

Paycheck or Pot of Gold StudySM

Making workplace retirement savings last

April 2017





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About the Research

There are key moments when an individual may be offered a choice between a lump sum payment and a guaranteed stream of income, also known as an annuity. For individuals participating in a workplace retirement plan, the lump sum versus annuity decision is typically, but not always, made at the point of retirement.

If presented with a choice between a lump sum, an annuity or some combination of the two, individuals have a number of important considerations. How will they manage their accrued defined benefit (DB) pension benefits, if they participate in this type of pension plan, and/or how will they utilize any retirement savings they have amassed in an employer-sponsored defined contribution (DC) plan? Determining how one's pension benefits (in the case of a DB plan) or retirement savings (in the case of a DC plan) should best be distributed can be one of the most important and impactful decisions someone can make regarding their retirement income security.

In the summer of 2016, MetLife commissioned research conducted by Harris Poll to understand consumers' attitudes and decision-making with regard to lump sums and income annuity payments from several sources, including a DB pension plan or a DC retirement savings plan. Until now, research analyzing the decision-making process for taking a lump sum versus an annuity has not been widely explored.

With the Paycheck or Pot of Gold Study,SM MetLife sought to evaluate whether individuals' experiences with their lump sums, over time, met with their original expectations. For those who have depleted their lump sums, the research shows how quickly the money was exhausted. The study also looks at the role that education and advice play in the decision-making process, and offers insight into — and reflections about — how individuals later feel about their prior decisions. As a comparison, the study also assesses similar considerations for annuitants who decided in favor of a guaranteed income stream.

Guaranteed Income Dates Back to Earliest Workplace Retirement Plans

For many years, defined benefit (DB) pension plans were the predominant workplace retirement program. These benefits were traditionally paid as an annuity — a guarantee that the individual would receive a steady flow of income that he or she could not outlive — as the standard form of benefit. Over the last several decades, the number of companies providing DB plans to their workers has declined steadily and significantly. Instead, for most workers today, a defined contribution (DC) plan, such as a 401(k) plan, is the only significant workplace retirement program, and the majority of the responsibility currently rests with individual plan participants to make the savings accumulated in these plans last throughout their lifetimes.

A separate development that overlapped to some degree with the beginning of a decline in DB pension plans was a change in how the benefits were paid to retirees or terminated vested workers and their beneficiaries. As an alternative to the monthly annuity benefit these plans are required to offer (except for amounts under \$5,000), DB plans added lump sum distributions, often as a means of encouraging early retirement initiatives that became popular in the 1990s. This proved both easy to communicate to, and popular with, employees. Once added, qualified plan anti-cutback rules served to keep these new benefit forms in place.

Methodology

MetLife commissioned Harris Poll to conduct the online survey, which was fielded between June 16–July 11, 2016¹ among 1,069 adults in the U.S. who were:

- Ages 50–75, retired or still working, and received a lump sum of \$25,000 or more from a defined benefit (DB) pension, or receive monthly annuity payments of \$500 or more from a DB pension; or,
- Ages 50–75, retired, and had a balance of \$25,000 or more in a defined contribution (DC) 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; or,
- Ages 18–75, and received income from a lawsuit settlement of \$25,000 or more, and had a choice between receiving the settlement as either a lump sum or annuity payments (the lawsuit settlement findings are not included in this report).

Figures for age, sex, race/ethnicity, education, region, marital status, employment and household income were weighted, 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.²

The average age of the DB plan participants was 65 and, of those who are retired, the average age in which they retired was 58. The average age of the DC plan participants was 67, and the average age in which they retired was 61. The large majority of DB and DC plan participants retired in the year 2000 or later (91% and 97%, respectively).

The average lump sum amount for those who took a lump sum from their DB plans was approximately \$192,357 (\$232,507 for men compared to \$144,793 for women). One in five DB plan participants who took a lump sum from their DB plans (22%) did so in conjunction with receiving notice of a lump sum window.³ The average DC plan balance at retirement was approximately \$239,792 (\$274,859 for men, compared to \$188,178 for women).

1 in 5 individuals who took a lump sum either from a DB plan or DC plan depleted their lump sum, on average, in 5½ years.

For those receiving monthly annuity payments from their former employer's DB plan, the average monthly payment is about \$2,661. The average monthly annuity payment among those who receive annuity payments from their DC plans is about \$1,691. Many DB and DC plan participants are also collecting (or have collected) benefits from Social Security (63% and 82% for DB and DC plan participants, respectively).

Study Findings

Overall Findings for Workplace Retirement Plan Participants: Lump Sum vs. Annuity

Key Information About Longevity and the Risks of Running Out of Money Is Lacking

When asked about information that was available or presented to them at the time they made their decisions, the majority of both DB plan participants who were given a choice between a lump sum and an annuity and DC plan participants (84%) say they received some type of information in order to help them with their decision. One of the most common types of information provided focused on the tax treatment of both payment options (39% for DB plan participants and 46% for DC plan participants).

Among DB plan participants who were given a choice between a lump sum or an annuity, fewer than half (45%) said that, at the time they made their decision, they recall being presented with information comparing the total amount of the lump sum versus the total value of the annuity payments. This indicates a potential opportunity to improve upon the information provided to DB plan participants because, as the American Academy of Actuaries has noted, “[w]hen lump sum distributions are offered, it is critical that participants receive information that is sufficiently clear and complete to enable them to make informed decisions regarding whether to accept the lump sum offer.”⁴ Unlike Internal Revenue Code Section 417(a)(3), which incorporates both mortality and time value of money in its relative value presentation, information about longevity and how to calculate how long savings will last is not required, nor is it generally being provided to DC plan participants at retirement: only 39% of DC plan participants recall receiving a written or paper statement illustrating how much income their DC plan would provide in retirement.

**“When lump sum distributions are offered,
it is critical that participants receive information
that is sufficiently clear and complete...”**

Even fewer DB and DC plan participants recall receiving critical information about the risks of outliving their money or depleting a large sum of money more quickly than expected. Only 31% of DB plan participants who were given a choice between a lump sum or an annuity received information about the risk of outliving their money, and only 12% received information about the risk of spending a large sum more quickly than expected. Similarly, only 23% of DC plan participants were presented with information about the risk of outliving their DC plan savings, and only 20% were presented with information about the risk of spending their entire DC plan balance more quickly than expected. Additionally, only 26% of DB plan participants and 28% of DC plan participants were shown information about coordinating their pension benefits or DC plan savings with other sources of retirement income (e.g., Social Security, pension income or other retirement savings).

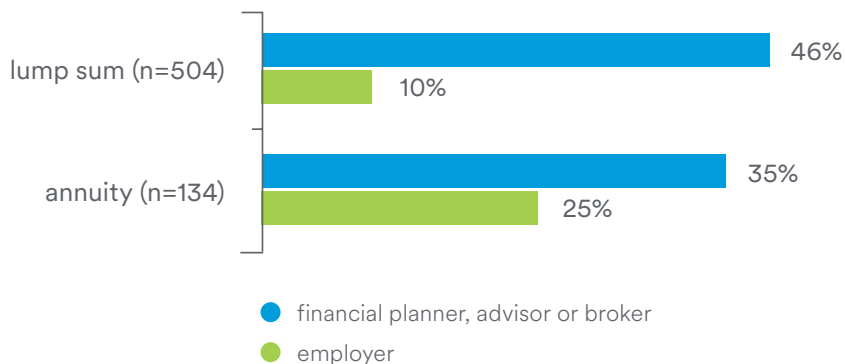
The primary drivers of the decision-making process cited by both DB and DC plan participants included their financial circumstances at the time (58%), the tax treatment of the payment options (42%), and the total value of the lump sum or account balance compared to the total value of annuity payments they would receive (38%). These considerations are shorter-term and ignore key longer-term factors; far fewer DB and DC plan participants considered their health (27%) or family history of longevity (20%).

Whom Consulted May Impact Whether Lump Sum or Annuity Is Chosen

Eight in ten DB and DC plan participants (79%) said they consulted with someone and/or conducted online research when making the decision between accepting a lump sum and annuity payments, or what to do with the balance in their DC plans. Nearly half of DB and DC plan participants who took a lump sum (46%) say they consulted with a financial planner, compared to 35% of those who took an annuity; 25% who took an annuity spoke with their employer, compared to 10% who chose a lump sum.

Whom Consulted by Distribution Option Chosen

Among All DB Plan Participants and DC Plan Participants Who Had the Option to Annuitize
(n=638)



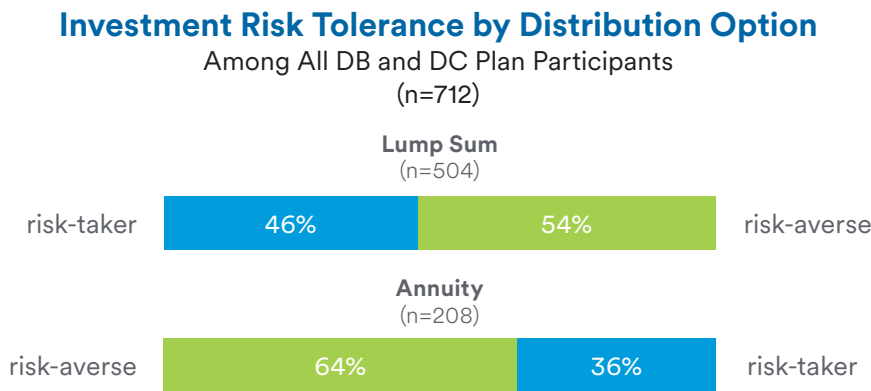
DC plan participants who selected an annuity were more likely than those who selected a lump sum to have been provided with a paper statement illustrating how much income their DC plan would provide in retirement (55% vs. 28%). Additionally, 39% of DC plan participants who chose an annuity say they received a projection estimating how many years the money in their DC plan would last compared to 30% who chose a lump sum.

For those individuals who had only a DC plan but no DB plan, only 6% indicated that they conducted online research when making the decision of what to do with the balance in their DC plan. Although DC plan sponsors and their recordkeepers frequently tout that online tools are made available to their plan participants to project the income they may need in retirement,⁵ the low utilization rate of this “do-it-yourself” approach is of concern, given that DC plans will increasingly become the primary or, in many cases, sole source of retirement income for many workers. This underscores the need for a more standardized approach to conveying the value of their retirement assets in income terms, such as through lifetime income disclosures on DC plan benefit statements for participants.

Risk Tolerance Appears to Impact Whether Someone Selects a Lump Sum or an Annuity

Whether an individual selects a lump sum or an annuity appears to be associated with their financial risk tolerance. Perhaps not surprisingly, 46% of DB and DC plan participants who selected a lump sum and are, therefore, subject to the fluctuations of the stock and bond markets, described themselves as “risk-takers,” compared to 36% of those who selected a guaranteed annuity; 64% of DB and DC plan participants who took the annuity (vs. 54% who took the lump sum) described themselves as “risk-averse.”

Among DB plan participants, 62% of those who took a lump sum consider themselves “risk-takers,” while 62% of those who took an annuity say they are “risk-averse.” Among DC plan participants, 42% of those who withdrew part or all of their DC plan balance self-identify as “risk-takers” with their investments, while 67% of those who chose to annuitize their DC plan balance say they are “risk-averse.”



Whether an individual selects a lump sum or an annuity appears to be associated with their financial risk tolerance.

Findings for Those Who Took a Lump Sum

Lump Sums Being Depleted Too Quickly

The study found that one in five individuals (21%) who took a lump sum either from a DB plan or DC plan depleted their lump sum, on average, in 5½ years. Among the 26 respondents who withdrew money from their DC plans and were not also receiving separate DB pension income, the money was depleted even more quickly in just 4 years.** The latter finding should raise an alarm bell for future generations of retirees who will be significantly more likely than previous generations to rely solely on assets from a DC plan to sustain them in retirement.

For those who have not yet depleted their lump sums, there is still significant cause for concern. In fact, 35% of those with money remaining are concerned that the money will run out. According to current actuarial projections, 65% of people aged 65 will live to age 85, and 25% of people aged 65 will live to age 95, with some living well beyond to age 100 or more.⁶ Given these projections, many people can expect to live 20 to 30 years or more in retirement. Yet, of those who have assets remaining from their lump sum, they expect that this money will last, on average, just short of 17 more years. Those who took a lump sum from their DC plan and have no DB pension income estimate that they will run out of money even more quickly, in about 15½ more years.* These projections will likely fall significantly short of most retirees’ average life expectancies.

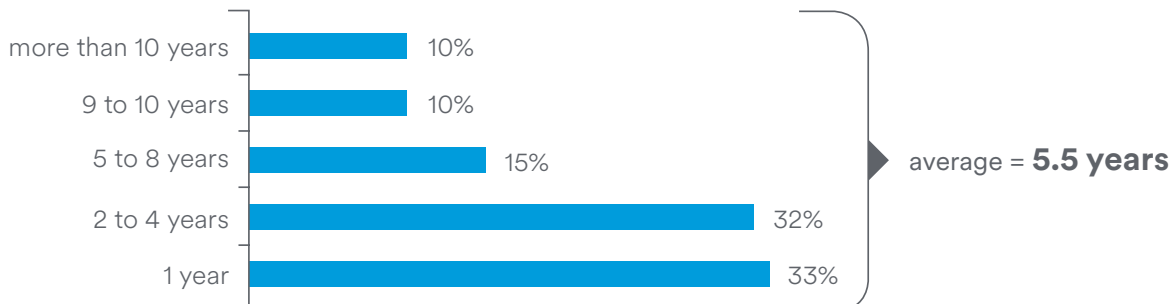
Lump Sum Depletion

Among DB and DC Plan Participants Who Took a Lump Sum

Lump Sum Remaining or Depleted
(n=504)



Approximate Length of Time Lump Sum Was Depleted
(n=96*)



*Small base (n<100)

**Very small base (n<40)

Putting aside the monthly income many will receive from Social Security, those individuals who spend down their retirement assets based on their life expectancies are very likely to run out of money, if they live longer than expected. Conversely, individuals who believe they will live well beyond their life expectancy may run the risk of underspending due to their fears about running out of money.

Many Lump Sum Recipients Regret First-Year Spending and Gifting to Family and Friends

When someone comes into a large sum of money — often more money than they may have ever had at one time — they tend to underestimate how quickly it can dissipate, particularly if large purchases are made. Among those DB and DC plan participants who took a lump sum, 63% reported that they had major purchases/spending within the first year, including vacations, home improvements and luxury purchases. During the first year, 30% of these individuals also used the money for expenses or debt, including 27% who paid down debt (e.g., credit card), 4% who paid medical/long-term care expenses and 4% who paid education expenses.

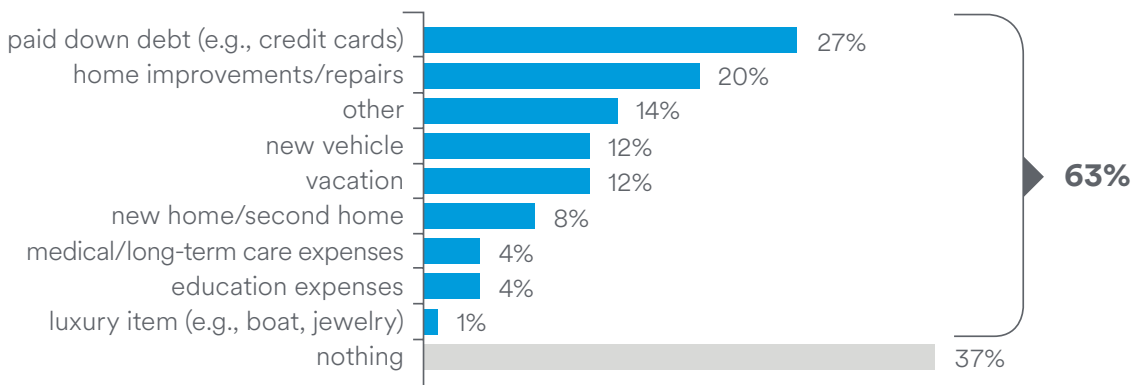
Nearly one-quarter of individuals who took a lump sum from their DB or DC plan (22%) report that they gave away a significant portion of this money to an individual and/or a group (e.g., friends, family, charity). Nearly one-third have regrets about major spending in the first year (31%) and nearly a quarter of those who gave money away regret doing so (23%).

Major Spending and Regrets

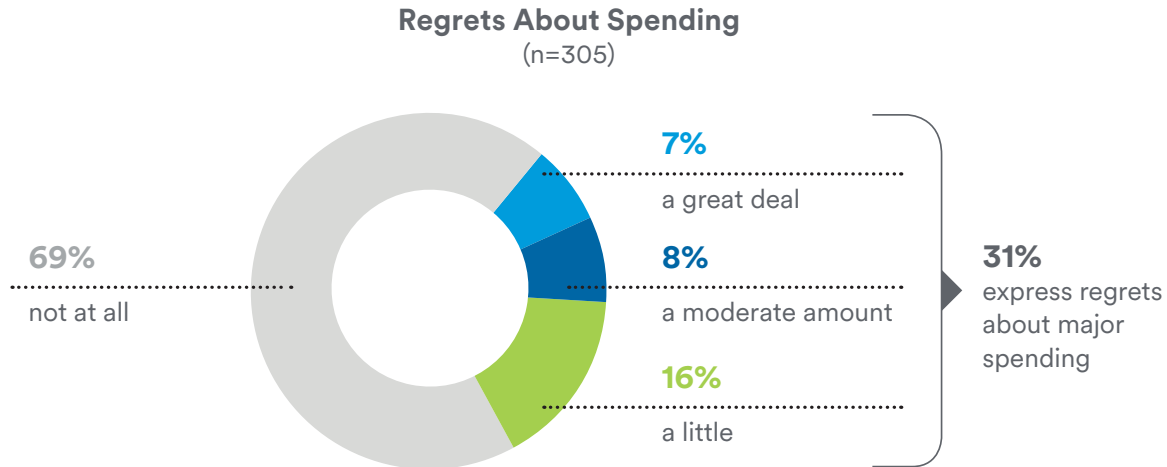
Among DB and DC Plan Participants Who Took a Lump Sum

Major Spending Within First Year of Receiving Lump Sum

(n=504)



Note: Respondents could select more than one option.



When asked about specific regrets with regard to spending their lump sums, a 75-year-old DB retiree who participated in the survey stated that “several years later, the return on my investment was not as good as the earlier years,” and a 62-year-old DB lump sum recipient said, “I was never able to earn enough money to replace the lump sum I took out of my retirement.” Those who spent their DC lump sum also had specific regrets: a 54-year-old DC participant commented that, “Once spent, [the money] will never be available for my future,” and a 66-year-old DC participant said, “I didn’t need the money then, but I need it now.” Others regretted that they “spent money unnecessarily” and “they do not want the money to run out too soon” since they “have nothing to fall back on.”

Of those DB and DC plan participants who still have money remaining from their lump sums and are concerned it will run out, 38% say that they have decided to cut back on spending because of concerns about running out of money. They are most likely to cut back on traveling/vacations (70%) and refrain from making a large purchase, such as buying a new car or house (69%). They are also eating out less frequently (67%) and paring back the purchase of gifts for — or giving money to — family and friends (57%).

Why Individuals Choose Lump Sums over Annuities

Among those who took a lump sum from a DB or DC plan but had the option to annuitize, the most prevalent reasons for taking the lump sum were wanting to maintain control over their money (43%); already having other sources of income (39%); and, thinking they could achieve better investment returns on their own (36%). Other reasons included the belief they had saved enough money for retirement, the desire to leave an inheritance, the fact that people they consulted with told them they should take a lump sum or withdrawal, and concerns about the ability of their employer to make good on their pension promises, among other considerations and priorities.

Top Reasons for Taking a Lump Sum Instead of an Annuity Among DB Plan Participants Who Took a Lump Sum and DC Plan Participants Who Took a Lump Sum (But Had the Option to Annuitize) (n=309)	Percentage
I wanted to maintain control over my money.	43%
I already had other sources of income (e.g., a job, pension plan or Social Security).	39%
I thought I could achieve better returns investing the money on my own.	36%
I felt I had saved enough money for retirement.	20%
The amount of the lump sum was very attractive (DB participants only).	20%
People I consulted with told me I should take the lump sum.	16%
I did not believe it was necessary to have a source of guaranteed income because I had saved enough to last as long as I and my spouse live.	14%
I wanted to leave an inheritance for my children/spouse.	13%

Note: Respondents could select more than one option; only the top responses are included in the table above.

Lump Sum Recipients Acknowledge Annuity Benefits

While 80% of DB plan participants who took a lump sum and DC plan participants who took a lump sum (but had the option to annuitize) believe they have more control over their finances than if they had chosen an annuity, more than half concede that, if they would have taken the annuity, their budget would be more predictable (52%). Additionally, 41%* of those who had the option to annuitize and instead took a withdrawal from their DC plans say they would not be concerned with outliving their assets if they had chosen to annuitize, and 38% of those who took a lump sum from their DB plans say they would not be afraid of running out of money in retirement if they had chosen to receive annuity payments instead of taking the lump sum. Among those who were not given the option to annuitize their DC plan assets, nearly one-quarter (23%) would have wanted their employer to allow them to convert all or part of their DC plan balance into an annuity that would provide guaranteed income for as long as they and/or their spouse live.

Lump Sum Recipients Acknowledge Annuity Benefits Among DB Plan Participants Who Took a Lump Sum and DC Plan Participants Who Took a Lump Sum (But Had the Option to Annuitize) (n=309)	Percentage Who Agreed
My budget would be more predictable if I had chosen to receive monthly annuity payments instead of taking a lump sum from my former employer's pension/from my DC plan.	52%
I would not be concerned about outliving my money if I had chosen to receive monthly annuity payments from my DC plan (DC participants only).	41%
I would not be afraid of running out of money if I had chosen to receive monthly annuity payments instead of taking a lump sum from my former employer's pension (DB participants only).	38%
It would be easier for me to pay for basic necessities if I had chosen to receive monthly annuity payments instead of taking a lump sum from my former employer's pension/from my DC plan.	34%
I would feel more financially secure if I had chosen to receive monthly annuity payments instead of taking a lump sum from my former employer's pension/from my DC plan.	32%
I believe that I would be better off financially if I had chosen to receive monthly annuity payments instead of taking a lump sum from my former employer's pension/from my DC plan.	27%

Note: The percentage who "agreed" is those who said they strongly agree or somewhat agree with the statement.

*Small base (n<100)

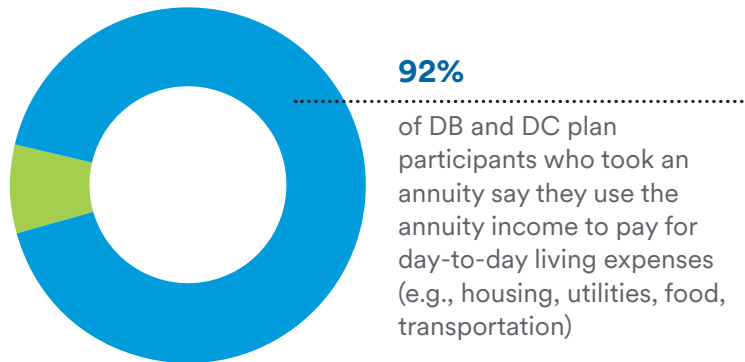
Findings for Those Who Took an Annuity

Most Annuity Recipients “Better Off” Than If They Took the Lump Sum

An income annuity — guaranteed to continue for life — not only protects against longevity risk, it allows an individual to plan their spending, which may help them to not overspend or underspend in retirement. In fact, 92% of those receiving annuity payments from their former employer’s DB or DC plan say they use the income for day-to-day living expenses, such as housing, utilities, food or transportation. Other uses for the income include traveling/vacations (58%), medical expenses/long-term care costs (31%), and a sizable percentage (29%) are actually using their annuity income to service their debt.

Annuity Income Used for Everyday Expenses

Among DB and DC Plan Participants Who Took an Annuity
(n=208)



When asked about their standard of living, 87% of those who selected the guaranteed annuity payments from a DB or DC plan instead of a lump sum payout said that, since they started receiving the annuity, their standard of living is about the same or better.

Nearly all of those who took an annuity (96%) are happy they chose the guaranteed monthly annuity payments rather than a lump sum.

Virtually All Annuitants Happy They Chose an Annuity Over a Lump Sum

Nearly all of those who took an annuity (96%) — 97% of DB plan participants and 94% of DC plan participants — are happy they chose the guaranteed monthly annuity payments rather than a lump sum (or, in the case of DC, a lump sum or periodic withdrawal payments). Most also think they are better off financially and more financially secure, feel that the annuity payments make budgeting more predictable, and say it is easier for them to pay for the basic necessities of life.

Annuity Recipients' Perspectives on Annuity Payments Among DB and DC Plan Participants Who Took an Annuity (n=208)	Percentage Who Agreed
I am happy that I chose to receive my pension/DC plan balance as monthly annuity payments rather than a lump sum/periodic withdrawals or a large withdrawal from the account.	96%
Receiving regular monthly annuity payments from my former employer's pension/DC plan makes my budget more predictable than if I had received a lump sum/taken periodic withdrawals or a large withdrawal from the account.	95%
I believe that I am better off financially receiving monthly annuity payments from my former employer's pension/DC plan than if I had received a lump sum/taken periodic withdrawals or a large withdrawal from the account.	95%
I have peace of mind knowing that I will have guaranteed income for the rest of my and/or my spouse's life.	94%
Receiving regular monthly annuity payments from my former employer's pension/DC plan makes it easier for me to pay for basic necessities than if I had received a lump sum/taken periodic withdrawals or a large withdrawal from the account.	94%
Receiving regular monthly annuity payments from my pension/DC plan makes me feel financially secure.	91%
Receiving regular monthly annuity payments allows for greater flexibility for potentially more aggressive strategies with my other investments.	81%
I believe I would have more control over my finances if I had taken a lump sum from this pension/not taken monthly annuity payments from my DC plan.	18%

Note: The percentage who "agreed" is those who said they strongly agree or somewhat agree with the statement.

Annuitants More Confident and More Financially Secure Than Friends/Neighbors Who Don't Have Steady Income, Believe They Worry Less About Outliving Money

Given that it is human nature to compare oneself to others, annuitants were asked several questions to assess how they believe they fared compared to their friends and neighbors who do not have steady income from an annuity. Nearly six in 10 DB and DC plan annuitants believe they are more financially secure because of their annuity than their friends and neighbors who don't have one (58%), and a nearly equal percentage believe they are more confident in their financial decision-making (56%).

Additionally, only 6% of DB and DC annuity recipients believe they worry more about outliving their money than their friends and neighbors without steady income from an annuity, while 60% believe they worry less and 35% believe they have the same level of worry.

If Given a New Opportunity to Decide Between a Lump Sum and Annuity, Some Would Partially Annuitize

If DB or DC plan participants were to have some new opportunity to choose a lump sum, annuity or some combination of the two, regardless of the choice they made previously, 30% would choose some combination of both a lump sum and an annuity. These findings show that there is value in allowing individuals to partially annuitize their assets and take the remaining assets as a lump sum.

Since there are many financial needs to be addressed in retirement, instead of addressing whether or not the account balance should be fully annuitized, the question should be how much to annuitize.

Conclusion

Deciding whether or not to take a lump sum or an annuity from a workplace retirement plan is not a decision that should be taken lightly. Behavioral economics has shown that the “lottery effect” — the idea of an individual suddenly being offered what is perceived as a large sum of money — is tempting. Even though most people are accustomed to gearing their monthly spending to the income they earn during their working years, the lottery effect can cloud decision-making and stand in the way of careful consideration being given to the guaranteed lifetime income they would be foregoing in retirement by taking a lump sum.

Research has also shown that the way in which the choice between a paycheck (i.e., monthly annuity payments) or a perceived “pot of gold” (i.e., a lump sum) is framed or presented influences an individual’s decision. 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; 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.^{7, 8}

While taking a retirement distribution entirely as a lump sum may make sense for some individuals, this study has highlighted that many individuals who take lump sums from their workplace retirement plans have depleted their money too quickly relative to their life expectancy. Those who have not yet depleted their lump sums still run the risk of running out of money in retirement, particularly if they live a very long time. In addition to the risk of living longer than expected and depleting their money, individuals should also consider their need for both income and some level of liquidity, as well as their investment skills, and how these may change as they get older and experience potential declines in cognition.

There is an important role for employers to play in designing retirement plans to help ensure lifetime income is easily understandable and accessible directly from the plan. A plan design providing only for a lump sum distribution may increasingly seem to be at cross-purposes with that objective.

Policymakers can also help to ensure that participants in workplace retirement plans are able to achieve successful retirement outcomes. Much has been done in recent years to advance awareness of — and promote — lifetime income for retirement plan participants. However, regulatory infrastructure to support and enable income options for DC plan participants is still a work in progress.

About MetLife

MetLife, Inc. (NYSE: MET), through its subsidiaries and affiliates ("MetLife"), is one of the world's leading financial services companies, providing insurance, annuities, employee benefits and asset management to help its individual and institutional customers navigate their changing world. Founded in 1868, MetLife has operations in more than 40 markets and holds leading positions in the United States, Japan, Latin America, Asia, Europe and the Middle East.

For more information visit www.metlife.com

About Harris Poll

Over the last five decades, Harris Polls have become media staples. With comprehensive experience and precise technique in public opinion polling, along with a proven track record of uncovering consumers' motivations and behaviors, Harris Poll has gained strong brand recognition around the world. Harris Poll offers a diverse portfolio of proprietary client solutions to transform relevant insights into actionable foresight for a wide range of industries including health care, technology, public affairs, energy, telecommunications, financial services, insurance, media, retail, restaurant and consumer packaged goods.

Contact us for more information: ConsumerInsightsNAInfo@nielsen.com.

¹ A follow-up online survey was conducted among the lawsuit settlement recipients from August 26–September 6, 2016.

² All base sizes mentioned in this report, including in the charts, graphs and tables, are unweighted and reflect the actual number of respondents surveyed, while all percentages shown are weighted.

³ A lump sum window is a temporary, one-time cash-out opportunity for DB plan participants, typically offered as a way for DB plan sponsors to settle benefit obligations while reducing their liabilities as a way to de-risk their plans.

⁴ American Academy of Actuaries, Issue Brief: Pension Risk Transfer, October 2016.

⁵ MetLife 2012 Retirement Income Practices Study, June 2012.

⁶ Society of Actuaries Annuity 2000 Mortality Table with 100% AA projection to 2016 and 150% projection thereafter, with mortality blended 50% Male and 50% Female.

⁷ "Framing Lifetime Income," Jeffrey R. Brown, a professor of finance at the University of Illinois; Jeffrey R. Kling, The Brookings Institution; Sendhil Mullainathan, professor of economics at Harvard University; and, Marian V. Wrobel, Director of Research at Health Policy Commission, Commonwealth of Massachusetts, National Bureau of Economic Research, May 2013.

⁸ "Why Don't People Choose Annuities? A Framing Explanation," Jeffrey R. Brown, Jeffrey R. Kling, Sendhil Mullainathan, and Marian V. Wrobel, The Retirement Security Project, March 2008.



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