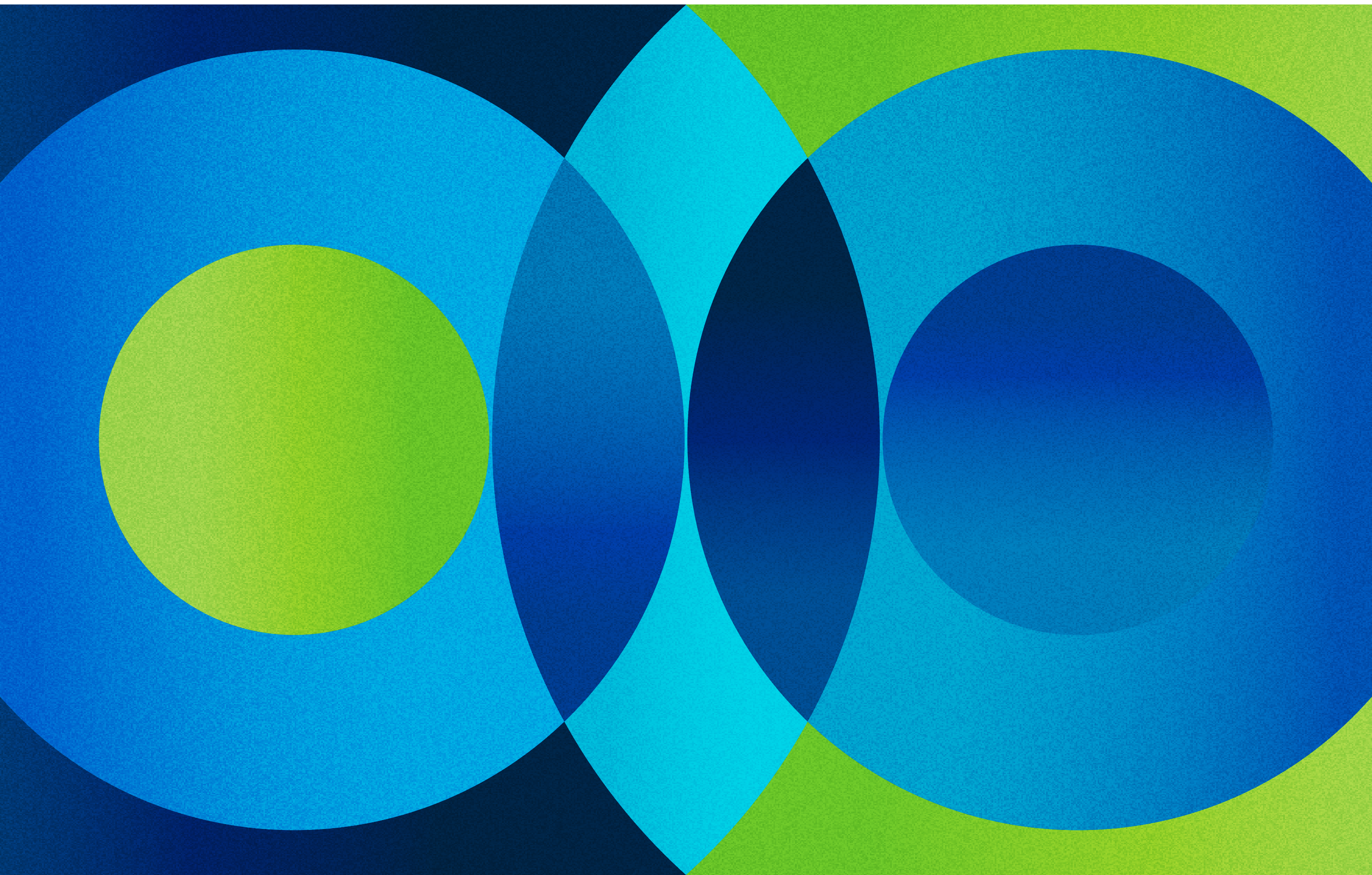
MetLife

2022 Paycheck or Pot of Gold Study

The Great Retirement Decision



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INTRODUCTION

Looking at the state of today's workplace, many employers are focused on the "great resignation" (a mass exodus from the workforce), or the "great reshuffle" (job or career moves that better align with workers' values). However, there is another workplace priority that needs attention now: the "great retirement decision."

Deciding *if* and *when* workers plan to retire is important but, for near-retirees, the "great retirement decision" is whether to take one's accumulated savings as a paycheck (i.e., monthly annuity payments) or a perceived "pot of gold" (i.e., a lump sum) — or some combination of the two. This is arguably one of the most important decisions a person will make about their retirement and, in addition to how much they have saved, will largely dictate whether they can enjoy a secure retirement.

Five years ago, MetLife released its first Paycheck or Pot of Gold Study. With retirements lasting longer than previous generations, the study looked at the point-of-retirement decision that often dictates whether a soon-to-be-retiree will be able to enjoy a long-lasting and secure retirement for the 20+ years[1] they will likely be retired. In the 2017 study, one in five retirees had depleted their lump sum in 5 ½ years, on average. With this new study, we wanted to see if the passage of time would translate into more retirees, who took a lump sum, being able to make their savings last. Unfortunately, today, the proportion of retirees depleting their lump sums is more pronounced — and they are depleting these lump sums much more quickly. An alarming one in three retirees who took a lump sum from their defined contribution plan are now depleting their lump sum, on average, in just five years.

> **Today, one in three retirees who took a lump sum from their defined contribution plan depleted their lump sum, on average, in five years.**

The pace of retirement is increasing. In the United States today, there are an estimated 50 million retirees. According to the Pew Research Center, between 2008 (when the first wave of baby boomers started to retire) and 2019, the retired population ages 55 and older grew by about 1 million retirees per year. However, unlike the Great Recession, which caused many to delay retirement so they could recoup their retirement savings losses, the number of people who retired during the pandemic rose much faster than the typical pace. Even though some workers delayed their retirements, as of August 2021 during the COVID-19 pandemic, more than 3 million people likely retired earlier than they otherwise would have compared to the typical pace of retirements. These included older workers fearful of COVID's risks and those who were financially able to retire due to a rise in retirement asset values.[2] With 80 million Baby Boomers and 65 million

[1] Top 10 Ways to Prepare for Retirement, U.S. Department of Labor, September 2021.

[2] Miguel Faria-e-Castro, "The COVID Retirement Boom," Economic Synopses, No. 25, 2021.

members of Generation X — many of whom are largely relying on their DC plan assets to sustain them in retirement — the impact of having roughly 45 million retirees deplete their lump sums, with more likely to follow, has huge economic and societal implications.

Whether the pandemic-induced increase in retirements among older adults will be temporary or longer-lasting remains to be seen, but one thing is certain: retirees will only be able to remain in retirement if they have a retirement “paycheck” or they can make their proverbial “pot of gold” last. With fewer workers receiving retirement income from a traditional defined benefit (DB) pension plan, money saved in a defined contribution (DC) plan — such as 401(k), 403(b) or 457 plan — is typically their only source of retirement savings beyond what they will receive from Social Security. Social Security will only pay, on average, $1,580[3] a month, so it’s up to workers to save for retirement and then make a critical decision to determine how to make that money last.

For this latest Paycheck or Pot of Gold Study, we commissioned research of both pre-retirees (i.e., those within five years of retirement) and retirees, conducted by The Harris Poll. For workers within five years of retirement, we focused on the education and advice they are receiving from their employer to aid in their retirement decision-making and assessed their views on the importance of guaranteed retirement income — including whether it should be provided by their employer.

For retirees, MetLife again evaluated whether their experiences with taking a lump sum, over time, met with their expectations. For those who have depleted their lump sums — and a startling number have — the research shows how quickly it was exhausted, as noted above, as well as any regrets. The findings contrast with retirees who opted for guaranteed retirement income by purchasing an annuity. Among retirees who took the annuity, nine in 10 say their budget is more predictable, they are better off financially, they feel more financially secure, and it’s easier to pay for basic necessities, among other positive attributes.

[3] Social Security Administration. “Monthly Statistical Snapshot, December 2021.” Accessed Jan. 27, 2022.

STUDY FINDINGS

Overall findings for DC plan pre-retirees and retirees

Findings for retirees who took a lump sum

Findings for retirees who took an annuity

Notable demographic differences

Overall findings for DC plan pre-retirees and retirees

Retirement age is driven by the amount saved for retirement, but many feel uncertain about estimates

Before deciding between a lump sum and/or an annuity, pre-retirees need to decide *if* and *when* to retire. Their planned retirement age, according to the majority of pre-retirees (62%), is primarily dictated by money — i.e., based on when they expect to have saved enough.

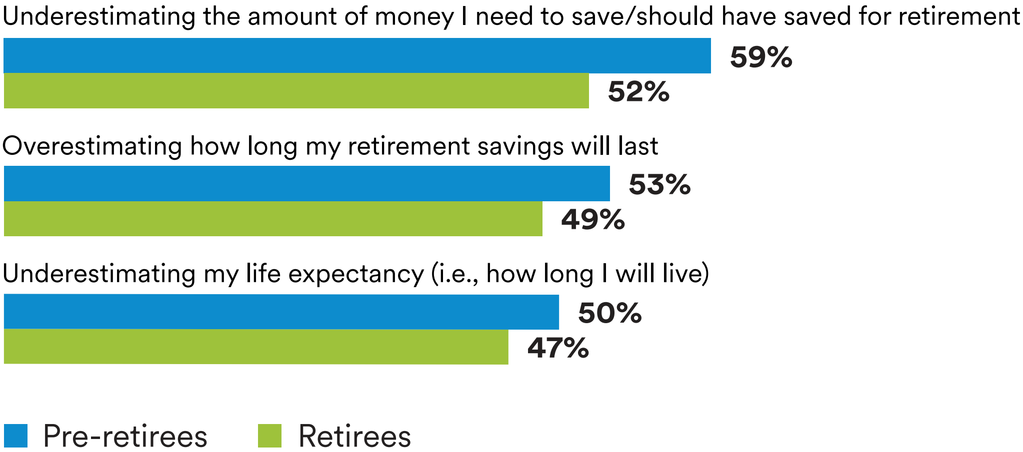
Pre-retirees typically believe they will have about $450,000 (median) in their DC plan, but this varies widely: about one in 10 (11%) believe they will have less than $100,000 saved, and a similar proportion (14%) believe they will have saved more than $1 million. On average, they expect this money to last 19 years from the first day of retirement — though one in six (16%) estimates that it won't even last a decade.

Pre-retirees and retirees fear they may not have properly planned for the sustainability of their retirement funds. About half of each cohort think they may have *underestimated* the amount they should have saved, *underestimated* their life expectancy and *overestimated* how long their retirement savings will last. These concerns are justified, considering that many retirees are depleting their retirement savings much more quickly than they had planned.

> **Pre-retirees and retirees fear they may not have properly planned for the sustainability of their retirement funds.**

Concerns about retirement security

% of those pre-retirees and retirees very/somewhat concerned



For those who haven't yet retired, some are rethinking when they should. One in three pre-retirees (30%) feel it's likely they will have to delay their retirement from the age they had initially set so they can continue to receive a monthly income, save for retirement, maintain health insurance and other employee benefits, and increase their Social Security monthly income.

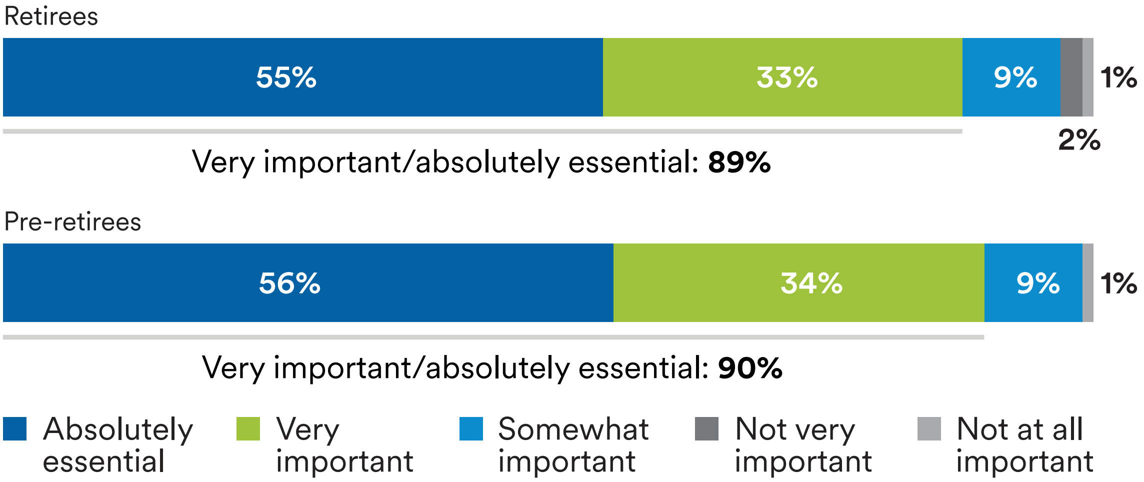
There is widespread praise for the guaranteed retirement "paycheck"

About nine in 10 retirees (89%) and pre-retirees (90%) feel it's valuable (i.e., very important or absolutely essential) to have a guaranteed monthly income (i.e., a retirement "paycheck") to pay their bills.

> **About nine in 10 retirees and pre-retirees feel it's valuable to have a guaranteed monthly income to pay their bills.**

Importance of having guaranteed monthly income in retirement

Among pre-retirees and retirees

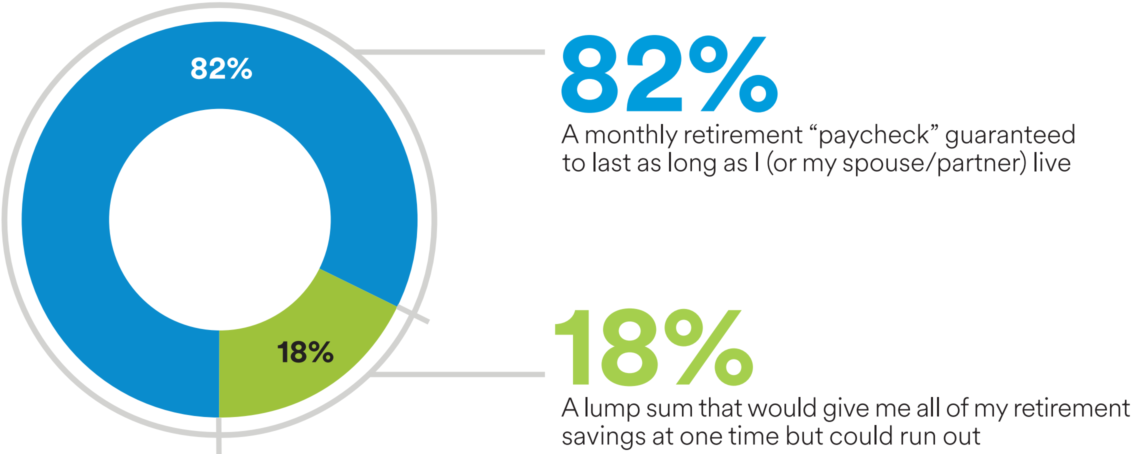


Nearly nine in 10 pre-retirees (89%) say they are interested in an option that would allow them to have both: a monthly retirement "paycheck" that would last as long as they (or their spouse/partner) live and access to a partial lump sum of their retirement savings to spend however they want. Among retirees, having the ability to take just a portion of their DC savings as guaranteed monthly payments for as long as they (or their spouse/partner) live is also a growing consideration (32%), up from 2% in 2017.

Wanting to maintain control over their money is a main reason for those who choose not to take an annuity, so it makes sense that for a vast majority of pre-retirees, a partial annuity/partial lump sum option is appealing. However, if they had to choose one or the other, pre-retirees are far more likely to opt for the annuity (monthly retirement "paycheck") (82%) over a lump sum that would give them all of their retirement savings at one time but could potentially run out (18%).

Choice between a lump sum or a guaranteed monthly retirement "paycheck"

Among pre-retirees



If there is such strong interest in securing a monthly retirement paycheck, why then do so many retiring workers opt for the lump sum? In addition to individuals underestimating their life expectancies, another explanation for under-annuitization is the "lottery effect" — also known as the "wealth illusion." Behavioral economics has shown that the idea of an individual suddenly being offered what is perceived as a large sum of money is often too tempting to resist and can cloud their decision-making. Research has also shown that the way in which the choice between a monthly annuity payment or a lump sum is framed or presented influences an individual's decision. For example, if an annuity is viewed through a "consumption frame" (i.e., one which encourages individuals to "focus on the end result of what they will be able to spend over time"), it is viewed as valuable insurance, but when it is framed in terms of investment risk and return, an annuity is viewed as a "risky asset" because the individual's exact life expectancy is unknown.[4]

[4] Brown, Jeffrey R., Jeffrey R. Kling, Sendhil Mullainathan, and Marian V. Wrobel. 2008. Why don't people insure late life consumption? A framing explanation of the under-annuitization puzzle. American Economic Review 98(2): 304–309.

Endorsement for annuities as a required employer offering

With the wane of DB plans, DC plans have been slow to make the shift from a supplemental savings plan to, in many cases, a worker's primary (or only) retirement plan. More than half of retirees surveyed who took a lump sum (57%) say their employer did not offer them the ability to convert a portion of their DC plan balance into an annuity — this has remained stable over the past five years (58% in 2017).

With the wane of DB plans, DC plans have been slow to make the shift from a supplemental savings plan to, in many cases, a worker's primary (or only) retirement plan.

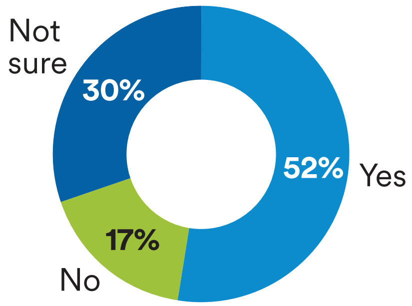
More than one in five lump sum retirees whose employer didn't offer an annuity option (or those who weren't sure if their employer offered this option) (22%) would have wanted their employer to offer the option to convert part or all of their DC balance into an annuity (on par with 2017, 23%).

Pre-retirees (52%) are even more likely to say that they would like their employer to provide this option. In fact, a similar proportion of pre-retirees (53%) think their employer should be *required* to provide an annuity option — particularly those pre-retirees who expect that they will opt for an annuity (57%, compared with 36% who plan to take a lump sum).

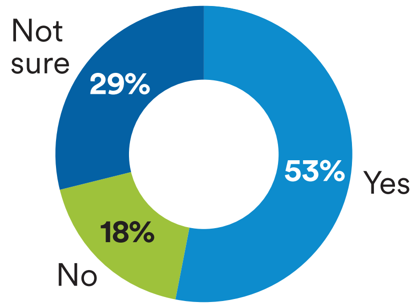
Employer role in enabling DC saving to be converted into guaranteed retirement income

Among pre-retirees*

Would you want your employer to offer the option to convert part or all of your DC balance into an annuity that would provide guaranteed income for as long as you (and/or your spouse/partner) live?



Do you think your employer should be *required* to give you the option to convert some or all of your DC balance into guaranteed lifetime income that you (or your spouse/partner) cannot outlive?



*Percentages may not total 100% due to rounding.

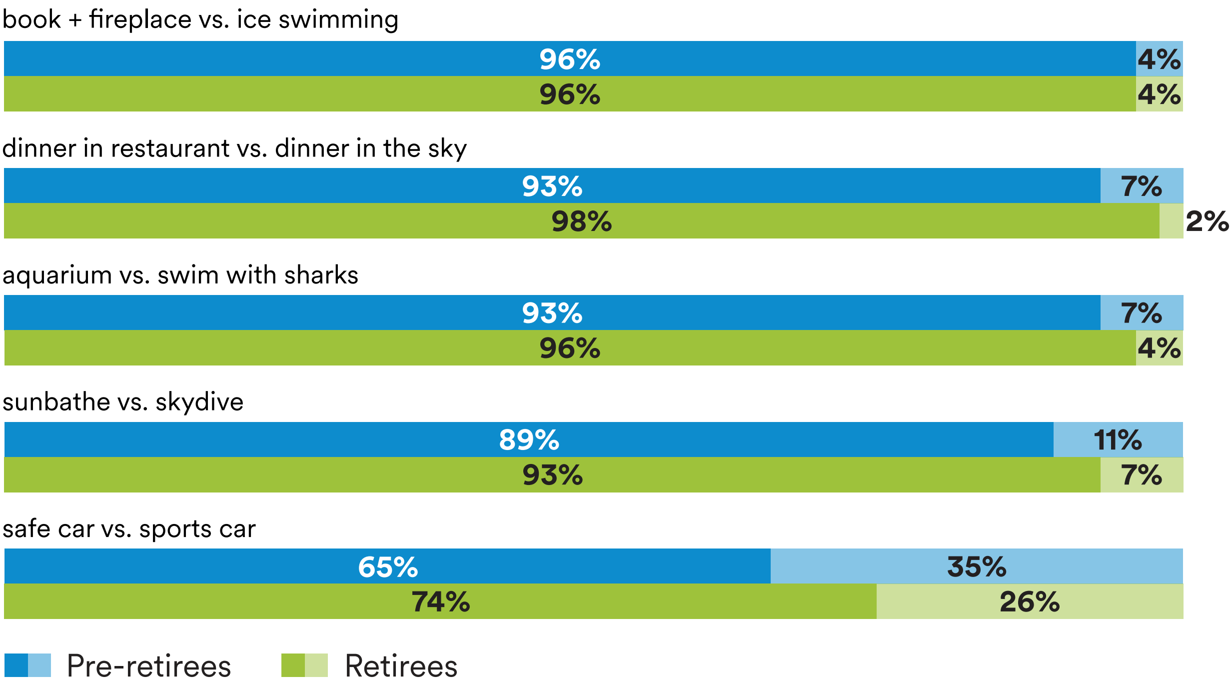
Risk-taking personality impacts the selection of an annuity vs. lump sum

According to economic models, a risk-averse individual who faces uncertainty about their life expectancy should place a high value on annuities that provide guaranteed income for life.

In this study, we found that most retirees and pre-retirees err on the side of caution: 65% of retirees and 53% of pre-retirees believe their friends would describe them as "risk-averse" (i.e., either somewhat cautious or completely avoid taking risks). To assess their risk-taking personalities, we asked a series of questions about what those surveyed would be more inclined to do: drive a safe car vs. drive a sports car; sunbathe on a beach vs. go skydiving; visit an aquarium vs. swim with sharks; eat dinner in a restaurant vs. eat dinner in the sky hanging from a crane; and, read a book vs. go ice swimming.

Assessing risk tolerance when engaging in activities

Among pre-retirees and retirees



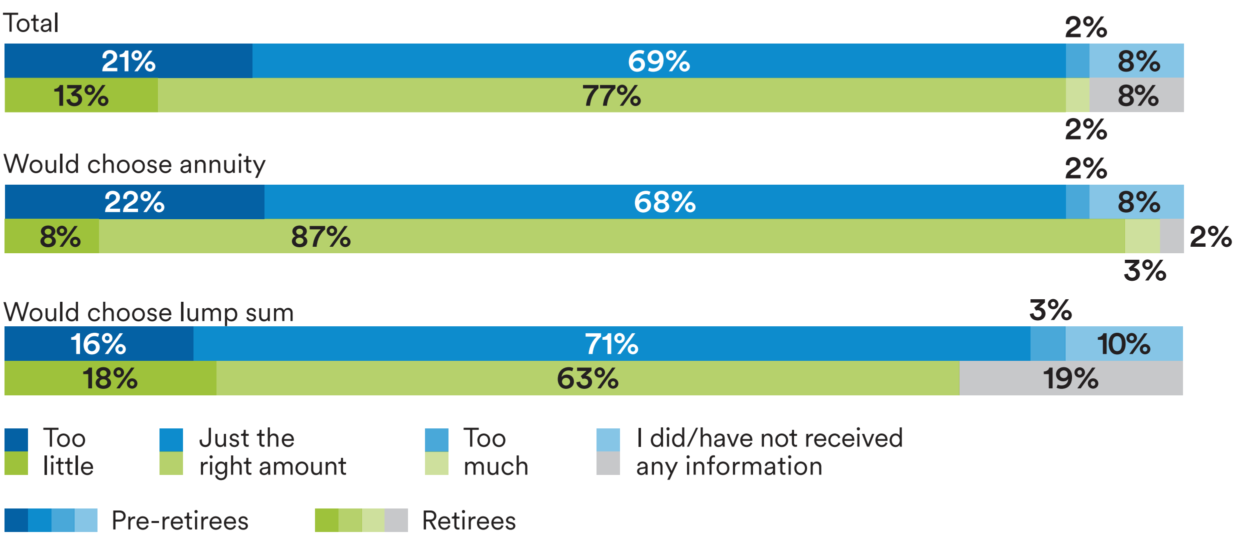
Among retirees, propensity for risk-taking is fairly equal among lump sum-only recipients and annuity-only recipients, and also hasn't changed much since 2017. However, pre-retirees who say they're likely to opt for an annuity are more likely to describe themselves as "risk-averse" (56%), compared with roughly four in 10 pre-retirees who would opt for a lump sum (43%).

Available retirement planning education seen as sufficient — but, in reality, may be lacking

A majority of retirees (80%) and pre-retirees (74%) report having received some form of information about what to do with the balance of their DC plan when they retire. Most retirees feel the amount of information they had available to them at the point of retirement was just right (77%) — especially those who have an annuity only (i.e., not an annuity/lump sum hybrid option) (87%, compared with 63% of lump-sum retirees). Pre-retirees are less emphatic, but still generally see the amount of information they've received so far as "just the right amount" for what they need (69%, though more than one in five say it's been too little (21%)).

Impact of amount of information received on DC plan balance decision-making

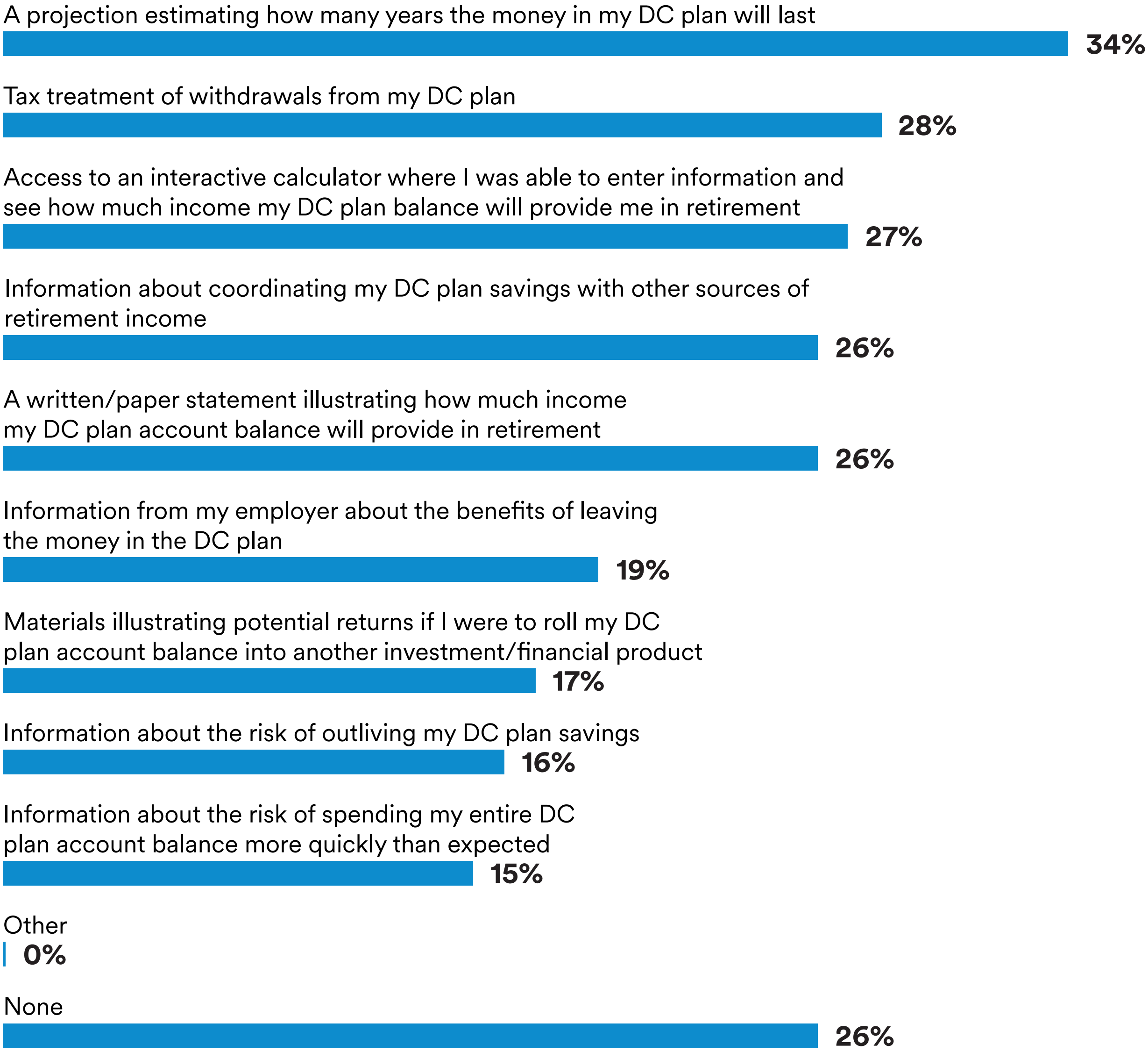
Among pre-retirees and retirees



Among retirees, the most common form of information received was a tax treatment of withdrawals from their DC plan (42%), usually made available via phone support provided by their employer, DC plan provider, or other investment/retirement provider (34%) or seminars with retirement specialists/planners organized by their employer (30%). For pre-retirees, a projection estimating how many years the money in their DC plan will last topped the list of information received (34%) and is most commonly provided via seminars with retirement specialists/planners organized by their employer (34%) or email (28%).

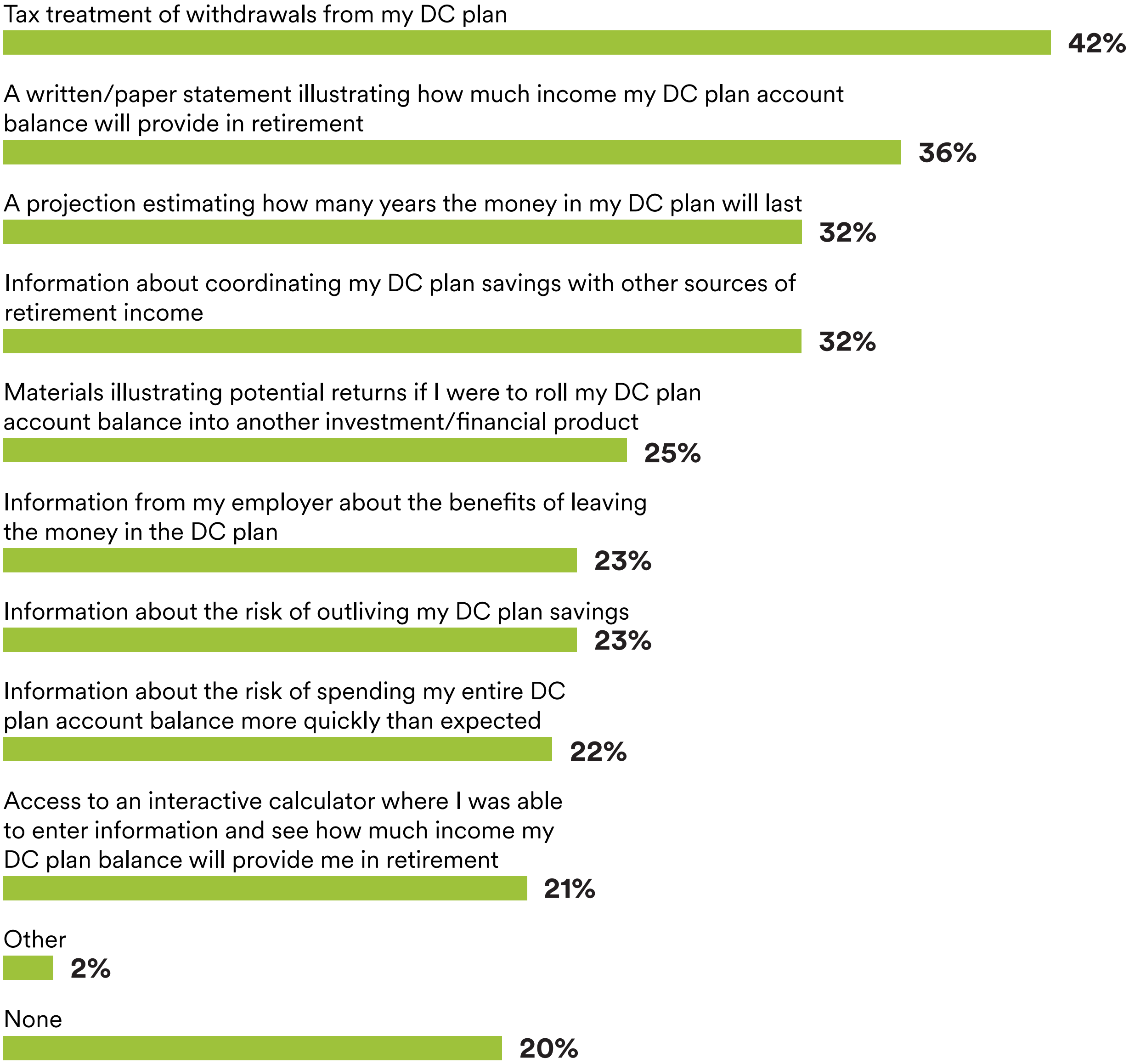
Type of information received about DC plan balance decision-making

Among pre-retirees



Type of information received about DC plan balance decision-making

Among retirees

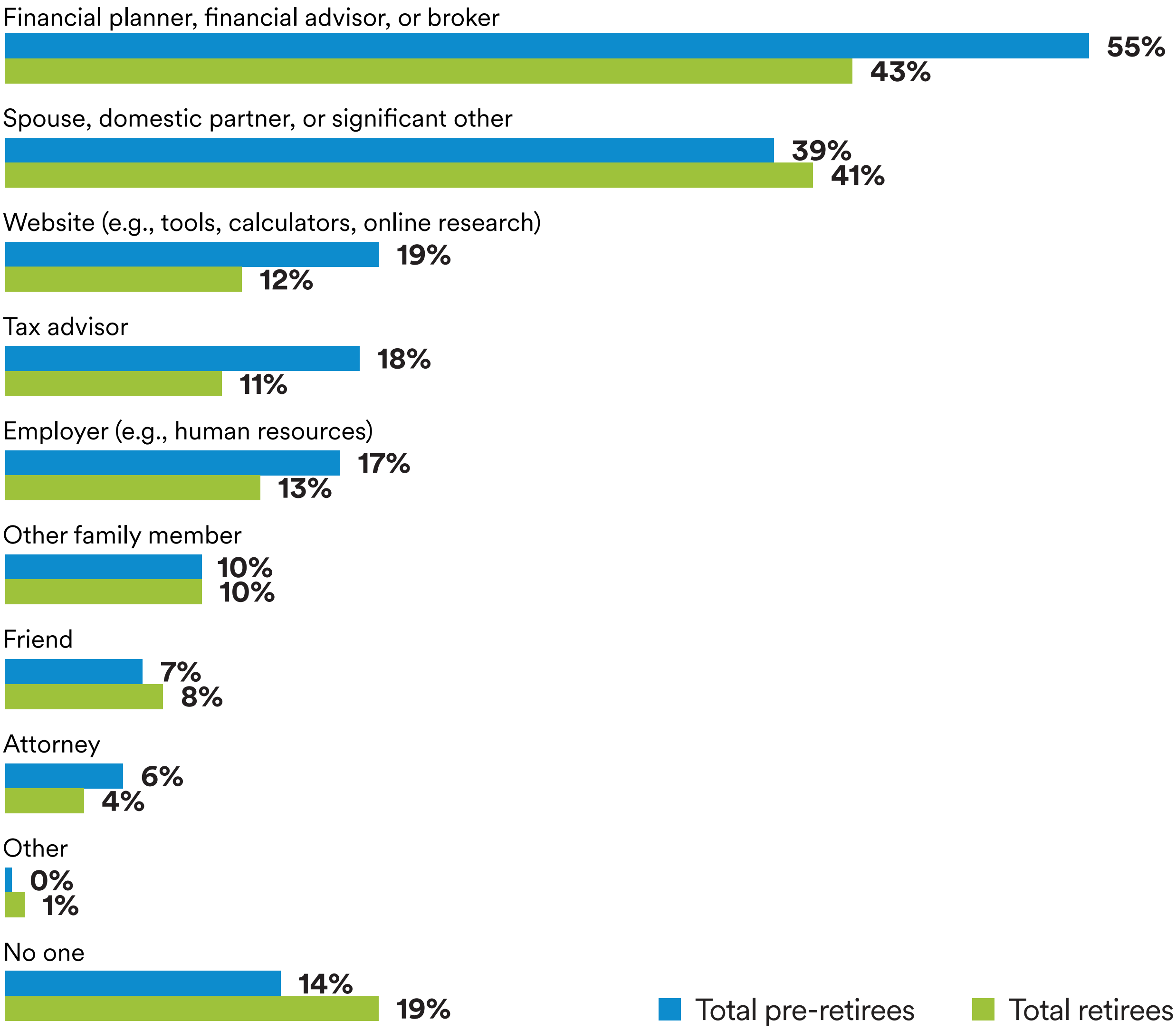


Overwhelmingly, both retirees and pre-retirees (89% and 94%) think it would have been/would be helpful if employers were required to provide an annual lifetime income statement showing employees how much monthly income they can expect their DC plan account balance to provide in retirement. That's good news since the U.S. Department of Labor's Lifetime Income Disclosure requirements (as required by the SECURE Act) provided model language for sponsors that wish to obtain relief from liability for providing the illustrations.

Financial tools, advisors more common among annuity recipients

When choosing what to do with their DC balance, most retirees (81%) and pre-retirees (86%) opt to make this decision in consultation with someone else, most likely a financial planner, advisor, or broker (43% retirees, 55% pre-retirees), or their spouse/partner (41% retirees, 39% pre-retirees). Among retirees, those who chose an annuity (54%) are more than twice as likely as those who chose a lump sum (25%) to have worked with a financial advisor during this decision-making process.

Sources of information used in DC plan balance decision-making



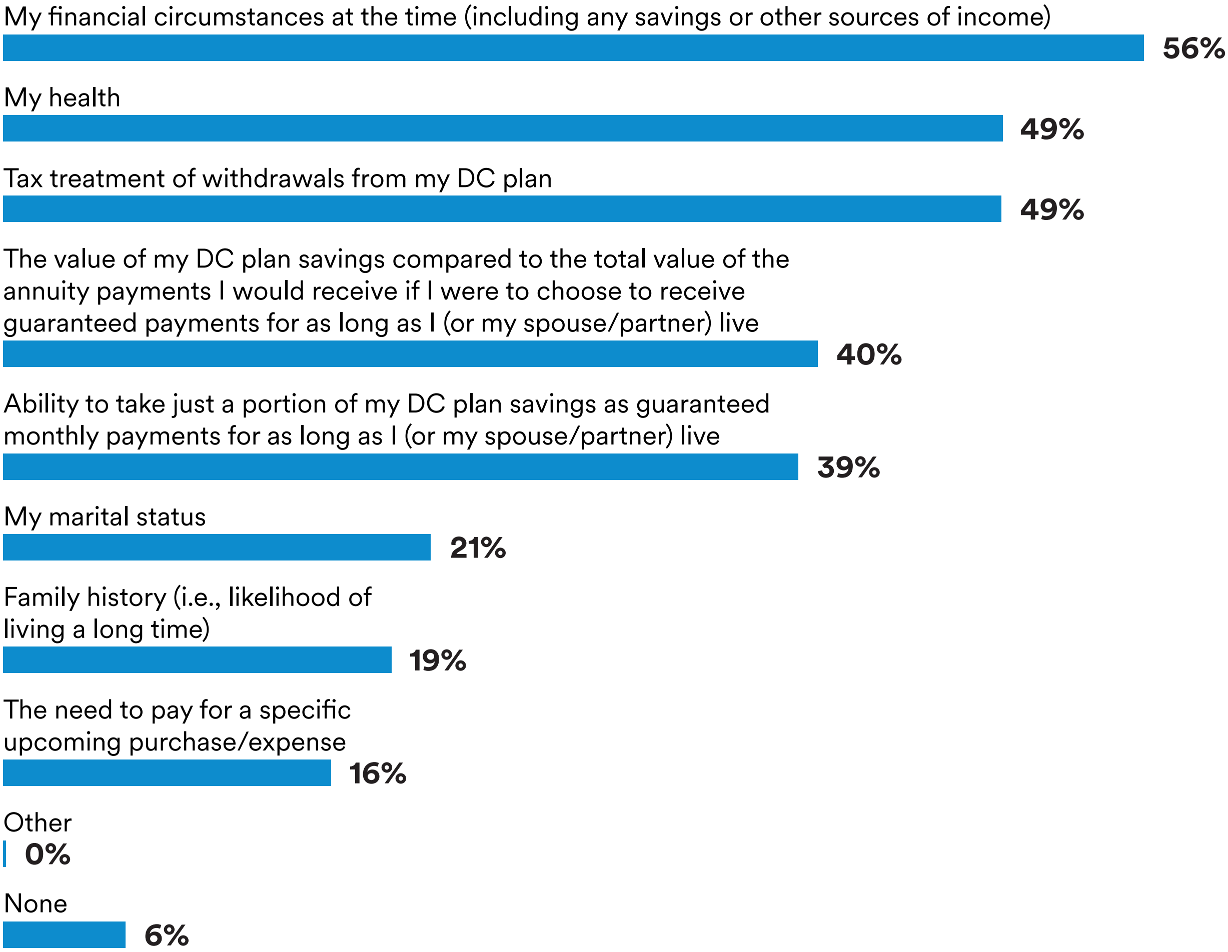
Financial circumstance at the time of retirement (54%) was the most common consideration for retirees when deciding how to handle their DC plan balance. Other considerations include the tax treatment of withdrawals from their DC plan (37%) and whether or not they have the option to convert their savings into income (32%), as well as their health (35%) and marital status (31%).

Compared with 2017, retirees were less likely to consider the value of their DC plan savings compared with the total value of the annuity payments they would potentially receive (38% in 2017, vs. 29% in 2021), and more likely to consider their ability to take just a portion of their DC plan funds as an annuity (2% in 2017, vs. 32% in 2021) — with the latter reinforcing the affinity for a partial annuity/partial lump sum option.

As for pre-retirees, when deciding what they will likely do with their DC plan saving, they cite financial circumstances (56%) as the most important consideration, tax treatment of the withdrawals from their DC plan (49%) and their health (49%).

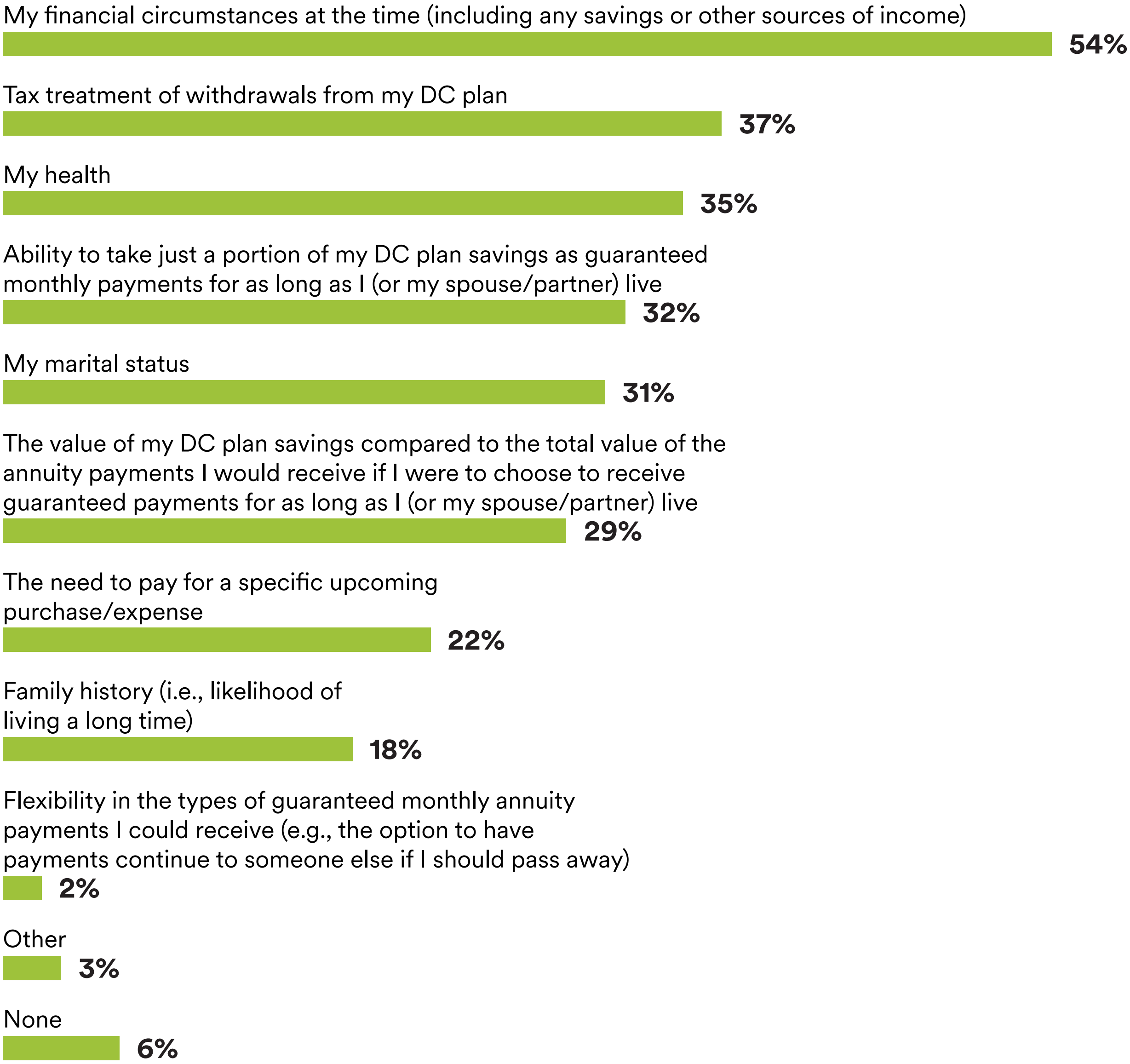
Considerations for DC plan balance decision-making

Among pre-retirees



Considerations for DC plan balance decision-making

Among retirees



The COVID-19 pandemic is causing retirees to better understand their monthly expenses

Half of retirees (51%) say that the pandemic has impacted their retirement, including three in 10 (31%) who say it has caused them to value guaranteed monthly income more as they now have a better understanding of their monthly expenses (excluding work-related expenses like commuting and dry cleaning). Others say it has caused them to be more concerned about medical expenses (28%), and/or reevaluate their priorities and lifestyle choices (e.g., downsized to a smaller home, moved closer to family, improved their health)(23%).

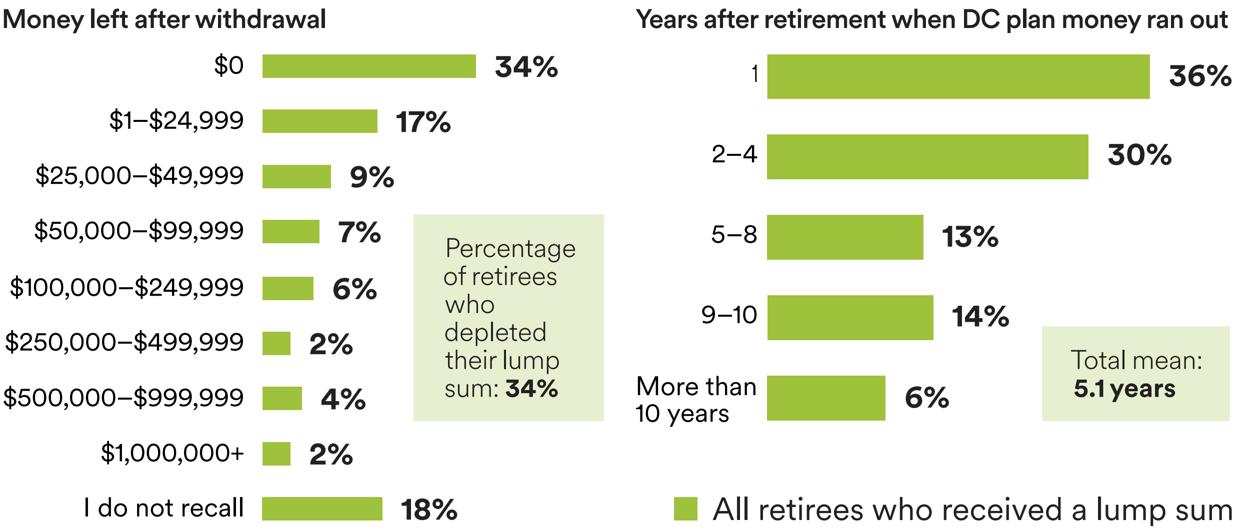
Findings for retirees who took a lump sum

Over the last five years, significantly more retirees have depleted their lump sums

In 2017, one in five retirees (20%) who took a lump sum either from a DB plan or DC plan depleted their lump sum, on average, in 5½ years. Today, one in three retirees who took a lump sum from a DC plan (34%) have depleted their lump sum in 5 years, on average. For those retirees who took a lump sum from their DC assets and also have pension income from a DB plan, they are depleting their lump sums at a slightly slower rate (i.e., 6 years). And, among all DB recipients, 64% estimate they have less than $50K from their DC assets (including those who have nothing left).

Amount of lump sum remaining and lump sum-depletion duration

Among retirees



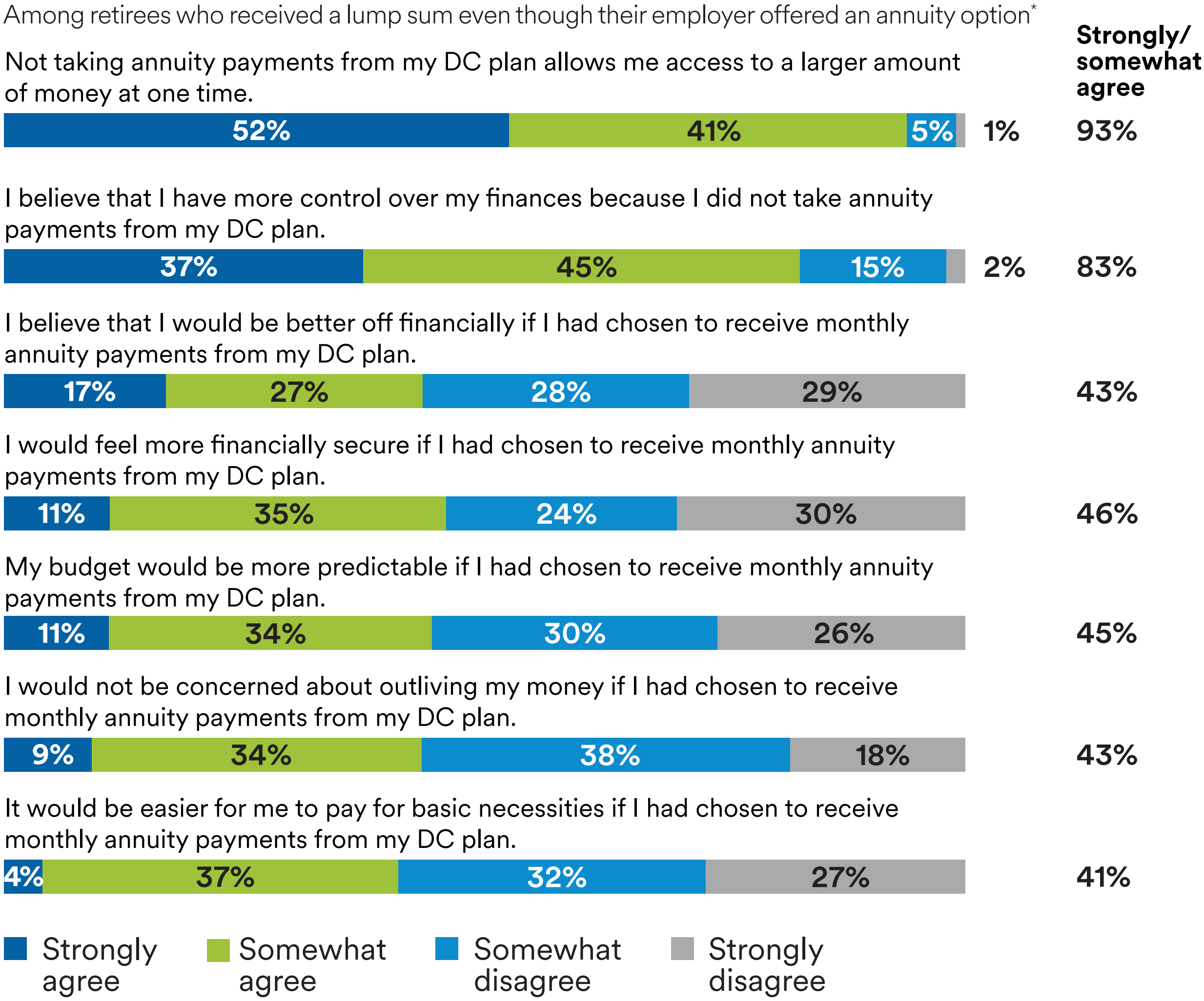
Among those who chose a lump sum and have money remaining, more than four in 10 are concerned that the money will run out at some point (41%), and project that the rest of the money from their DC plan will last about 17 years (in line with 2017 expectations). More than half who have concerns about running out of money have decided to cut back on spending as a result (54%).

Lump sum recipients wanted control over their finances and access to money, even though many have depleted it

In general, when weighing the pros and cons, lump sum recipients whose employers offered an annuity option largely feel that forgoing the annuity payments allows them access to a larger amount of money at one time (93%) and gives them more control over their finances (83%).

Lump sum perceptions

Among retirees who received a lump sum even though their employer offered an annuity option*



*Percentages may not total 100% due to rounding.

Around six in 10 lump sum-only recipients (59%) have never worked with a financial advisor. When managing their lump sum, fewer retirees have rolled the money into an individual retirement account (IRA) (26%, down from 52% in 2017), while more are putting money into a certificate of deposit (26%, up from 16%). Lump sum recipients are also less likely to say they have a financial advisor today (24%, down from 44% in 2017).

Among those who chose the lump sum even though their employer offered an annuity option, most did so because they felt they had other sources of income to rely on (61%) or wanted to maintain control over their money (42%).

Lump sum recipients express regrets about spending/giving money away

More than one in three lump sum recipients (35%) have given away a significant portion of the money to at least one person or group (up significantly from 2017, 23%), and more than three-quarters (79%; a significant increase vs. 2017, 64%) made at least one major purchase within the first year of withdrawing the money (including luxury spending like vehicles, vacations, and new or second homes). For those who made a large purchase or gave away a portion of their DC plan savings, around half expressed regret afterwards (48% and 41%, respectively). Among those who believe they will need to cut back on or give up any spending due to fears of the money running out, 97% will need to cut back on luxury spending including making a large purchase on, for example, a new car or home, eating out regularly or taking vacations.

That said, among *all* lump sum recipients (regardless of whether their employer offered an annuity option) the reality is that almost half (46%) express at least some regret about withdrawing money from their DC plan.

Findings for retirees who took the retirement paycheck

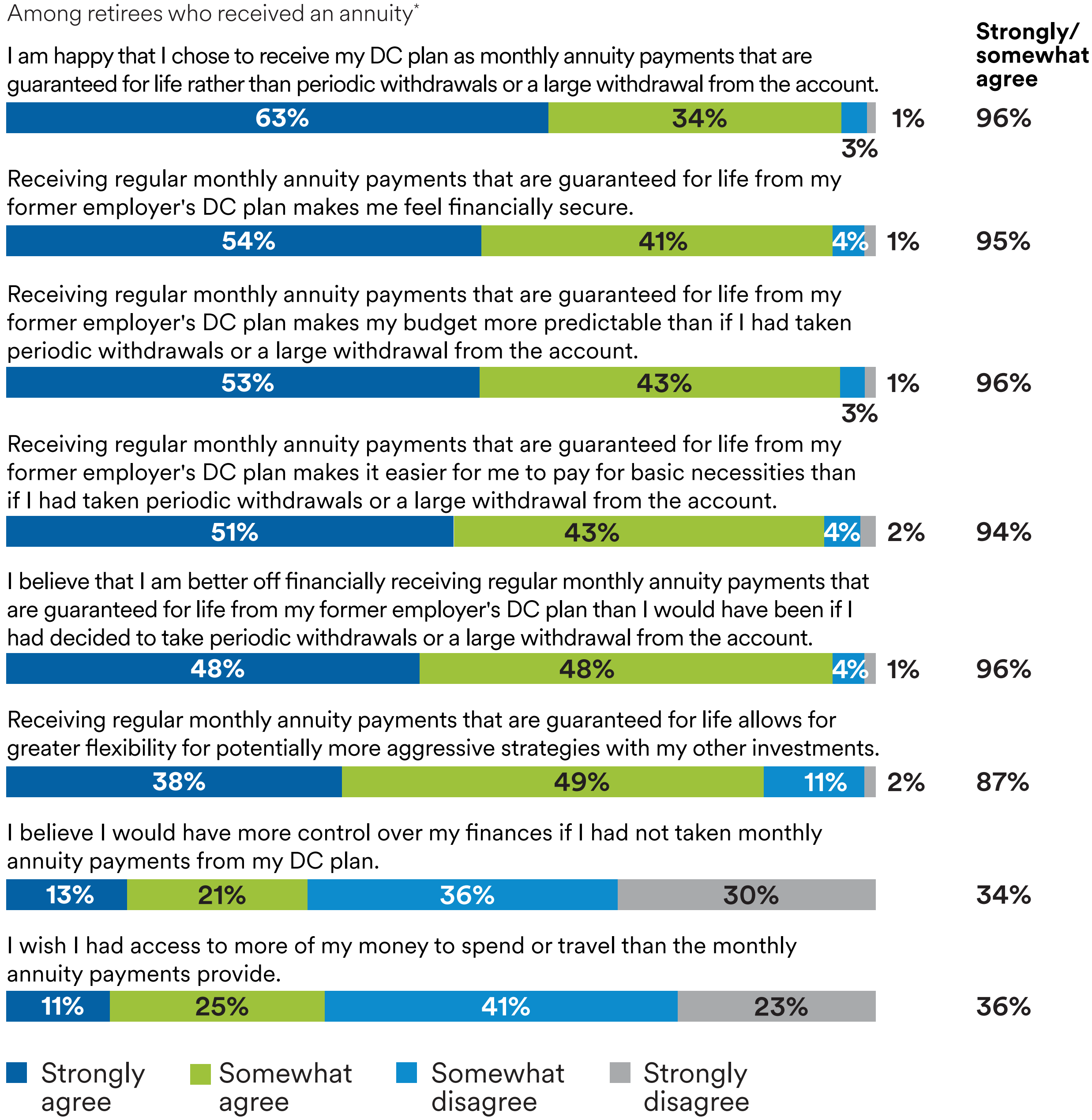
Nearly all retirees who took the annuity tout its positive impact

Almost all annuity-only retirees (96%) say that receiving regular monthly annuity payments that are guaranteed for life from their former employer's DC plan makes their budget more predictable and an equal percentage (96%) say they are better off financially than if they had taken periodic withdrawals or a large withdrawal from the account. Additionally, 95% say it makes them feel more financially secure, and 94% say it's easier to pay for basic necessities. Additionally, 87% acknowledge that — by receiving regular monthly annuity payments that are guaranteed for life — they have greater flexibility for potentially more aggressive strategies with their other investments. Conversely, only about one-third of annuity-only recipients believe they would have had more control over their finances (34%, a significant increase from 16% in 2017) or wish they had greater access to their money (36%) if they had not chosen monthly annuity payments.

Almost all annuity-only retirees say that receiving regular monthly annuity payments that are guaranteed for life from their former employer's defined contribution (DC) plan makes their budget more predictable

Annuity perceptions

Among retirees who received an annuity*



*Percentages may not total 100% due to rounding.

Annuities primarily used for ongoing expenses

Nearly all annuity-only retirees (97%) use their DC plan money (in the form of monthly annuity payments) for ongoing expenses, such as day-to-day living (78%) and housing expenses (54%). Given their needs, virtually all annuity-only recipients are happy (96%) that they chose to receive a retirement paycheck from their DC plan.

Notable demographic differences

Women facing more retirement income security challenges than men

It is common knowledge that women tend to save less for retirement than men, often because they have been in and out of the workforce for child rearing and other caregiving responsibilities. Our survey found a sizable disparity between the mean DC plan balance for retirees ($268,253) by gender. The approximate balance in their DC plan when they retired was much less for women than men ($173,705 for women vs. $325,856 for men). When they retire within the next five years, although the average DC balances are expected to be higher overall, pre-retiree women will still lag pre-retiree men in their estimated DC plan savings totals ($436,232 for women vs. $735,066 for men).

Retired women are more likely than retired men to think they may have *underestimated* the amount they should have saved (61% for women vs. 47% for men), and *overestimated* how long their retirement savings will last (57% for women vs. 43% for men). Women are also slightly more concerned about *underestimating* their life expectancy (51% for women vs. 44% for men) — not surprising given that women live longer than men, on average.

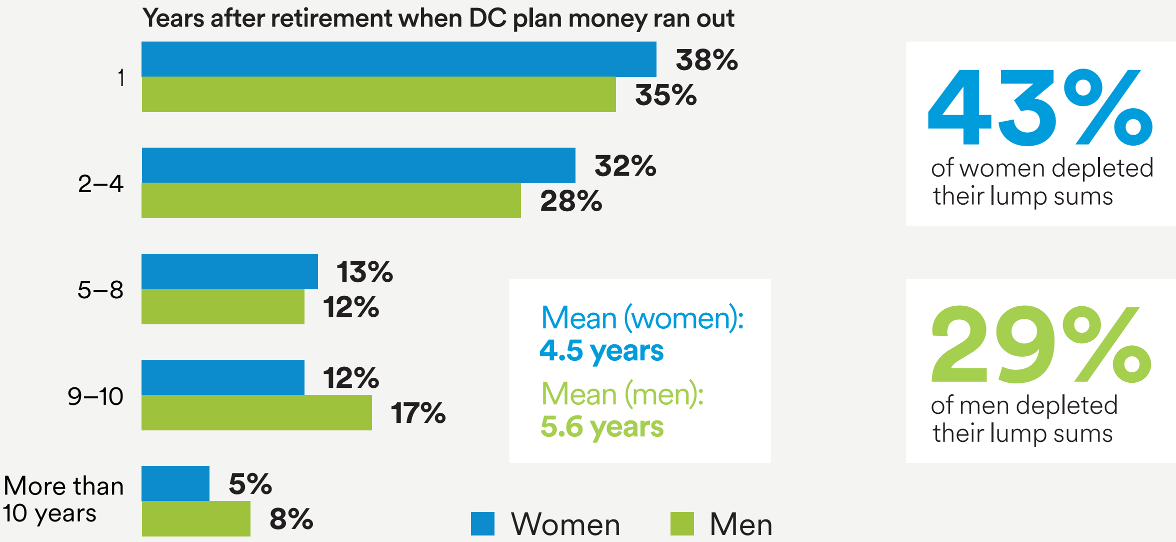
When it comes to concerns about depleting their lump sums, retired women who still have money remaining from their DC plan are much more concerned than their male counterparts (57% for women vs. 34% for men). Additionally, these women estimate their money will be depleted, on average, in 11 years compared to 20 years for men. Over half of retirees overall (54%) have cut back on spending as a result of concerns about running out of money but this too is much more pronounced for women (74% women vs. 43% men). Among pre-retirees 35% of women vs. 28% of men believe they will have to delay their retirement. Their reasons are also more pronounced: they need to continue receiving a monthly income, they haven't saved enough, they need their health insurance and other benefits, and they need to increase their Social Security monthly income.

This high level of concern about lump sum depletion is justified since more women (43%) than men (29%) have already depleted their lump sums in retirement, and they did so more quickly (4.5 years for women versus 5.6 years for men). Among those who took a lump sum, more women believe they would have been better off financially if they had the option to convert part or all of their DC plan account balance into an annuity (62% for women vs. 47% for men).

> **This high level of concern about lump sum depletion is justified since more women than men have already depleted their lump sums in retirement, and they did so more quickly**

Amount of lump sum remaining and lump sum depletion duration

Among retired men and retired women



Among retirees, more women than men believe the pandemic has impacted their retirements (58% for women vs. 46% for men), causing women to place more value on guaranteed monthly income as they now have a better understanding of their monthly expenses, have greater concerns about medical expenses, and/or reevaluate their priorities and lifestyle choices.

As they approach retirement, views among Baby Boomers and Gen-Xers differ

Views among retired Baby Boomers and retired Gen-Xers regarding retirement differ in several key areas. Nearly seven in 10 Boomers (69%) have worked with a financial advisor versus 53% of Gen-Xers. However, more Gen-Xers (92%) than Boomers (84%) have discussed with their financial advisor what they should do with their DC plan assets when they retire.

More pre-retired Boomers (91%) than pre-retired Gen-Xers (85%) think it's important for someone to have a guaranteed monthly income in retirement to pay their bills. Pre-retired Boomers (91%) are also more likely to value the ability to take their DC plan savings as a partial annuity/partial lump sum than pre-retired Gen-Xers (81%).

These generational cohorts are equally concerned about running out of money in retirement (48% of Gen-Xers and 49% of Boomers, respectively). However, it's Gen-Xers (36%) that are more likely to think they may have to delay retirement versus 29% for Boomers.

For those who plan to take their DC plan savings as a lump sum, more Boomers than Gen-Xers (70% for Boomers vs. 58% for Gen-Xers) want to maintain control over their money, whereas more Gen-Xers than Boomers would choose the lump sum because they believe they could achieve better returns on their own (64% for Gen-Xers vs. 47% for Boomers).

CONCLUSION AND CONSIDERATIONS

For many workers, with the decline of DB pension plans, a DC plan is the only company-sponsored retirement plan they have. Most will depend on them to provide adequate retirement income. Since their inception, DC plans have evolved in many ways — from the addition of automatic programs to encourage savings and target-date funds to make DC plan investing easier. However, one area where DC plans have presumably not evolved quickly enough is enabling workers to convert their retirement assets to guaranteed retirement income.

The retirement industry has made a tremendous effort in recent years to introduce lifetime income offerings, in the hopes that employers with Employee Retirement Income Security Act (ERISA)-based plans adopt these features. However, two years after policymakers made it easier for employers to strengthen and enhance their company's DC plan with the addition of lifetime income, we are only now beginning to see greater interest and action on the part of employers to provide plan participants with these valuable options. It's clear that there is more work to be done.

Outlined below are considerations for employers, workers, and policymakers to help strengthen retirement income security.

Employers

Plan sponsors play a critical role in the ultimate retirement outcome for millions of American workers. While encouraging retirement plan savings is incredibly important, that's only one piece of the workplace retirement equation. Plan sponsors should also design retirement plans that help ensure successful retirement outcomes for the plan participant. By expanding access to guaranteed lifetime income solutions, employers can empower plan participants to confidently transition into retirement — and help ensure their retirement savings lasts.

Conduct a Strategic Review of the Plan's Ability to Facilitate Successful Retirements

Plan sponsors often gravitate toward plan changes that are operational or financial in nature, such as the appropriate company match and which plan investment options to offer participants. If a sponsor has never formally articulated an overall strategic objective for its qualified plans, or has not done so in many years, it may be time to consider the benefits of such an exercise. Outlining a longer-term, more strategic objective can help a company determine how best to facilitate a successful retirement transition for its workers, including developing a clear understanding of their plans' ability to generate lifetime income. Once a plan's strategic objectives have been identified or validated, a plan sponsor should begin thinking about what changes they may need to make. Key questions to ask are: Are income annuities or other retirement income options offered to participants in the DC plan? Is this option guaranteed? If not, should a guaranteed lifetime income option be offered?

Consider the Addition of Guaranteed Lifetime Income

Deciding which lifetime income options to offer in a DC plan requires careful consideration. While there is a range of lifetime income options available in the market to try to address every potential objection to annuities, it should be noted that income annuities purchased at the point of retirement, such as an immediate annuity or a longevity annuity with an income benefit paid later in life, are among the most efficient ways for workers to access guaranteed monthly income from a DC plan. A voluntary insurance offering with no cost to employers, institutional income annuities also have the benefit of institutional pricing for participants. They complement existing strategies and are compatible with any recordkeeper or platform, with the flexibility of limited to no build required.

Insurers are not suggesting that a DC plan participant convert their entire retirement savings into an annuity. With a partial annuity/partial lump sum — the best of both worlds — the participant can purchase an annuity to cover predictable expenses while providing for liquidity with the remaining assets.

With nine in 10 pre-retirees and retirees feeling it's very important or absolutely essential to have a guaranteed monthly income to pay their bills, and half of pre-retirees wanting their employer to provide an annuity option, these solutions should be given serious consideration by plan sponsors.

When considering which retirement income option to offer, plan providers may want to retain a consultant/advisor to conduct due diligence on the available solutions in the marketplace. Key to this due diligence is identifying an experienced insurance provider with strong financial strength ratings for these long-term promises to retirees.

Make Retirement Income Education a Priority

How a plan sponsor communicates the objectives and expectations of its retirement plan has a fundamental effect on the way that participants understand the decisions they will need to make. When reviewing messages being communicated in current plan materials, on websites and in on-site retirement planning sessions, plan sponsors should consider the following questions: Do communications place equal emphasis on asset accumulation and retirement income generation? Do you routinely communicate about the importance of creating retirement income, as well as retirement income-related issues such as longer life spans (longevity risk), how to create retirement income, the pros and cons of taking a lump sum versus periodic payments, and when to begin taking

Social Security benefits? Do you provide access to decision-support tools such as calculators or illustrations for employees to predict their retirement income needs, such as income replacement goals? If not, it may be time to update the plan's messaging to make retirement income education a priority.

Workers

A Need for Monthly Income Continues in Retirement

Retirees can typically expect to live 20 years or more in retirement. Running out of money in retirement can potentially leave workers with no income other than Social Security or be forced to go back into the workforce. Since many workers live paycheck-to-paycheck while they are working, it is highly likely that they will need to create a "paycheck" to live on in retirement. While taking one's entire retirement savings as a lump sum can be tempting, the risk of quickly depleting that lump sum can be devastating. In addition to living longer than expected and prematurely running out of money, retiring workers should consider their need for both monthly income and some level of liquidity, as well as their investment skills which may be impacted by cognitive declines later in life.

Deciding between a lump sum or an income annuity doesn't need to be an all-or-nothing decision. Income annuities are designed to protect individuals from market volatility, and from the risk of outliving their savings. While it's important to have some available assets, a guaranteed stream of income makes planning and budgeting easier and helps avoid the risk of overspending or underspending in retirement.

If an employer isn't providing retirement income education and tools, or offering the ability to convert at least some portion of retirement savings into an annuity, workers may want to ask them about it.

Policymakers

Keeping Retirement Secure for American Workers

The important role of policymakers in helping to ensure that participants in workplace retirement plans can achieve successful retirement outcomes cannot be overstated. With the passage of the SECURE Act in December 2019, which included an annuity safe harbor for the selection of an insurer, ERISA-based DC plans are starting to add guaranteed lifetime income solutions. With the finalization of lifetime income disclosures, workers will also have a more complete picture of how much monthly income their retirement savings can provide when they retire.

As members of Congress consider additional retirement legislation, including SECURE 2.0, they should contemplate whether employers should be required to offer lifetime income distribution options for their DC plan participants. After all, half of pre-retirees think their employer should be required to provide an annuity option. Policymakers may also want to consider the merits of requiring DC plan participants to annuitize a portion of their balance at retirement. If this was a requirement, then, over time, we would likely see annuitization rates rise which, in turn, would lead to a more secure retirement for scores of American workers.

METHODOLOGY

This survey was conducted online within the U.S. by The Harris Poll on behalf of MetLife between November 16 and December 15, 2021 among 1,911 U.S. adults between the ages of 50–75 who were either retired or within five years of retiring. The study included 907 "retirees" who were defined as adults who are retired and had a balance of $25,000 or more in a defined contribution (DC) plan (e.g., 401(k), 403(b), 457, Thrift Savings Plan) when they retired and withdrew all or a portion of that balance or receive monthly annuity payments of $500 or more from a DC plan. This summary includes notable comparisons to the 2017 Paycheck or Pot of Gold Study (fielded between June 16 and July 11, 2016) when looking at the retiree segment.

The study also included 1,004 pre-retirees, who were defined as adults who are planning to retire within five years but are currently employed full time, currently enrolled in an employer's DC plan, and know what type of DC plan they have through their employer.

Data for pre-retirees and retirees were weighted separately by education, age, sex, gender, race/ethnicity, region, household income, household size, and marital status, where necessary, to bring them into line with their actual proportions in the population. Propensity score weighting was used to adjust for respondents' propensity to be online.

All sample surveys and polls, whether or not they use probability (random) sampling, are subject to multiple sources of error which are most often not possible to quantify or estimate, including sampling error, coverage error, error associated with nonresponse, error associated with question wording and response options, and post-survey weighting and adjustments. Therefore, The Harris Poll avoids the phrase "margin of error" as it is misleading. All that can be calculated are different possible sampling errors with different probabilities for pure, unweighted, random samples with 100% response rates. These are only theoretical because no published polls come close to this ideal.

The average age of the DC plan participants surveyed was 61 for pre-retirees and 67 for retirees, and the average age in which they retired was 62. For those who took a lump sum at retirement, the average DC plan balance was $242,598. For those receiving monthly annuity payments from their former employer's DC plan, the average monthly payment is $2,631. Many DC plan participants are also collecting (or have collected) benefits from Social Security (82%) and/or DB pension income from a former employer (68%).

Throughout the report, respondents are referred to as retirees (all retirees), pre-retirees (all full-time employed respondents within five years of retiring), lump sum or lump sum-only retirees (retirees who withdrew the entire balance from their DC plans) and annuity or annuity-only retirees (retirees who receive monthly annuity payments only and did not make a partial withdrawal of funds from their DC plan).

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