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Preferences Survey

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There has been a lot of debate about whether defined benefit (DB) or defined contribution (DC) plans are better. As actuaries, we've done a lot of work with plan sponsors and understand what drives their preference for DB or DC plans. But little was understood about how members actually felt about their plans. What did they prefer: DB or DC? What do they understand?

The Committee on Retirement Systems Research, in cooperation with the American Academy of Actuaries and the Pension Section Council, sponsored the Retirement Plan Preferences Survey to answer those questions. The firm of Mathew Greenwald & Associates conducted the research and has been instrumental in shaping the survey and the report. A survey database was constructed to poll a panel of workers and retirees with both defined benefit and defined contribution plans; 790 workers (75 percent) and 600 retirees (33 percent) responded.

Some of the more interesting findings included:

People prefer what they know.

Both workers and retirees express a preference for the type of plan they already have.

- 62 percent of workers and 56 percent of retirees with defined contribution plans prefer defined contribution plans. Only 19 percent of workers and 28 percent of retirees with defined contribution plans prefer defined benefit plans.

- 51 percent of workers and 68 percent of retirees with defined benefit plans prefer defined benefit plans. Only 30 percent of workers and 17 percent of retirees with defined benefit plans prefer defined contribution plans.

Lifetime income is a primary concern for retirees.

- 82 percent of retirees say that the provision of a guaranteed stream of income for life is a very important feature of a retirement plan. This was true for retirees in DB plans (85 percent) and DC plans (71 percent).
- 59 percent of workers stated that provision of guaranteed lifetime income was very important (68 percent in DB plans and 51 percent in DC plans).

When asked a similar question about payout options, both retirees and workers again preferred at least part of the money be available as a life annuity. The table on page four summarizes what features retirees and workers say are very important when making payout decisions. Surprisingly, both DC and DB plan participants show a strong preference for those features commonly associated with annuities. These stated preferences contradict participant behavior, namely, a strong preference for lump sum payments. Further survey results indicated retirees were attempting to create their own income stream by managing their own funds.

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Percentage saying features are very important	Workers			Retirees		
	Total	DB	DC	Total	DB	DC
Guaranteed lifetime income	69%	61%	75%	86%	75%	89%
Not outliving one's money	69%	67%	73%	77%	73%	77%
Keeping up with inflation	65%	62%	67%	75%	70%	75%
Maintaining control of savings	61%	67%	56%	54%	60%	53%
Protect against market downturns	53%	53%	51%	55%	61%	54%

Workers want features DB plans can't easily provide.

Workers in DB and DC plans were equal in rating some features highly important. Responses of workers in DB plans clearly show that workers want features that aren't currently available to them (e.g. contributory plans with investment direction).

Percentage ranking each feature as very important	All Workers	Workers in DC Plans	Workers in DB Plans
Guaranteed income for life	59%	51%	58%
Portability	54%	63%	48%
Automatic saving through payroll deduction	53%	64%	44%
Regular paper statements	41%	42%	38%
Immediate access to information	40%	44%	38%
Direct investment choices	39%	51%	28%
Base benefit on years of service and final pay	33%	25%	45%

Workers and retirees don't understand retirement risk.

Finally, the survey confirmed the lack of understanding workers had about their plan features:

- Workers and retirees were reluctant to convert \$100,000 lump sum into monthly lifetime income. One-quarter of workers and almost four in ten retirees did not know or did not provide an answer. One-third of workers and retirees thought that \$500 (a very conservative answer) was the correct amount, and about one-quarter of workers and two in ten retirees thought \$1,000 was the correct amount. Depending on annuity conversion interest rates, the monthly benefit would be between \$700 and \$1000.

- 50 percent of workers in DC plans and 34 percent of workers in DB plans do not understand their plan well enough to be able to estimate their retirement plan.
- 25 percent of workers in DC plans and 20 percent of workers in DB plans don't understand their plans well enough to know when they'd be able to start payments should they terminate prior to retirement.
- Yet, if polled, most workers are satisfied with communication they receive from their plan.
 - 51 percent say communication about plan benefits is excellent or good.
 - 41 percent say the information they receive on retirement planning is excellent or good.

The survey was also presented at the Vancouver Spring Meeting and the Orlando Annual Meeting. You can go online to view the presentations. The Vancouver presentation is at http://www.soa.org/conted/cearchive/vancouver/069_combined.pdf and the Orlando presentation is at http://www.soa.org/conted/cearchive/orlando03/061_combined.pdf.

At the time this article was written, the link for the final survey was not yet available. However, it should be available by publication date on the Research page of the SOA Web site (<http://www.soa.org/research/index.asp>). ♦

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