The Role of Information and Expectations in Retirement Planning: Communicating Income versus Lump Sums

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Abstract

In defined contribution plans, it is most common to provide lump sums as the primary form of payment and to communicate plan benefits as lump sums. We know from research that people tend to be short term focused and that they do not translate lump sums well into income. We also know that there are gaps in understanding and financial literacy.

This paper will discuss information and the signals it provides and focus on the issue of communicating lump sums versus income. It will discuss challenges in communicating income and provide some alternatives. The author will bring in some of the information from her ERISA Advisory Council testimony on financial literacy and what employers should tell employees about the post-retirement period and some of the research. The paper will also introduce family issues and the need to communicate about how savings affect all family members.