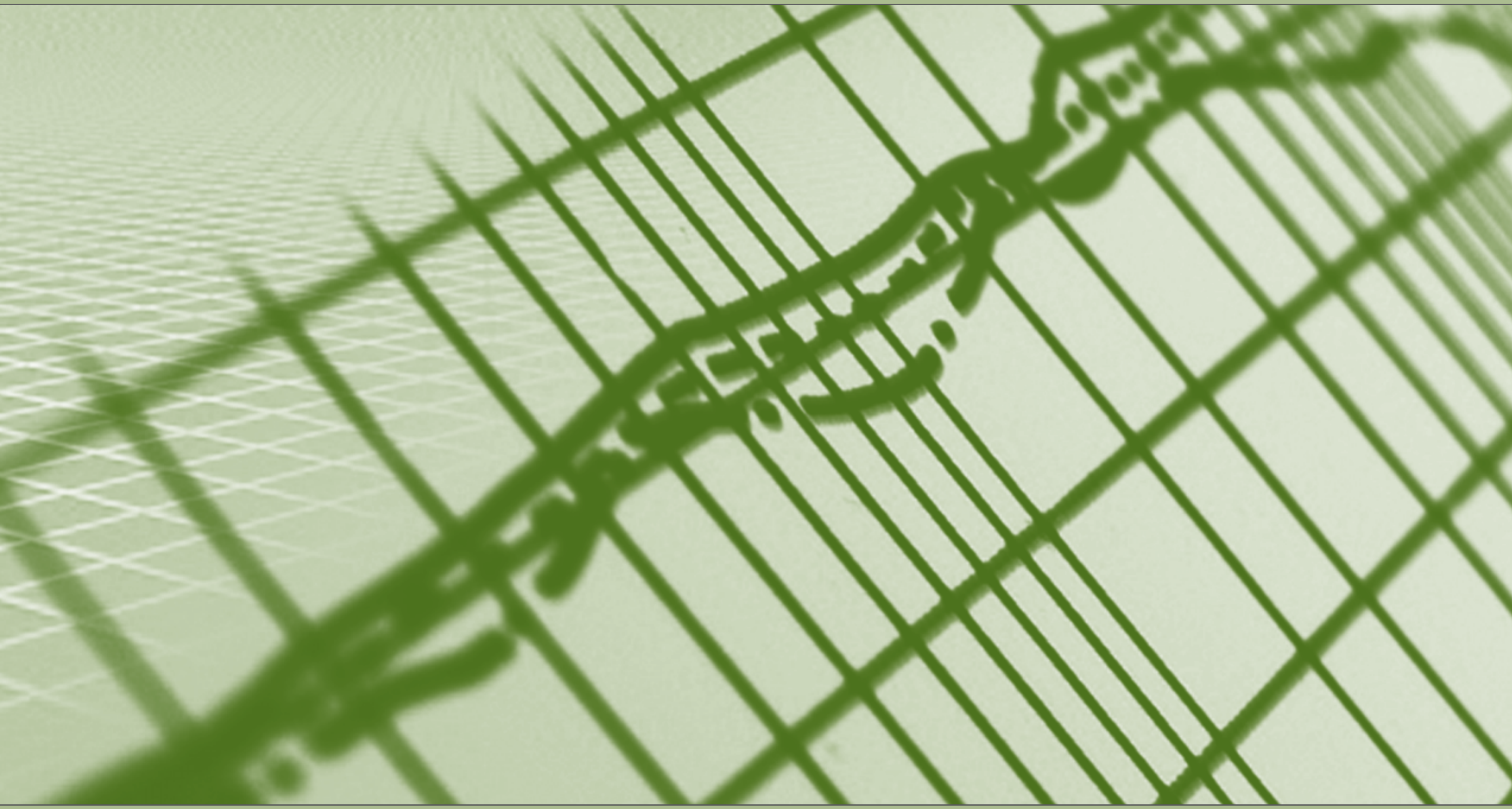

Defined Contribution Plan Distribution Choices at Retirement

A SURVEY OF EMPLOYEES RETIRING BETWEEN 2002 AND 2007

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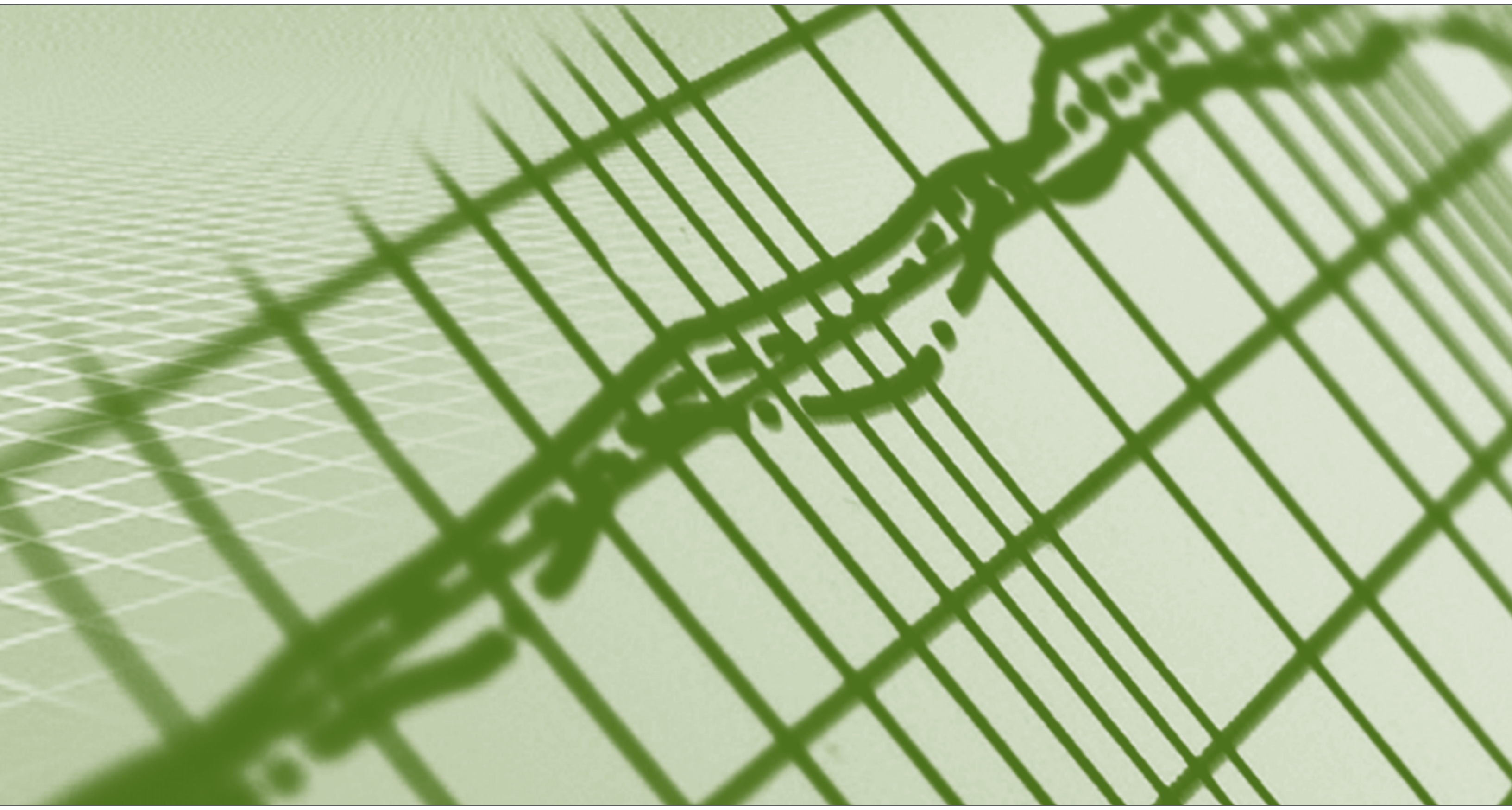

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A SURVEY OF EMPLOYEES RETIRING BETWEEN 2002 AND 2007

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John Sabelhaus, ICI Senior Economist, Michael Bogdan, ICI Associate Economist, and Sarah Holden, ICI Senior Director, Retirement and Investor Research, prepared this report.

The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of $12.11 trillion and serve almost 90 million shareholders.

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Key Findings

- **Only a small fraction of retirees can be characterized as having immediately spent the proceeds of their defined contribution (DC) plans.** Moreover, the fraction of accumulated balances spent at retirement was even smaller—almost negligible—because the larger the account balance, the more unlikely it was to be spent quickly. Only about 3 percent of accumulated DC account assets were spent immediately at retirement.

- **When DC plan participants have more than one option for the disposition of their plan balances at retirement, they generally make thoughtful decisions.** Surveyed retirees typically consulted multiple sources of information, appeared to have considered carefully the distribution options available for withdrawing and using their assets and, generally, selected distribution options consistent with their personal financial circumstances.

- **Retirees with sizable household financial assets and income typically postponed use of their plan balances either by reinvesting the assets in Individual Retirement Accounts (IRAs) or deferring their distributions.** Most lump-sum recipients immediately rolled the funds into an IRA or other investment. Retirees who deferred their distribution had the highest levels of financial assets.

- **Retirees who received their distribution through either annuity or installment payments expressed a desire for regular income as their primary motivation.** In contrast, retirees who received a lump sum or deferred their distribution answered that they did not need the money at the time of retirement, or indirectly expressed the same sentiment by indicating they wanted to roll the balance into an IRA.

- **The majority of retirees who received lump-sum distributions acted prudently with the assets.** More than half of retiring DC plan participants received their distribution as a lump sum. For the most part, retirees were guided by professional financial advisers and reinvested all their proceeds in IRAs. Their IRA portfolios typically were well-diversified, with the largest percentage of assets, on average, allocated to equities. Even lump-sum distribution recipients who did not reinvest all of their plan proceeds typically reinvested the majority of the distribution.

- **The few retirees who spent their entire DC plan lump sums generally had received small distributions.** In many instances, these recipients used the proceeds prudently, for example, to buy a primary residence, to repay debt, to pay for healthcare, or to make home repairs. On average, these retirees derived a sizable portion of their household incomes from defined benefit (DB) plan and Social Security payments.

Introduction

Defined contribution (DC) plans have become an integral part of the U.S. private pension system. At year-end 2007, DC plans held $4.5 trillion in assets and accounted for 25 percent of all U.S. retirement assets.[1] This does not count monies originating in employer-sponsored plans and rolled over into Individual Retirement Accounts (IRAs). At year-end 2007, IRAs held $4.7 trillion in assets; much of this total resulted from rollovers.

The rising importance of DC plans is also evident in the number of workers participating in pension plans. Between 1980 and 2005 (the latest year for which data are available), the number of participants in private-sector DC plans increased from 20 million to 75 million, a nearly fourfold increase.[2] By comparison, participants in private-sector defined benefit (DB) plans increased from 38 million to 42 million, or only about 10 percent.[3]

[1] See Peter Brady and Sarah Holden, "The U.S. Retirement Market, 2007," *ICI Fundamentals*, Vol. 17, No. 3 (Washington, DC: Investment Company Institute, July 2008; www.ici.org/pdf/fm-v17n3.pdf).

[2] See *Private Pension Plan Bulletin Historical Tables* (U.S. Department of Labor, 2008) at www.dol.gov/dol/ebsa/pdf/privatepensionplanbulletinhistoricaltables.pdf. For a general discussion of the trends and implications of the shift from DB to DC plans, see James Poterba, Steven Venti, and David A. Wise, "The Changing Landscape of Pensions in the United States," *NBER Working Paper*, No. 13381 (Cambridge, MA: National Bureau of Economic Research, September 2007).

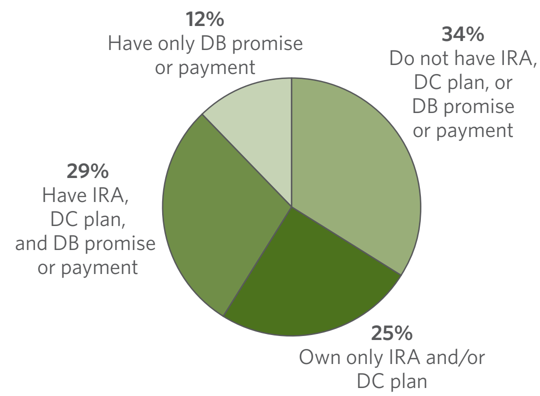
[3] The relative growth in DC plan participants reflects demographic changes in the workforce, such as the shift in the employment mix from manufacturing to the service industry, as well as the shift from large firms to small firms, and from union positions to nonunion positions. For business establishments, DC plans are attractive because they have lower administrative costs than do DB plans. Indeed, most small firms are likely to offer their employees a DC plan only. From the employee perspective, DC plans have the advantage of greater accrual when job tenures are shorter. See Richard Ippolito, "Toward Explaining the Growth of Defined Contribution Plans," *Industrial Relations*, Vol. 34, No. 1, January 1995, pp. 1–20; Leora Friedberg, Michael T. Owyang, and Tara M. Sinclair, "Searching for Better Prospects: Endogenizing Falling Job Tenure and Private Pension Coverage," *B.E. Journal of Economic Analysis and Policy*, Vol. 6, No. 1, Article 14, 2006; Alicia H. Munnell, Kelly Haverstick, and Geoffrey Sanzenbacher, "Job Tenure and Pension Coverage," *Center for Retirement Research Working Paper*, 2006-18 (Boston, MA: Center for Retirement Research at Boston College, October 2006); and Stephanie Aaronson and Julia Coronado, "Are Workers or Firms Behind the Shift Away from DB Plans?" *Finance and Economics Discussion Series (FEDS) Paper*, No. 2005-17 (Washington, DC: Board of Governors of the Federal Reserve System, February 2005). See also the discussion and additional references in Sarah Holden, Peter Brady, and Michael Hadley, "401(k) Plans: A 25-Year Retrospective," *ICI Perspective*, Vol. 12, No. 2 (Washington, DC: Investment Company Institute, November 2006; www.ici.org/pdf/per12-02.pdf).

With the shift in private-sector retirement plan coverage to DC plans, U.S. workers have become increasingly responsible for managing the assets that will finance their retirements. DC plans are typically funded during an employee's working years by employee and employer contributions. The employee is responsible for deciding whether to make contributions, determining their size, and selecting the assets in which the contributions are invested.[4] Consequently, the size of a worker's account balance at retirement and subsequent retirement income depends upon the accumulated contributions, investment choices, and the performance of financial markets. In private-sector DB plans, employers generally bear the total funding and investment risk. Nevertheless, employees also face risks with DB plans, such as changing jobs before vesting, leaving a nominal vested promise that does not grow once employment has ended, or employer bankruptcy.

FIGURE I.1

U.S. RETIREE HOUSEHOLDS' RETIREMENT PLAN COVERAGE

PERCENTAGE OF RETIRED U.S. HOUSEHOLDS,[1] 2007



Total U.S. retiree households[1] = 32.5 million

[1]The head of household is considered retired if he or she responded affirmatively to the question "Are you retired from your lifetime occupation?"
Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey, 2007

In addition to the choices made during employment, DC plan participants must also make decisions about the management of their accumulated assets throughout retirement. DC plans generally offer several ways to receive retirement benefits.[5] An annuity is often one of the distribution options. Most DC plans allow participants to take all or some of their account balances as a lump-sum payment, either as cash or as rollovers into an Individual Retirement Account (IRA).[6] DC plans also may allow retiring workers to receive the account balance as a series of regular installments or permit retirees to leave their balances with the employer to accumulate until they elect a distribution at a later date.[7] Retirees' selection of a distribution option involves a variety of considerations, including the availability of other sources of income; preservation of assets for future use; an immediate need for cash to pay bills, debts, or for large purchases; the security provided by regular income payments; estate planning; taxation of benefit payments; and management of invested assets.

[4] Research on employee behavior, fueled by the insights of behavioral finance, has resulted in changes in plan design that affect the nature of the decisions required by workers. For example, automatic enrollment changes the employee's decision from opting into the DC plan to having to opt out. Automatic increases in a participant's contribution rate over time results in increases in saving as the worker ages and enters the time in their lifecycle when they are able to save more for retirement. Lifecycle investment options automate the asset allocation process over time for the investor by investing in a diversified portfolio that is more highly concentrated in stocks at the beginning of the worker's career and more highly concentrated in fixed-income securities by the target date (which is the time at which the worker expects to retire). See Olivia S. Mitchell and Stephen P. Utkus, "Lessons from Behavioral Finance for Retirement Plan Design," in Olivia S. Mitchell and Stephen P. Utkus, eds., *Pension Design and Structure: New Lessons from Behavioral Finance* (Oxford, UK: Oxford University Press, 2004), pp. 3–41; Brigitte C. Madrian and Dennis F. Shea, "The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior," *The Quarterly Journal of Economics*, Vol. CXVI, No. 4, November 2001, pp. 1149–1187; James J. Choi, David Laibson, and Brigitte C. Madrian, "Plan Design and 401(k) Savings Outcomes," *National Tax Journal*, Part 1, Vol. 57, No. 2, pp. 275–298, June 2004; Sarah Holden and Jack VanDerhei, "The Influence of Automatic Enrollment, Catch-Up, and IRA Contributions on 401(k) Accumulations at Retirement," *ICI Perspective*, Vol. 11, No. 2, and *EBRI Issue Brief*, No. 283 (Washington, DC: Investment Company Institute and Employee Benefit Research Institute, July 2005; www.ici.org/pdf/per11-02.pdf); and Stephen P. Utkus, *401(k) Plan Design: Match, Loan, and Investment Menu Effects* (Valley Forge, PA: The Vanguard Center for Retirement Research and the Vanguard Group, December 2005).

[5] By comparison, DB plans historically only offered participants annuities. Today, many DB plans offer retirees more options. A decade ago, 76 percent of DB plans offered by medium and large business establishments distributed plan proceeds at retirement only in an annuity. See *Employee Benefits in Medium and Large Private Establishments*, 1997 (U.S. Department of Labor, 1999), p. 107. By 2005, more than half of DB plans offered a full or partial lump-sum distribution option. See *National Compensation Survey: Employee Benefits in Private Industry in the United States*, 2005 (U.S. Department of Labor, 2007), p. 66.

[6] By law, DC plans must permit the direct rollover of balances to another qualified plan or IRA. See 26 C.F.R. §1.401(a)(31)-1, Q&A-11.

[7] Retirees' deferral of a distribution generally is constrained by the Internal Revenue Code's income distribution requirements, which mandates that individuals no longer employed by the plan sponsor must begin distributions at age 70½. See IRC §401(a)(9).

Research on DC plan participants largely has focused on participants' decisionmaking during their working years and on lump-sum distributions from pensions.[8] Only relatively recently has attention turned to analyzing pension distribution decisions made by participants at retirement.[9] For example, in 2000, ICI conducted a household survey of recent retirees who had participated in DC plans immediately prior to retirement.[10] As increasing numbers of participants in DC plans reach retirement age, it is important to have a greater understanding about the approaches that retirees take to manage balances from these plans.

In 2007, 32.5 million (28 percent) U.S. households indicated that the head of the household was retired from his or her lifetime occupation.[11] Thirty-four percent of these retired U.S. households had no pension accumulations or promises of any kind (Figure I.1). These households have lower financial assets and income when compared with households with retirement savings;[12] they also depend heavily on Social Security to replace their income in retirement. Another 12 percent of retired households in 2007 reported that they had DB plan promises or payments, but they did not have DC plans or IRAs. More than half (54 percent) of retiree households indicated ownership of IRAs (which often contain rollover amounts from employer-sponsored retirement plans) and DC plan assets.

[8] See Sarah Holden and Jack VanDerhei, "Can 401(k) Accumulations Generate Significant Retirement Income for Future Retirees?" *ICI Perspective*, Vol. 8, No. 3, and *EBRI Issue Brief*, No. 251 (Washington, DC: Investment Company Institute and Employee Benefit Research Institute, November 2002; www.ici.org/pdf/per08-03.pdf); Sarah Holden, Jack VanDerhei, Luis Alonso, and Craig Copeland, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2006," *ICI Perspective*, Vol. 13, No.1, and *EBRI Issue Brief*, No. 308 (Washington, DC: Investment Company Institute and Employee Benefit Research Institute, August 2007; www.ici.org/pdf/per13-01.pdf); Craig Copeland, "Lump-Sum Distributions," *EBRI Notes*, Vol. 26, No. 12 (Washington DC: Employee Benefit Research Institute, December 2005), pp. 7–17; Leonard E. Burman, Norma B. Coe, and William G. Gale, "What Happens When You Show Them the Money? Lump-Sum Distributions, Retirement Income Security, and Public Policy," Department of Treasury and The Brookings Institution, *Report for the U.S. Department of Labor* (Final Report No. 06750-003), November 1999; John Sabelhaus and David Weiner, "Disposition of Lump-Sum Pension Distributions: Evidence from Tax Returns," *National Tax Journal*, Vol. LII, No. 3 (September 1999), pp. 593–613; and Michael Hurd, Lee Lillard, and Constantijn Panis, "An Analysis of the Choice to Cash Out Pension Rights at Job Change or Retirement," *Rand Working Paper Prepared for the Department of Labor*, DRU-1979-DOL, October 1998. In addition, there is a line of research that explores IRA owners' distribution activity. For example, see Sarah Holden and Brian Reid, "The Role of Individual Retirement Accounts in U.S. Retirement Planning," *Working Paper*, WP2007-25 (Philadelphia, PA: University of Pennsylvania, Wharton School of Business, Pension Research Council, 2007).

[9] For example, the following papers examine choices about annuitization at retirement: John Ameriks, "The Retirement Patterns and Annuitization Decisions of a Cohort of TIAA-CREF participants," TIAA-CREF Research Dialogues, No. 60 (August 1999); Jeffrey R. Brown, "Private Pensions, Mortality Risk, and the Decision to Annuitize," *Journal of Public Economics*, Vol. 82, pp. 29–62; and Jeffrey R. Brown and James M. Poterba, "Joint Life Annuities and Annuity Demand by Married Couples," *NBER Working Paper*, No. 7199 (June 1999).

[10] See *Defined Contribution Plan Distribution Choices at Retirement: A Survey of Employees Retiring Between 1995 and 2000* (Washington, DC: Investment Company Institute, Fall 2000; www.ici.org/pdf/rpt_distribution_choices.pdf).

[11] The head of household is the sole or co-decisionmaker for saving and investing. The results are from ICI's Annual Mutual Fund Shareholder Tracking Survey fielded in May 2007. ICI surveyed 3,977 U.S. households regarding their saving and investing. Respondents were asked to self-assess whether they were retired from their lifetime occupation. For more information on the survey, see Sarah Holden and Michael Bogdan, "Trends in the Ownership of Mutual Funds in the United States, 2007," *ICI Fundamentals*, Vol. 16, No. 5 (Washington, DC: Investment Company Institute, November 2007; www.ici.org/pdf/fm-v16n5.pdf).

[12] See Figure A.2 in Appendix A for additional demographic and financial characteristics of these households.

Against this backdrop, in fall 2007 ICI conducted another survey of recent retirees from DC plans. This study reports the findings from this new survey of recent retirees who had participated in DC plans, focusing on the decisions they made at retirement. The study explores DC distributions from several perspectives. The first part of the analysis concerns the ultimate resolutions of DC balances at retirement: some of those balances are annuitized, some are paid out as a lump sum, some are deferred for later withdrawal, and some are paid out in installments. The research then focuses on the choice of a distribution for those retirees who recalled having a choice, including an analysis of the choice itself and the reasons for the choice. The study also analyzes more closely retirees' use of lump-sum distributions, with a distinction drawn between those reinvesting and those spending the proceeds. Finally, the study focuses on the characteristics of retirees who deferred their distribution (i.e., left the account balance with their employer) or received their account balances in the form of an annuity.

The survey was conducted between October 23, 2007, and December 9, 2007. It included 608 primary or co-decisionmakers for household saving and investing who retired within the past five years (between 2002 and the time of the survey). Each survey respondent had assets in DC plans or similar employer-sponsored, individual account plans at retirement. The majority of the retirees surveyed had participated in 401(k) plans, but respondents also included those who had been in 403(b) plans, the federal government's Thrift Savings Plan, 457 plans, and employer-sponsored IRAs.[13] The sample was selected to be representative of the national population of recently retired participants in such plans.[14]

[13] See Appendix A for a description of the survey, Appendix B for a detailed discussion of the characteristics of the various types of plans in which respondents indicated that they had participated before retirement, and Appendix C for descriptive materials provided to survey respondents on the types of retirement plans available.

[14] See Appendix A for survey respondents' demographic and financial characteristics.

Summary of Findings

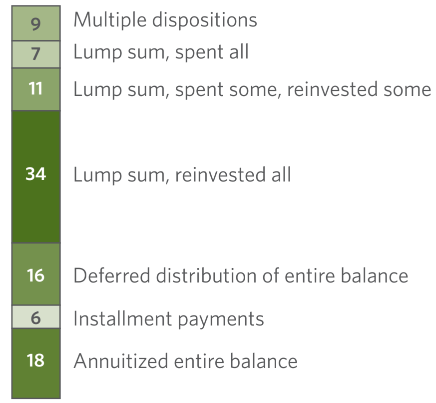
Disposition of Defined Contribution Balances at Retirement

1. **Just over half (52 percent) of DC plan participants received all of their distributions as a lump sum (Figure S.1). The remainder received their distribution as annuities or installment payments, deferred withdrawal, or chose some combination of options.** Within the group who received the distribution as a lump sum, about two-thirds rolled the entire amount over into another investment. About 20 percent of lump-sum recipients rolled over at least part of the balance, and the remaining 13 percent spent the entire amount. After lump-sum distribution, the next most prevalent distribution outcome was annuitization of the entire DC balance (18 percent overall), then deferral of distribution (16 percent), and then some combination of dispositions (9 percent). Only 6 percent of retirees received their payouts through installments.

FIGURE S.1

WHAT HAPPENED TO DEFINED CONTRIBUTION ACCOUNTS AT RETIREMENT?

PERCENTAGE OF RESPONDENTS[1]



Number of respondents = 608

[1]Seventy percent of respondents reported having a choice of distribution options; 30 percent recalled having no choice.
Note: Components do not add to 100 percent because of rounding.

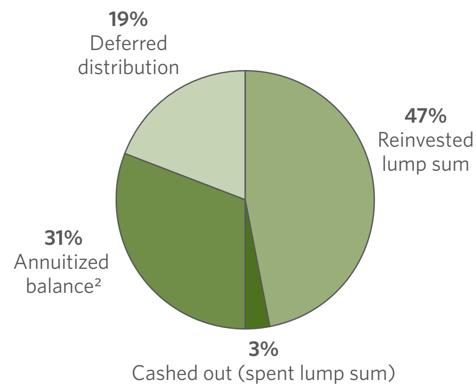
2. **The fraction of DC balances spent at retirement is very low.** Only about 3 percent of accumulated DC account assets were spent immediately at retirement (Figure S.2).[15] The share of account-balance dollars spent is much lower than the share of accounts in which all or some of the proceeds are spent (Figure S.1). This is due to the strong negative correlation between account balance and the propensity to spend that balance. Forty-seven percent of account assets were lump sums that were reinvested. Almost one-third of recent retirees' accumulations were annuitized at retirement, and nearly one-fifth were left in the plan.

3. **Large account balances are much more likely to be distributed through annuities or as lump sums that are rolled over into other investments.** Roughly 20 percent of account balances fall into each of the following account size categories: less than \$35,000; \$35,000 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$399,999; and \$400,000 or more (Figure S.3). The probability that accounts are resolved as annuities, deferred withdrawals, or rolled-over lump sums rises from about two-thirds to 99 percent with movement from smaller to larger accounts. The negative correlation between account balance and propensity to spend the proceeds is the key to understanding how resolution of accounts (Figure S.1) and resolution of account balances (Figure S.2) give different impressions of how much accumulated wealth is spent at retirement.

FIGURE S.2

DISPOSITION OF ACCUMULATED DEFINED CONTRIBUTION ACCOUNT BALANCES AT RETIREMENT

PERCENTAGE OF TOTAL ACCUMULATED DC ACCOUNT BALANCES[1]



[1]The sum of DC balances is based on reported or estimated dollar amount in the DC plan from which the individual retired (between 2002 and 2007). Respondents who chose to receive all or some of their account balance in installments are not included.

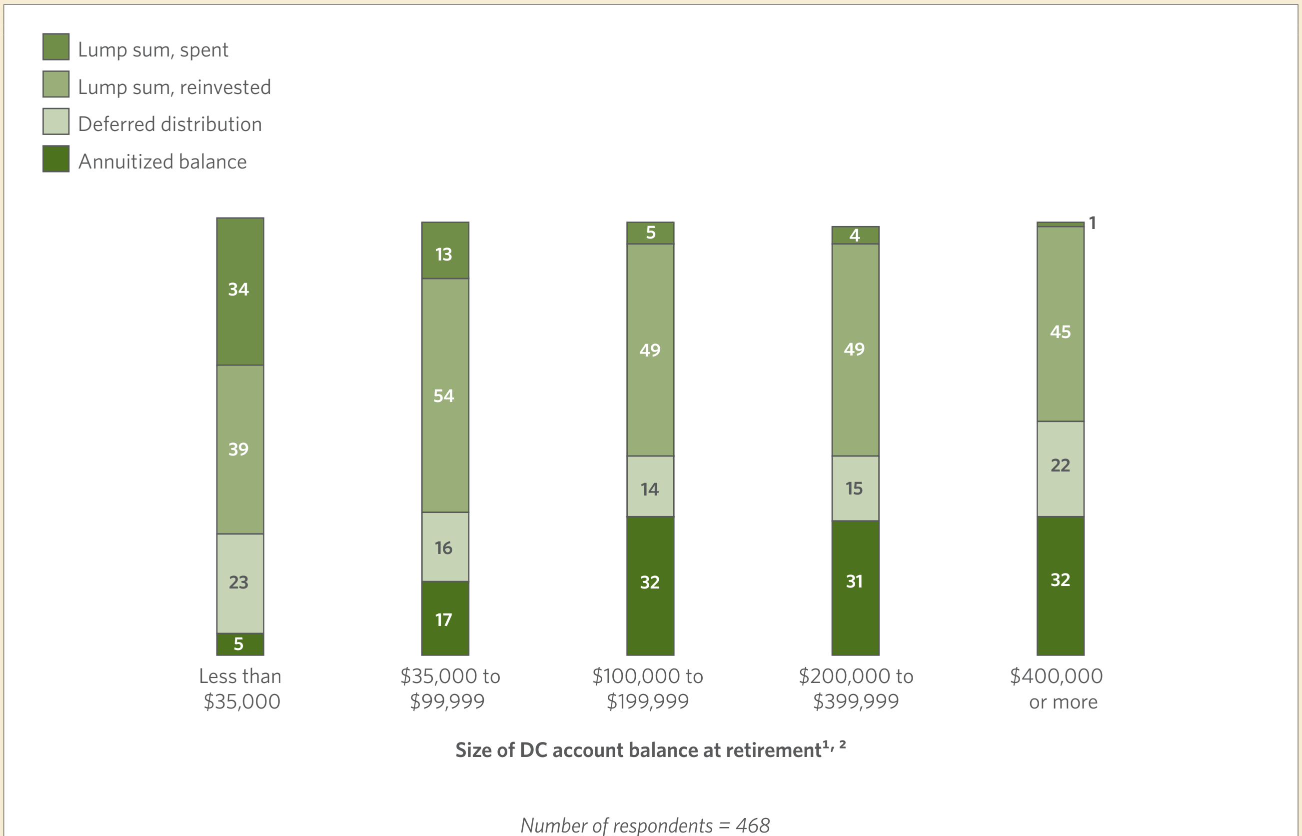
[2]Respondents who annuitized all or some of their DC balance reported the amount of their annuity income. Using the respondent's age, gender, marital status, and annual annuity payment, ICI estimated the account balance amount that would be consistent with a market-priced nominal annuity.

[15] These fractions exclude installment balances because the survey did not collect balance amounts for those who reported receiving their distributions through installments. The survey is also missing balance amounts for those who said they received an annuity payout, but ICI was able to estimate the balance at retirement by solving for the amount that would be consistent with a market-priced nominal annuity given the respondent's age, gender, and marital status. Married respondents were assumed to have purchased a joint and two-thirds survivor annuity.

FIGURE S.3

RELATIONSHIP BETWEEN SIZE AND DISPOSITION OF ACCUMULATED DEFINED CONTRIBUTION ACCOUNT BALANCES

PERCENTAGE OF DOLLARS IN DC ACCOUNTS BY ACCOUNT SIZE[1]



[1]The sum of DC balances is based on reported or estimated dollar amount in the DC plan from which the individual retired (between 2002 and 2007). Respondents who chose to receive all or some of their account balance in installments are not included.

[2]Respondents who annuitized all or some of their DC balance reported the amount of their annuity income. Using the respondent's age, gender, marital status, and annual annuity payment, ICI estimated the account balance amount that would be consistent with a market-priced nominal annuity.

Note: Components may not add to 100 percent because of rounding.

Distribution Choices Made at Retirement

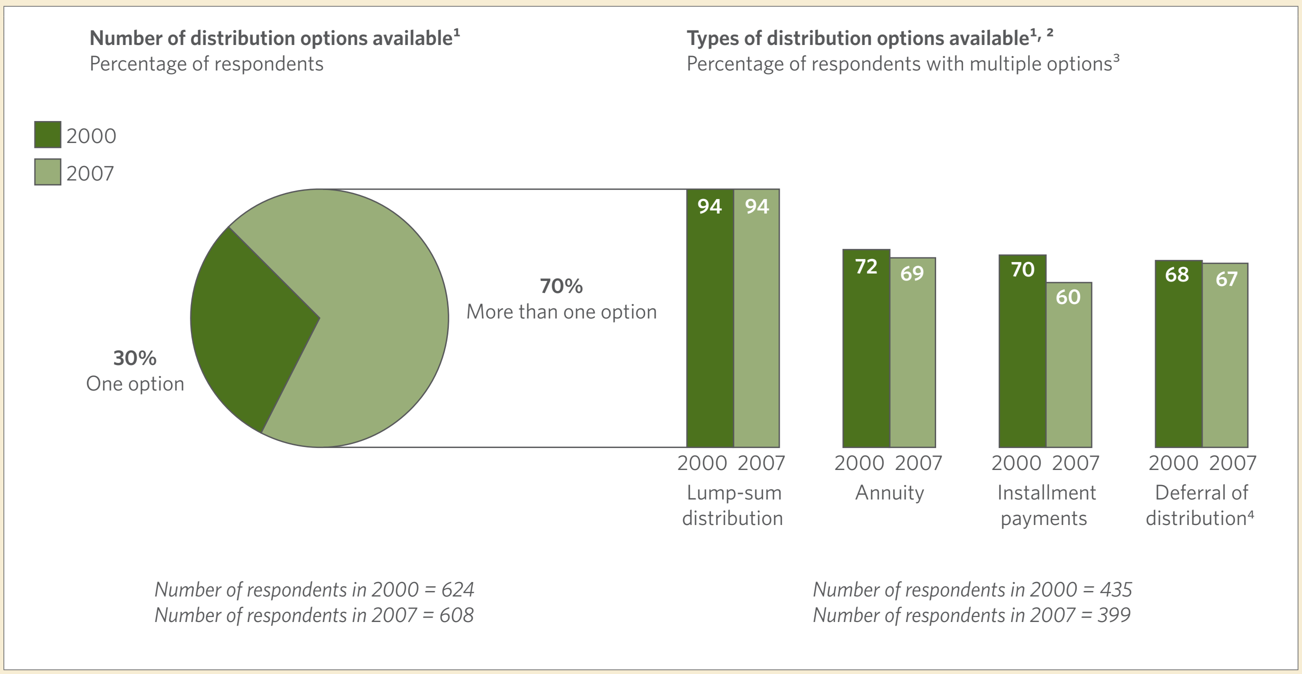
4. **Seventy percent of DC plan participants recalled having multiple distribution options at retirement.** Ninety-four percent of this group reported having a lump-sum distribution option (Figure S.4). Between 60 percent and 69 percent of retirees said they had the option to choose an annuity, installment payments, or deferral of the distribution (though not necessarily all three). Among the 30 percent of retirees reporting only a single distribution option, 72 percent received plan proceeds in a lump sum.

   The overall fraction of respondents reporting multiple distribution options and the options available were identical or very similar to what ICI found in the 2000 survey. The overall share reporting multiple options was 70 percent in 2000 and in 2007. Thirty percent of respondents in both surveys recalled having no choice. Almost all retirees with choices in both 2000 and 2007 indicated that lump-sum distribution was an option. In 2000, two-thirds of respondents with choice indicated more than two options; in 2007, that share rose to 71 percent. The other notable change in reported options between the two surveys was a drop in the fraction reporting an installment option from 70 percent in 2000 to 60 percent in this survey.

5. **Retirees with a distribution choice most frequently selected the lump-sum option.** Fifty-four percent of retirees with choice elected to receive all or some of their account balances as lump-sum distributions; 25 percent chose to defer all or some of the distribution; 21 percent opted for an annuity; and 10 percent chose installment payments (Figure S.5).[16]

FIGURE S.4

NUMBER AND TYPE OF DISTRIBUTION OPTIONS AVAILABLE TO RETIREES BY YEAR OF SURVEY



[1]*The number of options reported is based upon respondents' recall. Results were the same in the 2000 survey; 30 percent of respondents recalled having one distribution method and 70 percent recalled multiple distributions.*

[2]*Multiple responses are included.*

[3]*Respondents with multiple options who did not specify all of their options are excluded.*

[4]*Distributions must begin on April 1 of the year following a retired person's attainment of age 70½.*

Source: Investment Company Institute Defined Contribution Plan Distribution Decisions Surveys, 2000 and 2007

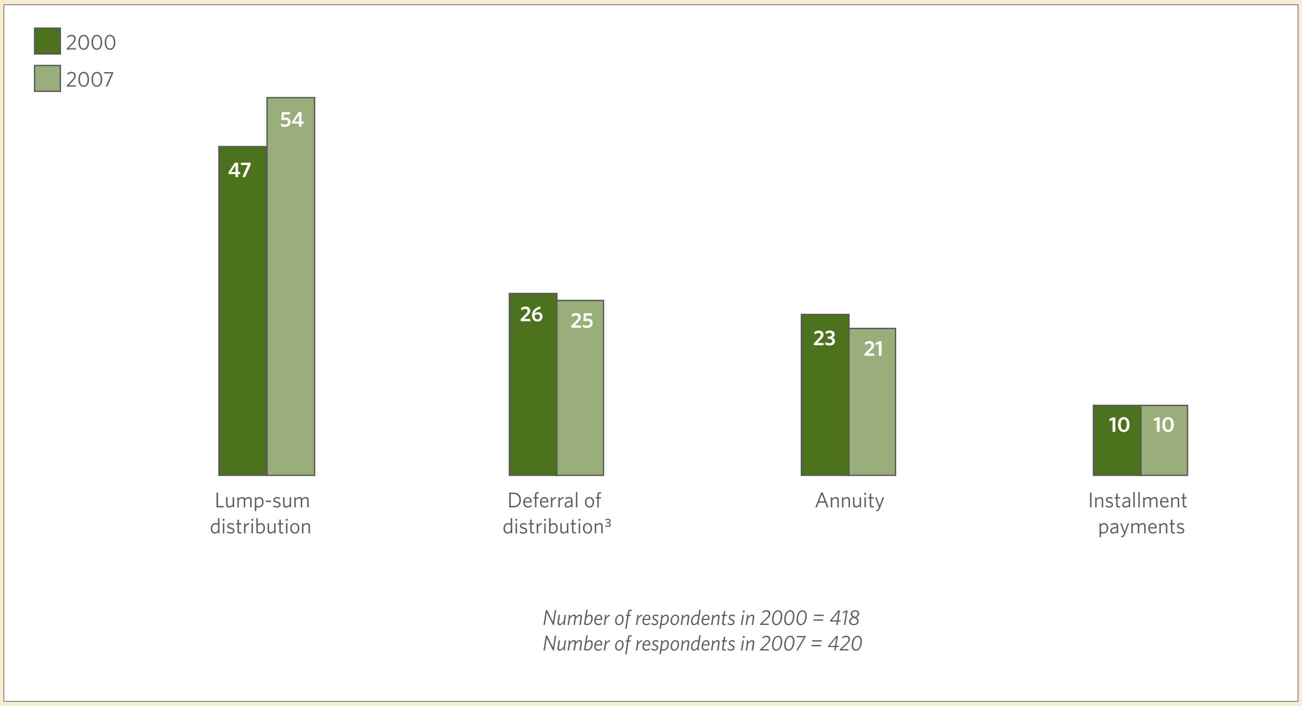
[16] These percentages add to more than 100 percent because some respondents with multiple options chose to receive a partial lump-sum distribution with either a reduced annuity or reduced installment payments, or chose to defer receiving part of the proceeds.

For the most part, the similarity in distribution options between the 2000 and 2007 surveys correlated to the choices reported by respondents. However, there was a statistically significant increase in the share reporting a lump-sum distribution, from 47 percent to 54 percent (Figure S.5).[17] The small declines in deferral and annuity outcomes do not seem to account for the jump in lump sums, but that is because respondents with outcomes in two or more categories (e.g., taking a partial lump sum and deferring the rest) are included in both categories.

FIGURE S.5

DISTRIBUTION OPTIONS SELECTED BY RETIREES WITH CHOICE BY YEAR OF SURVEY

PERCENTAGE OF RESPONDENTS WITH MULTIPLE OPTIONS BY YEAR OF SURVEY[1, 2]



[1]*The number of options reported is based upon respondents' recall. Not all respondents have all options. Six respondents with choice who indicated "other" was their distribution outcome were excluded from this analysis.*

[2]*Multiple responses are included; 45 respondents with multiple options chose to receive a partial lump-sum distribution with either a reduced annuity or reduced installment payments, or chose to defer receiving part of the proceeds.*

[3]*Distributions must begin on April 1 of the year following a retired person's attainment of age 70½.*

Source: Investment Company Institute Defined Contribution Plan Distribution Decisions Surveys, 2000 and 2007

[17] This change is statistically significant at the 95 percent confidence level.

Use of Proceeds from Lump-Sum Distributions

6. **Eighty-six percent of retirees who received a lump-sum distribution reinvested all or some of the proceeds (Figure S.6).** Sixty-two percent of retirees who received a lump-sum distribution at retirement reinvested the entire amount. Twenty-four percent reinvested some proceeds and, on average, spent 30 percent of the distribution. Only 14 percent of retirees with lump-sum distributions spent all of the proceeds.

   Compared with the 2000 survey results, there was a slight increase in the fraction of recent retirees with lump-sum distributions who reported spending the entire proceeds; from 8 percent in 2000 to 14 percent in 2007.[18] However, the share who reported spending part of the proceeds fell from 26 percent in 2000 to 24 percent in 2007. In addition, the overall dollar-weighted share of lump-sum distributions spent edged down from 15 percent to 14 percent between 2000 and 2007.

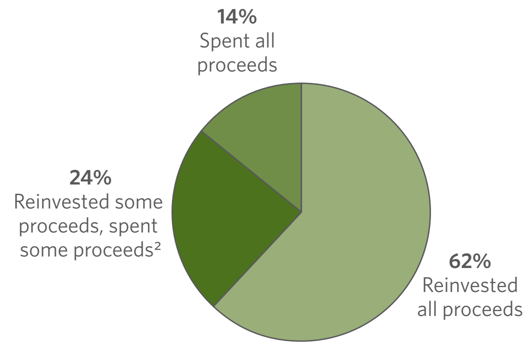
7. **Retirees who reinvested lump-sum distributions generally sought and acted on investment advice from professional financial advisers.** Sixty-nine percent of recent retirees surveyed obtained investment advice from professional financial advisers: 64 percent obtained advice from advisers they sought out themselves and 9 percent obtained advice from advisers they had contact with through their employer; some used both methods. Of those who obtained professional financial investment advice on their own, 73 percent said they followed it to a great extent.

   In the 2000 survey, the use of financial advisers was similar: three-quarters of respondents consulted with professional advisers they found independently and 71 percent followed the advice to a great extent.

FIGURE S.6

USE OF PROCEEDS FROM LUMP-SUM DISTRIBUTIONS

PERCENTAGE OF RESPONDENTS WHO RECEIVED LUMP-SUM DISTRIBUTIONS[1]



Number of respondents = 336

[1]Sixty-three percent of respondents who received lump-sum distributions reported they had a choice of multiple options; 37 percent recalled that a lump-sum distribution was the only distribution method available.
[2]The median percentage spent by these respondents is 20 percent. The mean percentage spent is 30 percent, and the dollar-weighted mean percentage spent is 14 percent.

8. **The greater the value of the lump-sum distribution at retirement, the more likely recipients were to reinvest the proceeds.** A little less than half of all DC balances distributed when the dollar value was less than $35,000 ended up being spent, but the corresponding fraction for very large balances ($250,000 or more) was only 3 percent (Figure S.7). Overall, on average, 7 percent of lump-sum distribution dollars were spent.

9. **Lump-sum distributions typically were rolled over into IRAs.** Of the 86 percent of lump-sum distribution recipients who reinvested all or some of the proceeds (Figure S.6), 65 percent rolled the entire amount into IRAs, and 88 percent rolled over all or some of the proceeds into IRAs (Figures S.8).

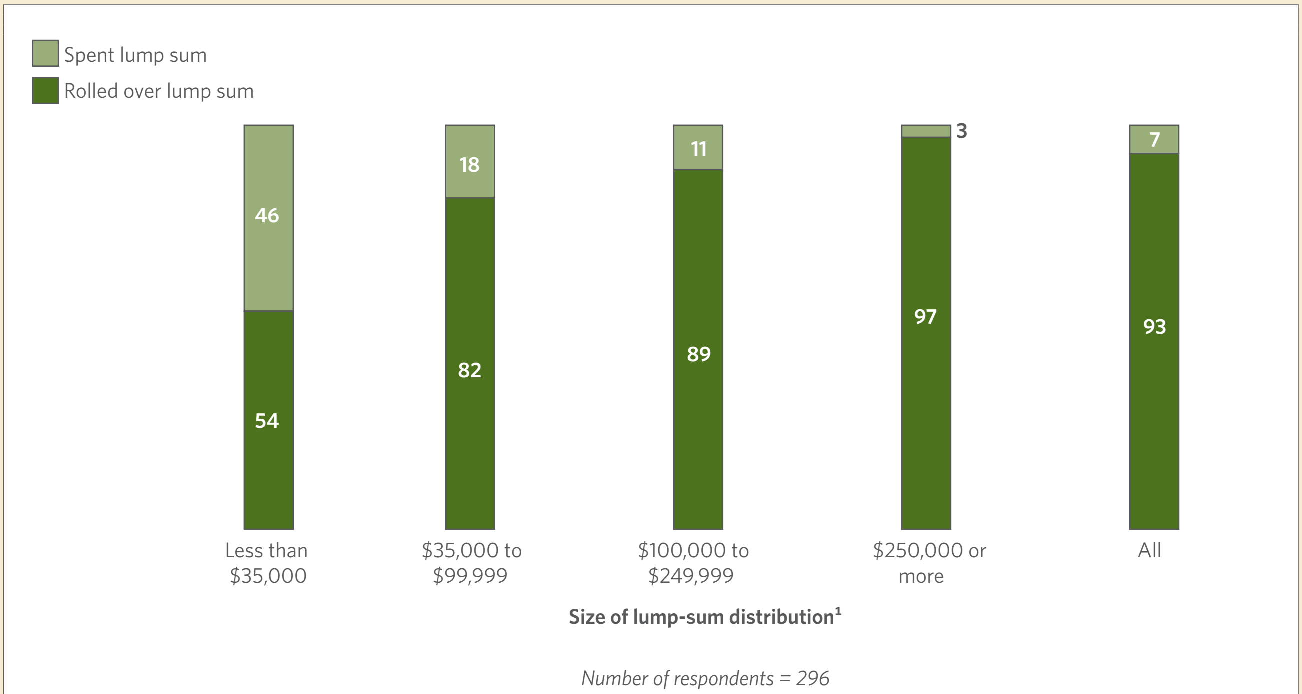
   In 2000, of the 92 percent of lump-sum distribution recipients who reinvested all or some of the proceeds, 59 percent rolled the entire amount into IRAs, and 84 percent rolled over all or some of the proceeds into IRAs.

[18] This change is statistically significant at the 95 percent confidence level.

FIGURE S.7

RELATIONSHIP BETWEEN SIZE AND REINVESTMENT RATE OF LUMP-SUM DISTRIBUTIONS

PERCENTAGE OF AGGREGATE LUMP-SUM DISTRIBUTION AMOUNTS AT RETIREMENT[1]

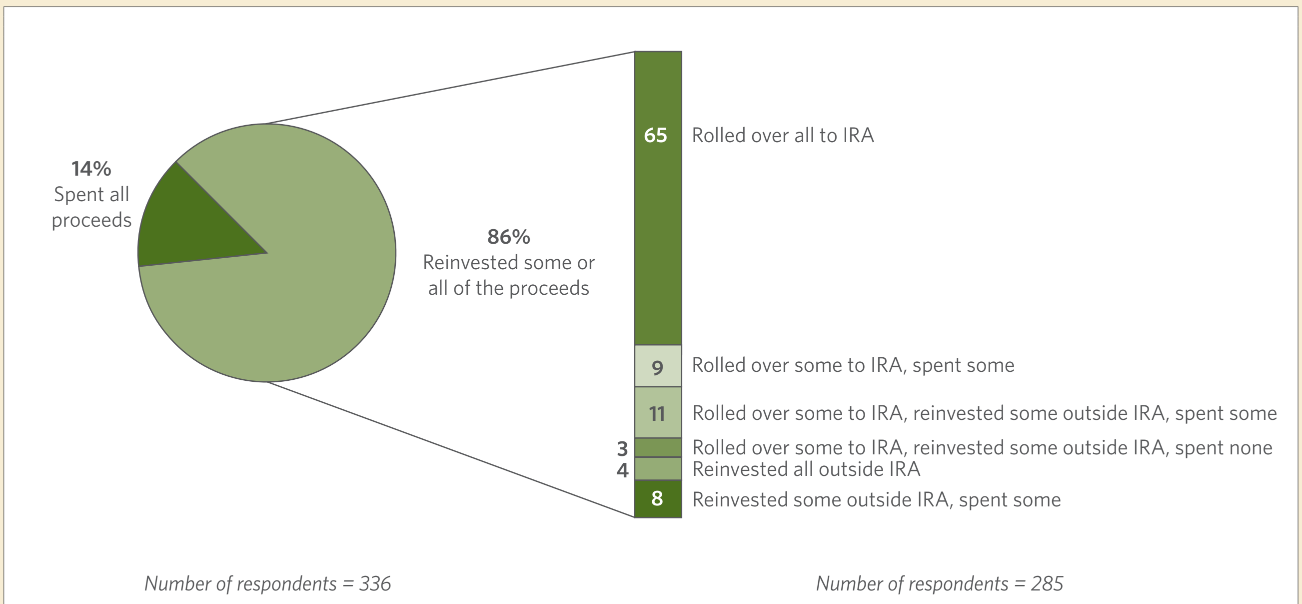


[1]The sum of lump-sum distribution amounts is based on reported dollar amounts at retirement. Respondents who chose a combination of a partial lump sum and installment payments are not included. Other partial lump-sum distribution recipients are included and classified by the amount of their lump-sum distribution. Respondents who recalled choice and those recalling that lump sum was their only distribution method are included.

FIGURE S.8

USE OF LUMP-SUM DISTRIBUTIONS AT RETIREMENT

PERCENTAGE OF RESPONDENTS

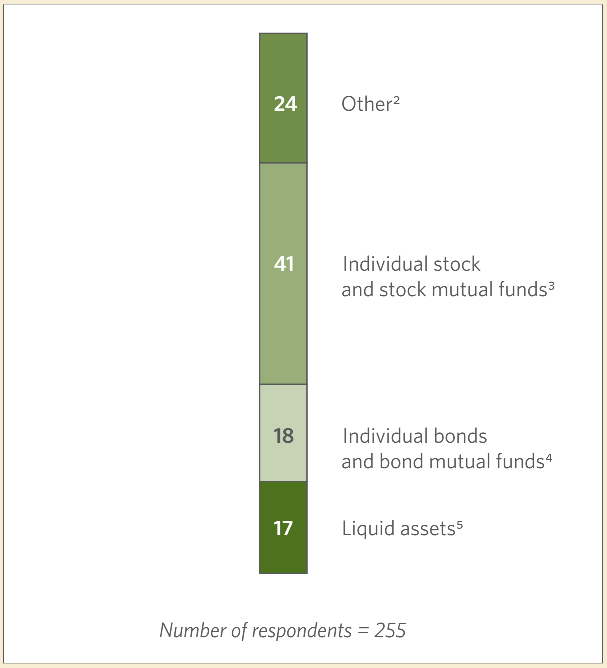


10. **Lump-sum distributions that were reinvested generally remained in well-balanced portfolios.** On average, 41 percent of reinvested lump-sum distribution assets were in stocks, either directly or through mutual funds; 18 percent were in individual bonds or bond mutual funds; and 17 percent were in liquid assets (Figure S.9).

FIGURE S.9

ALLOCATION OF INVESTMENTS PURCHASED WITH LUMP-SUM DISTRIBUTIONS

MEAN PERCENTAGE OF REINVESTED PROCEEDS[1]



[1]Mean percent allocation of lump-sum distributions' reinvested proceeds in IRAs, outside IRAs, and a combination of both.
[2]This category includes fixed and variable annuities, real estate other than primary residence, and other types of investments.
[3]This category includes balanced mutual funds allocated to equities (60 percent of respondents' balanced mutual fund holdings).
[4]This category includes balanced mutual funds allocated to bonds (40 percent of respondents' balanced mutual fund holdings).
[5]Liquid assets include bank deposits and money market mutual funds.

Characteristics of Retirees by Defined Contribution Distribution Outcomes

11. **Retirees' DC distribution outcomes were generally consistent with their economic circumstances and stated personal preferences for control over asset management or income security (Figure S.10).**

» Retirees who received all or some of their plan balances in *lump-sum distributions* generally had higher levels of financial assets than did those who tapped their accounts for income by annuitizing or taking installment payments. Most lump-sum recipients immediately rolled the funds into an IRA or other investment. Those receiving lump sums expressed that their greatest concern was seeing the value of their investments decline after retirement.

» Retirees who *deferred* all or some of their distribution (i.e., left the balance in their plans) had the highest levels of financial assets, and their incomes were also noticeably greater than those of other retirees. This was consistent with the actions of the lump-sum recipients who also had no immediate need for access to the funds in the DC account. Those choosing to defer also said they were concerned about the value of their investments declining.

» Retirees who *annuitized* all or some of their DC balance indicated a longer planning horizon than did the other distribution-outcome groups. Among retirees with choice of distribution options, retirees who chose to annuitize most often indicated that they did so because they wanted a steady income.

» Retirees who received *installment payments* had lower household incomes than did retirees in the other distribution-outcome groups. Among retirees with choice of distribution options, those who chose to receive installment payments most often indicated a need for income.

FIGURE S.10

SELECTED CHARACTERISTICS OF RETIREES BY DISTRIBUTION OUTCOME

	Distribution outcome[1]			
	Any lump sum	**Any deferral**	**Any annuity**	**Any installment[2]**
Reason for choosing distribution option[3]	**Wanted to roll the money over into an IRA**	**Did not need the money at the time of retirement**	**Wanted the regular income**	**Wanted the regular income**
Median				
Age at retirement	62 years	62 years	60 years	62 years
Household income[4]	$58,900	$66,900	$60,000	$49,200
Household financial assets[5]	$364,700	$423,400	$225,000	$242,200
Years planning ahead financially	15 years	18 years	20 years	13 years
Greatest concerns in retirement	1. Having the value of your investments decline 2. Having the value of your investments eroded by inflation 3. Paying for healthcare needs	1. Having the value of your investments decline 2. Having the value of your investments eroded by inflation 3. Paying for healthcare needs	1. Having the value of your investments eroded by inflation 2. Paying for healthcare needs investments eroded by inflation 3. Protecting your family from the unexpected	1. Having the value of your investments decline 2. Having the value of your investments eroded by inflation 3. Managing financially should you become sick or disabled
Percentage of respondents				
Male	53	49	50	58
Married or living with a partner	74	77	72	72
Currently employed full- or part-time	28	29	28	18
Have spouse or partner who currently works full- or part-time[6]	36	30	38	50
Have college or postgraduate degree	42	52	44	32
Number of respondents	*358*	*106*	*133*	*47*

[1]Respondents are grouped based upon their recall of distribution outcome, including respondents who recalled choice and those who indicated no choice. Respondents indicating multiple distribution outcomes are reported in multiple columns. A total of 608 respondents is included in this figure.
[2]The sample size for this category is small.
[3]This row is limited to respondents who recalled having a choice of distribution options. Respondents who recalled choice of opinions were asked an open-ended question about their reasons for selecting the options. The most frequently cited response is reported.
[4]Household income reported is annual household income before taxes at the time of the survey.
[5]Household assets include assets held in employer-sponsored retirement plans but exclude the household's primary residence.
[6]Figure reported is of those married or living with a partner.

Chapter 1

Distribution Options and Retiree Characteristics

Most recent retirees surveyed recalled having multiple distribution options at retirement. Of the 70 percent who reported having more than one option, nearly all said they had been offered a lump-sum distribution option. Between 60 percent and 69 percent of those with multiple distribution options said their choices included annuity, installment payment, and deferral options. Thirty percent of retirees surveyed recalled having a single payment option at retirement, most often taking the form of a lump-sum distribution.

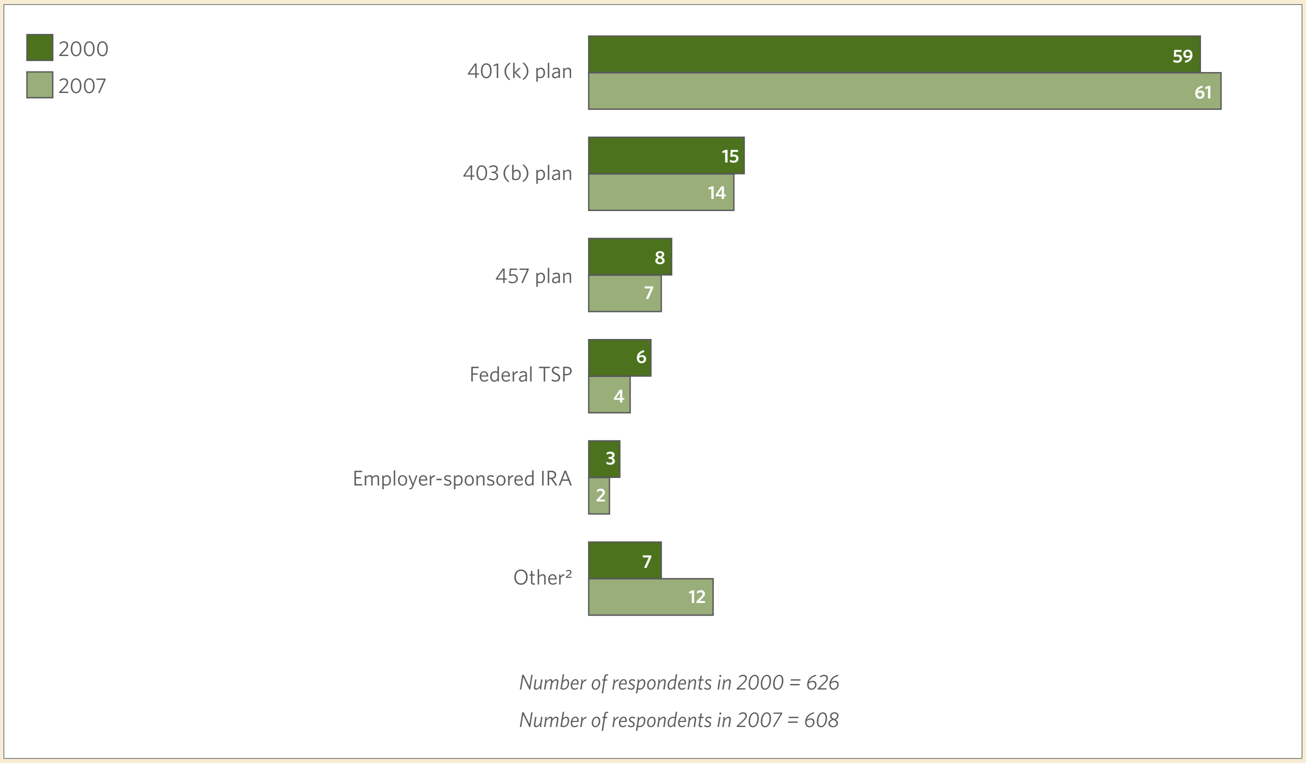
Types of Plans and Their Distribution Options

Retirees were asked to indicate the type of plan in which they had participated and the distribution options provided by the plan. The most commonly cited type was a 401(k) plan; 61 percent of retirees surveyed were enrolled in 401(k) plans at retirement (Figure 1.1). Fourteen percent were in 403(b) plans; 4 percent in the federal government's Thrift Savings Plan (TSP); 7 percent in state and local government-sponsored 457 plans; and 2 percent in employer-sponsored IRAs.[19] Responses from 12 percent of retirees could not be placed in any of these plan types.

FIGURE 1.1

TYPES OF PLANS PARTICIPATED IN BY RETIREES

PERCENTAGE OF RESPONDENTS BY YEAR OF SURVEY[1]



[1]*The type of plan is based upon respondents' recall.*
[2]*This category includes responses from respondents that could not be categorized into any identifiable plan type.*
Source: Investment Company Institute Defined Contribution Plan Distribution Decisions Surveys, 2000 and 2007

[19] For a description of the features of these retirement plans, see Appendix B: Description of Distribution Options and Plans Covered in the Survey.

FIGURE 1.2

NUMBER OF DISTRIBUTION OPTIONS AVAILABLE TO RETIREES BY TYPE OF PLAN

PERCENTAGE OF RESPONDENTS

		Type of plan[1]				
	All retirees	401(k) plan	403(b) plan	457 plan	Federal government TSP	Employer-sponsored IRA and other[2]
Number of options[3]						
One	30	32	22	32	7	37
More than one	70	68	78	68	93	63
Number of respondents	*608*	*368*	*88*	*40*	*26*	*86*

[1]*The type of plan is based upon respondents' recall.*
[2]*This category includes responses from respondents that could not be categorized into any identifiable plan type.*
[3]*The number of options reported is based on respondents' recall.*

Seventy percent of retirees indicated that they had more than one distribution option at retirement, and 30 percent recalled that their employers provided a single payment option (Figure 1.2). In general, the fraction of respondents who recalled having only a single option at retirement does not vary dramatically by plan type—hovering between one-fourth and one-third—with the one exception being participants in the federal government's TSP, very few of whom indicated a lack of choice.[20]

Retirees with a Single Distribution Option

Among retirees reporting a single distribution option, 72 percent indicated that the option was a lump-sum distribution, and 26 percent indicated that their single option was an annuity (Figure 1.3). Retirees who had participated in a 403(b) plan, 457 plan, or the federal TSP plan generally reported that their single option was an annuity. More than 90 percent of those who had been in 401(k) plans and recalled a single option said that option was a lump-sum distribution.

FIGURE 1.3

TYPE OF DISTRIBUTION PROVIDED TO RETIREES WITH NO OPTIONS

PERCENTAGE OF RESPONDENTS WITH A SINGLE OPTION[1]

		Type of plan[1]		
	All retirees with a single option	401(k)	403(b), 457, or federal government TSP	Employer-sponsored IRA and other[2]
Lump-sum distribution	72	91	38	44
Annuity	26	9	56	52
Installment payments	2	0	6	4
Number of respondents	*182*	*116*	*34*	*32*

[1]*The number of options and type of plan reported are based upon respondents' recall.*
[2]*This category includes responses from respondents that could not be categorized into any identifiable plan type.*
Note: Components may not add to 100 percent because of rounding.

[20] The number of distribution options reported is based upon respondents' recall and, consequently, may understate the actual number offered by their plans. For example, the federal TSP allows retiring federal employees to take plan proceeds as a lump-sum distribution, direct rollover to an IRA, annuity payments, or installment payments. Nonetheless, 7 percent of retired federal workers recalled having only a single option. It would thus appear that some individuals may focus on a particular distribution method at retirement and cannot recall having been offered any other options.

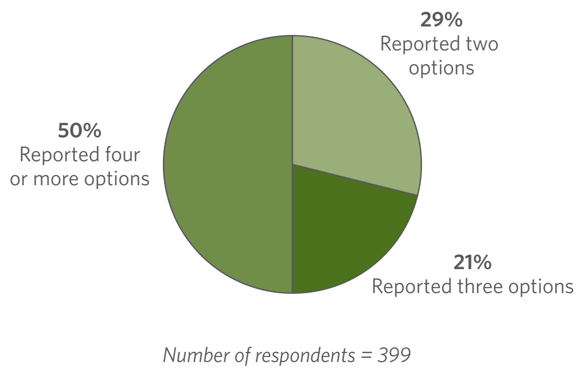
Retirees with Multiple Distribution Options

Among retirees reporting multiple distribution options, 29 percent indicated that they had two options, 21 percent said they had three options, and 50 percent stated they had four or more options (Figure 1.4).

FIGURE 1.4

NUMBER OF DISTRIBUTION OPTIONS AVAILABLE TO RETIREES WITH MULTIPLE OPTIONS

PERCENTAGE OF RESPONDENTS WHO HAD MULTIPLE OPTIONS[1, 2]



[1]The number of options reported is based upon respondents' recall.
[2]The number of respondents in this figure is smaller than the total with multiple options because some respondents with multiple options did not give the number of choices.

Of retirees with multiple options, 94 percent indicated having had the choice of a lump-sum distribution (Figure 1.5). Relatively high percentages also cited having annuity, installment payment, and deferral options; the frequency of these options ranged from 60 percent to 69 percent. Retirees who had been enrolled in 401(k) plans were the most likely to report a lump-sum distribution option, but the percentage with that option was quite high for all types of pension plans. Those who had participated in 403(b) plans, 457 plans, and the TSP also frequently reported having had an annuity option.

FIGURE 1.5

TYPES OF DISTRIBUTION OPTIONS AVAILABLE TO RETIREES WITH MULTIPLE OPTIONS

PERCENTAGE OF RESPONDENTS WHO HAD MULTIPLE OPTIONS[1]

		Type of plan[2]				
	All retirees	401(k) plan	403(b) plan	457 plan	Federal government TSP	Employer-sponsored IRA and other[3]
Distribution option[1]						
Lump-sum distribution	94	97	95	81	92	88
Annuity	69	61	87	76	82	71
Installment payments	60	56	77	50	90	53
Deferral of distribution[4]	67	67	64	78	92	53
Number of respondents	*399*	*241*	*61*	*26*	*23*	*48*

[1]Multiple responses are included. The available options are based on respondents' recall. The number of respondents in this figure is smaller than the total with multiple options because some respondents with multiple options did not give the number of choices.
[2]The type of plan reported is based on respondents' recall.
[3]This category includes responses that could not be categorized into any identifiable plan type.
[4]Distributions must begin on April 1 of the year following a retired person's attainment of age 70½.

Differences in Retiree Household Characteristics by Number of Distribution Options

Retirees reporting multiple distribution options had significantly higher household incomes and financial assets than those reporting only one option, and were also more likely to be married and still working (Figure 1.6). Median household income for those recalling more than one choice was about 28 percent higher, and median financial assets about 56 percent higher. As noted above, however, some of this could reflect reporting error rather than differences in DC plans because many people who reported only one option in fact had multiple choices.

Respondents who reported a single distribution option were also more likely to report that paying for healthcare was their greatest retirement concern, which is consistent with their overall level of economic resources. There were no significant differences in self-reported health status across those with single or multiple distribution options. However, those reporting only one option were less likely to report having DB pension income. They were more reliant on Social Security, which (along with the lower levels of income and financial assets noted above) is consistent with concern about meeting basic needs like healthcare costs.

FIGURE 1.6

CHARACTERISTICS OF RETIREES BY OPTIONS FOR DISTRIBUTION

PERCENTAGE OF RESPONDENTS BY REPORTED CHOICE OF DISTRIBUTION OPTION[1]

	All respondents	Respondents with one choice[1]	Respondents with more than one choice[1]
Age at retirement[2]			
Younger than 65	77	72	79
65 to 69	20	25	17
70 or older	3	3	4
Age at retirement (median)	62 years	62 years	62 years
Years planning ahead financially (median)	17 years	17 years	17 years
Health status[2]			
Excellent	34	34	34
Good	51	50	52
Fair or poor	15	16	14
Self-assessed life expectancy (median)	85 years	85 years	85 years
Educational level[2]			
High school or less	19	24	17
Some college or associate's degree	37	36	38
Completed four years of college	15	14	15
Some graduate school	9	9	9
Completed graduate school	20	17	21
Marital status			
Married or living with a partner	74	69	76
Single	5	4	5
Divorced or separated	10	14	9
Widowed	11	13	10
Household investment decisionmaker			
Male is sole or co-decisionmaker	52	51	53
Female is sole or co-decisionmaker	48	49	47

Figure is continued on the next page; see notes at end of figure.

FIGURE 1.6 CONTINUED

	All respondents	Respondents with one choice[1]	Respondents with more than one choice[1]
Employment status of retiree surveyed			
Works full-time	3	4	3
Works part-time	25	19	27
Is not working	72	77	70
Contributes to a DC plan[3]	21	26	19
Receives DB plan payments	57	47	62
Employment status of spouse or partner[4]			
Works full-time	19	16	21
Works part-time	18	23	15
Is not working	63	61	64
Contributes to a DC plan[3]	52	47	54
Receives DB plan payments	51	46	53
Total household income[5]			
Less than $30,000	17	22	16
$30,000 to less than $50,000	23	28	21
$50,000 to less than $100,000	42	37	43
$100,000 or more	18	13	20
Median	$60,100	$50,100	$64,100
Mean percentage of household income[5] from			
Social Security payments	28	34	26
DB plan payments	26	23	28
IRA withdrawals	4	3	5
Salary from full- or part-time job	21	19	22
Interest or dividends	8	8	7
Installment payments from DC plan	5	5	5
Annuity	3	3	2
Other sources	5	5	5
Household financial assets[6]			
Less than $100,000	26	31	24
$100,000 to less than $500,000	36	39	35
$500,000 or more	38	30	41
Median	$336,100	$242,600	$379,200
Home ownership			
Owns home	96	98	96
Has a mortgage[7]	51	47	52
Home equity (median)[7, 8]	$185,000	$185,000	$180,100
Value of home (median)[7]	$250,000	$210,000	$250,000
Mortgage balance (median)[9]	$87,500	$77,800	$87,500

Figure is continued on the next page; see notes at end of figure.

FIGURE 1.6 CONTINUED

	All respondents	Respondents with one choice[1]	Respondents with more than one choice[1]
Types of plan from which DC proceeds came[1]			
401(k) plan	61	64	59
403(b), 457, TSP, or other type of plan	39	36	41
Concerns in retirement			
Greatest concerns in retirement	1. Having the value of your investments decline 2. Having the value of your investments eroded by inflation 3. Paying for healthcare needs	1. Paying for healthcare needs 2. Having the value of your investments eroded by inflation 3. Maintaining a comfortable standard of living	1. Having the value of your investments decline 2. Having the value of your investments eroded by inflation 3. Paying for healthcare needs
Number of respondents	*608*	*182*	*426*

[1]The number of options and types of plan reported are based upon respondents' recall.
[2]Data reported are for the sole or co-decisionmaker for saving and investing surveyed.
[3]Figure reported is of those working full- or part-time.
[4]Figure reported is of those married or living with a partner.
[5]Household income reported is annual household income before taxes at the time of the survey.
[6]Household financial assets include assets held in employer-sponsored retirement plans but exclude the household's primary residence.
[7]Figure reported is of those who own a home.
[8]Home equity is the difference between the value of the home less any mortgage or home equity lines borrowed against it at the time of the survey.
[9]The mortgage balance represents the primary mortgage and any home equity lines borrowed against the house. Figure reported is of those respondents with mortgages.

Defined Benefit Plan Coverage among Retirees

The bulk of recent retirees with DC accounts also reported receiving benefits from DB plans. Twenty-two percent of respondents indicated that they were married and that both they and their spouses or partners had DB benefits (Figure 1.7). Another 36 percent of retiree households reported that they were married but only one member had DB benefits, and 15 percent reported that they were single with a DB plan. Only 27 percent of the retiree households surveyed reported having no DB plan benefits.

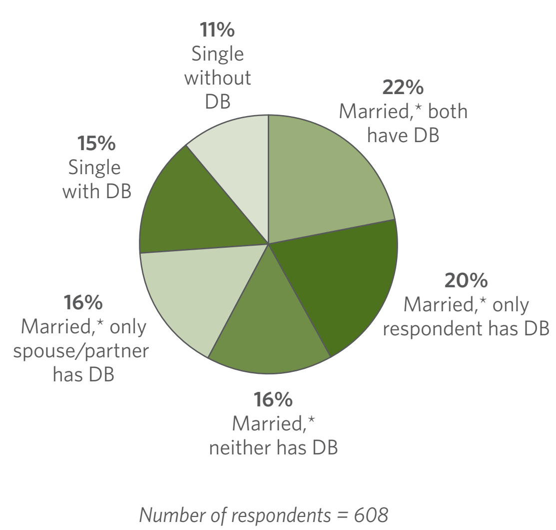
Health Insurance Coverage among Retirees

Retirees have much higher rates of health insurance coverage than the general population, mostly because government-sponsored coverage through Medicare is nearly universal for the disabled and people aged 65 or older. Only 8 percent of the sample of retirees receiving DC distributions reported having no health insurance coverage from either government or employer sources, and more than half of those respondents were purchasing

FIGURE 1.7

RECENT RETIREE HOUSEHOLDS' DEFINED BENEFIT PLAN ACCESS

PERCENTAGE OF HOUSEHOLDS BY MARITAL STATUS AND PROMISE OR RECEIPT OF DB PLAN BENEFITS



**Category includes respondents who are married or living with a partner.*

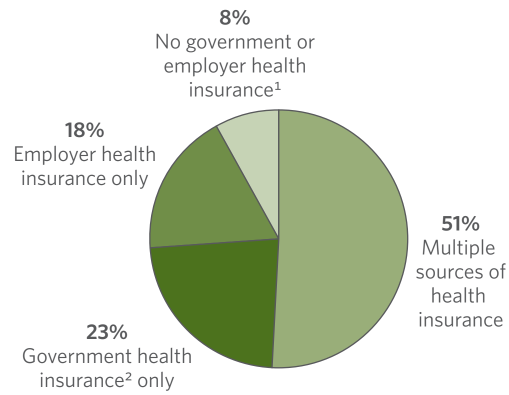
insurance independently (Figure 1.8). Most retirees (51 percent) reported multiple sources of insurance coverage; for example, many reported having coverage through both Medicare and a current or former employer. Another 23 percent reported having insurance only through some type of government plan (including Medicare, Medigap, and Veteran's Administration) and 18 percent reported having coverage only through a current or former employer.

Retirees' concerns about healthcare spending were highly correlated with the state of their health insurance coverage. Among those with multiple sources of coverage, only 27 percent reported being very concerned about paying for healthcare needs (Figure 1.9). The percentage of respondents reporting great concern about healthcare costs was much higher, 43 percent, for those reporting no government or employer-sponsored health insurance coverage.

FIGURE 1.8

HEALTH INSURANCE COVERAGE AMONG RETIREES

PERCENTAGE OF RESPONDENTS



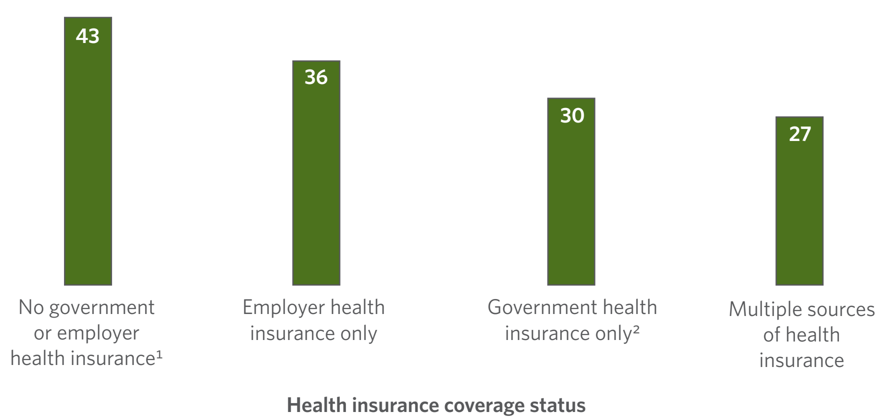
Number of respondents = 608

[1]This group includes households indicating no health insurance and those with independently purchased health insurance.
[2]This group includes households with Medicare, Veteran's Administration, or Medigap coverage.

FIGURE 1.9

CONCERN ABOUT PAYING FOR HEALTHCARE

PERCENTAGE OF RESPONDENTS VERY CONCERNED



Number of respondents = 608

[1]This group includes households indicating no health insurance and those with independently purchased health insurance.
[2]This group includes households with Medicare, Veteran's Administration, or Medigap coverage.

Chapter 2

Distribution Choices of Retirees with Multiple Options

Seventy percent of retiree households surveyed recalled having multiple distribution options for their DC plan balances, requiring them to choose between some combination of lump-sum distribution, annuity, deferral, and installment payments. The occurrence of the four possible outcomes is directly related to the list of possible options the retiree recalled as available and the probability of choosing a particular distribution option (given that it was available).

Retirees received advice about the DC distribution decision from a number of sources, including family and/or peers, materials and services provided by their employers, and other sources they sought out independently. In general, retirees applied that advice when making their decisions, but the extent to which the advice was followed varied somewhat across sources.

The number of options available to those retirees who had a decision to make varied quite a bit, but virtually all had the option of a lump sum, and most had the options of annuities, installment payments, or deferrals.[21] The outcome of the distribution decision is a two-step process: given that the retiree recalled having a particular option available, was that retiree likely to choose that option?

The option for a lump-sum distribution was almost universally available, and given that option, just over half of retirees made that choice. The percentages of retirees who ended up with deferrals, annuities, and installment payments were all less because those options were not as widely available. In addition, the probability of choosing those options (given that they were available) was lower.

[21] See the discussion in Chapter 1 of the number and types of options that retirees had available.

Sources of Advice

When making decisions in multiple-option distribution situations, retirees consulted a number of sources for advice. Forty-six percent received advice from their spouses or partners, which was the largest single source mentioned. The fraction reporting help from professional financial advisers the retiree obtained independently was a close second, at 42 percent (Figure 2.1).

Other popular sources for advice included coworkers or friends, along with seminars and workshops, printed material, or professional advisers provided by employers. Overall, 46 percent of respondents with a choice of distribution options consulted materials, tools, or services provided by their employers.[22] Fewer retirees mentioned online retirement software and other sources.

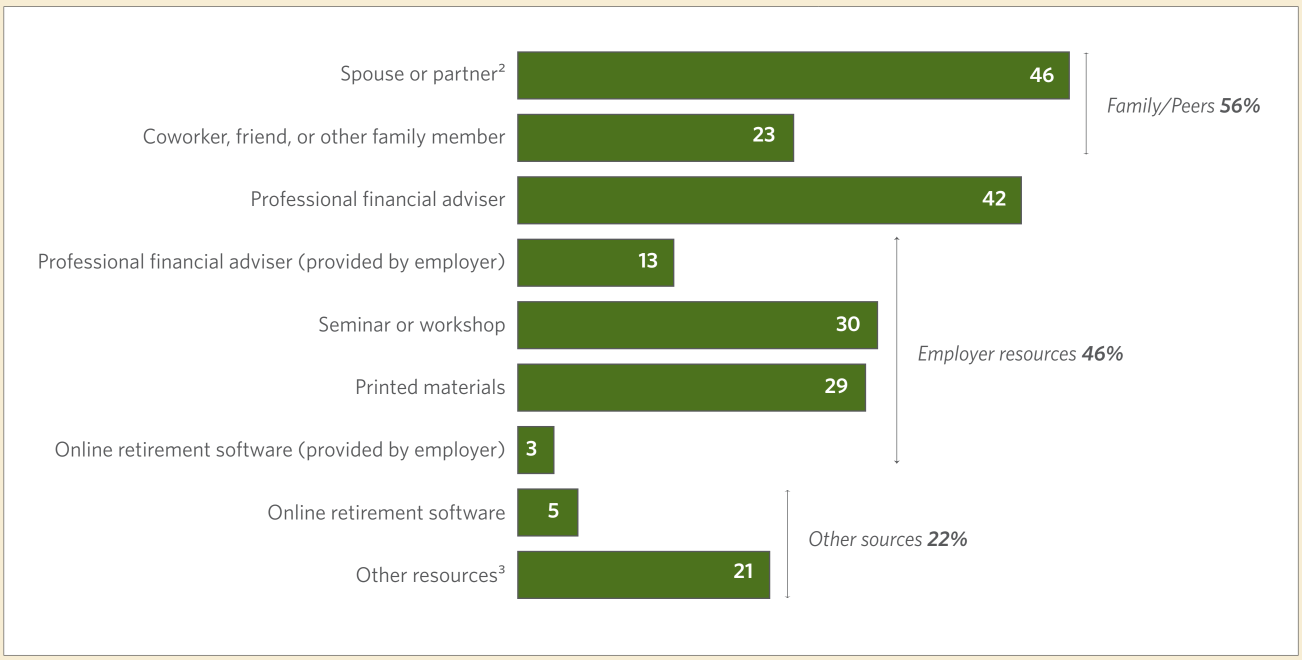
Retirees followed the advice they obtained to varying degrees. Of those who received advice from their spouses or partners, 89 percent said they followed that advice to at least some extent (Figure 2.2). Among those reporting help from professional advisers outside the workplace, 92 percent reported that they followed that advice to at least some extent.

The extent to which retirees followed the advice obtained through employer-provided seminars, workshops, financial advisers, or printed materials was also generally high. Fifty-one percent reported following the advice of online retirement software provided by their employers, far less than the 73 percent who followed the advice of an online calculator they obtained independently. However, the rates at which retirees followed advice provided in employer seminars or printed materials was generally on par with other sources of advice they obtained by themselves.

FIGURE 2.1

SOURCES OF ADVICE FOR DEFINED CONTRIBUTION PLAN DISTRIBUTION DECISIONS

PERCENTAGE OF RESPONDENTS WITH A CHOICE OF DISTRIBUTION OPTION[1]



[1]Multiple responses are included; 67 percent of respondents mentioned consulting multiple sources of advice. A total of 426 respondents is included in this figure.
[2]Among retirees with spouses or partners, 54 percent consulted their spouse or partner.
[3]Other resources include advice from a publication not provided by the employer, advice included in mutual fund company materials, and the retirees themselves.

[22] All told, 69 percent of respondents consulted a financial adviser found independently, provided by an employer, or both.

FIGURE 2.2

ADVICE REGARDING DEFINED CONTRIBUTION PLAN DISTRIBUTION DECISIONS

PERCENTAGE OF RESPONDENTS WHO HAD A CHOICE OF DISTRIBUTION OPTION BY ADVICE SOURCE AND EXTENT TO WHICH ADVICE WAS FOLLOWED[1]

		Extent to which advice was followed			
		Great extent	Some extent	Very little extent	No extent
Sources of advice					
Spouse or partner[2]	46	51	38	4	7
Coworker, friend, or family member other than spouse or partner	23	19	59	16	6
Professional financial adviser not provided by your employer	42	67	25	4	4
Materials or services provided by your employer[3]					
Professional financial adviser provided by your employer	13	40	36	15	9
Seminar or workshop sponsored by your employer	30	25	59	11	5
Printed materials provided by your employer	29	25	54	17	4
Advice generated by online retirement software provided by your employer[4]	3	26	25	31	18
Advice generated by online retirement software not provided by your employer[4]	5	22	51	15	12
Advice from a publication	15	4	68	21	7
Advice included in mutual fund company materials	10	15	60	20	5
Self[4]	3	78	0	0	22

[1]Multiple responses are included; 67 percent of respondents mentioned consulting multiple sources of advice. A total of 426 respondents is included in this figure.
[2]Among retirees with spouses or partners, 54 percent consulted their spouse or partner.
[3]On net, 46 percent of respondents consulted materials or services provided by their employers.
[4]The sample size for this category is small.

Options Offered and Selected

Retirees given a lump-sum distribution option most frequently took it. Of the 420 retirees who reported having multiple distribution options at retirement, 88 percent (371 respondents) had the choice to receive a lump sum (Figure 2.3). Of this group, 61 percent chose a full or partial lump-sum distribution. The most frequently selected alternative was a full deferral, which 17 percent of this group chose. Fourteen percent opted to annuitize their entire account balance and 7 percent chose installment payments from the full account balance left in the plan.

Of these 420 retirees, 65 percent (272 respondents) reported that an annuity was one of the options available (Figure 2.3). Thirty-two percent of the 272 respondents offered an annuity chose this option. More of the respondents in this group, 43 percent, took a full lump-sum distribution. Twelve percent chose to defer the distribution, and 9 percent selected installment payments.

Only 18 percent of the 238 retirees offered installment payments chose this option (Figure 2.3). As with the annuity-option group, the largest share, 43 percent, selected a full lump-sum distribution. The remaining retirees were primarily divided between selecting an annuity or a deferral, and many chose multiple dispositions.

Thirty-seven percent of the 288 respondents who reported that they were able to defer their distributions chose this option. Forty-two percent of the respondents offered a deferral option selected a lump-sum distribution, and 10 percent selected a full annuity.

FIGURE 2.3

DISTRIBUTION OPTIONS SELECTED FROM MULTIPLE CHOICES

PERCENTAGE OF RESPONDENTS WHO HAD EACH OPTION AMONG MULTIPLE CHOICES[1]

Had the option to take a lump-sum distribution	
Chose full or partial lump-sum distribution[2]	61
Chose another option	
Full installment payments	7
Full annuity	14
Full deferral of distribution	17
Combination of options that did not include lump-sum distribution	1
Number of respondents	*371*
Had the option to take an annuity	
Chose full or partial annuity[3]	32
Chose another option	
Full lump-sum distribution	43
Full installment payments	9
Full deferral of distribution	12
Combination of options that did not include an annuity	4
Number of respondents	*272*
Had the option to take installment payments	
Chose full or partial installment payments[4]	18
Chose another option	
Full lump-sum distribution	43
Full annuity	14
Full deferral of distribution	19
Combination of options that did not include installment payments	6
Number of respondents	*238*
Had the option to defer the distribution	
Chose full or partial deferral of the distribution[5]	37
Chose another option	
Full lump-sum distribution	42
Full installment payments	6
Full annuity	10
Combination of options that did not include deferral	5
Number of respondents	*288*

[1]Option selected is subject to the options that were offered to survey respondents. A total of 420 respondents who could specify all of their distribution options and one of the distribution outcomes classified above is included in this figure. A single survey respondent appears in at least two different rows in the figure.
[2]This category includes recipients of lump-sum distributions who chose to receive less than the full balance in the plan account as a lump sum.
[3]This category includes recipients of annuities who chose to receive less than the full balance in the plan account as an annuity.
[4]This category includes recipients of installment payments who chose to receive less than the full balance in the plan account in installment payments.
[5]This category includes recipients who chose to defer less than the full balance in the plan account.

Frequency of Distribution Choices

Combining the frequency with which an option is offered (Figure 1.5) with the frequency at which an option is chosen (Figure 2.3) results in the net effect of how often a particular outcome is realized. Among retirees who had multiple distribution options, 54 percent chose to receive a lump-sum distribution of all or some of their DC balances (Figure 2.4). The high frequency of the lump-sum distribution outcome is the result of the two-step process: retirees almost universally recalled having been offered a lump-sum option, and 61 percent took the lump sum when offered.

Twenty-five percent of retirees chose to defer the distribution of all or some of their DC balances, and 21 percent selected to annuitize all or some of their DC balances. Again, these are both lower than the total who chose lump sums because fewer retirees recalled having the option in the first place, and the fractions who chose the option conditional on it being offered were 37 percent and 32 percent respectively. The lowest take-up occurred for installments because both the offer rate and choice conditional on the offer were well below the other options.

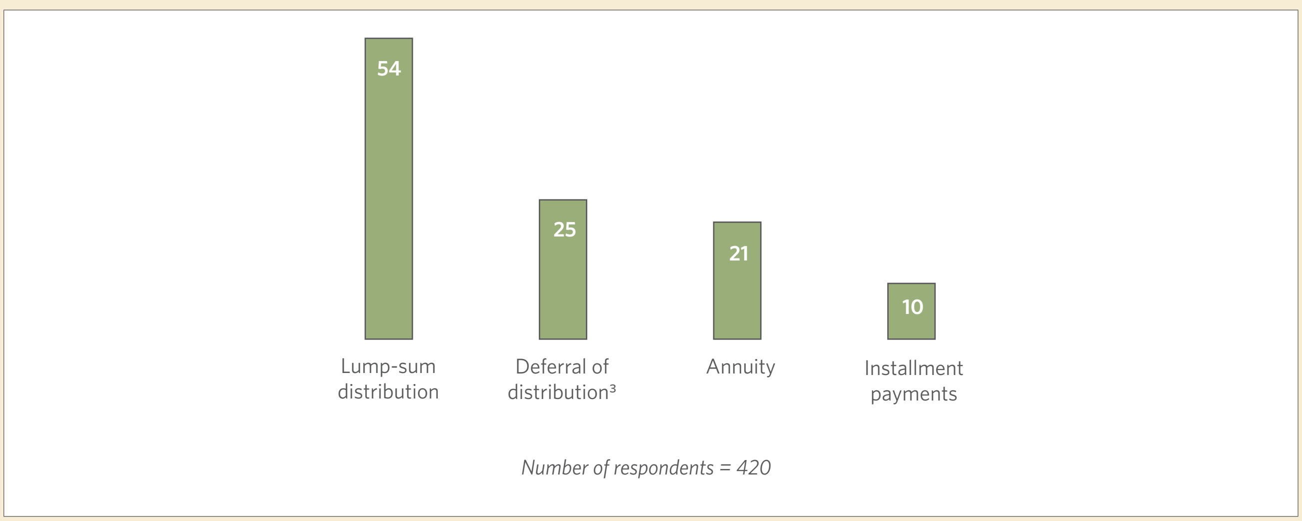
Stated Reasons for Distribution Choices

In response to an open-ended question, retirees offered a variety of reasons to explain why they chose particular distribution options. Retirees opting for lump-sum distributions wanted to manage their assets themselves, often through IRAs, had bills to pay, or planned to make a purchase (Figure 2.5). Retirees choosing to defer their distributions indicated that they did not need the money when they retired and wanted to continue accumulating assets. Retirees selecting annuities or installment payments stated that they were primarily concerned with securing steady streams of income.

FIGURE 2.4

DISTRIBUTION OPTIONS SELECTED BY RETIREES WITH CHOICE

PERCENTAGE OF RESPONDENTS WITH MULTIPLE OPTIONS[1, 2]



[1]The number of options reported is based upon respondents' recall. Not all respondents have all options. Six respondents with choice who indicated "other" was their distribution outcome were excluded from this analysis.
[2]Multiple responses are included; 45 respondents with multiple options chose to receive a partial lump-sum distribution with either a reduced annuity or reduced installment payments, or chose to defer receiving part of the proceeds.
[3]Distributions must begin on April 1 of the year following a retired person's attainment of age 70½.

FIGURE 2.5

REASONS FOR CHOOSING A DISTRIBUTION OPTION

THE THREE MOST FREQUENT RESPONSES TO AN OPEN-ENDED QUESTION, IN DESCENDING ORDER

Retirees choosing lump-sum distributions	Retirees choosing to defer distributions
1. Wanted to roll the money over into an IRA	1. Did not need the money at the time of retirement
2. Wanted to manage the money personally	2. Wanted the money to continue appreciating
3. Wanted to pay bills or make a purchase	3. Wanted to delay paying taxes on the money
Retirees choosing annuities	**Retirees choosing installment payments**
1. Wanted the regular income	1. Wanted the regular income
2. Wanted the security of a regular payment	2. Wanted to spread out the tax liability
3. Was the best choice given personal circumstances	3. Wanted to pay bills or make a purchase

Note: Multiple responses are included from retirees choosing more than one distribution option. A total of 426 respondents is included in this figure.

CHAPTER 3

Disposition of Defined Contribution Plan Lump-Sum Distributions at Retirement

More than half (59 percent) of the retirees surveyed received all or some of their plan balances as lump-sum distributions. Some of those retirees chose the lump sum in a multiple-options situation, while others recalled only having had the lump-sum option. Most took the full amount in a lump sum; combinations of a lump sum and other distribution methods were infrequent. Whether they received a full or partial distribution, lump-sum recipients typically reinvested all or most of the proceeds, primarily through IRA rollovers.

Retirees who spent all or some of the proceeds generally had received relatively small distributions. They used the proceeds for purchasing a primary residence or paying for home repair, household expenses, debt, healthcare, or travel.

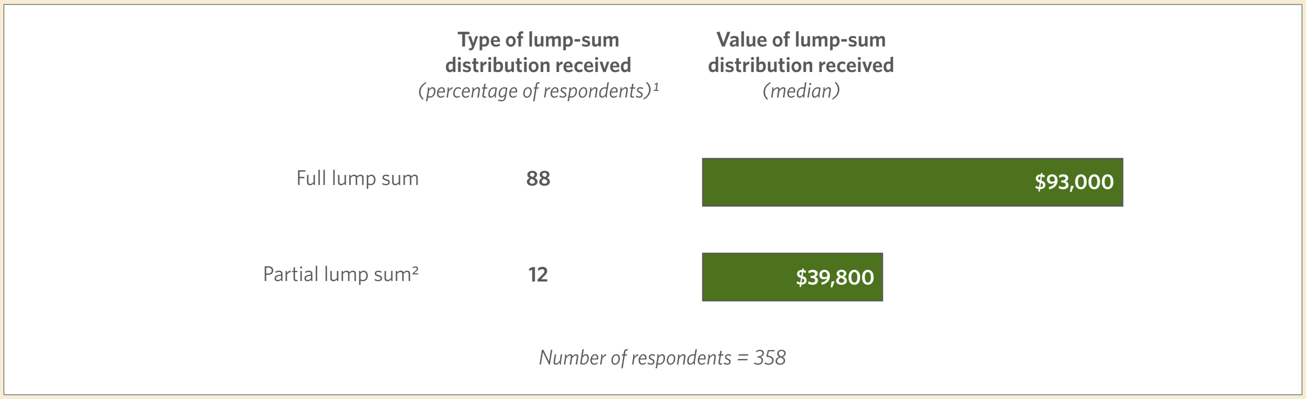
Retirees who spent all of the proceeds tended to receive high percentages of their retirement incomes from regular sources, such as Social Security or DB plan payments. In contrast, recipients of lump-sum distributions who reinvested the proceeds tended to have relatively higher levels of financial assets and incomes, suggesting they had no immediate need to spend the proceeds.

Frequency and Magnitude of Partial and Full Lump-Sum Distributions

Eighty-eight percent of retirees who received a lump-sum distribution took the entire account balance as a lump-sum distribution; 12 percent took only part of the account balance in a lump sum (Figure 3.1). Full lump-sum distributions were typically more than twice the size of partial distributions: the median value of full lump-sum distributions was $93,000, compared with $39,800 for partial lump-sum distributions.

FIGURE 3.1

TYPE AND VALUE OF LUMP-SUM DISTRIBUTIONS AT RETIREMENT



[1]The figure includes both respondents who recalled that a lump-sum distribution was their only distribution option and those with choice of options.
[2] Recipients took only part of their account balance as a lump-sum distribution. Recipients of reduced lump-sum distributions at retirement received the balance of their proceeds in either an annuity or installment payments, or chose to leave some proceeds in their employer-sponsored retirement plans.

Reinvestment and Use of Lump-Sum Distributions

Retirees receiving lump-sum distributions typically reinvested the proceeds. Overall, 86 percent reinvested all or some of the distribution: 62 percent reinvested the entire amount and 24 percent reinvested some of the proceeds (Figure 3.2). Only 14 percent spent the entire lump-sum distribution.[23] Retirees taking partial distributions were more likely to spend all or some of the proceeds than those taking full distributions.

Retirees who recalled having been able to receive plan balances only in lump-sum distributions were more likely to reinvest the entire amount than were retirees with multiple options who chose to receive lump sums (Figure 3.3). For example, 68 percent of those who had only the lump-sum option reinvested all their proceeds, compared with 58 percent of those who had multiple options.

The larger the distribution, the less likely that any of the amount was spent. Of recipients of a lump-sum distribution of $250,000 or more, only 3 percent spent all of the proceeds and 76 percent reinvested the entire amount (Figure 3.4). Furthermore, recipients who reinvested some and spent some of their proceeds typically spent only a small fraction. The median amount spent by these retirees was 20 percent of lump-sum proceeds, and the mean amount spent was 30 percent.[24] In addition, the percentage spent by those who reinvested some and spent some of their lump-sum proceeds declines as the distribution amount increases.

FIGURE 3.2

USE OF LUMP-SUM DISTRIBUTIONS BY TYPE

PERCENTAGE OF RESPONDENTS WHO RECEIVED LUMP-SUM DISTRIBUTIONS[1]

	All retirees who received lump-sum distributions	Type of lump-sum distribution	
		Full	Partial[2]
Reinvested all proceeds	62	64	41
Reinvested some proceeds, spent some proceeds[3]	24	22	42
Spent all proceeds	14	14	17
Number of respondents	*336*	*297*	*40*

[1]The figure includes both respondents who recalled that a lump-sum distribution was their only distribution option and those with choice of options.
[2]The sample size for this category is small. Recipients of reduced lump-sum distributions at retirement received the balance of their proceeds in either an annuity or installment payments, or chose to leave some proceeds in their employer-sponsored retirement plans.
[3]The median percentage of proceeds spent by these respondents is 20 percent. The mean percentage spent is 30 percent, and the dollar-weighted mean percentage spent is 14 percent.

[23] A recent Vanguard study on distributions from DC plans also suggests very high rates of asset preservation at job termination. Focusing on just lump-sum distributions, the Vanguard data indicated that about half of job-leavers took their balance in the form of cash rather than a rollover, but that number is not strictly comparable to the estimates in this study for several reasons. First, the Vanguard sample includes job-leavers at all stages of their careers, not solely retirees. Second, some of the job-leavers who took the disposition as cash may have rolled the money into an IRA themselves. In any case, the Vanguard data confirm the overall conclusion in this study that the bulk of lump-sum distribution dollars (86 percent) is directly rolled over, even for this broad group of job-leavers. The Vanguard data also reinforce the importance of a comprehensive analysis of account disposition because roughly half of the people terminating employment leave their account balances with their former employer. If that group is included in the analysis of account disposition, at least 93 percent of assets are preserved; the fraction is even higher to the extent that dispositions in the form of cash are deposited into an IRA or other account. See *How America Saves 2008: A Report on Vanguard 2007 Defined Contribution Plan Data* (Vanguard Institutional Investor Group: Valley Forge, Pa., 2008).

[24] The mean amount spent weighted by the value of the lump-sum proceeds is 14 percent.

FIGURE 3.3

USE OF LUMP-SUM DISTRIBUTIONS BY OPTIONS AVAILABLE

PERCENTAGE OF RESPONDENTS WHO RECEIVED LUMP-SUM DISTRIBUTIONS

		Options available[1]	
	All retirees who received lump-sum distributions	Only distribution option was a lump sum	Had multiple distribution options and selected lump sum
Reinvested all proceeds	62	68	58
Reinvested some proceeds, spent some proceeds[2]	24	16	29
Spent all proceeds	14	16	13
Number of respondents	*336*	*119*	*217*

[1]Available options reported are based upon respondents' recall.
[2]The median percentage of proceeds spent by these respondents is 20 percent. The mean percentage spent is 30 percent, and the dollar-weighted mean percentage spent is 14 percent.

FIGURE 3.4

USE OF LUMP-SUM DISTRIBUTIONS BY VALUE OF PROCEEDS

PERCENTAGE OF RESPONDENTS WHO RECEIVED LUMP-SUM DISTRIBUTIONS[1]

	Reinvested all proceeds	Reinvested some proceeds, spent some proceeds[2]	Spent all proceeds	*Number of respondents[3]*
Value of proceeds				
Less than $35,000	45	23	32	*82*
$35,000 to $99,999	65	24	11	*83*
$100,000 to $249,999	67	28	5	*76*
$250,000 or more	76	21	3	*67*
All	62	24	14	*336*

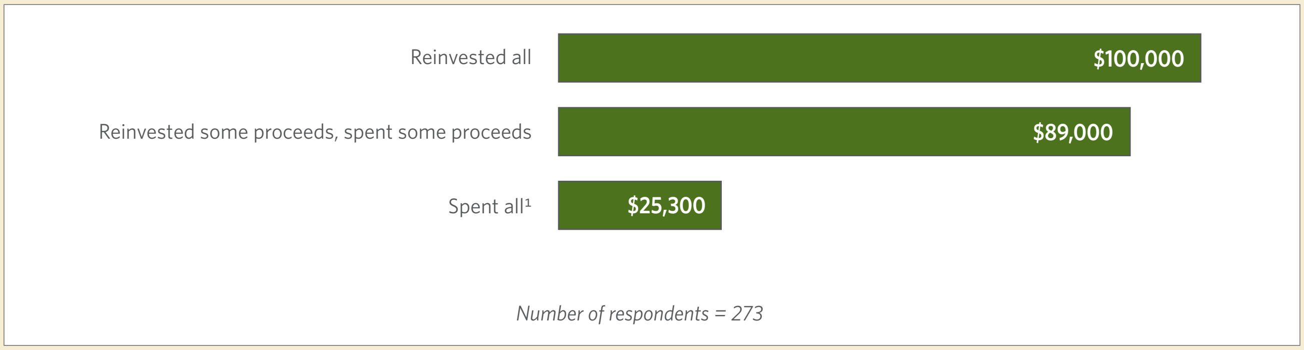
[1]The figure includes both respondents who recalled that a lump-sum distribution was their only distribution option and those with choice of options.
[2]The median percentage of proceeds spent by these respondents is 20 percent. The mean percentage spent is 30 percent, and the dollar-weighted mean percentage spent is 14 percent.
[3]The components do not add to the total because not all respondents reported lump-sum distribution amounts.

The same relationship is evident when comparing the disposition and median value of full lump-sum distributions. For the group that reinvested the entire amount, the median value of a full lump-sum distribution was $100,000 (Figure 3.5). For those who spent a portion and reinvested the remainder of the full distribution, the median value was $89,000. For those spending the entire amount, the median value of the full distribution was $25,300.

FIGURE 3.5

VALUE OF FULL LUMP-SUM DISTRIBUTIONS BY USE OF PROCEEDS

MEDIAN



[1]The sample size for this category is small.

Note: Analysis of the value of partial lump-sum distributions by use of proceeds was not possible due to small sample sizes.

FIGURE 3.6

SOURCES OF ADVICE FOR REINVESTING LUMP-SUM DISTRIBUTIONS

PERCENTAGE OF RESPONDENTS WHO REINVESTED ALL OR SOME OF THEIR LUMP-SUM DISTRIBUTIONS[1]

		Extent to which advice was followed			
		Great extent	Some extent	Very little extent	No extent
Sources of advice					
Spouse or partner[2]	39	37	46	11	6
Coworker, friend, or family member other than spouse or partner	16	29	46	24	1
Professional financial adviser not provided by your employer	64	73	24	2	1
Materials or services provided by your employer[3]					
Seminar or workshop sponsored by your employer	11	12	44	30	14
Printed materials provided by your employer	10	12	52	30	6
Professional financial adviser provided by your employer	9	55	26	19	0
Advice generated by online retirement software provided by your employer[4]	2	15	31	0	54
Advice generated by online retirement software not provided by your employer[4]	4	16	56	21	7
Advice from a publication	12	11	61	28	0
Advice included in mutual fund company materials	10	9	74	17	0
Self[4]	1	100	0	0	0

[1]Multiple responses are included. A total of 310 respondents is included in this figure.
[2]Among retirees with spouses or partners, 47 percent consulted their spouse or partner.
[3]On net, 21 percent of respondents consulted materials or services provided by their employers.
[4]The sample size for this category is small.

Sources of Advice for Reinvestment of Lump-Sum Distributions

Lump-sum distribution recipients who reinvested their proceeds frequently relied on professional financial advisers for advice and indicated that they closely followed the advice. Sixty-nine percent of lump-sum recipients cited professional financial advisers as a source for advice, most (64 percent) having obtained the adviser independently rather than through their employers (9 percent; Figure 3.6). Seventy-three percent of those who received independent professional advice said they adhered to the advice to a great extent; 55 percent did so when their employers provided the advising services. Thirty-nine percent indicated that they consulted a spouse or partner for reinvestment advice and generally gave that person's advice significant consideration. Overall, 21 percent said they received one or more forms of guidance from their employers, with nearly equal fractions mentioning seminars or workshops, printed materials, and the services of a professional financial adviser. Sixteen percent or fewer mentioned seeking advice from various other specific sources, including friends or coworkers, publications, retirement software, mutual fund publications, and the Internet.

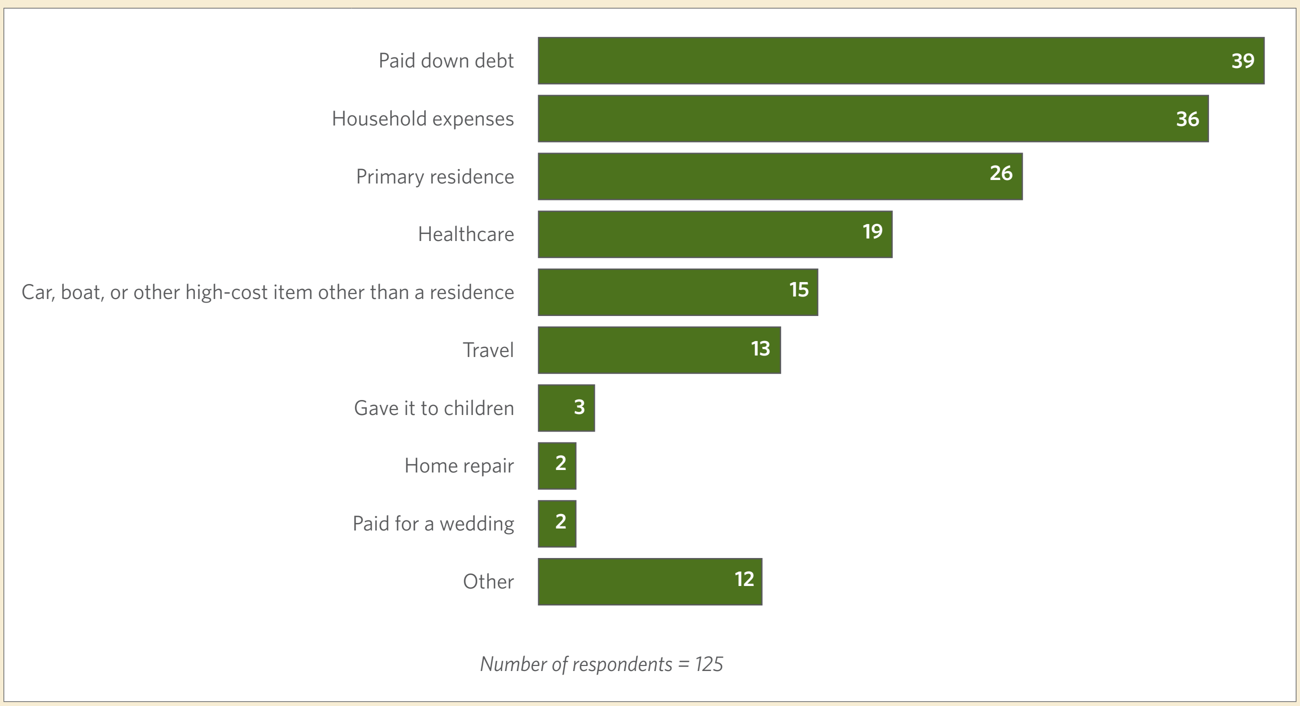
Expenditures Made with Lump-Sum Distributions

Recipients of lump-sum distributions who spent all or some of the proceeds put the proceeds to a variety of uses. The most often cited lump-sum use was to pay down debt, with 39 percent of lump-sum recipients indicating that they used all or some of their proceeds for debt repayment (Figure 3.7). Thirty-six percent used the funds for household expenses, 26 percent purchased a home (primary residence), and 19 percent paid for healthcare.

FIGURE 3.7

GOODS OR SERVICES PURCHASED WITH LUMP-SUM DISTRIBUTIONS

PERCENTAGE OF RESPONDENTS WHO SPENT ALL OR SOME OF THEIR LUMP-SUM DISTRIBUTIONS



Note: Multiple responses are included.

Characteristics of Lump-Sum Distribution Recipients by Use of Proceeds

Lump-Sum Distribution Recipients Who Reinvested All Proceeds

Lump-sum distribution recipients who reinvested all their proceeds typically had substantial financial assets, high household income, and a long financial planning horizon—characteristics shared with retirees who deferred their distributions. Indeed, the only functional difference between deferring a distribution and reinvesting all proceeds of a distribution lies in where the assets are held. Thus, it is not surprising to find similarities between the two groups.

Those who reinvested all proceeds had a median total household financial assets of $531,900, household income of $66,400, and a financial planning horizon of 18 years at the time of the survey (Figure 3.8). Forty-nine percent indicated that they received DB plan payments, and 47 percent with spouses or partners said that these individuals were receiving DB plan payments. Overall, 70 percent of retiree households that reinvested all of their lump-sum distribution reported DB payments for either the retiree or spouse or partner. Regular income payments accounted for more than half of these retiree households' income. DB payments were 23 percent of household income at the time of the survey, Social Security income accounted for another 27 percent of household income, and another 2 percent of income came from other annuities. In addition, 23 percent of these households' income came from working.

Lump-Sum Distribution Recipients Who Reinvested and Spent Some Proceeds

Lump-sum distribution recipients who reinvested some and spent some of their proceeds also were relatively well off, but not to the same extent as those who reinvested all of their proceeds. Recipients who reinvested some and spent some of their proceeds had a median household income of $50,500 and median total household financial assets of $189,200 (Figure 3.8). The median financial planning horizon of recipients who spent some proceeds was 12 years, significantly shorter than those of recipients who reinvested all proceeds, even though members of the two groups retired at about the same age and were in similar health.

DB plan coverage appears relatively similar between the lump-sum recipients who reinvested all of their proceeds and those who reinvested some: 49 percent of the households reinvesting part of their lump sums received DB plan payments themselves and 48 percent reported that their spouse or partner had DB benefits (Figure 3.8). However, on net, 61 percent of retiree households that reinvested some of their lump-sum distribution reported DB payments for either the retiree or spouse or partner, compared with 70 percent among households reinvesting all of their lump-sum distribution. In addition, the fraction of household income from DB plans of those who reinvested some of their lump sum was slightly lower compared with households reinvesting all proceeds, and the fraction of income from Social Security benefits was slightly higher. Among households reinvesting part of the lump-sum proceeds, DB payments, Social Security, and other annuity income accounted for 54 percent of their household income.

Lump-Sum Distribution Recipients Who Spent All Proceeds

Only 14 percent of lump-sum distribution recipients spent all of their proceeds (Figure 3.2). Their median household income was $40,600, and their median total household financial assets were $60,100, both well below lump-sum recipients who saved all or part of the distribution (Figure 3.8). This group's financial planning horizon was typically nine years, the shortest horizon among the lump-sum groups. Retirees who spent all their proceeds were more likely to be female, unmarried, or have had family health concerns (reported fair or poor health) when compared with recipients of lump-sum distributions who reinvested all or some proceeds. This group also expressed concern about maintaining their standard of living in retirement.

Lump-sum recipients who spent all of the proceeds reported the highest dependence on Social Security, reporting that 45 percent of household income came from Social Security (Figure 3.8). These households had slightly lower levels of DB coverage, with 46 percent of respondents receiving DB plan payments, and more than half with spouses or partners said that these individuals were receiving DB plan payments, but on net, 57 percent of these households had DB plan benefits. Altogether, Social Security payments, DB plan payments, and other annuity income accounted for 67 percent of this group's household income.

FIGURE 3.8

CHARACTERISTICS OF LUMP-SUM DISTRIBUTION RECIPIENTS BY USE OF PROCEEDS

PERCENTAGE OF RESPONDENTS BY USE OF LUMP-SUM PROCEEDS

		Use of proceeds from lump-sum distribution		
	Any lump sum	Reinvested all proceeds	Reinvested some proceeds, spent some proceeds	Spent all proceeds[1]
Age at retirement[2]				
Younger than 65	74	76	76	65
65 to 69	22	21	16	31
70 or older	4	3	8	4
Age at retirement (median)	62 years	62 years	62 years	62 years
Years planning ahead financially (median)	15 years	18 years	12 years	9 years
Health status[2]				
Excellent	33	37	23	34
Good	50	48	59	46
Fair or poor	17	15	18	20
Self-assessed life expectancy (median)	85 years	85 years	85 years	85 years
Educational level[2]				
High school or less	21	16	17	40
Some college or associate's degree	37	35	50	29
Completed four years of college	16	21	14	5
Some graduate school	9	10	3	10
Completed graduate school	17	18	16	16
Marital status				
Married or living with a partner	74	79	70	55
Single	3	2	1	8
Divorced or separated	10	9	16	11
Widowed	13	10	13	26
Household investment decisionmaker				
Male is sole or co-decisionmaker	53	51	62	46
Female is sole or co-decisionmaker	47	49	38	54
Employment status of retiree surveyed				
Works full-time	4	4	6	0
Works part-time	24	24	26	23
Is not working	72	72	68	77
Contributes to a DC plan[3]	18	21	14	7
Receives DB plan payments	48	49	49	46
Employment status of spouse or partner[4]				
Works full-time	18	18	16	23
Works part-time	18	18	17	17
Is not working	64	64	67	60
Contributes to a DC plan[3]	54	59	47	57
Receives DB plan payments	47	47	48	54

Figure is continued on the next page; see notes at end of figure.

FIGURE 3.8 CONTINUED

	Any lump sum	Use of proceeds from lump-sum distribution: Reinvested all proceeds	Reinvested some proceeds, spent some proceeds	Spent all proceeds[1]
Total household income[5]				
Less than $30,000	19	12	25	39
$30,000 to less than $50,000	24	24	24	20
$50,000 to less than $100,000	38	39	37	31
$100,000 or more	19	25	14	10
Median	$58,900	$66,400	$50,500	$40,600
Mean percentage of household income[5] from				
Social Security payments	31	27	33	45
DB plan payments	21	23	19	20
IRA withdrawals	6	6	8	2
Salary from full- or part-time job	22	23	21	14
Interest or dividends	9	10	7	4
Installment payments from DC plan	4	4	6	2
Annuity	2	2	2	2
Other sources	5	5	4	11
Household financial assets[6]				
Less than $100,000	26	14	39	61
$100,000 to less than $500,000	34	34	38	25
$500,000 or more	40	52	23	14
Median	$364,700	$531,900	$189,200	$60,100
Home ownership				
Owns home	96	97	98	90
Has a mortgage[7]	54	52	58	66
Home equity (median)[7, 8]	$180,000	$216,100	$150,000	$95,700
Value of home (median)[7]	$250,000	$250,000	$247,200	$180,000
Mortgage balance (median)[9]	$87,400	$86,900	$87,500	$70,400
Type of plan from which DC proceeds came[10]				
401(k) plan	76	78	75	79
403(b), 457, TSP, or other type of plan	24	22	25	21
Concerns in retirement				
Greatest concerns in retirement	1. Having the value of your investments decline 2. Having the value of your investments eroded by inflation	1. Paying for healthcare needs 2. Having the value of your investments decline	1. Having the value of your investments decline 2. Maintaining a comfortable standard of living	1. Maintaining a comfortable standard of living 2. Having the value of your investments eroded by inflation

Figure is continued on the next page; see notes at end of figure.

FIGURE 3.8 CONTINUED

		Use of proceeds from lump-sum distribution		
	Any lump sum	Reinvested all proceeds	Reinvested some proceeds, spent some proceeds	Spent all proceeds[1]
Concerns in retirement				
Greatest concerns in retirement	3. Paying for healthcare needs eroded by inflation	3. Having the value of your investments	3. Paying for healthcare needs	3. Managing financially should you become sick or disabled
Number of respondents[11]	*358*	*207*	*82*	*47*

[1]The sample size for this category is small.
[2]Data reported are for the sole or co-decisionmaker for saving and investing surveyed.
[3]Figure reported is of those working full- or part-time.
[4]Figure reported is of those married or living with a partner.
[5]Household income reported is annual household income before taxes at the time of the survey.
[6]Household financial assets include assets held in employer-sponsored retirement plans but exclude the household's primary residence.
[7]Figure reported is of those who own a home.
[8]Home equity is the difference between the value of the home less any mortgage or home equity lines borrowed against it.
[9]The mortgage balance represents the primary mortgage and any home equity lines borrowed against the house.
[10]Types of plan reported are based upon respondents' recall.
[11]Number of respondents does not sum to total because of missing data on reinvestment of proceeds.

Portfolio Holdings of Lump-Sum Distribution Recipients

As a group, lump-sum recipients held a broad range of assets and generally balanced portfolios (Figure 3.9). Seventy-two percent of lump-sum recipients were equity owners, and equities accounted for 36 percent of their household financial assets. Nearly 40 percent owned bonds or bond mutual funds, and together with bank deposits, CDs, and money markets funds, these accounted for 32 percent of their household financial assets.

Reinvestment of Lump-Sum Distributions in IRAs

Eighty-eight percent of lump-sum distribution recipients who reinvested their proceeds rolled all or some of the assets into IRAs (Figure 3.10). Sixty-five percent rolled over the entire plan balance into IRAs; 9 percent rolled over some of the balance into IRAs and spent the remainder; 11 percent reinvested some in IRAs and some outside IRAs and spent the remainder; and 3 percent spent none and rolled over some of the balance into IRAs and reinvested the remainder outside IRAs. The remaining

FIGURE 3.9

FINANCIAL INVESTMENTS OF LUMP-SUM DISTRIBUTION RECIPIENTS

	Any lump sum[1]
Investments owned at the time of the survey[2]	
Percentage of respondents who received lump-sum distributions	
Bank deposits, certificates of deposit, money market, etc.	87
Individual stocks or stock mutual funds (including employer stock)[3]	72
Individual bonds or bond mutual funds (including U.S. savings bonds)[4]	39
Fixed annuities	29
Variable annuities	24
Real estate other than a primary residence	27
Whole life insurance with an accumulated cash value	29
Other types of investments	8
Allocation of investments owned at the time of the survey	
Mean percentage of household financial assets[5]	
Bank deposits, certificates of deposit, money market, etc.	22
Individual stocks or stock mutual funds (including employer stock)[3]	36
Individual bonds or bond mutual funds (including U.S. savings bonds)[4]	10
Fixed annuities	9
Variable annuities	7
Real estate other than a primary residence	8
Whole life insurance with an accumulated cash value	5
Other types of investments	3
Number of respondents	*358*

[1]This category includes lump-sum recipients who reinvested all proceeds, reinvested some proceeds and spent some proceeds, and spent all proceeds.
[2]Multiple responses are included.
[3]This category includes balanced mutual funds allocated to equities (60 percent of respondents' balanced mutual fund holdings).
[4]This category includes balanced mutual funds allocated to bonds (40 percent of respondents' balanced mutual fund holdings).
[5]Household financial assets include assets held in employer-sponsored retirement plans but exclude the household's primary residence.

12 percent did not invest any of their lump sums in IRAs: 4 percent reinvested their entire distributions outside of an IRA, while the other 8 percent reinvested part of the distribution outside IRAs and spent the remainder.

Reinvestment Patterns

The reinvestment patterns of retirees who rolled over all or some of their lump-sum distributions into IRAs or other investments were similar to the overall pattern of financial asset holdings at the time of the survey. Retirees with reinvested lump sums had on average allocated 41 percent of the distribution to equities (directly or through mutual funds) and about one-third to fixed-income investments (bank deposits, money market funds, individual bonds, or bond mutual funds). Fixed or variable annuity investments accounted for another 18 percent of the reinvested proceeds (Figure 3.11).

FIGURE 3.10

REINVESTMENT OF LUMP-SUM DISTRIBUTIONS IN IRAs AT RETIREMENT

PERCENTAGE OF RESPONDENTS WHO RECEIVED LUMP-SUM DISTRIBUTIONS AND REINVESTED ALL OR SOME OF THE PROCEEDS

Reinvested proceeds in an IRA	**88**
Reinvested all proceeds in an IRA	65
Reinvested some proceeds in an IRA, spent some	9
Reinvested some proceeds in an IRA and some outside an IRA, spent some	11
Reinvested some proceeds in an IRA and some outside an IRA, spent none	3
Reinvested proceeds, but not in an IRA	**12**
Reinvested entire amount outside an IRA	4
Reinvested some outside an IRA, spent some	8
Number of respondents	*285*

FIGURE 3.11

ALLOCATION OF INVESTMENTS PURCHASED WITH LUMP-SUM DISTRIBUTIONS

MEAN PERCENTAGE OF REINVESTED PROCEEDS

All lump-sum distribution recipients who reinvested proceeds[1]	
Bank deposits and money market funds	17
Individual bonds or bond mutual funds (including U.S. savings bonds)[2]	18
Individual stock or stock mutual funds (including employer stock)[3]	41
Fixed or variable annuities	18
Real estate other than a primary residence	1
Other types of investments	5
Number of respondents	*255*

[1]This category includes respondents who reinvested proceeds in IRAs, outside IRAs, and a combination of both.
[2]This category includes balanced mutual funds allocated to bonds (40 percent of respondents' balanced mutual fund holdings).
[3]This category includes balanced mutual funds allocated to equities (60 percent of respondents' balanced mutual fund holdings).

CHAPTER 4

Characteristics of Retirees Annuitizing or Deferring Account Balances

The groups of retirees annuitizing or deferring all or some of their DC account balances are not nearly as large as the group with lump-sum distributions, though each is a sizable minority constituting about one-fifth of the total sample.

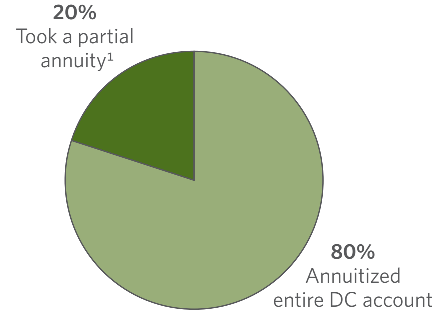
Annuitants most often converted the entire DC account balance to a steady income flow, though some chose a partial annuity. Annuitants are more likely to be women, single, and have lower household financial assets. They are also much more likely already to be receiving DB pensions and to have received the distribution from plans other than a private-sector 401(k) plan.

Retirees whose options involved deferring balances were also very likely to defer the entire balance, with only a small share deferring only part. Those retirees with deferral outcomes had generally higher income and wealth, including higher DC account balances. The majority of retirees with deferral outcomes indicated that they were not likely to take withdrawals from the balance any time during the next three years, and most of the assets in the accounts were in publicly traded stocks, bonds, and mutual funds.

FIGURE 4.1

TYPE OF ANNUITY DISTRIBUTION AT RETIREMENT

PERCENTAGE OF RESPONDENTS WHO ANNUITIZED ALL OR SOME OF THEIR DC ACCOUNT BALANCE



Number of respondents = 133

[1]A partial annuity refers to retirees who took only part of their DC account balance as an annuity. Recipients of reduced annuities at retirement received the balance of their proceeds in either a lump sum or installment payments, or chose to leave some proceeds in their employer-sponsored retirement plans.

Annuitants

Retirees who annuitized all or some of their DC account balance were the second-largest group in the sample, after those who received a lump-sum distribution. Of the 608 respondents who completed the survey, 22 percent (or 133 respondents) indicated that they annuitized all or part of the account balance (Figure 4.1). Within the annuitant population, 80 percent annuitized the entire balance.

Characteristics of Annuitants

Respondents who annuitized DC balances differed from the rest of the sample—particularly those who received lump-sum distributions—in several ways (Figures 4.2 and A.3). The annuitant group was generally several years younger and had lower financial assets (although that in part is due to the effect of having annuitized their DC balances). Annuitants were slightly more likely to be women and single, though the differences were in the single percentage point range.[25] In addition, those receiving annuities indicated longer planning horizons, which is consistent with annuitization.

The role that annuity payments play in retirees' overall economic circumstances also stands out, particularly when compared with retirees who received lump-sum distributions. Annuitants are much more likely than lump-sum recipients to have a DB plan (characteristics of lump-sum recipients are shown in Figures 3.8 and A.3), and the share of income accounted for by DB payments is much higher for the annuitants compared with lump-sum distribution recipients. This may seem at odds with the desirability of an annuity distribution—why would those retirees who already have a large share of their wealth in a DB plan want to annuitize their DC balance as well?

The answer to this apparent annuitization puzzle may involve the type of plan from which the DC balances are being distributed. Only 33 percent of annuitants reported that their distribution came from a private-sector 401(k) plan; the corresponding number for those receiving lump-sum distributions is 76 percent (Figures 4.2 and A.3). Thus, those retiring from government and nonprofit service occupations are more likely to annuitize, which can be explained by a variety of factors, including their eligibility for Social Security benefits, their own risk preferences, or the institutional influences they encounter when making their distribution decision.[26]

[25] Women are generally presumed to be more likely to annuitize because they have higher life expectancies. In 2007, the average remaining life expectancy at age 65 for women was 19.8 years and for men it was 17.5, a difference of 2.3 years. See Social Security Administration, Table V.A3 in *The 2008 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, available at www.ssa.gov/OACT/TR/TR08/index.html.

[26] For example, some state and local employees covered by 403(b) plans do not contribute to or receive benefits from Social Security, which is the principal source of annuitized income for most retirees.

FIGURE 4.2

CHARACTERISTICS OF ANNUITANTS

PERCENTAGE OF RESPONDENTS WHO ANNUITIZED ALL OR SOME OF THEIR DC ACCOUNT BALANCES

	All annuitants
Age at retirement[1]	
Younger than 65	84
65 to 69	11
70 or older	5
Age at retirement (median)	60 years
Years planning ahead financially (median)	20 years
Health status[1]	
Excellent	37
Good	46
Fair or poor	17
Self-assessed life expectancy (median)	85 years
Educational level[1]	
High school or less	16
Some college or associate's degree	40
Completed four years of college	11
Some graduate school	11
Completed graduate school	22
Marital status	
Married or living with a partner	72
Single	8
Divorced or separated	13
Widowed	7
Household investment decisionmaker	
Male is sole or co-decisionmaker	50
Female is sole or co-decisionmaker	50
Employment status of retiree surveyed	
Works full-time	3
Works part-time	25
Is not working	72
Contributes to a DC plan[2]	28
Receives DB plan payments	78
Employment status of spouse or partner[3]	
Works full-time	19
Works part-time	19
Is not working	62
Contributes to a DC plan[2]	41
Receives DB plan payments	50

Figure is continued on the next page; see notes at end of figure.

FIGURE 4.2 CONTINUED

	All annuitants
Total household income[4]	
Less than $30,000	17
$30,000 to less than $50,000	23
$50,000 to less than $100,000	44
$100,000 or more	16
Median	$60,000
Mean percentage of household income[4] **from**	
Social Security payments	25
DB plan payments	35
IRA withdrawals	1
Salary from full- or part-time job	18
Interest or dividends	5
Installment payments from DC plan	7
Annuity	5
Other sources	4
Household financial assets[5]	
Less than $100,000	29
$100,000 to less than $500,000	42
$500,000 or more	29
Median	$225,000
Home ownership	
Owns home	96
Has a mortgage[6]	48
Home equity (median)[6, 7]	$171,800
Value of home (median)[6]	$225,000
Mortgage balance (median)[8]	$86,500
Type of plan from which DC proceeds came[9]	
401(k) plan	33
403(b), 457, TSP, or other type of plan	67
Concerns in retirement	
Greatest concerns in retirement	1. Having the value of your investments eroded by inflation 2. Paying for healthcare needs 3. Protecting your family from the unexpected
Number of respondents	*133*

[1]*Data reported are for the sole or co-decisionmaker for saving and investing surveyed.*
[2]*Figure reported is of those working full- or part-time.*
[3]*Figure reported is of those married or living with a partner.*
[4]*Household income reported is annual household income before taxes at the time of the survey.*
[5]*Household financial assets include assets held in employer-sponsored retirement plans but exclude the household's primary residence.*
[6]*Figure reported is of those who own a home.*
[7]*Home equity is the difference between the value of the home less any mortgage or home equity lines borrowed against it.*
[8]*The mortgage balance represents the primary mortgage and any home equity lines borrowed against the house.*
[9]*The type of plan reported is based upon respondents' recall.*

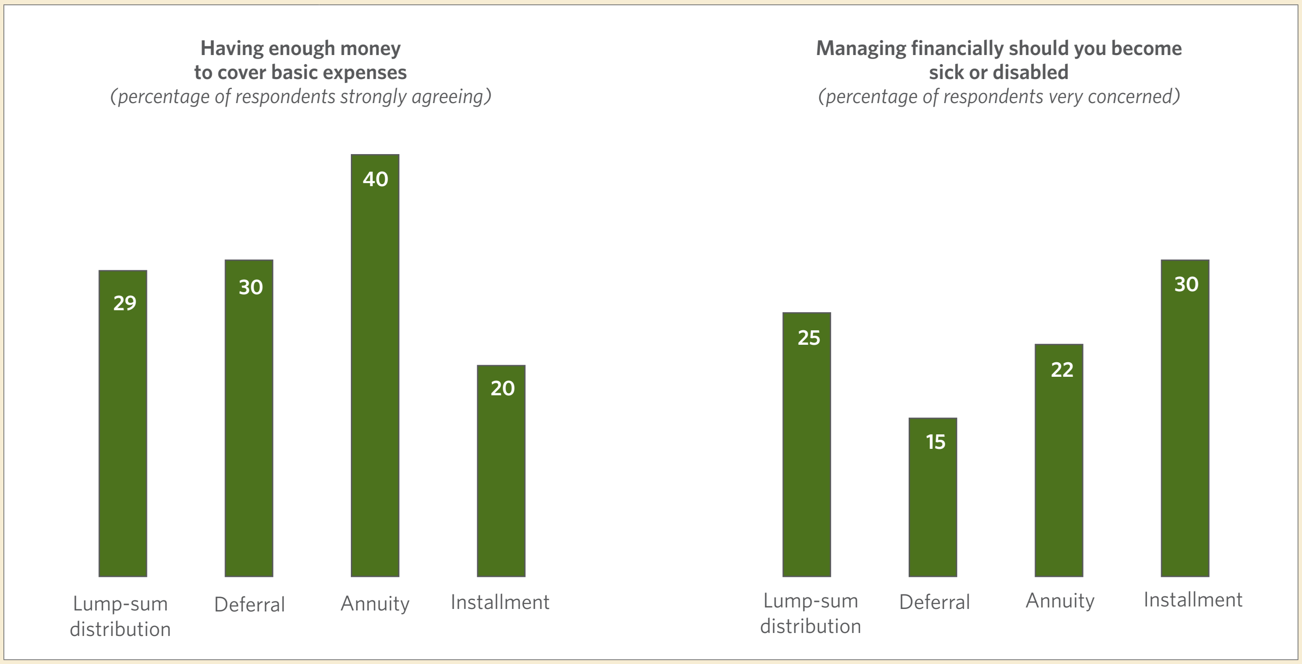
Annuitant Views on Financial Security

Retirees who annuitized all or some of their DC plan balances generally indicated contentment with their financial situation. Annuitants more frequently mentioned that they had enough money to cover basic expenses throughout their retirement (40 percent; Figure 4.3). In addition, only 22 percent of annuitants were very concerned about managing financially should they become sick or disabled.[27]

FIGURE 4.3

RETIREES' VIEWS ON FINANCIAL SECURITY

PERCENTAGE OF RESPONDENTS BY DISTRIBUTION OUTCOME



Note: See Figures A.4 and A.7 for additional views and concerns. A total of 608 respondents is included in this figure.

[27] See Figures A.4 and A.7 for a complete analysis of retirees' views on their financial situations and concerns in retirement by distribution outcome.

Retirees Deferring Distributions

After lump-sum distributions and annuitants, retirees who deferred all or some of their DC withdrawal (left the balance in their employers' plan at retirement) make up the next largest group. Overall, 104 of the 608 respondents deferred their withdrawal (Figure 4.4). Within the group who deferred withdrawal, 89 percent deferred the entire balance.

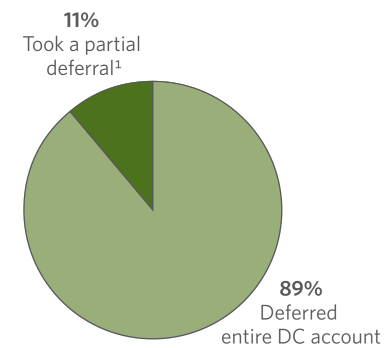
Characteristics of Retirees Deferring Distributions

Retirees who deferred withdrawal had higher incomes, higher financial assets, were more likely to be married, more likely to be receiving DB pension benefits, and in better health (Figure 4.5). All of these factors indicate that the retirees lacked an immediate need for access to the DC account balance; for this reason, leaving the money with their employers could be a sound decision.[28]

FIGURE 4.4

TYPE OF DEFERRAL DISTRIBUTION AT RETIREMENT

PERCENTAGE OF RESPONDENTS WHO DEFERRED ALL OR SOME OF THEIR DC ACCOUNT BALANCE



Number of respondents = 104

[1]Only part of the account balance was taken as a deferral. Recipients of reduced deferrals at retirement received the balance of their proceeds in a lump sum, in installment payments, or as an annuity.

[28] The employer-sponsored plan may have a wide range of investment options accessible only through the plan, may benefit from economies of scale, and may be subsidized in part by the employer.

FIGURE 4.5

CHARACTERISTICS OF RETIREES DEFERRING DISTRIBUTIONS

PERCENTAGE OF RESPONDENTS WHO DEFERRED DISTRIBUTION OF ALL OR SOME OF THEIR DC ACCOUNT BALANCES

	All deferrals
Age at retirement[1]	
Younger than 65	82
65 to 69	18
70 or older	0
Age at retirement (median)	62 years
Years planning ahead financially (median)	18 years
Health status[1]	
Excellent	36
Good	58
Fair or poor	6
Self-assessed life expectancy (median)	85 years
Educational level[1]	
High school or less	14
Some college or associate's degree	34
Completed four years of college	14
Some graduate school	11
Completed graduate school	27
Marital status	
Married or living with a partner	77
Single	6
Divorced or separated	10
Widowed	7
Household investment decisionmaker	
Male is sole or co-decisionmaker	49
Female is sole or co-decisionmaker	51
Employment status of retiree surveyed	
Works full-time	1
Works part-time	28
Is not working	71
Contributes to a DC plan[2]	17
Receives DB plan payments	73
Employment status of spouse or partner[3]	
Works full-time	15
Works part-time	15
Is not working	70
Contributes to a DC plan[2]	30
Receives DB plan payments	65

Figure is continued on the next page; see notes at end of figure.

FIGURE 4.5 CONTINUED

	All deferrals
Total household income[4]	
Less than $30,000	11
$30,000 to less than $50,000	22
$50,000 to less than $100,000	48
$100,000 or more	19
Median	$66,900
Mean percentage of household income[4] from	
Social Security payments	22
DB plan payments	35
IRA withdrawals	4
Salary from full- or part-time job	23
Interest or dividends	8
Installment payments from DC plan	3
Annuity	1
Other sources	4
Household financial assets[5]	
Less than $100,000	20
$100,000 to less than $500,000	36
$500,000 or more	44
Median	$423,400
Home ownership	
Owns home	98
Has a mortgage[6]	38
Home equity (median)[6, 7]	$222,000
Value of home (median)[6]	$250,000
Mortgage balance (median)[8]	$100,000
Type of plan from which DC proceeds came[9]	
401(k) plan	49
403(b), 457, TSP, or other type of plan	51
Concerns in retirement	
Greatest concerns in retirement	1. Having the value of your investments decline 2. Having the value of your investments eroded by inflation 3. Paying for healthcare needs
Number of respondents	*106*

[1]Data reported are for the sole or co-decisionmaker for saving and investing surveyed.
[2]Figure reported is of those working full- or part-time.
[3]Figure reported is of those married or living with a partner.
[4]Household income reported is annual household income before taxes at the time of the survey.
[5]Household financial assets include assets held in employer-sponsored retirement plans but exclude the household's primary residence.
[6]Figure reported is of those who own a home.
[7]Home equity is the difference between the value of the home less any mortgage or home equity lines borrowed against it.
[8]The mortgage balance represents the primary mortgage and any home equity lines borrowed against the house.
[9]The type of plan reported is based on respondents' recall.

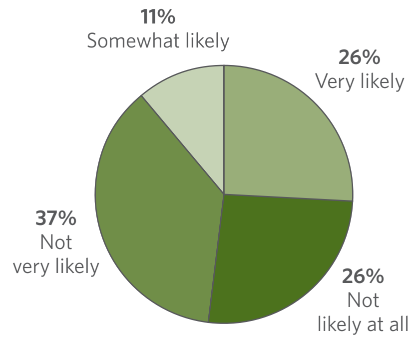
Deferred Account Balance Management

Respondents who left their account balance with their former employers' plans indicated that they were unlikely to begin withdrawing the money in the near future (Figure 4.6). Only 26 percent said they were very likely to take withdrawals of the money in the next three years, and another 11 percent said they were somewhat likely to do so. Thus, nearly two-thirds of respondents did not expect to make a withdrawal in the near-term, which is consistent with the view that these funds were not part of their immediate spending plans. The median time since retirement—the length of time the account balance had remained in the employer plan—was three years.

FIGURE 4.6

LIKELIHOOD OF WITHDRAWING FROM ACCOUNT BALANCE LEFT IN PLAN IN NEXT THREE YEARS

PERCENTAGE OF RESPONDENTS WHO DEFERRED DISTRIBUTION



Number of respondents = 88

Note: Retirees who deferred distribution had been retired a median of three years.

[29] The EBRI/ICI 401(k) database also finds a similar asset allocation among older 401(k) participants. At year-end 2006, on average, 401(k) participants in their sixties had 10 percent invested in employer stock, 47 percent in stocks and stock funds (including the stock portion of balanced funds), 16 percent in bonds and bond funds (including the bond portion of balanced funds), 19 percent in guaranteed investment contracts (GICs) and other stable value funds, and 6 percent in liquid assets. See Sarah Holden, Jack VanDerhei, Luis Alonso, and Craig Copeland, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2006," *ICI Perspective*, Vol. 13, No.1 and *EBRI Issue Brief*, No. 308 (Washington, DC: Investment Company Institute and Employee Benefit Research Institute, August 2007).

The allocation of the funds across investment options for respondents who deferred withdrawal is also consistent with a long-run view because the typical portfolio is not particularly conservative (Figure 4.7).[29] Employer stock accounts for 10 percent of assets, with other individual stocks or stock mutual funds accounting for another 47 percent. Bond mutual funds and individual bonds account for most of the rest of the investment portfolio, at 22 percent. In general, the growth orientation suggests that the respondents were not planning to use the resources in the near future.

Deferring Retirees' Views on Financial Security

Retirees who deferred distribution of all or some of their DC plan balances also generally indicated contentment in their financial situation. Only 15 percent of retirees with deferrals were very concerned about managing should they become sick or disabled (Figure 4.3).[30] Three in 10 deferral retirees strongly agreed that they had enough money to cover basic expenses throughout their retirement.

FIGURE 4.7

ASSETS REMAINING IN EMPLOYER RETIREMENT PLANS

MEAN PERCENTAGE OF DEFERRED DC ACCOUNT BALANCES AT THE TIME OF THE SURVEY

	All deferrals
Investment[1]	
Employer stock[2]	10
Individual stock and stock mutual funds[3]	47
Individual bonds and bond mutual funds[4]	22
Fixed annuities	9
Variable annuities	2
Liquid assets[5]	9
Other types of investments	1
Number of respondents	*98*

[1]*Investments reported are at the time of the survey.*
[2]*Employer stock is stock of the company at which the retiree worked prior to retirement. About one-quarter of retirees who deferred distribution held employer stock.*
[3]*This category includes balanced mutual funds allocated to equities (60 percent of respondents' balanced mutual fund holdings). This category does not include employer stock.*
[4]*This category includes balanced mutual funds allocated to bonds (40 percent of respondents' balanced mutual fund holdings).*
[5]*Liquid assets include bank deposits and money market mutual funds.*

[30] See Figures A.4 and A.7 for a complete analysis of retirees' views on their financial situations and concerns in retirement by distribution outcome.

APPENDIX A

Survey Methodology and Characteristics of Survey Respondents

Research Design

This report is based upon a survey of retirees who were participating in defined contribution (DC) plans and other individual account plans at the time they retired. The purpose of the survey was to gather information on workers' decisions about their account balances at retirement. To be eligible for the survey, the respondent must have satisfied the following criteria:

1. Be the primary decisionmaker or co-decisionmaker for saving and investment decisions;
2. Have retired from his or her lifetime occupation in 2002 or later;
3. Have personally contributed to a DC plan or some other individual account plan at the organization from which he or she retired; and
4. Determined how his or her account balance was invested before retiring.

The questionnaire for the survey was designed by the Investment Company Institute. The Custom Research Division of GfK North America designed the sample procedures and conducted the interviews. The respondents for this research were initially contacted by telephone, sent a questionnaire and exhibits, and then recontacted by telephone to complete the survey.

Sample Frame

Because the survey's targeted population was specifically defined, two different sampling methods were used to find qualified households in the total population. To achieve a reliable, representative sample, one-third of the individuals recruited to participate in the study were drawn from a random sample of households identified as likely to include one or more persons aged 60 to 74 years, the age group most likely to be recently retired.[31] This sample is called the age-targeted sample.

The remaining two-thirds of the individuals recruited to participate in the study were drawn from a list of households identified as having at least one member who had retired in the five years preceding the survey. The list that was drawn is part of an extensive database of households that includes their specific demographic and behavioral characteristics and is carefully balanced by key demographic variables. GfK has found that samples drawn from this database closely match samples independently drawn using rigorous probability sampling methods. This group of respondents represents the list-based sample.

[31] The database from which the sample was drawn includes data collected from all U.S. white-page telephone directories and automobile registration information from states that make this information available. Each record in the database has a score attached that predicts the head of the household's age based on either known age-related data or a statistical estimate of age computed from individual household characteristics, U.S. Census demographic information, voter registration, and driver's license information. The sample was drawn from those households with high scores for containing a household head aged 60 to 74 years.

Weighting

The two samples were combined using weights developed from a two-step process. First, a demographic profile of screened and eligible respondents from the age-targeted sample was developed. Second, an iterative proportional fitting algorithm was used to develop weights for respondents drawn from the list-based sample. The weights brought the distribution of these respondents into line with the distribution of the age-targeted sample for age, gender, income, education, and Census region.

Data Collection

The survey used a telephone-mail-telephone methodology. Respondents were required to provide detailed financial and retirement information, and this methodology gave them the opportunity to review their financial records and assemble the necessary information to complete the questionnaire.

The initial telephone interviews were conducted in October 2007. These interviews screened individuals for eligibility to participate in the survey.[32] A total of 1,187 individuals were identified as eligible to participate in the survey. Of this group, 876 agreed to complete the self-administered questionnaire and participate in an in-depth follow-up telephone interview. Roughly one week after study recruits were sent the self-administered questionnaire, GfK interviewers telephoned the recruits to obtain their answers. Of the 876 recruits, 659 were administered the follow-up telephone survey by December 2007. A total of 608 respondents completed the survey fully enough to be included in the analysis.

Questionnaire Design

The survey questionnaire asked retirees to recall the options that they were offered at retirement for the receipt of their DC plan or other individual account plan balances. These options included a lump-sum distribution, an annuity, nonannuity installment payments, and deferral of receipt of the account balance until a later date. In the last case, the balance would have remained in the retiree's employer's plan.

The questionnaire also asked about the retirees' choices and the various factors that might have influenced these choices. In addition, retirees who received lump-sum distributions were asked a series of questions about their use of the proceeds. To put the responses into perspective, the survey gathered information on demographic and financial characteristics of the retirees, their participation in DB plans, their health insurance coverage, their views on saving and investing in retirement, and financial resources provided by their spouses or partners.

The self-administered questionnaire was printed in a booklet format. A letter from ICI's chief economist outlining the importance of the survey and three exhibits were included with the questionnaire. The exhibits provided definitions of the types of DC or other employee contributory plans available, retirement plan distribution options, and various types of investments.[33] Survey participants were also provided with a toll-free "help line" to call with any questions they had about the questionnaire. All calls were answered by senior members of the GfK project group.

The survey questionnaire was pretested to ensure that respondents could understand question wording. Pretest participants completed the self-administered questionnaire at home but were debriefed by project staff at in-person interviews.

Sampling Tolerances

The use of sample surveys is standard practice for deriving estimates about a population.[34] Estimates derived through sample surveys are subject to sampling error, which is the deviation of the sample estimate from the true value in the population. As the sample size increases, the level of potential sampling error generally becomes smaller. For a sample size of 608, the overall sampling error on a mid-range percentage (i.e., a percentage near 50 percent) is ± 4.0 percentage points at the 95 percent confidence level for a simple random sample (Figure A.1).

[32] The Investment Company Institute was identified as the sponsor of the survey in the initial telephone interview.

[33] Copies of the exhibits used in the research are in Appendix C.

[34] For a detailed discussion of survey sampling, see W. E. Deming, *Sample Designs in Business Research* (New York: Wiley and Sons, 1991).

FIGURE A.1

SAMPLING ERROR AT THE 95 PERCENT CONFIDENCE LEVEL FOR SELECTED PERCENTAGES OF RESPONSES BY SAMPLE SIZE

Sample size	10 percent or 90 percent	20 percent or 80 percent	30 percent or 70 percent	40 percent or 60 percent	50 percent
1,000	2	2	3	3	3
750	2	3	3	4	4
608	2	3	4	4	4
500	3	4	4	4	4
400	3	4	4	5	5
250	4	5	6	6	6
100	6	8	9	10	10

Note: This table shows, for example, that if the sample size is 608 and 10 percent of the respondents provide the same answer to a question and 90 percent provide the other answer, then, using the same procedures, these responses can be expected to be replicated for the entire population within a range of ±2 percentage points 95 percent of the time.

Summary Characteristics of Respondents

The survey sample was selected to be representative of the national population of recently retired DC plan participants. As such, the survey respondents differ in several respects from the general population of U.S. retirees with DC accumulations,[35] who in turn, differ from U.S. retirees without DC accumulations (Figure A.2). The differences between the current survey population and U.S. retirees with DC accumulations more generally reflect the restrictive criteria for eligibility to participate in the survey. Because the sample was limited to recent retirees, survey participants were typically younger than retirees generally, with a median age of 65 years compared with a median age of 66 years for all retirees with DC accumulations.[36] Because survey respondents were younger than all U.S. retirees with DC accumulations, more had continued to work and fewer were widowed. The median household income and financial assets of survey respondents were generally higher than those of U.S. retirees with DC accumulations in part because more survey respondents were working and also had working spouses.

[35] Retiree households with DC accumulations include households with DC plan balances (whether from the job from which they retired or earlier jobs) and households with traditional IRAs (because many such IRAs contain rollover monies from employer-sponsored retirement plans). Households indicated whether the survey respondent had retired from his or her lifetime occupation.

[36] Data on the characteristics of retired U.S. household financial decisionmakers with DC accumulations was collected in an Investment Company Institute survey of 3,977 randomly selected U.S. households in May 2007. For more information on the survey, see Sarah Holden and Michael Bogdan, "Trends in the Ownership of Mutual Funds in the United States, 2007," *ICI Fundamentals*, Vol. 16, No. 5 (Washington, DC: Investment Company Institute, November 2007; www.ici.org/pdf/fm-v16n5.pdf) and Daniel Schrass and Sarah Holden, *Profile of Mutual Fund Shareholders* (Washington, DC: Investment Company Institute, Spring 2008; www.ici.org/pdf/rpt_profile08.pdf).

FIGURE A.2

SELECTED CHARACTERISTICS OF SURVEY RESPONDENTS AND ALL RETIRED U.S. HOUSEHOLDS WITH DEFINED CONTRIBUTION ACCUMULATIONS

PERCENTAGE OF RESPONDENTS

	Recent DC plan retiree survey respondents[1]	Retired U.S. households with DC accumulations[2]	Retired U.S. households without DC accumulations[2]	Retired U.S. households[2]
Age[3, 4]				
Younger than 65	44	44	38	42
65 to 69	40	17	12	14
70 or older	16	39	50	44
Median[4]	65 years	66 years	69 years	67 years
Educational level[3]				
High school or less	19	35	71	52
Some college or associate's degree	37	29	18	24
Completed four years of college	15	15	6	10
Some graduate school	9	4	2	3
Completed graduate school	20	17	3	11
Marital status				
Married or living with a partner	74	63	32	48
Single	5	8	16	12
Divorced or separated	10	9	19	14
Widowed	11	20	33	26
Employment status of retiree surveyed				
Works full-time	3	9	3	6
Works part-time	25	13	5	9
Is not working	72	78	92	85
Household has DB coverage	73	55	28	42
Total household income[5]				
Less than $30,000	17	23	68	44
$30,000 to less than $50,000	23	22	17	19
$50,000 to less than $100,000	42	32	10	22
$100,000 or more	18	23	5	15
Median	$60,100	$53,600	$19,400	$34,600
Household financial assets[6]				
Less than $100,000	26	22	69	43
$100,000 to less than $500,000	36	45	20	34
$500,000 or more	38	33	11	23
Median	$336,100	$300,000	$42,000	$130,000
Number of respondents	*608*	*585*	*538*	*1,123*

[1]Data in this column are from the 2007 Defined Contribution Plan Distribution Decisions Survey, summarized in this report.
[2]Data tabulated for this column are from a May 2007 Investment Company Institute survey of 3,977 U.S. households.
[3]Data reported are for the sole or co-decisionmaker for saving and investing.
[4]In the first column, the age reported is the age at retirement; in the second, third, and fourth columns, the age reported is the age at the time of the survey.
[5]Household income reported is annual household income before taxes at the time of the survey.
[6]Household financial assets include assets held in employer-sponsored retirement plans but exclude the household's primary residence.
Sources: Investment Company Institute Defined Contribution Plan Distribution Decisions Survey, 2007, and Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey, 2007

Characteristics of Respondents by Type of Distribution Received

In many ways, the samples of respondents were very similar in terms of whether their DC account balances were resolved as lump-sum distributions, deferrals, annuities, or installment payments (Figure A.3). The median age, self-reported health status, life expectancy, and marital status were all fairly close, with only a few notable exceptions. For example, a smaller fraction of respondents who deferred withdrawal reported themselves as being in fair or poor health, and smaller fractions of respondents with annuities or installment payments were married. Annuitants reported the longest financial planning horizon (20 years), while installment payment recipients reported the shortest financial planning horizon (13 years).

There are some notable differences in the economic circumstances across the different groups. Respondents with annuities and those who deferred distribution were significantly more likely already to be receiving DB payments; if married, their spouses or partners were more likely to be receiving DB payments as well (Figure A.3). Those two groups saw DB plans and Social Security account for a larger fraction of their income than did respondents with lump-sum distributions or installment payments.

Although annuitants and those deferring distribution seem similar in terms of DB plan payments and income composition, they are actually at either end of the spectrum in terms of economic resources, with annuitants generally reporting the lowest levels of income and assets and those deferring distributions the highest (Figure A.3). One key insight that helps explain the differences in how DC account balances were distributed is plan type: relative to lump-sum recipients, those deferring distribution were twice as likely to have participated in a plan other than a private-sector 401(k), and annuitants were almost three times as likely to report a non–401(k) plan. Thus, institutional differences across the plan types seem to also be important for explaining how DC balances are distributed at retirement.

FIGURE A.3

CHARACTERISTICS OF RETIREES BY DISTRIBUTION OUTCOME

PERCENTAGE OF RESPONDENTS BY DISTRIBUTION OUTCOME[1]

		Distribution outcome[1]			
	All retirees	Lump-sum distribution	Deferral of distribution	Annuity	Installment payments[2]
Age at retirement[3]					
Younger than 65	77	74	82	84	73
65 to 69	20	22	18	11	25
70 or older	3	4	0	5	2
Age at retirement (median)	62 years	62 years	62 years	60 years	62 years
Years planning ahead financially (median)	17 years	15 years	18 years	20 years	13 years
Health status[3]					
Excellent	34	33	36	37	20
Good	51	50	58	46	67
Fair or poor	15	17	6	17	13
Self-assessed life expectancy (median)	85 years	85 years	85 years	85 years	80 years
Educational level[3]					
High school or less	19	21	14	16	32
Some college or associate's degree	37	37	34	40	35
Completed four years of college	15	16	14	11	11
Some graduate school	9	9	10	11	5
Completed graduate school	20	17	28	22	17
Marital status					
Married or living with a partner	74	74	77	72	72
Single	5	3	6	8	6
Divorced or separated	10	10	10	13	6
Widowed	11	13	7	7	16
Household investment decisionmaker					
Male is sole or co-decisionmaker	52	53	49	50	58
Female is sole or co-decisionmaker	48	47	51	50	42
Employment status of retiree surveyed					
Works full-time	3	4	1	3	4
Works part-time	25	24	28	25	14
Is not working	72	72	71	72	82
Contributes to a DC plan[4]	21	18	17	28	37
Receives DB plan payments	57	48	73	78	52
Employment status of spouse or partner[5]					
Works full-time	19	18	15	19	37
Works part-time	18	18	15	19	13
Is not working	63	64	70	62	50
Contributes to a DC plan[4]	52	54	30	41	84
Receives DB plan payments	51	47	66	50	55

Figure is continued on the next page; see notes at end of figure.

FIGURE A.3 CONTINUED

	All retirees	Distribution outcome[1] Lump-sum distribution	Deferral of distribution	Annuity	Installment payments[2]
Total household income[6]					
Less than $30,000	17	19	11	17	29
$30,000 to less than $50,000	23	24	22	23	22
$50,000 to less than $100,000	42	38	48	44	42
$100,000 or more	18	19	19	16	7
Median	$60,100	$58,900	$66,900	$60,000	$49,200
Mean percentage of household income[6] from					
Social Security payments	28	31	22	25	30
DB plan payments	26	21	35	35	20
IRA withdrawals	4	6	4	1	2
Salary from full- or part-time job	21	22	23	18	19
Interest or dividends	8	9	8	5	6
Installment payments from DC plan	5	4	2	7	13
Annuity	3	2	1	5	1
Other sources	5	5	5	4	9
Household financial assets[7]					
Less than $100,000	26	26	20	29	37
$100,000 to less than $500,000	36	34	36	42	26
$500,000 or more	38	40	44	29	37
Median	$336,100	$364,700	$423,400	$225,000	$242,200
Home ownership					
Owns home	96	96	98	96	90
Has a mortgage[8]	51	54	38	48	55
Home equity (median)[8, 9]	$185,000	$180,000	$222,000	$171,800	$140,000
Value of home (median)[8]	$250,000	$250,000	$250,000	$225,800	$150,000
Mortgage balance (median)[10]	$87,500	$87,400	$100,000	$86,500	$65,000
Type of plan from which DC proceeds came[11]					
401(k) plan	61	76	49	33	45
403(b), 457, TSP, or other type of plan	39	24	51	67	55

Figure is continued on the next page; see notes at end of figure.

FIGURE A.3 CONTINUED

	All retirees	Distribution outcome[1] Lump-sum distribution	Deferral of distribution	Annuity	Installment payments[2]
Concerns in retirement					
Greatest concerns in retirement	1. Having the value of your investments decline	1. Having the value of your investments decline	1. Having the value of your investments decline	1. Having the value of your investments eroded by inflation	1. Having the value of your investments decline
	2. Having the value of your investments eroded by inflation	2. Having the value of your investments eroded by inflation	2. Having the value of your investments eroded by inflation	2. Paying for healthcare needs	2. Having the value of your investments eroded by inflation
	3. Paying for healthcare needs	3. Paying for healthcare needs	3. Paying for healthcare needs	3. Protecting your family from the unexpected	3. Managing financially should you become sick or disabled
Number of respondents	*608*	*358*	*106*	*133*	*47*

[1]Respondents may appear in multiple columns if they received multiple types of distributions. Distribution outcomes include respondents with choice and those recalling no choice.
[2]The sample size for this category is small.
[3]Data reported are for the sole or co-decisionmaker for saving and investing surveyed.
[4]Figure reported is of those working full- or part-time.
[5]Figure reported is of those married or living with a partner.
[6]Household income reported is annual household income before taxes at the time of the survey.
[7]Household financial assets include assets held in employer-sponsored retirement plans but exclude the household's primary residence.
[8]Figure reported is of those who own a home.
[9]Home equity is the difference between the value of the home less any mortgage or home equity lines borrowed against it.
[10]The mortgage balance represents the primary mortgage and any home equity lines borrowed against the house.
[11]The type of plan reported is based upon respondents' recall.

Issues of Concern in Retirement

Although most were financially comfortable, about three-quarters of respondents expressed at least some concern about seeing the value of their investments decline or be eroded by inflation (Figure A.4). About 70 percent of respondents expressed concern about paying for healthcare, and two-thirds expressed concern about maintaining their standard of living. The next most commonly cited areas of concern were protecting family members from the unexpected and managing financially should they become sick or disabled. Most respondents were not concerned about leaving an inheritance, managing financially if a spouse or partner became sick or disabled, or paying taxes.

The differences in concerns across groups were generally small, but the few exceptions were consistent with the distributional outcome. For example, annuitants were more likely to strongly agree that they had enough money to cover basic expenses throughout their retirement. Respondents receiving installment payments were more likely to be very concerned about managing financially in the event of illness. However, this concern probably has more to do with the generally lower levels of household income and assets in that group (Figure A.3) as opposed to a difference associated with having received their distribution through installments.

FIGURE A.4

ISSUES OF CONCERN IN RETIREMENT BY DISTRIBUTION OUTCOME

PERCENTAGE OF RESPONDENTS

	Very concerned	Somewhat concerned	Neither concerned nor unconcerned	Somewhat unconcerned	Very unconcerned	*Number of respondents*
All retirees						
Maintaining a comfortable standard of living	24	42	18	12	4	*608*
Paying for healthcare needs	30	40	13	12	5	*608*
Having the value of your investments eroded by inflation	30	43	17	8	2	*607*
Having the value of your investments decline	33	42	15	7	3	*607*
Protecting your family from the unexpected	28	37	21	9	5	*603*
Leaving an inheritance	10	26	34	17	13	*608*
Outliving your money	16	33	25	17	9	*608*
Managing financially should you lose your spouse or partner[1]	13	26	28	20	13	*450*
Managing financially should you become sick or disabled	23	40	18	14	5	*608*
Paying taxes	16	35	27	14	8	*608*
Lump-sum recipients						
Maintaining a comfortable standard of living	27	42	17	9	5	*358*
Paying for healthcare needs	31	40	13	11	5	*358*
Having the value of your investments eroded by inflation	30	42	17	8	3	*357*
Having the value of your investments decline	32	42	15	8	3	*357*
Protecting your family from the unexpected	29	34	24	7	6	*353*
Leaving an inheritance	10	28	32	16	14	*358*
Outliving your money	16	35	25	15	9	*358*
Managing financially should you lose your spouse or partner[1]	14	23	29	22	12	*263*
Managing financially should you become sick or disabled	25	41	16	13	5	*358*
Paying taxes	15	36	26	15	8	*358*

Figure is continued on the next page; see notes at end of figure.

FIGURE A.4 CONTINUED

	Very concerned	Somewhat concerned	Neither concerned nor unconcerned	Somewhat unconcerned	Very unconcerned	*Number of respondents*
Deferrals						
Maintaining a comfortable standard of living	24	36	22	17	1	*106*
Paying for healthcare needs	30	39	14	14	3	*106*
Having the value of your investments eroded by inflation	31	47	12	8	2	*106*
Having the value of your investments decline	31	48	14	6	1	*106*
Protecting your family from the unexpected	23	39	22	12	4	*106*
Leaving an inheritance	8	18	42	15	17	*106*
Outliving your money	13	36	22	23	6	*106*
Managing financially should you lose your spouse or partner[1, 2]	8	24	24	18	26	*81*
Managing financially should you become sick or disabled	15	42	18	16	9	*106*
Paying taxes	12	35	33	14	6	*106*
Annuitants						
Maintaining a comfortable standard of living	23	42	18	13	4	*133*
Paying for healthcare needs	34	37	8	17	4	*133*
Having the value of your investments eroded by inflation	29	43	16	10	2	*133*
Having the value of your investments decline	37	30	20	9	4	*133*
Protecting your family from the unexpected	31	40	16	9	4	*131*
Leaving an inheritance	14	23	34	17	12	*133*
Outliving your money	14	28	27	17	14	*133*
Managing financially should you lose your spouse or partner[1, 2]	15	29	31	18	7	*95*
Managing financially should you become sick or disabled	22	33	22	14	9	*133*
Paying taxes	22	30	27	12	9	*133*

Figure is continued on the next page; see notes at end of figure.

FIGURE A.4 CONTINUED

	Very concerned	Somewhat concerned	Neither concerned nor unconcerned	Somewhat unconcerned	Very unconcerned	*Number of respondents*
Installments[2]						
Maintaining a comfortable standard of living	17	48	14	16	5	*47*
Paying for healthcare needs	24	38	19	9	10	*47*
Having the value of your investments eroded by inflation	26	42	24	8	0	*47*
Having the value of your investments decline	25	62	9	4	0	*47*
Protecting your family from the unexpected	22	42	16	18	2	*47*
Leaving an inheritance	13	22	42	19	4	*46*
Outliving your money	22	28	32	16	2	*47*
Managing financially should you lose your spouse or partner[1]	20	33	26	14	7	*34*
Managing financially should you become sick or disabled	30	37	11	18	4	*47*
Paying taxes	22	30	33	11	4	*47*

[1]*Figure reported is of those married or living with a partner.*
[2]*The sample size for this category is small.*

When survey respondents are grouped by household income or financial assets, patterns of concern differ in expected ways reflecting the financial circumstance of the household. Higher fractions of lower-income retiree households generally reported that they were "very concerned" about each item mentioned compared with higher-income retiree households. For example, 42 percent of respondent households with income less than $30,000 were "very concerned" about managing financially should the retiree become sick or disabled, compared with only 12 percent of households with income of $100,000 or more (Figure A.5). One-third of the lowest-income households were "very concerned" about maintaining a comfortable standard of living compared with almost one-fifth of the highest income households. Forty percent of the lowest income group indicated that they were "very concerned"

FIGURE A.5

ISSUES OF CONCERN IN RETIREMENT BY HOUSEHOLD INCOME

PERCENTAGE OF RESPONDENTS

	Very concerned	Somewhat concerned	Neither concerned nor unconcerned	Somewhat unconcerned	Very unconcerned	*Number of respondents*
Household income[1] less than $30,000						
Maintaining a comfortable standard of living	33	41	13	7	6	*103*
Paying for healthcare needs	35	39	17	6	3	*103*
Having the value of your investments eroded by inflation	41	31	19	4	5	*103*
Having the value of your investments decline	40	29	17	7	7	*103*
Protecting your family from the unexpected	33	22	27	7	11	*101*
Leaving an inheritance	16	29	28	13	14	*103*
Outliving your money	30	26	21	10	13	*103*
Managing financially should you lose your spouse or partner[2, 3]	46	24	18	7	5	*37*
Managing financially should you become sick or disabled	42	31	11	8	8	*103*
Paying taxes	24	36	20	11	9	*103*
Household income[1] $30,000 to less than $50,000						
Maintaining a comfortable standard of living	26	46	17	10	1	*135*
Paying for healthcare needs	37	39	10	12	2	*135*
Having the value of your investments eroded by inflation	39	36	15	8	2	*135*
Having the value of your investments decline	39	42	12	5	2	*135*
Protecting your family from the unexpected	32	38	15	10	5	*134*
Leaving an inheritance	8	35	34	12	11	*135*
Outliving your money	23	36	20	13	8	*135*
Managing financially should you lose your spouse or partner[2, 3]	14	28	29	21	8	*93*
Managing financially should you become sick or disabled	29	41	16	11	3	*135*
Paying taxes	15	42	30	9	4	*135*

Figure is continued on the next page; see notes at end of figure.

about value of their investments declining, compared with 27 percent of the highest income group. Similar patterns of concern appear when respondents are grouped by household financial assets (Figure A.6).

FIGURE A.5 CONTINUED

	Very concerned	Somewhat concerned	Neither concerned nor unconcerned	Somewhat unconcerned	Very unconcerned	*Number of respondents*
Household income[1] $50,000 to less than $100,000						
Maintaining a comfortable standard of living	22	44	20	11	3	*245*
Paying for healthcare needs	28	41	12	14	5	*245*
Having the value of your investments eroded by inflation	24	51	16	7	2	*244*
Having the value of your investments decline	29	50	13	7	1	*244*
Protecting your family from the unexpected	25	43	23	7	2	*244*
Leaving an inheritance	9	19	39	20	13	*244*
Outliving your money	10	34	33	17	6	*245*
Managing financially should you lose your spouse or partner[2]	9	28	33	18	12	*209*
Managing financially should you become sick or disabled	16	46	20	13	5	*245*
Paying taxes	14	37	28	14	7	*245*
Household income[1] $100,000 or more						
Maintaining a comfortable standard of living	19	34	18	21	8	*104*
Paying for healthcare needs	24	38	17	14	7	*104*
Having the value of your investments eroded by inflation	20	43	19	14	4	*104*
Having the value of your investments decline	27	36	22	11	4	*104*
Protecting your family from the unexpected	27	36	16	16	5	*104*
Leaving an inheritance	11	21	31	21	16	*104*
Outliving your money	9	30	21	29	11	*104*
Managing financially should you lose your spouse or partner[2, 3]	7	21	26	24	22	*96*
Managing financially should you become sick or disabled	12	34	22	25	7	*104*
Paying taxes	14	21	30	23	12	*104*

[1]Household income reported is annual household income before taxes at the time of the survey.
[2]Figure reported is of those married or living with a partner.
[3]The sample size for this category is small.

FIGURE A.6

ISSUES OF CONCERN IN RETIREMENT BY HOUSEHOLD FINANCIAL ASSETS

PERCENTAGE OF RESPONDENTS

	Very concerned	Somewhat concerned	Neither concerned nor unconcerned	Somewhat unconcerned	Very unconcerned	*Number of respondents*
Household financial assets[1] less than $100,000						
Maintaining a comfortable standard of living	32	47	12	6	3	*153*
Paying for healthcare needs	40	32	14	9	5	*153*
Having the value of your investments eroded by inflation	35	32	20	9	4	*153*
Having the value of your investments decline	38	31	17	8	6	*153*
Protecting your family from the unexpected	34	30	21	10	5	*149*
Leaving an inheritance	11	27	33	16	13	*153*
Outliving your money	26	30	22	11	11	*153*
Managing financially should you lose your spouse or partner[2, 3]	31	37	18	12	2	*80*
Managing financially should you become sick or disabled	35	35	15	8	7	*153*
Paying taxes	25	31	22	10	12	*153*
Household financial assets[1] $100,000 to less than $500,000						
Maintaining a comfortable standard of living	20	47	19	12	2	*208*
Paying for healthcare needs	29	41	15	13	2	*208*
Having the value of your investments eroded by inflation	31	45	16	6	2	*208*
Having the value of your investments decline	35	46	12	5	2	*208*
Protecting your family from the unexpected	29	39	18	9	5	*207*
Leaving an inheritance	12	29	32	15	12	*208*
Outliving your money	16	34	31	12	7	*208*
Managing financially should you lose your spouse or partner[2]	15	25	32	18	10	*157*
Managing financially should you become sick or disabled	24	40	22	10	4	*208*
Paying taxes	16	38	29	14	3	*208*

Figure is continued on the next page; see notes at end of figure.

FIGURE A.6 CONTINUED

	Very concerned	Somewhat concerned	Neither concerned nor unconcerned	Somewhat unconcerned	Very unconcerned	*Number of respondents*
Household financial assets[1] $500,000 or more						
Maintaining a comfortable standard of living	23	35	19	17	6	*221*
Paying for healthcare needs	26	43	11	13	7	*221*
Having the value of your investments eroded by inflation	24	48	16	10	2	*220*
Having the value of your investments decline	27	46	17	9	1	*220*
Protecting your family from the unexpected	23	40	24	9	4	*221*
Leaving an inheritance	9	20	38	19	14	*221*
Outliving your money	10	33	23	25	9	*221*
Managing financially should you lose your spouse or partner[2]	5	24	29	22	20	*192*
Managing financially should you become sick or disabled	14	44	16	21	5	*221*
Paying taxes	10	36	30	16	8	*221*

[1]Household financial assets include assets held in employer-sponsored retirement plans but exclude the household's primary residence.
[2]Figure reported is of those married or living with a partner.
[3]The sample size for this category is small.

Views about Financial Situation in Retirement

Consistent with results from ICI's earlier DC distribution research, most retirees in the sample expressed a high level of satisfaction with their economic situation. Most indicated that they had enough money to cover their basic expenses in retirement and fund recreation, travel, and entertainment activities (Figure A.7). Nonetheless, two-thirds of respondents stated that they were saving regularly and 83 percent indicated that they were consciously conserving their financial assets.

As with the specific respondent concerns about retirement, there were generally few differences in terms of overall views about retirement across the groups delineated by the distributional outcome. Some differences, e.g., the installment group being more likely to report that they

FIGURE A.7

VIEWS ABOUT FINANCIAL SITUATION IN RETIREMENT BY DISTRIBUTION OUTCOME

PERCENTAGE OF RESPONDENTS

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	*Number of respondents*
All respondents						
Even though I am retired, I am continuing to save regularly.	33	33	13	11	10	*608*
I tend to rely on the advice of a professional financial adviser when making financial decisions.	28	31	18	12	11	*608*
My financial situation is less comfortable than when I retired.	10	24	21	23	22	*608*
I am making a conscious effort to conserve my financial assets.	49	34	12	4	1	*607*
I have accumulated enough money to cover my basic expenses throughout my retirement.	30	41	16	8	5	*608*
I expect to rely on the value of my home to help finance my retirement.[1]	6	14	20	23	37	*556*
I have enough money to enjoy recreation, travel, and entertainment activities throughout my retirement.	21	42	17	13	7	*608*
Lump-sum recipients						
Even though I am retired, I am continuing to save regularly.	29	33	15	11	12	*358*
I tend to rely on the advice of a professional financial adviser when making financial decisions.	33	30	18	10	9	*358*
My financial situation is less comfortable than when I retired.	10	25	22	21	22	*358*
I am making a conscious effort to conserve my financial assets.	50	34	11	4	1	*357*
I have accumulated enough money to cover my basic expenses throughout my retirement.	29	40	17	8	6	*358*
I expect to rely on the value of my home to help finance my retirement.[1]	5	16	21	24	34	*323*
I have enough money to enjoy recreation, travel, and entertainment activities throughout my retirement.	22	40	17	13	8	*358*

Figure is continued on the next page; see notes at end of figure.

would be relying on their houses as economic resources are most likely attributable to differences in overall economic resources.

FIGURE A.7 CONTINUED

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	*Number of respondents*
Deferrals						
Even though I am retired, I am continuing to save regularly.	37	31	10	12	10	*106*
I tend to rely on the advice of a professional financial adviser when making financial decisions.	20	33	19	12	16	*106*
My financial situation is less comfortable than when I retired.	6	22	19	29	24	*106*
I am making a conscious effort to conserve my financial assets.	46	33	19	2	0	*106*
I have accumulated enough money to cover my basic expenses throughout my retirement.	30	45	16	7	2	*106*
I expect to rely on the value of my home to help finance my retirement.[1]	5	8	10	29	48	*100*
I have enough money to enjoy recreation, travel, and entertainment activities throughout my retirement.	22	42	24	10	2	*106*
Annuitants						
Even though I am retired, I am continuing to save regularly.	44	33	11	6	6	*133*
I tend to rely on the advice of a professional financial adviser when making financial decisions.	26	31	21	13	9	*133*
My financial situation is less comfortable than when I retired.	10	25	19	18	28	*133*
I am making a conscious effort to conserve my financial assets.	51	32	12	4	1	*133*
I have accumulated enough money to cover my basic expenses throughout my retirement.	40	37	14	6	3	*133*
I expect to rely on the value of my home to help finance my retirement.[1]	7	9	23	24	37	*121*
I have enough money to enjoy recreation, travel, and entertainment activities throughout my retirement.	23	48	11	11	7	*133*

Figure is continued on the next page; see notes at end of figure.

FIGURE A.7 CONTINUED

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	*Number of respondents*
Installments[2]						
Even though I am retired, I am continuing to save regularly.	22	39	5	19	15	*47*
I tend to rely on the advice of a professional financial adviser when making financial decisions.	19	27	16	24	14	*47*
My financial situation is less comfortable than when I retired.	11	29	12	39	9	*47*
I am making a conscious effort to conserve my financial assets.	48	41	7	4	0	*47*
I have accumulated enough money to cover my basic expenses throughout my retirement.	20	45	21	9	5	*47*
I expect to rely on the value of my home to help finance my retirement.[1]	17	21	12	13	37	*41*
I have enough money to enjoy recreation, travel, and entertainment activities throughout my retirement.	9	43	14	25	9	*47*

[1]Figure reported is of those households that own their homes.
[2]The sample size for this category is small.

As was the case with concerns in retirement, retirees' views on their financial situations varied with household income and household financial assets. For example, 54 percent of retiree households with household income less than $30,000 indicated that they were making a conscious effort to conserve their financial assets, compared with 44 percent of retiree households with household income of $100,000 or more (Figure A.8). Although plans to rely on their houses to finance retirement were low across all respondents, the lower-income households were more likely to indicate that they planned to rely on the value of their homes to help finance retirement (15 percent strongly agreed with the statement) compared with higher-income households (3 percent strongly agreed). Similar patterns emerge when respondents are grouped by household financial assets (Figure A.9).

FIGURE A.8

VIEWS ABOUT FINANCIAL SITUATION IN RETIREMENT BY HOUSEHOLD INCOME

PERCENTAGE OF RESPONDENTS

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	*Number of respondents*
Household income[1] less than $30,000						
Even though I am retired, I am continuing to save regularly.	29	35	11	11	14	*103*
I tend to rely on the advice of a professional financial adviser when making financial decisions.	25	30	24	12	9	*103*
My financial situation is less comfortable than when I retired.	28	24	21	14	13	*103*
I am making a conscious effort to conserve my financial assets.	54	29	8	7	2	*103*
I have accumulated enough money to cover my basic expenses throughout my retirement.	14	37	20	12	17	*103*
I expect to rely on the value of my home to help finance my retirement.[2, 3]	15	23	13	19	30	*86*
I have enough money to enjoy recreation, travel, and entertainment activities throughout my retirement.	12	24	16	23	25	*103*
Household income[1] $30,000 to less than $50,000						
Even though I am retired, I am continuing to save regularly.	28	33	14	9	16	*135*
I tend to rely on the advice of a professional financial adviser when making financial decisions.	29	26	16	14	15	*135*
My financial situation is less comfortable than when I retired.	8	34	19	26	13	*135*
I am making a conscious effort to conserve my financial assets.	52	33	10	4	1	*135*
I have accumulated enough money to cover my basic expenses throughout my retirement.	20	44	23	8	5	*358*
I expect to rely on the value of my home to help finance my retirement.[2]	4	18	29	19	30	*119*
I have enough money to enjoy recreation, travel, and entertainment activities throughout my retirement.	14	45	16	21	4	*135*

Figure is continued on the next page; see notes at end of figure.

FIGURE A.8 CONTINUED

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	*Number of respondents*
Household income[1] $50,000 to less than $100,000						
Even though I am retired, I am continuing to save regularly.	33	28	15	15	9	*245*
I tend to rely on the advice of a professional financial adviser when making financial decisions.	29	31	20	12	8	*245*
My financial situation is less comfortable than when I retired.	7	20	22	24	27	*245*
I am making a conscious effort to conserve my financial assets.	44	39	13	3	1	*244*
I have accumulated enough money to cover my basic expenses throughout my retirement.	34	42	16	7	1	*245*
I expect to rely on the value of my home to help finance my retirement.[2]	5	10	19	29	37	*239*
I have enough money to enjoy recreation, travel, and entertainment activities throughout my retirement.	22	45	18	10	5	*245*
Household income[1] $100,000 or more						
Even though I am retired, I am continuing to save regularly.	41	41	7	9	2	*104*
I tend to rely on the advice of a professional financial adviser when making financial decisions.	29	36	16	9	10	*104*
My financial situation is less comfortable than when I retired.	1	14	22	29	34	*104*
I am making a conscious effort to conserve my financial assets.	44	36	17	3	0	*104*
I have accumulated enough money to cover my basic expenses throughout my retirement.	51	40	5	4	0	*104*
I expect to rely on the value of my home to help finance my retirement.[2, 3]	3	9	15	19	54	*99*
I have enough money to enjoy recreation, travel, and entertainment activities throughout my retirement.	37	47	14	2	0	*104*

[1]Household income reported is annual household income before taxes at the time of the survey.
[2]Figure reported is of those households that own their homes.
[3]The sample size for this category is small.

FIGURE A.9

VIEWS ABOUT FINANCIAL SITUATION IN RETIREMENT BY HOUSEHOLD FINANCIAL ASSETS

PERCENTAGE OF RESPONDENTS

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	*Number of respondents*
Household financial assets[1] less than $100,000						
Even though I am retired, I am continuing to save regularly.	27	35	9	10	19	*153*
I tend to rely on the advice of a professional financial adviser when making financial decisions.	22	23	25	15	15	*153*
My financial situation is less comfortable than when I retired.	17	35	18	18	12	*153*
I am making a conscious effort to conserve my financial assets.	44	38	11	6	1	*153*
I have accumulated enough money to cover my basic expenses throughout my retirement.	13	30	27	16	14	*153*
I expect to rely on the value of my home to help finance my retirement.[2]	11	21	19	23	26	*126*
I have enough money to enjoy recreation, travel, and entertainment activities throughout my retirement.	8	30	13	27	22	*153*
Household financial assets[1] $100,000 to less than $500,000						
Even though I am retired, I am continuing to save regularly.	31	32	14	14	9	*208*
I tend to rely on the advice of a professional financial adviser when making financial decisions.	27	35	18	10	10	*208*
My financial situation is less comfortable than when I retired.	12	27	24	21	16	*208*
I am making a conscious effort to conserve my financial assets.	52	36	9	2	1	*208*
I have accumulated enough money to cover my basic expenses throughout my retirement.	20	52	18	8	2	*208*
I expect to rely on the value of my home to help finance my retirement.[2]	6	14	25	21	34	*199*
I have enough money to enjoy recreation, travel, and entertainment activities throughout my retirement.	13	44	23	16	4	*208*

Figure is continued on the next page; see notes at end of figure.

FIGURE A.9 CONTINUED

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	*Number of respondents*
Household financial assets[1] $500,000 or more						
Even though I am retired, I am continuing to save regularly.	38	31	14	12	5	*221*
I tend to rely on the advice of a professional financial adviser when making financial decisions.	34	31	15	12	8	*221*
My financial situation is less comfortable than when I retired.	3	13	18	30	36	*221*
I am making a conscious effort to conserve my financial assets.	47	32	16	5	0	*220*
I have accumulated enough money to cover my basic expenses throughout my retirement.	52	40	5	2	1	*221*
I expect to rely on the value of my home to help finance my retirement.[2]	4	9	14	25	48	*212*
I have enough money to enjoy recreation, travel, and entertainment activities throughout my retirement.	38	48	11	2	1	*221*

[1]*Household financial assets include assets held in employer-sponsored retirement plans but exclude the household's primary residence.*
[2]*Figure reported is of those households that own their homes.*

APPENDIX B

Description of Distribution Options and Plans Covered in the Survey

Distribution Options Covered in the Survey

Four types of distribution options were covered in the survey: lump sum, annuity, installment payments, and deferral.

The lump-sum distribution option generally allows retirees either to withdraw plan balances as cash or roll them over into Individual Retirement Accounts (IRAs). With cash distributions, recipients may spend or reinvest the proceeds as they prefer, although in either case the distributions can be subject to income taxation. Balances rolled into traditional IRAs are not taxed until withdrawn.

A second distribution option is an annuity. In the typical annuity, an insurance company makes monthly payments for the remainder of the retiree's life. Annuities often include features such as joint coverage for spouses and can include guaranteed payment periods that extend beyond the death of the annuitants.[38]

A third option, installment payments, is similar to an annuity in that installment payments provide retirees with regular payments made from their plan balances. Unlike a typical annuity, in which an insurance company is bound to make payments over the retiree's life, installment payments may not last for life. Installment payment arrangements include payments for a fixed number of months, payments in a fixed dollar amount until the account is depleted, payments of a fixed percentage of the assets, or monthly payments based on an IRS life expectancy table. The balance remains invested in the plan typically at the discretion of the retiree. If the account balance is not depleted during the life of the retiree, it is available for heirs.

The final option permits retirees to defer any distributions of their accumulated plan balances.[39, 40] The deferral of plan proceeds, in effect, is similar to rolling over a lump-sum distribution into an IRA, because in both instances plan assets remain invested on a tax-deferred basis and reserved for later use. A retiring employee might choose to leave his or her account balance in the plan rather than roll it into an IRA for several reasons, among them convenience or satisfaction with the plan's investment options.

The four options are not necessarily mutually exclusive, and the plan sponsor may allow retirees to combine two or more of the available options. Depending on the rules of the plan, a given retiree may not have all options available.

[37] At the time of ICI's previous survey of retirees with DC plan distributions, money from 457 plans could not be rolled over into IRAs; see *Defined Contribution Plan Distribution Choices at Retirement: A Survey of Employees Retiring Between 1995 and 2000* (Washington, DC: Investment Company Institute, Fall 2000). The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) increased portability among employer-sponsored plans and IRAs. Under current law, participants in governmental 457 plans generally may roll over their balances to IRAs and other qualified plans.

[38] The guarantee of an annuity payment depends upon the life insurance company's ability to make the promised payments.

[39] The Internal Revenue Code's "minimum distribution" rules require that individuals begin to take distributions of DC plan, 403(b) plan, and 457 plan balances begin by April 1 of the year following the attainment of age 70½ or the year in which the employee retires. See Section 401(a)(9) of the Internal Revenue Code. Hence, the option to defer a distribution completely is available only to retirees from these plans who are under age 70½. For a general discussion, see *Fundamentals of Employee Benefit Programs* (Employee Benefit Research Institute, 1997), p. 66.

[40] Distributions from employer-sponsored IRAs (SIMPLE IRAs, SEP-IRAs, and SAR-SEPs) must begin by April 1 of the year following the owner's attainment of age 70½. See Sections 408(a)(6) and 401(a)(9) of the Internal Revenue Code. For a general discussion, see Gary S. Lesser and Susan D. Diehl, *SIMPLE, SEP and SAR-SEP Answer Book*, 5th ed. (New York: Aspen Publishers, 1999), pp. 14 and 68.

Types of Plans Covered in the Survey

The retirement plans covered in this survey include 401(k) plans, 403(b) plans, the federal Thrift Savings Plan (TSP), 457 plans, and employer-sponsored IRAs.[41]

The 401(k) plan is the most widespread type of DC plan. These plans are primarily established by private-sector firms. Most 401(k) plans provide retiring employees with multiple distribution options for receiving the plan account balance.[42] Virtually all 401(k) plans provide lump-sum payments, about half offer installment payments, and one-fifth provide annuities. Nearly three-quarters allow retirees to defer their distributions if the account balance exceeds $5,000, and more than one-quarter permit deferrals of balances of $5,000 or less.[43] As required by law, all 401(k) plans provide the option of a direct transfer to an IRA for distributions exceeding $200.[44]

Certain nonprofit organizations and public educational institutions can establish 403(b) plans for their employees. Although often established in the form of an annuity contract, most 403(b) arrangements provide retiring employees with a variety of annuity and other distribution options.

The federal Thrift Savings Plan (TSP) is a DC retirement plan for federal government workers and has features similar to those found in 401(k) plans.[45] Federal TSP distribution options at retirement include a lump-sum distribution, direct transfer to an IRA, an annuity, installment payments, and deferral of the distribution until age 70½, at which time certain minimum distributions must begin.

Section 457(b) of the Internal Revenue Code allows state and local government entities to establish deferred compensation retirement plans, which are commonly referred to as "457 plans." Depending on the particular plan, retiring employees can take either a lump-sum distribution, direct transfer to an IRA, an immediate annuity, installment payments, or defer the distribution until no later than age 70½.

Employer-sponsored IRAs include SIMPLE IRAs, SEP-IRAs, and SAR-SEPs. SIMPLE IRAs were created in 1996 under the Small Business Job Protection Act for employers with 100 or fewer employees. Simplified Employee Pension (SEP) IRAs are arrangements established by an employer for each eligible employee, which were created under the Revenue Act of 1978. Employees receive immediate vesting in employer contributions and generally direct their investments. A SAR-SEP is a SEP-IRA with a salary reduction feature. The Small Business Job Protection Act of 1996 prohibited the formation of new SAR-SEPs after December 31, 1996. Distributions from employer-sponsored IRAs are generally taxed under the rules applicable to IRAs.[46]

[41] Plans are classified by the section of the Internal Revenue Code governing them. For a more detailed description of the plans, see *Fundamentals of Employee Benefit Programs* (Employee Benefit Research Institute, 1997).

[42] See *51st Annual Survey of Profit Sharing and 401(k) Plans* (Profit Sharing/401k Council of America, 2008), p. 49. The data from this survey include profit sharing and 401(k) plans. The survey reflects the 2007 plan-year experience of more than 1,000 plans with 7.4 million participants and $730 billion in plan assets.

[43] Ibid.

[44] See 26 C.F.R. §1.401(a)(31)-1, Q&A-11.

[45] For information about the federal TSP program, see www.tsp.gov.

[46] For details on employer-sponsored IRA distribution rules, see Internal Revenue Service, Retirement Plans for Small Businesses (SEP, SIMPLE, and Qualified Plans) *Publication 560* (www.irs.gov/pdf/p560.pdf) and Internal Revenue Service, Individual Retirement Arrangements (IRAs), *Publication 590* (www.irs.gov/pub/irs-pdf/p590.pdf).

APPENDIX C

Exhibits Used in the Research

To facilitate understanding of survey questions and improve quality of responses, survey respondents were mailed questionnaires and information cards. This Appendix contains the information cards, or exhibits, used in the research.

CARD A

DIFFERENT TYPES OF RETIREMENT PLANS TO WHICH EMPLOYEES CAN CONTRIBUTE

401(k) Plan: An employer-sponsored retirement plan that enables employees to make tax-deferred contributions from their salaries to the plan.

403(b) Plan: An employer-sponsored retirement plan that enables employees of universities, public schools, and nonprofit organizations to make tax-deferred contributions from their salaries to the plan.

457 Plan: An employer-sponsored retirement plan that enables employees of state and local governments to make tax-deferred contributions from their salaries to the plan.

Thrift Savings Plan (TSP): An employer-sponsored retirement plan that enables employees of the federal government to make tax-deferred contributions from their salaries to the plan.

CARD B

RETIREMENT PLAN BENEFIT PAYMENT METHODS

Regular Guaranteed Payments Over the Retiree's Lifetime: Regular guaranteed payments convert employer-sponsored retirement plan assets into a regular stream of income payments (these payments are often referred to as annuity payments). The two main types of regular guaranteed payments that employers provide to retiring employees are:

> *Straight life*: The retiree receives regular income payments, usually monthly, over his or her lifetime.
>
> *Joint and survivor*: The retiree receives regular income payments, usually monthly, over his or her lifetime. If the retiree dies before his or her spouse, the spouse continues to receive a monthly check equal to one-half of the benefit for the rest of his or her life.

Lump-Sum Distribution: The immediate disbursement of all employer and employee contributions, and any investment earnings, to the retiree.

Installment Payments: Payments from the employer to the retiree on a fixed schedule, such as equal payments over five to 10 years until the money runs out.

CARD C

DIFFERENT TYPES OF INVESTMENTS

Certificate of Deposit (CD): A debt instrument issued by a bank that pays interest. The certificate states the amount of the deposit, the interest rate, and the date on which it matures. CD maturities range from a few weeks to several years.

Individual Stock: Shares of ownership in a corporation that are a claim on the corporation's earnings and assets.

Individual Bond: A debt security, or IOU, issued by a company, municipality, or government agency. A bond investor lends money to the issuer and, in exchange, the issuer promises to repay the loan amount on a specified maturity date; the issuer usually pays the bondholder periodic interest payments over the life of the loan.

Mutual Fund: An investment that pools the money of many people and invests it in stocks, bonds, and money market securities.

Stock mutual fund: A mutual fund that invests primarily in individual stock. Examples of stock mutual funds include aggressive growth funds, growth funds, global or international equity funds, and sector funds.

Bond mutual fund: A mutual fund that invests primarily in individual bonds. Examples of bond mutual funds include corporate bond funds, government bond funds, municipal bond funds, and high-yield bond funds.

Mutual fund that invests in a mix of stocks and bonds: A mutual fund that invests in both stocks and bonds. Examples of funds that invest in a mix of stocks and bonds include balanced funds, flexible portfolio funds, and income-mixed funds.

Money market mutual fund: A mutual fund that invests in short-term, high-grade money market securities and must have an average maturity of 90 days or less.

Fixed or Variable Annuity Issued by a Life Insurance Company: Life insurance contract issued by an insurance company that guarantees either a fixed or variable payment to the purchaser at some future time, usually retirement. For a *variable* annuity, the value of the payout will fluctuate depending on the value of the underlying investments. For a *fixed* annuity, the value of the payout will not fluctuate.

Real Estate Other Than a Primary Residence: Other than the home in which one lives most or all of the time, a piece of land and all the physical property related to it.

Whole Life Insurance: A type of life insurance policy that offers protection in case the insured dies and also builds up cash value. The policy stays in force for the lifetime of the insured, unless the policy is canceled or lapses. The policyholder makes a regular payment for whole life, which does not rise as the person grows older. The earnings on the cash value in the policy accumulate tax-deferred. Policyholders have no input on the investment decision-making process of a whole life insurance policy.

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