choice, because almost all DB plans must offer an annuitized payout of benefits. Thus, the only retirees we categorized as not having a disposition choice are DB participants who elect to receive an annuity and who, in the previous wave, report that they did not have a lump sum option.[2]

Using our definitions of choice, we analyzed pension payouts for those retirees who choose the form of their pension over other available forms. These payouts are reported in table 2.

[2]An exception concerns those DB participants who have benefits worth less than $5,000 ($3,500 before August 1997). Because employers can require participants with such "de minimus" accounts to take a cash settlement, even if otherwise they would have to offer an annuity from the plan, we drop any such retirees from the sample when we analyze only those with a choice of payout options.

Table 2: Types of Pension Payouts Received by Retirees Reporting a Choice of Payout Options

Retirement period	1992-94	1994-96	1996-98	1998-2000	1992-2000
Percent of retirees with pension plan benefits[a]					
Annuity	42.0	51.5	42.6	41.0	44.4
Cash settlement	26.0	19.4	25.2	17.9	22.1
Direct rollover to IRA and/or deferred receipt of benefits[b]	43.9	55.9	54.1	65.9	55.1
Number of retirees with pension plan benefits	207	232	253	229	921
Percent of retirees with DB plan benefits					
Annuity	63.2[c]	67.4[c]	60.0[c]	64.1[c]	63.6
Cash settlement	25.8[c]	27.9[c]	31.1[c]	17.9[c]	26.5
Direct rollover to IRA and/or deferred receipt of benefits[b]	24.1[c]	23.1[c]	20.4[c]	24.5[c]	22.8
Number of retirees with DB plan benefits	91	119	125	85	420
Percent of retirees with DC plan benefits					
Annuity	7.8	12.0	4.9	5.9	7.5
Cash settlement	22.8[c]	10.3	15.9	15.4	15.1
Direct rollover to IRA and/or deferred receipt of benefits[b]	71.2[c]	77.6	79.2	79.9	78.0
Number of retirees with DC plan benefits	68	137	149	168	522

Source: GAO analysis of weighted HRS data 1992-2000.

Notes: For our analysis, “retirees with pensions” are survey respondents who reported leaving a preceding-wave job to retire and reported receiving a pension payout from that job.

Figures in subcategories may not add up to 100 percent because some respondents report multiple pension dispositions.

[a]Includes respondents who received multiple pension benefit payouts.

[b]For retirees with DB plans, includes respondents who expect to receive benefits in the future. For those with DC plans, includes respondents who reported leaving their assets in a plan account.

[c]The estimated percentage had a sampling error greater than plus or minus 6 percentage points at the 90-percent confidence level.

Characteristics of Retirees by Payout Choice

For retirees who made different pension payout choices, we calculated means for several descriptive variables for each category. We included only those retirees with a choice of payouts and present the means for three categories: (1) those who chose an annuity; (2) those who did not choose an annuity; and (3) all retirees with a choice of payout.

Table 3: Sample Averages for Characteristics of Retirees, by Pension Payout Choice

Category	Chose an annuity	Did not choose an annuity	All retirees with a choice
Means			
Age at retirement	61.0	61.5	61.4
Age of Spouse at retirement	60.2	60.0	60.0
Years of education	13.5	13.2	13.3
Self reported health status (1=Excellent, 5=Poor)	2.3	2.4	2.3
Mother's age (current or max)	75.1	76.0	75.8
Father's age (current or max)	72.6	72.1	72.2
Out of pocket medical expenses	$1,633	$1,697	$1,679
Household Social Security disability income	$141	$369	$306
Household Social Security retirement and widow benefits	$4,024	$4,844	$4,618
Total household income	$63,955	$67,063	$66,193
Total household wealth	$339,065	$505,410	$458,570
Self-reported probability of living to 75	71.0%	69.6%	70.0%
Self-reported probability of receiving an inheritance	22.0%	22.0%	22.0%
Total years in the workforce	38.8	39.2	39.1
Annuity price	$10.7	$10.7	$10.7
Time of retirement	1996.1	1996.8	1996.6
S&P 500 level	720.9	823.2	794.5
Probabilities, conditional on pension choice			
Had DB only	85.5%	27.3%	43.6%
Had DC only	11.8%	47.7%	37.6%
Had both DB and DC	2.6%	25.0%	18.8%
Male	53.1%	59.2%	57.5%
White	85.8%	90.6%	89.3%
Married	80.8%	82.9%	82.3%
Covered by health insurance in retirement	64.8%	63.6%	63.9%
Spouse covered by health insurance in retirement	39.7%	38.9%	39.1%
Worry about retirement income	41.2%	38.9%	39.6%
Most risk averse (top category)	64.7%	68.7%	67.6%
Financial horizon of 5 years or greater	36.6%	40.7%	39.5%
At least 90% chance of leaving bequest	56.4%	67.0%	64.0%
Number of retirees	**259**	**662**	**921**

Source: GAO analysis of weighted HRS data 1992-2000.

Regression Analysis

We performed logistical regressions to ascertain the contributions of different factors to the probability of choosing an annuity. Specifically, we calculated logistic regressions of the form:

$$\log(p/1-p) = \beta * X + \varepsilon.$$

Where the β are coefficients that represent the effect that our explanatory variables have on the log odds of having an annuity versus not having an annuity, and X represents a series of retiree characteristics; and ε an error term. Only retirees with information available on all explanatory variables were included in these regressions.

We calculated this regression for all retirees, and separately for those who took a pension from a DB plan and those who took a pension from a DC plan (see tables 4, 5, and 6).

Table 4: Logistic Regression of Annuity Payouts for All Retirees Reporting a Choice of Payout Options

Variable	Coefficient	Standard error	t-Statistic
Annuity price	-0.25087	0.231967	-1.08
Time of retirement	0.001362	0.002873	0.47
Had DB pension[a]	3.4595	0.373268	9.27
Had DC pension	0.393633	0.307601	1.28
S&P 500 index	0.000164	0.000483	0.34
Health status	0.010337	0.133094	0.08
Age of spouse at respondent's retirement[a]	0.032597	0.018563	1.76
Probability of leaving bequest	0.001824	0.003764	0.48
Retirement age	-0.09303	0.06347	-1.47
Total household Social Security income	3.36E-05	2.58E-05	1.3
Total household wealth, net of retirement accounts[a]	-0.00125	0.000419	-2.99
Probability of living to 75	0.002496	0.005197	0.48
Risk aversion measure	-0.12428	0.12742	-0.98
Out-of-pocket medical expenses, previous 2 years	5.14E-05	4.71E-05	1.09
Mother's current or maximum age	-0.01387	0.010083	-1.38
Father's current or maximum age	-0.00547	0.008423	-0.65
Retiree has health insurance	-0.0271	0.238637	-0.11
Spouse covered by health insurance in retirement	-0.09481	0.254387	-0.37
Total household income, net of pensions	6.65E-07	2.30E-06	0.29
Worry about retirement income	0.019336	0.120549	0.16
Years of education	0.071815	0.052977	1.36
Expect to receive inheritance	0.004127	0.003465	1.19
Years in workforce[a]	0.030211	0.016801	1.8
Financial planning horizon of 5+ years	0.100165	0.109364	0.92
Number of observations	**529**		
F statistic	5.40		
Prob. > F	0.0000		

Source: GAO analysis of weighted HRS data 1992-2000.

[a]Denotes variable that is significantly different from zero at the 0.10 level.

Table 5: Logistic Regression of DB Annuity Payouts for DB Retirees Reporting a Choice of Payout Options

Variable	Coefficient	Standard error	t-Statistic
Annuity price	-0.09807	0.324193	-0.3
Time of retirement	0.002018	0.004173	0.48
Had DC pension[a]	-0.97222	0.424141	-2.29
S&P 500 index	-0.00019	0.000707	-0.27
Health status	-0.15276	0.187185	-0.82
Age of spouse at respondent's retirement	0.028123	0.023523	1.2
Probability of leaving bequest	-0.00156	0.00529	-0.3
Retirement age	-0.07108	0.097696	-0.73
Total household Social Security income[a]	7.41E-05	3.93E-05	1.88
Total household wealth, net of retirement accounts[a]	-0.00133	0.000619	-2.15
Probability of living to 75	0.001074	0.007111	0.15
Risk aversion measure	0.096408	0.155251	0.62
Out-of-pocket medical expenses, previous 2 years	3.72E-06	2.78E-05	0.13
Mother's current or maximum age	-0.00011	0.012965	-0.01
Father's current or maximum age	-0.00752	0.010782	-0.7
Retiree has health insurance	-0.26401	0.326731	-0.81
Spouse covered by health insurance in retirement	-0.36816	0.313117	-1.18
Total household income, net of pensions	2.93E-06	2.80E-06	1.05
Worry about retirement income	-0.00034	0.152546	0
Years of education	0.0821	0.067164	1.22
Expect to receive inheritance	7.34E-03	0.005174	1.42
Years in workforce	0.007865	0.023182	0.34
Financial planning horizon of 5+ years	0.005217	0.148459	0.04
Number of observations	**251**		
F statistic	1.26		
Prob. > F	0.1956		

Source GAO analysis of weighted HRS data 1992-2000.

[a]Denotes variable that is significantly different from zero at the 0.10 level.

Table 6: Logistic Regression of DC Annuity Payouts for DC Retirees Reporting a Choice of Payout Options

Variable	Coefficient	Standard error	t-Statistic
Annuity price[a]	-2.31524	0.919319	-2.52
Time of retirement[a]	0.018948	0.008539	2.22
Had DB pension	-0.47319	0.729786	-0.65
S&P 500 index	0.001132	0.001271	0.89
Health status[a]	0.506268	0.265987	1.9
Age of spouse at respondent's retirement	0.02792	0.043543	0.64
Probability of leaving bequest	0.001694	0.009517	0.18
Retirement age[a]	-0.3346	0.147274	-2.27
Total household Social Security Income	-5.4E-05	4.89E-05	-1.11
Total household wealth, net of retirement accounts	-0.0016	0.001	-1.6
Probability of living to 75	0.008101	0.009112	0.89
Risk aversion measure[a]	-0.74169	0.242509	-3.06
Out-of-pocket medical expenses, previous 2 years[a]	0.0001	6.03E-05	1.66
Mother's current or maximum age	-0.02623	0.019592	-1.34
Father's current or maximum age[a]	-0.03902	0.018709	-2.09
Retiree has health insurance	0.428917	0.56647	0.76
Spouse covered by health insurance in retirement[a]	1.378197	0.595818	2.31
Total household income, net of pensions	3.93E-07	6.21E-06	0.06
Worry about retirement income	-0.20785	0.307375	-0.68
Years of education	0.221811	0.153804	1.44
Expect to receive inheritance	-0.00022	0.007027	-0.03
Years in workforce[a]	0.077752	0.037246	2.09
Financial planning horizon of 5+ years	0.409007	0.252653	1.62
Number of observations	**281**		
F Statistic	5.63		
Prob. > F	0.0000		

Source: GAO analysis of weighted HRS data 1992-2000.

[a]Denotes variable that is significantly different from zero at the 0.10 level.

Appendix III: Delphi Panel on Options to Encourage the Preservation of Pension and Retirement Plan Savings

This appendix presents the results from the expert panel on options to encourage the preservation of pension and retirement savings. Included here are the questions and some of the results from the three questionnaires that were completed by members of the panel selected for this study (referred to as "phase I," "phase II," and "phase III"). We obtained a pledge of confidentiality from our requesters that they would not request any of the responses obtained during this Delphi survey process. A complete set of descriptive statistics from the survey can be found at http://www.gao.gov/cgi-bin/getrpt?gao-03-990sp. We administered the questionnaires for phases I and II over the Internet; we administered phase III via E-mail.

Phase I

In the first phase of the expert panel, which ran from February 11 to February 28, 2003, we asked the panelists to respond to three open-ended questions about the preservation of pension and retirement plan savings. We developed these questions based on our study objectives. We pre-tested the questions on the on-line version with two individuals to ensure that the questionnaire (1) was clear and unambiguous, (2) did not place undue burden on individuals completing it, and (3) was independent and unbiased. We made relevant changes before we deployed the first questionnaire to all participants on the Internet.

Phase I consisted of open-ended questions on themes related to the preservation of pension and retirement plan savings. The questions addressed the following themes.

1. Factors that affect pension and retirement savings plan benefit payout options offered to and elected by retiring participants.

2. Options that could be considered to encourage more annuitization of pension and retirement plan savings and the likely effects and tradeoffs of these options.

3. The role of information and education in managing pension and retirement plan savings during retirement.

After panelists completed the first questionnaire, we performed a content analysis on the responses to the open-ended questions in order to compile a list of the most important factors affecting preserving pension and retirement savings, as well as identify options that may encourage more annuitization of pension and retirement assets, and the type of education and information that could assist retirees in making optimal decisions regarding their retirement income. We coded panelists' responses, and similar responses were given the same code. To maintain standards of methodological integrity, two team members coded each of the participant's responses together and, when necessary, codes were updated to reflect participants' responses. Any disagreements in coding decisions were discussed until consensus was reached. We had a third person review some of the coded responses to ensure that our coding decisions were valid. We contacted respondents, if necessary, when a response was unclear. We reviewed and coded answers to each of the three questions to develop close-ended questions for phase II of the survey.

Twenty-four of the 27 panelists selected completed phase I of the survey (about 89 percent response rate). Those that did not complete this phase were dropped from subsequent phases. Below are lists of the categories for the responses from the phase I open-ended questions. Categories are presented in order of frequency from most frequently to least frequently provided responses for each of the questions.

Factors Affecting Payout Options Offered and/or Elected

- Worker preferences for the type of plan they want and /or how they receive benefits [employers include certain benefits in the plan because workers want them or workers prefer to receive benefits in a certain way].
- Lack of consumer knowledge/understanding about annuitization and/or key risks they will face in retirement.
- Challenges to offering an annuity, such as administrative cost/burden, or compliance with applicable rules (including QJSA, PBGC premiums, etc.).
- Adequacy of available annuity product types (i.e., variety, pricing, value of payments, lack of inflation protection, etc.).
- The value of lump sums from DB plans has increased [low 30-year Treasury rate makes lump sums more valuable].
- Trends in types of employer-sponsored plans.
- Participants' expectations about needs in retirement (e.g., income, expenses, longevity).
- Preferences of owners/executives who start plans.

- Individuals believe they can do better managing the money than with an annuity.
- The role of financial advisors [financial planners prefer lump sums because they receive better commission].
- Changes in plan design/features within plans.
- Impact of laws and regulations on employer decisions (i.e., impact of ERISA or the tax code).
- Trends in workforce demographics and retirement [greater worker mobility, people are living longer].
- Changes in the availability and/or election of various payout options.
- Amount of retirement/saving plan assets of future retirees.
- Concerns and trust issues about annuity providers and/or employers ability to provide annuity payments (i.e., solvency issues).
- Widespread media, investment community, and employee focus on account balances [the focus for pensions have been on saving and accumulating].
- Competitive pressures: attract workers, minimize/stabilize costs.
- Workers/retirees already have annuity income (i.e., from social security, from a DB plan, from a spouse's plan).
- Household decisions about retirement income.
- Bequest motives.
- Retirees/employees don't have adequate information to make benefit elections.
- Participants' lack of understanding about the value of certain DB plan benefit features (e.g., early retirement subsidies).
- PBGC guaranties qualified DB annuity payouts.
- Participants do not understand investments and/or how to invest their retirement savings.

- The taxation of distributions from various types of retirement plan vehicles.
- Change in employee attitude about employers' role in providing retirement security.
- Concerns of higher-income DB participants about potential loss of benefits as a result of PBGC guarantee limits.
- Inertia-the real and/or perceived cost of changing the status quo in terms of options offered.

Options That Could Encourage More Annuitization of Pension and Retirement Plan Savings

- Increase information and education to participants/ retirees.
- Provide tax incentives for employees who receive qualified annuity income (i.e., favorable tax treatment of annuity income).
- Mandating pension/retirement saving plan benefits be paid as annuities (partial or full).
- Change related regulations (e.g., interest rate for DB lump sum calculations, PBGC premium requirements, etc.) that affect pension obligations or payout options.
- Require qualified DC plans to offer an annuity option.
- Modify rules/regulations that currently apply when plans offer an annuity (e.g., limit QJSA provisions).
- Mandating qualified DC plans offer an annuity as a default option of pension benefits (i.e., apply QJSA provisions).
- Have PBGC or another government agency provide annuities to employers and/or employees (i.e., as a competitor to provide or sell annuities).
- Develop more adequate annuity products (not a policy option per se).
- Provide tax incentives for employers and/or insurance providers to provide annuities to retirees.
- Apply the same tax penalties for taking a lump sum at retirement as are applied for pre-retirement lump sum distributions.

- Simplify various DB plan rules to level the playing field with DC plans.
- Amend ERISA Investment Advisor rules to clarify that plan sponsors may provide information/education on managing income during retirement.
- Change benefit portability rules/regulations.
- Allow employer plans to distribute a certain amount of pension benefits as annuity income and the remainder with participant discretion.
- Allow plan sponsors or employers to form or join purchasing pools to offer annuities.
- Set minimum standards for state insurance guaranty funds.
- Enable government to act as an insurer for commercial annuity providers (i.e., federal guaranty program).
- Require pension/retirement plans that allow retirees to elect lump sums to also offer the option to annuitize some benefits at a later date.
- Require pension/retirement plans offering distributions in the form of an annuity to offer an inflation-indexed annuity option.
- Require all DC plans that do not normally pay out in the form of an annuity to roll out all lump sum distributions to a new type of IRA that pays benefits in the form of a J&S annuity.

The Role of Information and Education

- Helping participants to understand longevity risk (i.e., risk of outliving assets).
- Strategies/advice for managing retirement income during retirement (i.e., decumulation).
- Helping participants/retirees understand financial risks that they will face in retirement (e.g., inflation, lower standard of living, investment).
- Helping participants assess needs in retirement (i.e., health, income, etc.).
- Annuities-what are they? How do they work?, etc.
- Improving financial literacy.

- Payout options plans make available to retiring participants (e.g., description and/or value of retirement benefits under available options).
- Seeking financial "advice," and other resources for retirement income planning.
- How to project potential retirement income from pensions/retirement plan savings.
- The value of expected DB and/or DC plan benefits (i.e., what a participant's accumulation is likely to provide).
- How to compare annuity and lump sum amounts (i.e., how to compare equivalent amounts).
- De-emphasize information and education on investing/investments vis-à-vis retirement income needs.
- Available annuity products employers could offer.
- The tradeoffs of extending one's working life.
- The pricing of annuity products (i.e., administrative fees).
- How guaranteed lifetime income from a participant's retirement plan could enhance government provided retirement income.
- How various types of retirement savings plans are taxed.
- How to take inventory of retirement income sources.

Phase II

We analyzed the responses to the questions above to develop the phase II questionnaire. The purpose of the second phase was to provide the panelists with the opportunity to consider the other panelists' responses to the first phase and to respond in a structured, quantifiable way. Phase II, which ran from April 3 to April 18, 2003, consisted of several closed-ended questions on the categorized responses to phase I (all response codes/categories were included in follow-up questions).

In phase II, panelists rated these items on various dimensions (e.g., major/minor factor, effectiveness of options, help/hinder coverage, ease of compliance) depending on the theme. We also asked the experts to rank responses to phase I questions one and three. We pretested the questions for the second phase; using the same methods as in phase I. Twenty-two of the 24 panelists that completed the phase I survey also completed phase II (about 92 percent response rate for those included in phase II). Those that did not complete this phase were dropped from subsequent phases.

As part of the analysis, we calculated the frequency of responses to identify the highest rated items for phase II. The results in this section are displayed based on responses that were rated in the top two rating categories for questions 1 and 3-6, as well as the top five responses identified most frequently in the top five for questions 2 and 7. To be included in the top five for the rating questions, at least 85 percent of panelists had to respond to the question. For the questions with a five-point scale, we collapsed the scale to a three-point scale by combining the top two available responses and combing the bottom two available responses. For example, if the five-point scale included extremely effective, very effective, moderately effective, somewhat effective, slightly or not effective, the three-point scale will be: extremely or very effective; moderately effective; and somewhat, slightly or not effective. For the ranking questions (2 and 7), we identified the most frequent responses ranked in the top five by calculating the frequency in which they were in the top five. We report the top five responses for all phase II questions in this appendix.

Factors Affecting Payout Options

In the phase I questionnaire, we asked each member of the panel “What do you consider to be the top 5 factors in pensions and retirement affecting the payout options offered to retiring participants and/or elected by retirees? (In your response, you might consider trends in employer pensions, worker preferences, workforce coverage and participation, retirement, the economy, or any other trends you believe are important. Please identify the most significant first).” We compiled a list of the factors that experts identified and categorized them. We then presented the list of factors to the experts in phase II and asked them to rate how great a factor, if at all, are each of the trends were in affecting payout options offered to retiring participants and/or elected by retirees. The ratings were made on a four-point scale ranging from “major factor” to “not a factor” (panelists were also given the option of responding “no answer”).

Table 7: Top Five Answers That Were Identified as Either a Major or Moderate Factor Affecting the Pension Options Offered and/or Elected by Retiring Participants

Category by rank order	Major factor	Moderate factor	Minor factor	Not a factor	Number of responses
1. Lack of consumer knowledge /understanding about annuitization and/or key risks they will face in retirement.	19	3	0	0	22
2. Individuals believe they can do better managing the money than can an annuity.	18	3	1	0	22
2. Trends in types of employer sponsored plans.	11	10	1	0	22
3. Participants' expectations about needs in retirement (e.g., income, expenses, longevity).	15	5	2	0	22
4. Widespread media, investment community, and employee focus on account balances.	16	3	3	0	22

Source: GAO analysis of phase II results.

We also asked panelists to rank the factors identified as at least moderate in question 1. Responses in the top five for the question, "among the factors that you checked as 'at least moderate,' what would you rank as the top 5 factors affecting plan payout options offered and/or elected by retiring participants?" are shown in table 8.

Table 8: Top Five Answers That Were Most Frequently Included in the Top Five Factors Affecting the Pension Options Offered and/or Elected by Retiring Participants

Category by rank order	Number of responses
1. Lack of consumer knowledge/understanding about annuitization and/or key risks they will face in retirement.	14
2. Individuals believe that they can better manage their money than can an annuity.	13
3. Participants' expectations about needs in retirement (e.g., income, expenses, longevity).	10
4. Challenges to offering an annuity, such as administrative cost/burden, or compliance with applicable rules (including QJSA, PBGC premiums, etc.).	9
5. The role of financial advisors.	7

Source: GAO analysis of phase II results.

Options That Could Encourage More Annuitization of Pension and Retirement Plan Savings

In phase I, we asked panelists: "What options, if any, could policymakers consider that could encourage more annuitization of pension and retirement plan savings at retirement? What are the likely effects and tradeoffs associated with each of these options with respect to plan sponsors, participants, the pensions and investment community, and the federal government? (Please consider such options as mandates, incentives, other government actions, information and education, etc. in your response.)" After categorizing responses to this question, we asked the following series of questions in phase II. The ratings were made on a five-point scale for each of these questions (panelists were also given the option of responding "no answer").

1. How effective, if at all, would each of the following options be in encouraging more annuitization of pension and retirement plan savings?

2. In your opinion, would the following options help or hinder pension and retirement plan coverage?

3. How easy or difficult would it be for plan sponsors to comply with and/or act on the following options?

Table 9: Top Five Answers That Were Identified as Either Extremely Effective or Very Effective Options in Encouraging More Annuitization of Pension and Retirement Plan Savings

Category by rank order	Extremely or very effective	Moderately effective	Somewhat, slightly or not effective	Number of responses
1. Provide tax incentives for employees who receive qualified annuity income (i.e., favorable tax treatment of annuity income).	19	1	1	21
1. Mandating pension/retirement saving plan benefits be paid as annuities (partial or full).	19	0	2	21
2. Provide tax incentives for employers and/or insurance providers to provide annuities to retirees.	17	1	3	21
3. Mandating qualified DC plans offer an annuity as a default option of pension benefits (i.e., apply QJSA provisions).	17	3	2	22
3. Require qualified DC plans to offer an annuity option.	17	3	2	22

Source: GAO analysis of phase II results.

Table 10: Top Five Answers That Were Identified as Either Greatly Helping or Generally Helping Pension and Retirement Plan Coverage

Category by rank order	Greatly or generally help	Neither help nor hinder	Greatly or generally hinder	Number of responses
1. Provide tax incentives for employers and/or insurance providers to provide annuities to retirees.	18	3	0	21
1. Increase information and education to participants/ retirees.	18	2	1	21
1. Provide tax incentives for employees who receive qualified annuity income (i.e., favorable tax treatment of annuity income).	18	2	1	21
2. Simplify various DB plan rules to level the playing field with DC plans.	17	4	0	21
3. Have PBGC or another government agency provide annuities to employers and/or employees (i.e., as a competitor to provide or sell annuities).	10	7	2	19

Source: GAO analysis of phase II results.

Table 11: Top Five Answers That Were Identified as Either Very Easy or Easy for Plan Sponsors to Comply with and/or Act on

Category by rank order	Very easy or easy	Neither easy nor difficult	Very difficult or difficult	Number of responses
1. Amend ERISA Investment Advisor rules to clarify that plan sponsors may provide information/education on managing income during retirement.	13	5	1	19
2. Provide tax incentives for employees who receive qualified annuity income (i.e., favorable tax treatment of annuity income).	13	4	2	19
3. Provide tax incentives for employers and/or insurance providers to provide annuities to retirees.	14	4	3	21
4. Apply the same tax penalties for taking a lump sum at retirement as are applied for pre-retirement lump sum distributions.	11	3	5	19
5. Increase information and education to participants/retirees.	11	6	4	21

Source: GAO analysis of phase II results.

The Role of Information and Education in Managing Pension and Retirement Plan Savings during Retirement

In phase I, we asked panelists, "What types of information and education could help retiring participants make more optimal decisions regarding the use (i.e., saving and spending) of pension and retirement plan savings during retirement? How and in what form could each type of information or education be delivered?" After categorizing the responses to that question, we followed up with a rating and ranking question about the effectiveness of each type of information and education.

We then presented the list of types to the experts in phase II and asked them to rate how effective, if at all, each type of information and education would be in helping retiring participants make more optimal decisions. The ratings were made on a five-point scale ranging from "extremely effective" to "slightly or not effective" (panelists were also given the option of responding "no answer"). We calculated the frequency of responses for the types rated in the phase II questionnaire.

Table 12: Top Five Answers That Were Identified as Either Extremely Effective or Very Effective Types of Information and Education in Helping Retiring Participants Make More Optimal Decisions

Category by rank order	Extremely or very effective	Moderately effective	Somewhat, slightly or not effective	Number of responses
1. Helping participants/retirees understand financial risks that they will face in retirement (e.g., inflation, lower standard of living, investment).	21	0	1	22
2. Helping participants to understand longevity risk (i.e., risk of outliving assets).	20	1	1	22
3. Helping participants assess needs in retirement (i.e., health, income, etc.).	18	3	1	22
4. How to compare annuity and lump sum amounts (i.e., how to compare equivalent amounts).	17	3	2	22
5. The value of expected DB and/or DC plan benefits (i.e., what a participant's accumulation is likely to provide).	16	4	2	22

Source: GAO analysis of phase II results.

We also asked panelists to rank the types of information and education identified as at least moderately effective in phase I. The top five most commonly ranked responses to the question, "Among the types of information and education that you rated 'at least moderately effective,' what would you rank as the five most effective types to help retirees make more optimal decisions?" are shown in table 13.

Table 13: Top Five Answers That Were Most Frequently Included in the Top Five Types of Information and Education to Help Retirees Make More Optimal Decisions

Category by rank order	Number of responses
1. Helping participants to understand longevity risk (i.e., risk of outliving assets).	20
2. Helping participants/retirees understand financial risks that they will face in retirement (e.g., inflation, lower standard of living, investment).	18
3. Annuities-what are they? how do they work?, etc.	15
4. How to compare annuity and lump sum amounts (i.e., how to compare equivalent amounts).	12
5. Helping participants assess needs in retirement (i.e., health, income, etc.).	11

Source: GAO analysis of phase II results.

Phase III

The third phase, which was conducted via e-mail, ran from May 6 to May 13, 2003. The purpose of this phase was to provide panelists with some of the key findings from phase II and obtain feedback about the results, as well as to identify other ways that a retiree could preserve their retirement savings. We conducted a pretest of the questionnaire and made changes as necessary. Ten experts (45 percent of the 22 panelists that completed phase II) responded with comments or responses to our questions.

In the third phase, we asked panelists the following questions.

"For each of the options below please discuss what actions (policy or otherwise), if any, could encourage more retirees to preserve their pension and retirement savings plan assets. Please discuss some of the potential tradeoffs, such as the effect on plan coverage, plan compliance, and effectiveness for preserving pension and retirement savings plan assets, of the options identified."

1. Options to encourage retiring participants to preserve their pension assets at retirement by deferring the receipt of benefits (i.e., leaving assets in an account balance), or rolling over assets directly to an IRA at retirement.

2. Options to assist retirees in managing their assets personally with the objective of providing an income stream to help them balance income and expenditures.

3. What other options, if any, should be considered to help retiring participants preserve their pension and retirement savings plan assets at retirement?

Originally, we asked the panelists to respond to these three questions about actions that could encourage the preservation of pension and retirement savings plan assets. Based on feedback about the length of and time commitment needed to respond to the phase III questionnaire, we narrowed the focus and gave panelists the option of only responding to question one. Some respondents provided answers for all three of the questions and others only responded to question one. Responses to this questionnaire are presented at http://www.gao.gov/cgi-bin/getrpt?gao-03-990sp.

Appendix IV: GAO's Delphi Panel of Experts

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Judith F. Mazo
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Olivia S. Mitchell
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Alicia Munnell
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Anna Rappaport
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Kathryn Ricard
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John C. Scott
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Norman Stein
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Christopher T. Stephen, Esq.
Sr. Principal, Legislative Affairs
National Rural Electric Cooperative Association

Jack VanDerhei
Temple University and EBRI Fellow

Appendix V: Comments from the Department of The Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

July 22, 2003

Barbara D. Bovbjerg
Director
Education, Workforce, and Income Security Issues
U.S. General Accounting Office
441 G Street, N.W., Room 5930
Washington, D.C. 20548

Dear Ms. Bovbjerg:

Thank you for sharing a draft copy of *Private Pensions: Participants Need Information on Risks They Face in Managing Pension Assets at and During Retirement* (GAO-03-810) with the Department of Treasury.

We were pleased to see that another recent report, *Private Pensions: Process Needed to Monitor the Mandated Interest Rate for Pension Calculations* (GAO-03-313) included an appendix describing the concept of matching discount rates to the time structure of pension liabilities. The Administration recently made a proposal for replacing the 30-year Treasury as the mandated discount rate used in many pension calculations.[1] This proposal includes discounting both pension liabilities and computing lump sum equivalents using a set of duration matched discount rates, commonly called a yield curve, therefore reflecting the time structure of the liabilities.

In the context of this GAO report, we would like to point out that the Administration has made a recent legislative pension proposal one aspect of which touches directly on the computation of lump sums payouts. Under current law, pension liabilities and lump sum equivalents are discounted using different rates. The rate used for computing lump sum equivalents is substantially lower than the rate used to discount liabilities. Everything else being equal, this makes lump sums economically more attractive than annuities. The Administration proposal is to use the same discount rate for discounting liabilities and computing lump sum equivalents, that is, the same yield curve used to measure pension liabilities will also be used to compute lump sum payments. The intent of this proposal is to have discount rates apply to annuities and lump sum payments in a consistent and neutral manner, thereby eliminating a built-in bias in the pension rules for one form of benefit payment. These rules would set the lower bound

[1] The Administration's Proposal For Accurately Measuring Pension Liabilities, Testimony of the Honorable Peter R. Fisher, Under Secretary of Treasury, Subcommittee on Select Revenue Measures Committee on Ways and Means and the Subcommittee on Employer-Employee Relations Committee on Education and the Workforce, United States House of Representatives, July 15, 2003

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for lump payments; sponsors would still be free, as they are under current law, to be more generous if they wished.

Workers receiving lump sums, especially those in their 50's, 60's and older, would be better off under the Administration proposal than under an alternative that would compute lump sums using a single long term corporate interest rate. Workers electing lump sums at relatively younger ages would have a higher proportion of their future payments discounted at long-term interest rates than workers retiring at relatively older ages. This is appropriate given the different time frames over which they had been expecting to receive their benefits. While moving from the 30-year Treasury rate to any corporate bond based rate will result in lower lump sum payments for younger workers who leave their jobs, under the yield curve approach older workers closer to retirement age will be little affected by the change.

Again, we appreciate the opportunity to review the draft report.

Sincerely,

Mark J. Warshawsky

Mark J. Warshawsky
Acting Assistant Secretary for
Economic Policy