Investment Company Institute Research Series

Defined Contribution Plan Distribution Choices at Retirement

A Survey of Employees Retiring Between 1995 and 2000

INVESTMENT COMPANY INSTITUTE®

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INVESTMENT COMPANY INSTITUTE®
FALL 2000

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Introduction

Defined contribution plans have become an integral part of the U.S. private pension system. Between 1980 and 1996, the latest year for which data are available, the number of participants in defined contribution plans increased from 20 million to 51 million, a gain of 155 percent.[1] By comparison, participants in defined benefit plans increased from 38 million to 41 million, or only 8 percent.[2]

With the shift in retirement plan coverage to defined contribution plans, U.S. workers have become increasingly responsible for managing the assets that will finance their retirements. Defined contribution 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 options in which the contributions are invested. Consequently, the size of a worker's account balance at retirement and subsequent retirement income depends upon accumulated contributions, investment choices, and the performance of financial markets. In defined benefit plans, however, employers bear all the funding and investment risk.

In addition to the choices made during employment, defined contribution plan participants must also make decisions about the management of their accumulated assets throughout retirement. While defined benefit plan participants typically are provided with annuities that guarantee income throughout retirement,[3] defined contribution plan participants typically are offered

[1] See *Private Pension Plan Bulletin,* No. 9, Winter 1999-2000 (U.S. Department of Labor, 1996), at www.dol.gov/dol/pwba/public/programs/opr/bullet1996/table_e5.htm.

[2] The relative growth in defined contribution 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, defined contribution plans are attractive because they have lower administrative costs than defined benefit plans. Indeed, most small firms are likely to offer their employees only a defined contribution plan. See William F. Bassett, Michael J. Fleming, and Anthony P. Rodrigues, "How Workers Use 401(k) Plans: The Participation, Contribution, and Withdrawal Decisions," *Federal Reserve Bank of New York Staff Reports,* No. 38, March 1998, p. 6; Catherine L. Heron and Russell G. Galer, "The American Pension System: The Growth of the Section 401(k) Plan and Mutual Fund Success in the 401(k) Market" (Investment Company Institute, 1997) p. 11; and Richard A. Ippolito, "The New Pension Economics: Defined Contribution Plans and Sorting," Dallas L. Salisbury, ed., *The Future of Private Pension Plans* (Employee Benefit Research Institute, 2000), p. 77.

[3] Seventy-six percent of defined benefit plans offered by medium and larger business establishments distribute 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.

several ways to receive retirement benefits. An annuity is often one of the options. In addition, most defined contribution plans allow participants to take all or some of their account balances as lump-sum payments, either as cash or rollovers into Individual Retirement Accounts (IRAs). Defined contribution plans also may allow retiring workers to receive their account balances 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.[4] A retiree's 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 large purchases; the security provided by regular income payments; estate planning; taxation of benefit payments; and management of invested assets.

Research on defined contribution plan participants primarily has focused on participants' decisionmaking during their working years and on lump-sum distributions from pensions.[5,6] Only recently has attention turned to analyzing pension distribution decisions made by participants at retirement.[7] As increasing numbers of participants in defined contribution plans reach retirement age, it is important to have a greater understanding about the approaches that retirees take to manage balances from these plans.

This study reports the findings of a survey of recent retirees who had participated in defined contribution plans, focusing on the decisions they made at retirement. The study explores two particular aspects of retirees' decisions. The first concerns their distribution choice, including an analysis of the choice itself, the reasons for the choice, and retirees' financial and

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[4] A retiree's deferral of a distribution generally is constrained by the Internal Revenue Code's income distribution requirements, which mandates that distributions begin at age 70½. See IRC 401 (a) (b).

[5] See Jack VanDerhei, Russell Galer, Carol Quick, and John Rea, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity," *Perspective,* Vol. 5, No.1 (Investment Company Institute, January 1999), pp. 1-19; and Jack VanDerhei, Sarah Holden, and Carol Quick, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 1998," *Perspective,* Vol. 6, No.1 (Investment Company Institute, January 2000), pp. 1-23.

[6] For recent examples, see Paul Yakoboski, "Lump-Sum Distributions Total $87.2 Billion in 1995," *EBRI Notes* (Employee Benefit Research Institute, October 1999); Paul Yakoboski, "Large Plan Lump-Sums: Rollovers and Cashouts," *EBRI Issue Brief,* No. 188 (Employee Benefit Research Institute, August 1997); 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; and 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.

In addition, the following papers estimate the impact of cash-out behavior on asset accumulation at retirement: James M. Poterba, Steven F. Venti, and David A. Wise, "Pre-Retirement Cashouts and Foregone Retirement Saving: Implications for 401(k) Asset Accumulation," *NBER Working Paper*, No. 7314 (National Bureau of Economic Research, August 1999); and Alan L. Gustman and Thomas L. Steinmeier, "Effects of Pensions on Saving: Analysis with Data from the Health and Retirement Study," *NBER Working Paper*, No. 6681 (National Bureau of Economic Research, August 1998).

[7] The following paper focuses on the multiple options facing people changing jobs or retiring, including receiving a lump-sum distribution: Michael Hurd, Lee Lillard, and Constantijn Panis, "An Analysis of the Choice of Cash Out Pension Rights at Job Change or Retirement" (Rand Institute, October 1998), unrestricted draft series. The following papers examine choices with emphasis on the annuitization decision of retirees: John Ameriks, "The Retirement Patterns and Annuitization Decisions of a Cohort of TIAA-CREF Participants," *TIAA-CREF Research Dialogues*, No. 60 (TIAA-CREF, August 1999); Jeffrey R. Brown, "Private Pensions, Mortality Risk, and the Decision to Annuitize," *NBER Working Paper*, No. 7191 (National Bureau of Economic Research, June 1999); and Jeffrey R. Brown and James M. Poterba, "Joint Life Annuities and Annuity Demand by Married Couples," *NBER Working Paper*, No. 7199 (National Bureau of Economic Research, June 1999).

demographic characteristics according to their choices. The second aspect of the analysis focuses on retirees' use of lump-sum distributions, with a distinction drawn between those reinvesting and those spending the proceeds.

The survey was conducted during April and May 2000. It included 659 primary or co-decisionmakers for household savings and investments who retired between 1995 and the time of the survey. Each survey respondent had assets in defined contribution plans or similar employer-sponsored, individual account-type 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 IRA retirement plans.[8] The sample was selected to be representative of the national population of recently retired participants in such plans.

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

Summary of Findings

Defined contribution plan participants made sensible decisions about their plan balances at retirement, according to the survey findings. Surveyed retirees 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.

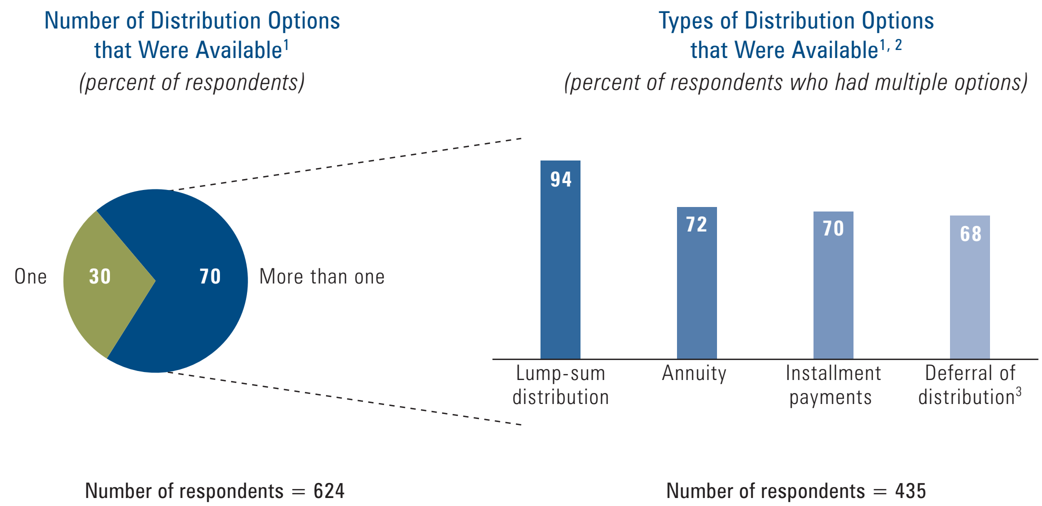
Retirees with sizable household financial assets and income, for example, typically postponed use of their plan balances either by reinvesting their assets in IRAs or deferring their distributions. Retirees with strong needs for current income and income security typically annuitized plan assets or withdrew them in installment payments.

Retirees who received lump-sum distributions acted prudently with the assets: the majority 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 vast majority of the distribution.

The few retirees who spent their entire defined contribution plan lump sums generally had received small distributions. In many instances, these recipients used the proceeds sensibly, such as buying a primary residence, repaying debt, paying for health care, or making home repairs. On average, these retirees derived a sizeable portion of their household incomes from defined benefit plan and Social Security payments.

FIGURE 1

Number and Type of Distribution Options that Were Available to Retirees



[1]*Based upon respondents' recall.*

[2]*Multiple responses included.*

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

Distribution Choices Made at Retirement

1. **Seventy percent of defined contribution plan participants recalled having multiple distribution options at retirement.** More than 90 percent of this group reported having a lump-sum distribution option (Figure 1). Between two-thirds and three-quarters said they had at least one of the following options: annuity, installment payments, and deferral of the distribution. Among the 30 percent of retirees reporting only a single distribution option, five in seven received plan proceeds in lump sums.

2. **Retirees who had distribution choices most frequently selected the lump-sum option.** Forty-seven percent selected a lump-sum distribution, 26 percent chose to defer the distribution, 23 percent opted for an annuity, and 10 percent chose installment payments (Figure 2).[9]

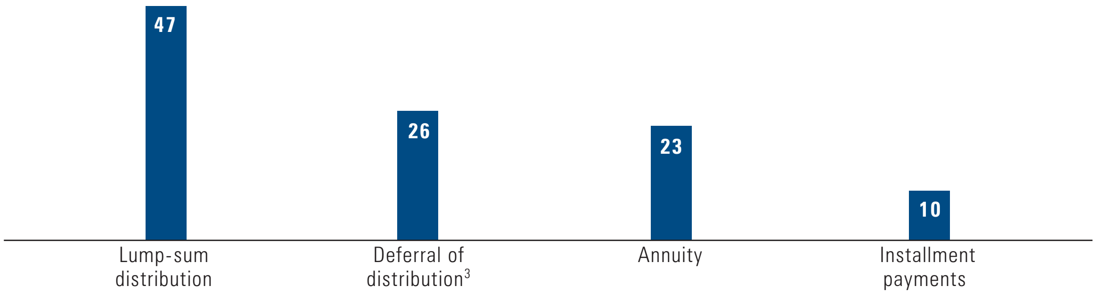
3. **Retirees selected their distribution options based on their economic circumstances and personal preferences for control over asset management or income security:**
   - Retirees who opted to receive their plan balances in lump-sum distributions expressed a desire to manage their own assets. These recipients typically had relatively high levels of financial assets and income (Figure 3).
   - Retirees who chose to defer their distributions (i.e., leave their balances in their plans) said they currently had no need to use account assets for income. Similar to lump-sum recipients, those who deferred the distribution were relatively affluent.

[9] These percentages add to more than 100 percent because some retirees who had multiple options chose to receive partial lump-sum distributions with either reduced annuity or installment payments, or chose to defer receiving part of the proceeds.

FIGURE 2

Distribution Options Selected by Retirees Who Had Multiple Options[1, 2]

(percent of respondents who had multiple options)



Number of respondents = 418

[1]Based upon respondents' recall.

[2]Multiple responses included because 29 respondents who had multiple options chose to receive partial lump-sum distributions with either reduced annuity or 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 3

Selected Characteristics of Retirees Who Had Multiple Options, by Option Selected[1]

	Option Selected			
	Lump-sum Distribution	**Deferral of Distribution**	**Annuity**	**Installment Payments[2]**
Most frequently mentioned reason for selecting option	Wanted to manage the money themselves	Did not need the money at retirement	Wanted regular income	Wanted regular income
Median				
Age at retirement	62 years	62 years	60 years	62 years
Household income[3]	$47,100	$56,500	$41,900	$44,900
Household financial assets [3, 4]	$297,500	$342,700	$133,800	$224,300
Years planning ahead financially	16 years	17 years	16 years	12 years
Percent				
Male	69	59	50[b]	51
Married or living with a partner	87	89	76[b]	76
Currently employed full- or part-time	24	34	32	22
Have college or postgraduate degree	40	46	39	30
Have spouse or partner who currently works full- or part-time[5]	32[a]	39	30	31

[1]Based upon respondents' recall.

[2]Small sample size.

[3]At the time of the survey.

[4]Includes assets held in employer-sponsored retirement plans but excludes primary residence.

[5]Of those married or living with a partner.

[a]Responses of respondents who had multiple options and chose the lump-sum distribution option are statistically different at the 95 percent confidence level from those who chose the deferral option.

[b]Responses of respondents who had multiple options and chose the annuity option are statistically different at the 95 percent confidence level from those who chose the lump-sum distribution or deferral options.

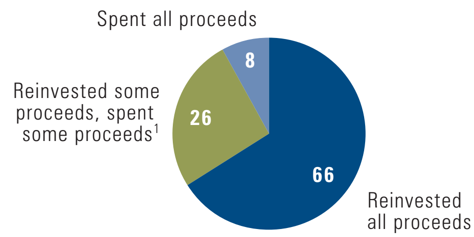
Note: Number of respondents varies.

- Retirees who took the annuity option expressed a preference for income security and regular income payments. They tended to have relatively low levels of household income.
- Retirees who elected to receive installment payments also wanted the security of regular payments during retirement. Members of this group were typically older and had slightly higher household incomes than retirees who selected annuities.

FIGURE 4

Use of Proceeds from Lump-sum Distributions

(percent of respondents who received lump-sum distributions)



Number of respondents = 296

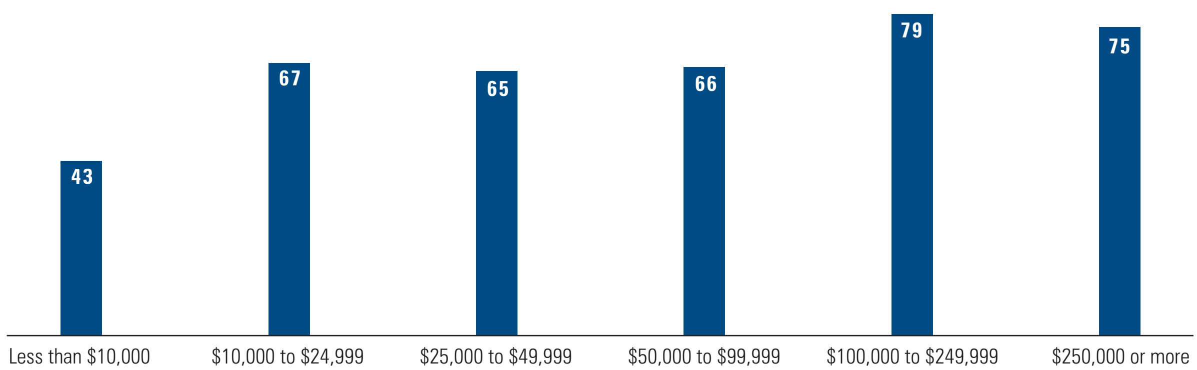
[1]These respondents spent a median of 12 percent, a mean of 25 percent, and a dollar-weighted mean of 15 percent.

FIGURE 5

Relationship Between Size and Reinvestment Rate of Lump-sum Distributions

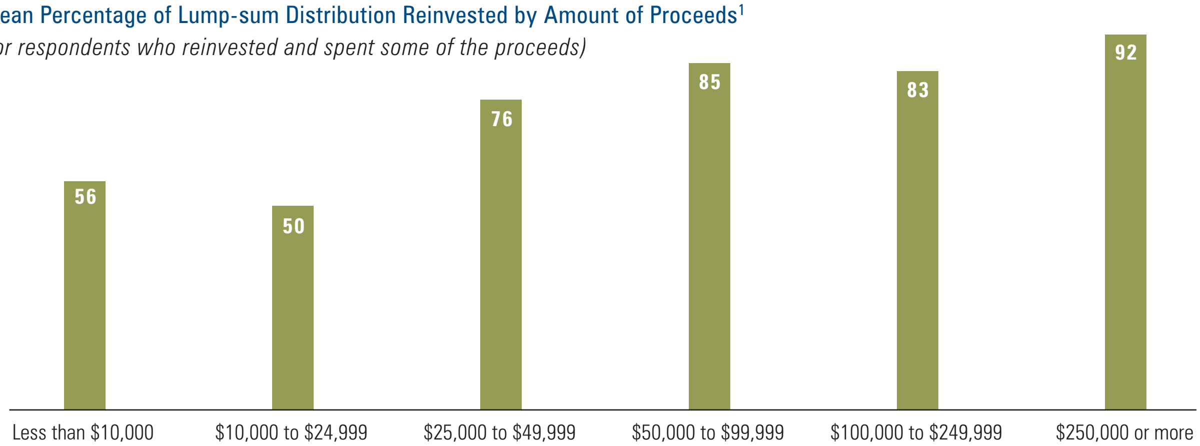
Reinvestment of Entire Lump-sum Distribution by Amount of Proceeds

(percent of respondents who received lump-sum distributions and reinvested entire amount)



Mean Percentage of Lump-sum Distribution Reinvested by Amount of Proceeds[1]

(for respondents who reinvested and spent some of the proceeds)



[1]Sample sizes for this analysis are small.

Note: Number of respondents varies.

Use of Proceeds from Lump-sum Distributions

4. **Ninety-two percent of retirees who received a lump-sum distribution reinvested all or most of the proceeds.** Two-thirds who received a lump-sum distribution at retirement reinvested the entire amount (Figure 4). Twenty-six percent reinvested some proceeds and, on average, spent 25 percent of the distribution. Only eight percent spent all of the proceeds.

5. **Retirees who reinvested lump-sum distributions generally sought and acted on investment advice from professional financial advisers.** Three-quarters of this group obtained investment advice from professional financial advisers. Of those who obtained professional investment advice, 71 percent said they followed it to a great extent.

6. **The greater the value of the lump-sum distribution at retirement, the more likely a recipient was to reinvest all or most of the proceeds.** Three-quarters of recipients with lump-sum distributions of $250,000 or more reinvested all proceeds, compared with two out of five recipients with lump-sum distributions of less than $10,000. Among recipients who reinvested and spent some proceeds, those who received distributions of $250,000 or more, on average, reinvested 92 percent and spent 8 percent of the proceeds. Those receiving proceeds of less than $10,000 typically reinvested 56 percent and spent 44 percent of the proceeds (Figure 5).

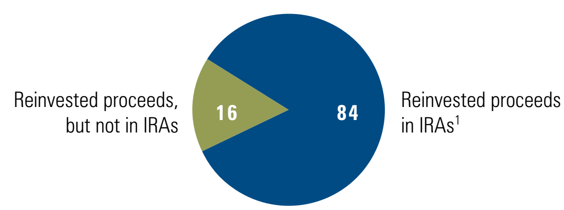
Rollovers into Individual Retirement Accounts

7. **Lump-sum distributions typically were rolled over into Individual Retirement Accounts (IRAs) and allocated to a well-diversified mix of investments.** Of the 92 percent of lump-sum distribution recipients who reinvested all or some of the proceeds, more than four-fifths rolled over all or some of the proceeds into IRAs (Figure 6). On average, more than two-fifths of IRA assets were in stocks, either directly or through mutual funds (Figure 7); about one-fifth was in liquid assets.

FIGURE 6

Reinvestment of Lump-sum Distributions in IRAs

(percent of respondents who received lump-sum distributions and reinvested all or some of the proceeds)



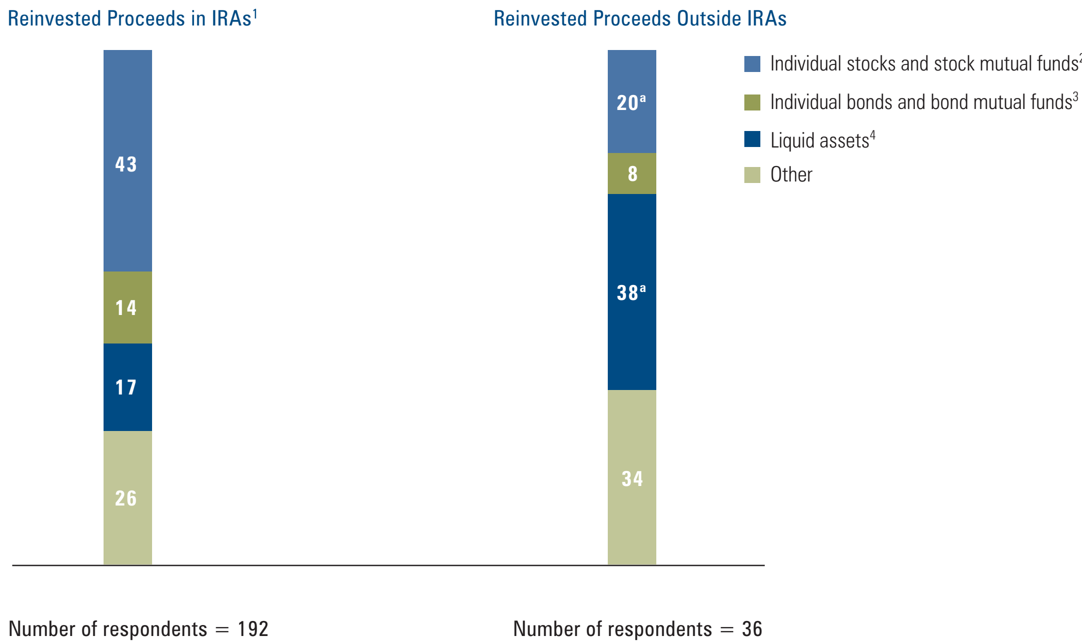
Number of respondents = 266

[1]*Includes respondents who reinvested some proceeds in IRAs and some outside IRAs.*

FIGURE 7

Summary of Allocation of Investments Purchased with Lump-sum Distributions

(mean percent)



[1]Includes respondents who reinvested some proceeds in IRAs and some outside IRAs.

[2]Includes 60 percent of respondents' balanced mutual fund holdings.

[3]Includes 40 percent of respondents' balanced mutual fund holdings.

[4]Includes bank deposits and money market mutual funds.

[a]Responses of respondents who reinvested lump-sum distribution proceeds in IRAs are statistically different from those who reinvested the proceeds but not in IRAs.

8. **Lump-sum distributions reinvested outside IRAs typically were smaller and allocated more conservatively.** On average, 38 percent of lump sums invested outside IRAs was in liquid assets and 20 percent was in individual stocks or stock funds (Figure 7). The allocation of retirees who reinvested proceeds outside IRAs appears consistent with their economic circumstances. Compared with retirees who reinvested in IRAs, this group generally had more moderate income and assets, were more risk-averse, had more health concerns, and had shorter financial planning horizons.

Chapter 1

Distribution Options Available at Retirement

Summary

Thirty percent of retirees recalled having a single payment option at retirement, most often taking the form of a lump-sum distribution. Of the 70 percent who reported having more than one option, nearly all said they were provided with a lump-sum distribution option. Between 68 and 72 percent of those with multiple distribution options said their choices included annuity, installment payment, and deferral options.

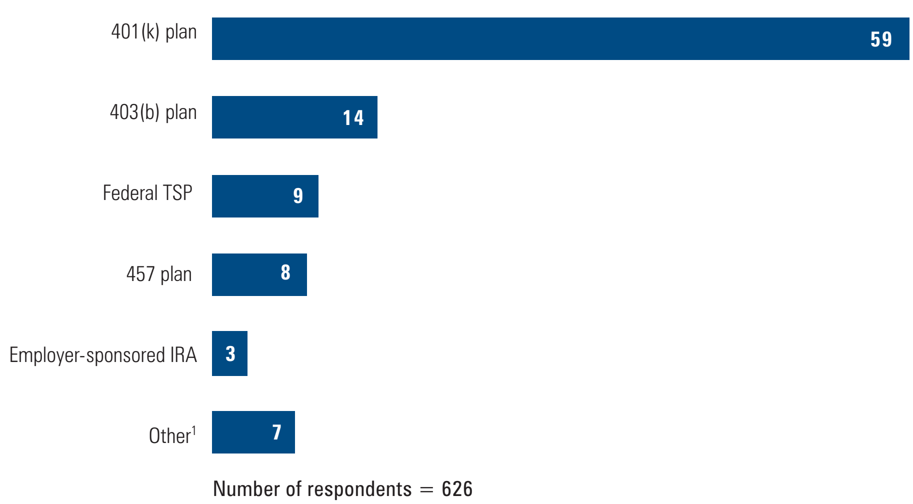
Types of Plans and Their Distribution Options

Retirees were asked to indicate the types of plans in which they had participated and the distribution options provided by the plan. Fifty-nine percent were enrolled in 401(k) plans at retirement (Figure 8). Fourteen percent were in 403(b) plans; 9 percent in the federal government's Thrift Savings Plan (TSP); 8 percent in state and local government-sponsored 457 plans; and

FIGURE 8

Types of Plans in Which Retirees Had Participated

(percent of respondents)



[1]*Includes responses from respondents that could not be categorized into any identifiable plan type.*

3 percent in employer-sponsored IRAs.[10] Responses from 7 percent of retirees could not be placed in any of these plan types.

Seventy percent of retirees said they had more than one distribution option at retirement, and 30 percent indicated their employers provided a single payment option (Figure 9).[11] Significantly more retirees who had worked for small employers reported having only a single payment option. No noticeable differences in the number of distribution options emerged when the data were analyzed by the types of plans in which retirees had participated (Figure 10).

Retirees Who Had a Single Distribution Option

Of retirees reporting only a single distribution option, 70 percent indicated that the option was a lump-sum distribution (Figure 11). Almost all of the remaining 30 percent indicated that an annuity was the only available option. Retirees who had participated in either a 403(b) plan, 457 plan, or the Federal TSP plan generally reported that their only option was an annuity. Most of those who had been in 401(k) plans said their only option was a lump-sum distribution.

FIGURE 9

Number of Distribution Options that Were Available to Retirees, by Size of Employer[1]

(percent of respondents)

		Size of Employer			
	All Retirees	Less than 100 Employees	100 to 499 Employees	500 to 999 Employees	1,000 or more Employees
Number of Options					
One	30	38	32	23	26
More than one	70	62	68	77	74
Number of respondents	624	126	136	70	253

[1]Based upon respondents' recall.

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

[11] 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 government TSP allows retiring federal employees to take plan proceeds as a lump-sum distribution, annuity payments, or installment payments. Nonetheless, 29 percent of retired federal workers said they had only a single option. It would thus appear that some individuals may focus on a particular distribution method at retirement and over time cannot recall having had any other options.

FIGURE 10

Number of Distribution Options that Were Available to Retirees, by Type of Plan[1]

(percent of respondents)

	All Retirees	Type of Plan: 401(k) Plan	403(b) Plan	457 Plan	Federal Government TSP	Employer-sponsored IRA and Other[2]
Number of Options						
One	30	30	20	24	29	49
More than one	70	70	80	76	71	51
Number of respondents	624	353	75	50	52	53

[1]Based upon respondents' recall.

[2]Includes responses that could not be categorized into any identifiable plan type.

FIGURE 11

Type of Distribution Provided to Retirees Who Had a Single Option[1]

(percent of respondents who had a single option)

	All Retirees Who Had a Single Option	Type of Plan: 401(k)	403(b), 457, or Federal Government TSP[2]	Employer-sponsored IRA and Other[3]
Lump-sum distribution	70	95	34[a]	63
Annuity	27	5	63[a]	12
Installment payments	3	0	3	25
Number of respondents	175	102	38	8

[1]Based upon respondents' recall.

[2]Of the 38 responses reported in this column, 15 were from respondents who received proceeds from the federal TSP— nine who said they could only receive plan proceeds in a lump-sum distribution, and six who said they could only receive plan proceeds as an annuity.

[3]Includes responses that could not be categorized into any identifiable plan type.

[a]Responses of respondents who received proceeds from 401(k) plans are statistically different at the 95 percent confidence level from those of respondents who received proceeds from 403(b) plans, 457 plans, or the federal government's Thrift Savings Plan.

Retirees Who Had Multiple Distribution Options

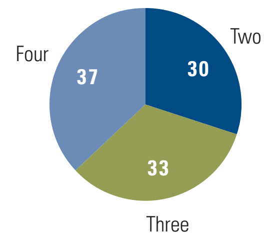
Among retirees reporting multiple distribution options, 30 percent indicated they had two options, 33 percent said they had three options, and 37 percent stated they had four options (Figure 12). Of those with two options, 41 percent indicated that one of the options was to defer the distribution.

Among retirees with multiple options, 94 percent indicated that they had the choice of a lump-sum distribution (Figure 13). Relatively high percentages of retirees with multiple options also cited that they had annuity, installment payment, and deferral options; the frequency of these options ranged from 68 to 72 percent. Retirees who had been enrolled in 401(k) plans were the most likely to say they had a lump-sum distribution option, whereas those who had participated in 403(b) plans, 457 plans, and the TSP were the retirees who most frequently reported that they had an annuity option.

FIGURE 12

Number of Distribution Options that Were Available to Retirees Who Had Multiple Options[1]

(percent of respondents who had multiple options)



Number of respondents = 431

[1]*Based upon respondents' recall.*

FIGURE 13

Types of Distribution Options that Were Available to Retirees Who Had Multiple Options[1]

(percent of respondents who had multiple options)

	All Retirees Who Had Multiple Options	Type of Plan				
		401(k) Plan	403(b) Plan	457 Plan	Federal Government TSP	Employer-sponsored IRA and Other[2]
Lump-sum distribution	94	97[a]	91	89	93	100
Annuity	72	64[b]	90	86	82	38
Installment payments	70	68	77	72	83	48
Deferral of distribution[3]	68	72[c]	69	54	70	67
Number of respondents	435	247	61	38	37	12

[1]Multiple responses included. Based on respondents' recall.

[2]Includes responses that could not be categorized into any identifiable plan type.

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

[a]Responses of respondents who received proceeds from 401(k) plans are statistically different at the 95 percent confidence level from those of respondents who received proceeds from 403(b) plans or 457 plans.

[b]Responses of respondents who received proceeds from 401(k) plans are statistically different at the 95 percent confidence level from those of respondents who received proceeds from 403(b) plans, 457 plans, or the federal government's Thrift Savings Plan.

[c]Responses of respondents who received proceeds from 401(k) plans are statistically different at the 95 percent confidence level from those of respondents who received proceeds from 457 plans.

Chapter 2

Distribution Choices of Retirees Who Had Multiple Options

Summary

Of the retirees who reported having multiple distribution options at retirement, nearly half chose to receive plan proceeds in lump-sum distributions. Sizable percentages also selected annuities or deferred the distribution. Only a small number opted for installment payments.

Retirees' distribution choices are consistent with their personal preferences and demographic characteristics. This suggests that they carefully considered their financial circumstances and income needs when choosing distribution options. Retirees who elected to take lump-sum distributions frequently indicated a desire to manage their own assets. Overall, retirees in this group had relatively high levels of financial assets and income. Retirees who chose to keep their balances with the plan sponsor were also relatively affluent. Retirees in this group generally indicated that they had no immediate need to use plan assets for income. In contrast, retirees taking the annuity option expressed preferences for income security and regular income payments. Those who selected an annuity were more likely to be female and not married when compared with retirees who chose the lump-sum or deferral option.

Distribution Options Selected by Retirees Who Had Multiple Options

Among retirees who had multiple distribution options, 47 percent chose to receive a lump-sum distribution (see Figure 2). Twenty-six percent opted to defer the distribution and 23 percent selected an annuity. Only 10 percent chose installment payments. These percentages include 29 retirees who combined options, such as receiving a partial lump-sum distribution with reduced annuity or installment payments.

Retirees given a lump-sum distribution option most frequently took it. Of the 435 retirees who had multiple distribution options, 411 had the choice to receive a lump sum at retirement (Figure 14). Of this group, 49 percent chose the lump-sum option. The most frequently chosen alternative was a deferral, which 26 percent of this group selected. Seventeen percent opted for an annuity and 8 percent chose installment payments.

Thirty-two percent of the 314 respondents offered an annuity chose this option. Slightly more—36 percent—took a lump-sum distribution. Twenty-two percent chose to defer the distribution, and 8 percent selected installment payments.

FIGURE 14

Distribution Option Selected Among Multiple Choices[1]

(percent of respondents)

Had the option to take a lump-sum distribution	
Chose lump-sum distribution[2]	49
Chose another option	51
Installment payments	8
Annuity	17
Deferral of distribution	26
Number of respondents	411
Had the option to take an annuity	
Chose annuity[3]	32
Chose another option	68
Lump-sum distribution	36
Installment payments	8
Deferral of distribution	22
Combination of options that did not include annuity	2
Number of respondents	314
Had the option to take installment payments	
Chose installment payments[4]	14
Chose another option	86
Lump-sum distribution	44
Annuity	19
Deferral of distribution	21
Combination of options that did not include installment payments	2
Number of respondents	305
Had the option to defer the distribution	
Chose to defer the distribution[5]	38
Chose another option	62
Lump-sum distribution	40
Installment payments	8
Annuity	12
Combination of options that did not include deferral	2
Number of respondents	296

[1]Subject to the options that were offered to survey respondents.

[2]Includes recipients of lump-sum distributions who chose to receive less than the full balance in the plan account as a lump sum.

[3]Includes recipients of annuities who chose to receive less than the full balance in the plan account as an annuity.

[4]Includes recipients of installment payments who chose to receive less than the full balance in the plan account in installment payments.

[5]Includes recipients who chose to defer less than the full balance in the plan account.

Note: Number of respondents varies.

Only 14 percent of the 305 retirees offered installment payments chose this option. The largest share of this group, 44 percent, selected a lump-sum distribution. The remaining retirees were primarily divided between selecting an annuity or a deferral.

Thirty-eight percent of the 296 respondents who were able to defer their distributions chose this option. Forty percent of the respondents offered a deferral option selected a lump-sum distribution, and 12 percent selected an annuity.

Reasons Given 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 a purchase (Figure 15). Retirees choosing to defer their distributions indicated that they did not need the money at the time they had retired and wanted to continue accumulating assets. Retirees selecting annuities or installment payments stated that they primarily were concerned with securing regular streams of income.

Characteristics of Retirees Who Had Multiple Distribution Options

Retirees who had multiple distribution options shared certain demographic and financial characteristics regardless of their distribution choices. Most retired in their early 60s from their primary or lifetime occupations. Roughly one-quarter to one-third

FIGURE 15

Reasons for Choosing a Distribution Option

(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 manage the money personally	1. Did not need the money at the time of retirement
2. Wanted to roll the money over into an IRA	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 the security of a regular payment

Note: Multiple responses are included from retirees choosing more than one distribution option.

continued to work during retirement (Figure 16). Compared with all U.S. households, retirees with multiple distribution options had above-average current household income and assets. About half were receiving income from defined benefit plans. Defined benefit plan payments and Social Security payments together, on average, represented about one-half of respondents' current income. About one-third had working spouses or partners. A high proportion said they were in good to excellent health. Even in retirement, these retirees generally planned their finances with a long-term horizon. Most were not willing to take above-average financial risk.

Despite these similarities, retirees with multiple distribution options also had important differences that appear to be consistent with the distribution options they selected. In particular, retirees who chose to defer their distributions had the highest median household income and level of financial assets. Their relative affluence may be, in part, attributable to their greater likelihood to work during retirement and have working spouses or partners. In addition, defined benefit plan payments provided, on average, the greatest percentage of this group's household income. The relative affluence of these retirees is consistent with their general view, noted earlier, that they had no immediate need for their plan assets.

Retirees who opted for lump-sum distributions also tended to have high household income and financial assets.[12] However, these retirees expressed a significantly greater willingness to take investment risk, which seems consistent with their preferences to manage their own investments.

In contrast, retirees who opted to annuitize plan proceeds tended to have the lowest household incomes.[13] These retirees also tended to be the youngest at retirement and generally were in good health—characteristics likely to make annuitization a cost-effective investment. In addition, about one-quarter indicated they were widowed, single, or separated at the time of the survey, and therefore were more likely to be living alone than retirees who did not choose the annuity option. Half of the retirees who chose an annuity were women. Retirees who chose the installment payment option resembled those who selected an annuity, with the exception of having a somewhat higher median age and median household income.

Financial Investments of Retirees Who Had Multiple Distribution Options

Retirees who chose the lump-sum, installment payment, or deferral options generally owned the same types of investments.[14] For example, the majority of each group owned individual stocks or stock mutual funds (Figure 17). Retirees who selected the annuity option owned significantly fewer equities, debt instruments, and money market funds than those who selected other distribution options. The difference can be attributed to the annuity option converting a significant share of the former's household financial assets into a stream of regular income payments.

[12] The similar financial circumstances of retirees who chose lump-sum distributions (most of whom rolled their proceeds into IRAs) and those who chose to defer distributions is not surprising because both alternatives permit retirees to preserve plan assets for future use.

[13] The median total household financial assets for this group were the lowest, in part, because they had converted a percentage of their household financial assets to regular income payments.

[14] Includes assets held inside and outside employer-sponsored retirement plans.

FIGURE 16

Characteristics of Retirees Who Had Multiple Distribution Options, by Option Selected[1]

	Option Selected			
	Lump-sum Distribution	Deferral of Distribution	Annuity	Installment Payments[2]
Median				
Age at retirement	62 years	62 years	60 years	62 years
Household income[3]	$47,100	$56,500	$41,900	$44,900
Household financial assets[3, 4]	$297,500	$342,700	$133,800	$224,300
Annual amount of defined benefit payments[5]	$11,000	$22,000	$14,700	$14,000
Years planning ahead financially	16 years	17 years	16 years	12 years
Percent				
Male	69	59	50[c]	51
Married or living with a partner	87	89	76[c]	76
Currently employed full- or part-time	24	34	32	22
Have college or postgraduate degree	40	46	39	30
Currently receiving defined benefit plan proceeds	51	58	56	42
Self-assessed state of health:				
Excellent/good	85	90	88	81
Fair/poor	15	10	12	19
At retirement was willing to take:				
Substantial or above-average risk for substantial or above-average gain	46[a]	32	34	29
Average risk for average gain	40	59	53	64
Below-average or no risk for below-average or no gain	14	9	14	7
Have spouse or partner who currently:[6]				
Works full- or part-time	32[b]	39	30	31
Contributes to defined contribution plan	13	18	16	10
Receives a defined benefit payment	27	27	32	32
Is in fair or poor health	14	14	16	20
Type of plan from which defined contribution proceeds came:				
401(k) plan	76	50	33	39
403(b), 457, TSP, or other type of plan	24	50	67	61
Mean percent of household income from:[3]				
Social Security payments	30	22	24	23
Defined benefit plan payments	17	31	34	35
IRA withdrawals	11	7	6	6
Salary from full- or part-time job	22	20	17	13
Other sources	20	20	19	23

[1]Based upon respondents' recall.

[2]Small sample size.

[3]At the time of the survey.

[4]Includes assets held in employer-sponsored retirement plans but excludes primary residence.

[5]Of those currently receiving defined benefit plan proceeds in annuity payments.

[6]Of those married or living with a partner.

[a]Responses of respondents who had multiple options and chose the lump-sum distribution option are statistically different at the 95 percent confidence level from those who chose the annuity, installment payment, or deferral option.

[b]Responses of respondents who had multiple options and chose the lump-sum distribution option are statistically different at the 95 percent confidence level from those who chose the deferral option.

[c]Responses of respondents who had multiple options and chose the annuity option are statistically different at the 95 percent confidence level from those who chose the lump-sum distribution or deferral option.

Note: Number of respondents varies.

FIGURE 17

Financial Investments of Retirees Who Had Multiple Distribution Options, by Option Selected[1]

	Option Selected			
	Lump-sum Distribution	**Deferral of Distribution**	**Annuity**	**Installment Payments[2]**
Investments Owned at the Time of the Survey[3, 4]				
(percent of respondents who had multiple options)				
Bank deposits	78	84	83	84
Money market mutual funds	34	29	18[b]	37
Individual bonds or bond mutual funds (including U.S. savings bonds)	44	52	30[c]	44
Individual stocks or stock mutual funds (including employer stocks)	66	73	49[b]	75
Balanced mutual funds	43	47	32	36
Whole life insurance with an accumulated cash value	45	58	51	50
Fixed or variable annuities not from an employer-sponsored retirement plan	29[a]	42	30	34
Real estate other than primary residence	30	38	38	36
Some other type of investment	16	26	22	13
Allocation of Investments at the Time of the Survey[3]				
(mean percent of household financial assets)				
Bank deposits and money market mutual funds	20	18	26	26
Individual bonds or bond mutual funds (including U.S. savings bonds)[5]	13	11	8	9
Individual stocks or stock mutual funds (including employer stocks)[6]	38[a]	30	26	30
Whole life insurance with an accumulated cash value	8	10	13	15
Fixed or variable annuities not from an employer-sponsored retirement plan	7	9	7	5
Real estate other than primary residence	10	14	13	13
Some other type of investment	4	8	7	2

[1]Based upon respondents' recall.

[2]Small sample size.

[3]Includes assets held in employer-sponsored retirement plans but excludes primary residence.

[4]Multiple responses included.

[5]Includes 40 percent of respondents' balanced mutual fund holdings.

[6]Includes 60 percent of respondents' balanced mutual fund holdings.

[a]Responses of respondents who had multiple options and chose the lump-sum distribution option are statistically different at the 95 percent confidence level from those who chose the deferral option.

[b]Responses of respondents who had multiple options and chose the annuity are statistically different at the 95 percent confidence level from those who chose to defer their distribution or chose the lump-sum distribution or installment payment option.

[c] Responses of respondents who had multiple options and chose the annuity are statistically different at the 95 percent confidence level from those who chose the lump-sum distribution or deferral option.

Note: Number of respondents varies.

The asset allocation for each of the four groups reflects their personal preferences, willingness to take investment risk, and demographic characteristics. Retirees who selected lump-sum distributions, on average, had the largest exposure to the stock market, although equities did not dominate their investment portfolios. These lump-sum recipients, along with retirees who deferred their distributions, on average, allocated slightly more household assets to bonds and bond funds than retirees who selected annuities or installment payments. Those who chose annuities or installment payments, on average, allocated a greater percentage of household assets to bank deposits and money market funds.

Chapter 3

Disposition of Lump-sum Distributions at Retirement

Summary

Nearly half of the surveyed retirees received all or some of their plan balances as lump-sum distributions. Most took the full amount in a lump sum; combinations of a lump-sum and other distribution methods were infrequent. Whether recipients received full or partial distributions, they 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, health care, or travel.

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

Frequency and Magnitude of Full and Partial Lump-sum Distributions

Ninety-two percent of retirees who received a lump-sum distribution took the entire account balance as a lump-sum distribution; 8 percent took only part of the account balance in a lump sum (Figure 18). Full lump-sum distributions were typically twice the size of partial distributions: the median value of full lump-sum distributions was $61,000, compared with $28,900 for partial lump-sum distributions.

FIGURE 18

Type and Value of Lump-sum Distributions at Retirement

	Type of Lump-sum Distribution Received *(percent of respondents)*	Value of Lump-sum Distribution Received *(median)*
Full lump sum	92	$61,000
Partial lump sum[1]	8	$28,900

Number of respondents = 321

[1]Recipients of partial lump-sum distributions at retirement received the balance of their proceeds in either an annuity or 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. Sixty-six percent reinvested the entire amount and 26 percent reinvested some of the proceeds (Figure 19). Only 8 percent spent the entire lump-sum distribution.[15] Retirees taking partial distributions were more likely to spend all or some of the proceeds than those taking full distributions.

Retirees who had been able to receive plan balances only in lump-sum distributions were somewhat more likely to reinvest the entire amount than were retirees with multiple options who chose to receive lump sums (Figure 20).[16] Among recipients of lump sums of less than $35,000, for example, 64 percent of those who had only the lump-sum option reinvested all their proceeds, compared with 50 percent of those who had multiple options.

FIGURE 19

Use of Lump-sum Distributions, by Type of Lump-sum Distribution

(percent of respondents who received lump-sum distributions)

	All Retirees Who Received Lump-sum Distributions	Type of Lump-sum Distribution	
		Full	Partial[1]
Reinvested all proceeds	66	67	48
Reinvested some proceeds, spent some proceeds[2]	26	26	33
Spent all proceeds	8	7	19
Number of respondents	296	275	21

[1]Small sample size. Recipients of partial 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.

[2]These respondents spent a median of 12 percent, a mean of 25 percent, and a dollar-weighted mean of 15 percent.

[15] A 1997 analysis of Hewitt Associates data of lump-sum distributions from large plans indicated that 52 percent of distributions to retired or disabled individuals were rolled over and 48 percent were taken as cash. The Hewitt analysis differs from the analysis presented in this report in several significant ways. First, the Hewitt data include disabled individuals; the data in this report are based solely on retirees. Second, the Hewitt data do not track whether distributions taken as cash were reinvested outside IRAs or were rolled over into IRAs within 60 days, as this study does. Hence, the Hewitt data overstate the percentage of lump-sum distribution recipients who spent plan assets at retirement. See "Large Plan Lump-sums: Rollovers and Cashouts," *EBRI Issue Brief,* No. 188 (Employee Benefit Research Institute, 1997), p. 9.

[16] Retirees who had only the lump-sum distribution option were significantly more likely to have worked for an organization employing less than 100 workers than retirees who chose to receive lump-sum distributions among other alternatives. In addition, those only able to receive plan proceeds in lump sums tended to have lower household income and financial assets; were more likely to be women and individuals without college-level educations; and were less likely to be receiving defined benefit plan proceeds.

FIGURE 20

Use of Lump-sum Distributions, by Options Available

(percent of respondents who received lump-sum distributions)

	All Retirees Who Received Lump-sum Distributions	Options Available: Only Distribution Option Was a Lump Sum	Options Available: Had Multiple Distribution Options and Selected Lump Sum
Reinvested all proceeds	66	71	63
Reinvested some proceeds, spent some proceeds[1]	26	23	29
Spent all proceeds	8	6	8
Number of respondents	296	106	183

[1]These respondents spent a median of 12 percent, a mean of 25 percent, and a dollar-weighted mean of 15 percent.

FIGURE 21

Use of Lump-sum Distributions, by Value of Proceeds

(percent of respondents who received lump-sum distributions)

	Reinvested All Proceeds	Reinvested Some Proceeds, Spent Some Proceeds	Spent All Proceeds	Number of Respondents
Value of Proceeds				
Less than $10,000	43	34	23	35
$10,000 to $24,999	67	24	9	34
$25,000 to $49,999	65	23	12	52
$50,000 to $99,999	66	23	11	44
$100,000 to $249,999	79	21	0	62
$250,000 or more	75	25	0	40

The larger the distribution, the less likely that any of it was spent. Not one recipient of a lump-sum distribution of $250,000 or more spent all of the proceeds, and 75 percent of this group reinvested the entire amount (Figure 21). Furthermore, recipients who reinvested and spent part of their proceeds typically expended only a small portion. The median amount spent by these retirees was 12 percent of proceeds, and the mean amount expended was 25 percent (Figure 22). In addition, the percentage spent by those who reinvested and spent some of their proceeds declined as the distribution amount increased.

FIGURE 22

Percentage of Lump-sum Distribution Spent, by Value of Proceeds[1]

(for lump-sum distribution recipients who reinvested and spent some of their lump-sum distributions)

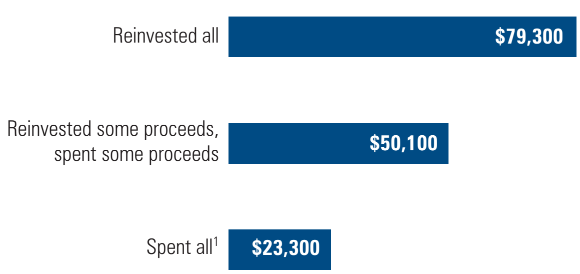
	Percentage Spent			
	Mean	**Mean Weighted by Value of Proceeds**	**Median**	Number of Respondents
All Lump-sum Distribution Recipients Who Reinvested and Spent Some of Their Proceeds	25	15	12	65
Value of Proceeds				
Less than $10,000	44	44	40	13
$10,000 to $24,999	50	50	50	9
$25,000 to $49,999	24	36	18	12
$50,000 to $99,999	15	12	10	10
$100,000 to $249,999	17	21	9	12
$250,000 or more	8	9	10	9

[1]Sample sizes for this analysis are small.

FIGURE 23

Value of Full Lump-sum Distributions, by Use of Proceeds

(median)



[1]Small sample size.

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

The same relationship was 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 $79,300. For those who spent a portion and reinvested the remainder of the full distribution, the median value was $50,100. For those spending the entire amount, the median value of the full distribution was $23,300 (Figure 23).

Sources of Advice for Reinvestment of Lump-sum Distributions

Lump-sum distribution recipients who reinvested their proceeds frequently consulted professional financial advisers, and closely followed the advice given. Three-quarters of lump-sum recipients cited professional financial advisers as a source for advice (Figure 24). Seventy-one percent said they adhered to the advice to a great extent. Forty-five percent indicated they consulted a spouse or partner for reinvestment advice, and generally gave the spouse or partner's advice only some consideration. One-fifth or fewer sought advice from employers, friends or co-workers, publications, retirement software, mutual fund publications, or the Internet.

Expenditures Made with Lump-sum Distributions

Recipients of lump sums who spent all or some of the proceeds put it to a variety of uses. Twenty-eight percent purchased a home (primary residence), and 27 percent paid for travel expenses (Figure 25). One-quarter used the funds for household expenses or debt repayment. Those who spent their entire distributions most frequently used the proceeds to purchase a home or pay for household expenses or debt. Recipients who spent part of their distributions most often mentioned paying for travel, but nearly as frequently cited buying a home or paying for household expenses.

FIGURE 24

Sources of Advice for Reinvesting Lump-sum Distributions

(percent of respondents who reinvested all or some of their lump-sum distributions)

		Extent to Which Advice Was Followed			
		Great Extent	Some Extent	Very Little Extent	No Extent
Professional financial adviser	75	71	23	3	3
Spouse or partner	45	35	52	7	6
Co-worker, friend, or family member other than spouse or partner	20	21	46	22	11
Advice from a publication	15	21	45	16	18
Employer	14	28	55	0	17
Advice included in mutual fund company materials	14	18	49	18	15
Advice found on the Internet	6	0	37	18	45
Advice included in retirement software	4	9	19	0	72

Note: Number of respondents varies.

FIGURE 25

Goods or Services Purchased with Lump-sum Distributions[1]

(percent of respondents who spent all or some of their lump-sum distributions)

	All Lump-sum Distribution Recipients Who Spent All or Some of the Proceeds	Spent All Proceeds[2]	Reinvested Some, Spent Some Proceeds
Home purchase (primary residence)	28	35	25
Travel	27	19	29
Household expenses or debt	25	26	25
Health care	18	11	20
Car, boat, or some other high-cost item other than a residence	18	14	19
Business	5	0	6
Home repair	8	17	5
Children's or grandchildren's education	6	9	5
Other	7	12	5
Number of respondents	97	22	75

[1]Multiple responses included.

[2]Small sample size.

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 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 median total household financial assets of $337,100, household income of $46,500, and a financial planning horizon of roughly 20 years at the time of the survey (Figure 26). More than half received defined benefit plan payments, which had a median annual value of $10,400. Nearly two-thirds were male.

Most members of this group were not risk averse. More than four-fifths expressed a willingness to take average or above-average financial risk, and they typically allocated the largest proportion of their total household financial assets to equities. This group's equity allocation was generally greater than that of retirees who deferred their distributions (Figure 27).[17]

Lump-sum Distribution Recipients Who Reinvested and Spent Some Proceeds

Lump-sum distribution recipients who reinvested and spent some proceeds were also relatively well-off, but not to the same extent as those who reinvested all proceeds. Recipients who reinvested and spent some proceeds had a median household income of $39,500 and median total household financial assets of $150,900 (Figure 26). Nearly half of this group received defined benefit plan payments with a median annual value of $4,100. The median financial planning horizon of recipients who spent some proceeds was 10 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.

Although a substantial proportion of these retirees were willing to take financial risk, they were somewhat more risk-averse than retirees who reinvested all proceeds (Figure 27). On average, retirees who both reinvested and spent some proceeds allocated 28 percent of total household financial assets to stocks or stock funds, compared with 42 percent for those who reinvested all proceeds.

Lump-sum Distribution Recipients Who Spent All Proceeds

Only 8 percent of lump-sum distribution recipients spent all proceeds. Their median household income was $37,700, significantly greater than the median income of $30,000 for all retired U.S. households.[18] The group's median total household financial assets was $61,500, similar to the median of all retired U.S. households (Figure 26).[19]

About two-thirds were receiving defined benefit plan payments, and more than one-third with spouses or partners said that these individuals were receiving defined benefit plan payments. On average, Social Security payments and defined benefit plan payments accounted for two-thirds of this group's household income. This group's financial planning horizon was typically seven years. Retirees who spent all their proceeds were more likely to be women, unmarried, or have had family health concerns when compared with recipients of lump-sum distributions who reinvested all or some proceeds. This group also typically held a

[17] See Figure 17 on page 24 for the allocation of household financial assets for retirees who chose to defer their distributions.

[18] The median household income of retired U.S. households was collected in a Spring 2000 Institute survey of 3,000 randomly selected U.S. households, of which 25 percent had a primary or co-decisionmaker who was retired from his or her lifetime occupation. In comparison, the median household income in the U.S. was $38,885 in 1998, the most recent data available. See www.census.gov/hhes/income/histinc/h07.html.

[19] The median household financial assets of retired U.S. households was collected in a Spring 2000 Institute survey of 3,000 randomly selected U.S. households, of which 25 percent had a primary or co-decisionmaker who was retired from his or her lifetime occupation.

FIGURE 26

Characteristics of Lump-sum Distribution Recipients, by Use of Proceeds

	Use of Proceeds from Lump-sum Distribution		
	Reinvested All Proceeds	**Reinvested Some Proceeds, Spent Some Proceeds**	**Spent All Proceeds[2]**
Median			
Age at retirement	62 years	62 years	62 years
Household income[1]	$46,500	$39,500	$37,700
Household financial assets[1, 3]	$337,100	$150,900	$61,500
Annual amount of defined benefit payment[4]	$10,400	$4,100	$9,500
Years planning ahead financially	18 years	10 years	7 years
Percent			
Male	65	64	43
Married or living with a partner	85	84	76
Currently employed full- or part-time	24	26	22
Have college or postgraduate degree	42	24[a]	44
Currently receiving defined benefit plan proceeds	56	47	65
Self-assessed state of health:			
Excellent/good	87	83	78
Fair/poor	13	17	22
At retirement was willing to take:			
Substantial or above-average risk for substantial or above-average gain	43	39	46
Average risk for average gain	41	40	28
Below-average or no risk for below-average or no gain	16	21	26
Have spouse or partner who currently:[5]			
Works full- or part-time	33	38	32
Contributes to a defined contribution plan	13	14	18
Receives defined benefit plan payment	24	26	35
Is in fair or poor health	20	16	30
Type of plan from which defined contribution plan proceeds came:			
401(k) plan	81	77	55
403(b), 457, TSP, or other type of plan	19	23	45
Mean percent of household income from:[1]			
Social Security payments	32	31	43
Defined benefit plan payments	18	12	23
IRA withdrawals	8	20	1
Salary from full- or part-time job	23	20	17
Other sources	19	17	13

[1]At the time of the survey.

[2]Small sample size.

[3]Includes assets held in employer-sponsored retirement plans but excludes primary residence.

[4]Of those currently receiving defined benefit plan proceeds in annuity payments.

[5]Of those married or living with a partner.

[a]Responses of recipients who reinvested and spent some of their lump-sum distributions are statistically different at the 95 percent confidence level from those who reinvested all proceeds.

FIGURE 27

Financial Investments of Lump-sum Distribution Recipients, by Use of Proceeds

	Use of Proceeds from Lump-sum Distribution		
	Reinvested All Proceeds	**Reinvested Some Proceeds, Spent Some Proceeds**	**Spent All Proceeds[2]**
Investments Owned at the Time of the Survey[2, 3]			
(percent of respondents who received lump-sum distributions)			
Bank deposits	83	72	62
Money market mutual funds	35	23	15
Individual bonds or bond mutual funds (including U.S. savings bonds)	48	33	18
Individual stocks or stock mutual funds (including employer stocks)	71	52	32
Balanced mutual funds	48	28[a]	10
Whole life insurance with an accumulated cash value	41	34	36
Fixed or variable annuities not from an employer-sponsored retirement plan	29	14	9
Real estate other than primary residence	26	30	45
Some other type of investment	13	17	15
Allocation of Investments Owned at the Time of the Survey[2]			
(mean percent of household financial assets)			
Bank deposits and money market funds	20	26	25
Individual bonds or bond mutual funds (including U.S. savings bonds)[4]	14	10	4
Individual stocks or stock mutual funds (including employer stocks)[5]	42	28	13
Whole life insurance with an accumulated cash value	7	9	19
Fixed or variable annuities not from an employer-sponsored retirement plan	7	5	1
Real estate other than primary residence	6	14[a]	30
Some other type of investment	4	8	8

[1]Small sample size

[2]Includes assets held in employer-sponsored retirement plans but excludes primary residence.

[3]Multiple responses included.

[4]Includes 40 percent of respondents' balanced mutual fund holdings.

[5]Includes 60 percent of respondents' balanced mutual fund holdings.

[a]Responses of recipients who reinvested and spent some of their lump-sum distributions are statistically different at the 95 percent confidence level from those who reinvested all proceeds.

significantly greater share of total household financial assets in real estate investments and whole life insurance, and a smaller percentage in equities (Figure 27).

Reinvestment of Lump-sum Distributions in IRAs

Over four-fifths of lump-sum distribution recipients who reinvested their proceeds rolled all or some of the assets into Individual Retirement Accounts (IRAs). Fifty-nine percent rolled over the entire plan balance into IRAs, 22 percent rolled over some of the balance into IRAs and spent the remainder, and 3 percent rolled over some of the balance into IRAs and reinvested the remainder outside IRAs (Figure 28). The remaining 16 percent bought investments outside IRAs, and more than half of these retirees reinvested their entire distributions. Retirees who rolled over all or some of the proceeds into IRAs typically received larger lump-sum distributions than those who reinvested proceeds outside IRAs (a median of $88,000 compared with $32,600).

FIGURE 28

Reinvestment of Lump-sum Distributions in IRAs at Retirement

(percent of respondents who received lump-sum distributions and reinvested all or some of the proceeds)

Reinvested proceeds in IRAs	84
Reinvested all proceeds in IRAs	59
Reinvested some proceeds in IRAs, spent some	22
Reinvested some proceeds in IRAs and some outside IRAs	3
Reinvested proceeds, but not in IRAs	16
Reinvested entire amount outside IRAs	9
Reinvested some outside IRAs, spent some	7
Number of respondents	266

FIGURE 29

Allocation of Investments Purchased with Lump-sum Distributions

(mean percent of reinvested proceeds)

	All Lump-sum Distribution Recipients Who Reinvested Proceeds	Reinvested Proceeds in IRAs[1]	Not in IRAs
Bank deposits and money market funds	22	19	42[a]
Individual bonds or bond mutual funds (including U.S. savings bonds)[2]	18	18	17
Individual stocks or stock mutual funds (including employer stocks)[3]	45	49	22[a]
Whole life insurance	1	1	1
Fixed or variable annuities	6	5	11
Real estate other than a primary residence	0	0	1
Other types of investments	8	8	6
Number of respondents	228	192	36

[1]Includes respondents who reinvested some proceeds in IRAs and some outside IRAs.

[2]Includes 40 percent of respondents' balanced mutual fund holdings.

[3]Includes 60 percent of respondents' balanced mutual fund holdings.

[a]Responses of recipients who reinvested lump-sum distribution proceeds in IRAs are statistically different from those who reinvested the proceeds but not in IRAs.

Reinvestment Patterns

The reinvestment patterns of retirees who rolled over all or some of their lump-sum distributions into IRAs were very different from those of retirees who reinvested lump-sums outside IRAs. Retirees who rolled over proceeds into IRAs, on average, allocated nearly half of the distribution to equities and about 40 percent to fixed-income investments (bank deposits, money market funds, individual bonds, or bond mutual funds). In contrast, those who reinvested lump sums outside IRAs, on average, allocated nearly 60 percent to fixed-income investments and about 20 percent to equities (Figure 29).

FIGURE 30

Characteristics of Lump-sum Distribution Recipients Who Reinvested Proceeds

	Reinvested Proceeds in IRAs[1]	Not in IRAs
Median		
Age at retirement	62 years	62 years
Household income[2]	$46,100	$37,600
Household financial assets[2, 3]	$332,800	$90,100
Size of lump-sum distribution from defined contribution plan	$88,000	$32,600
Annual amount of defined benefit payments[4]	$10,200	$8,600
Years planning ahead financially	17 years	10 years
Percent		
Male	64	68
Married or living with a partner	84	86
Currently employed full- or part-time	27	13
Have college or postgraduate degree	39	28
Currently receiving defined benefit plan proceeds	49	42
Self-assessed state of health:		
Excellent/good	86	83
Fair/poor	14	17
At retirement willing to take:		
Substantial or above-average risk for substantial or above-average gain	43	37
Average risk for average gain	41	41
Below-average or no risk for below-average or no gain	16	23
Have spouse or partner who currently:[5]		
Works full- or part-time	34	27
Contributes to defined contribution plan	14	8
Receives defined benefit plan payment	26	16
Is in fair or poor health	18	23
Type of plan from which DC proceeds came:		
401(k) plan	83	65[a]
403(b), 457, TSP, or other type of plan	17	35
Mean percent of household income from:[2]		
Social Security payments	32	35
Defined benefit plan payments	16	18
IRA withdrawals	13	4[a]
Salary from full- or part-time job	21	25
Other sources	18	18
Sources of advice regarding reinvestment of lump-sum distribution[6]		
Professional financial adviser	78	55
Spouse or partner	42	60

[1]Includes respondents who reinvested some proceeds in IRAs and some outside IRAs.

[2]At the time of the survey.

[3]Includes assets held in employer-sponsored retirement plans but excludes primary residence.

[4]Of those currently receiving defined benefit plan proceeds in annuity payments.

[5]Of those married or living with a partner.

[6]Multiple responses included.

[a]Responses of recipients who reinvested lump-sum distribution proceeds in IRAs are statistically different from those who reinvested the proceeds but not in IRAs.

Note: Number of respondents varies.

Characteristics of Lump-sum Distribution Recipients by Reinvestments into IRAs

The characteristics of retirees reinvesting lump-sum distributions into IRAs differed significantly from those not using IRAs. Retirees who rolled over all or some of the proceeds into IRAs had a median household income of $46,100 and total household financial assets of $332,800 (Figure 30). In contrast, the median household income of those who reinvested proceeds outside IRAs was $37,600, and the median total household financial assets was $90,100. The financial planning horizon of recipients who rolled over proceeds into IRAs was typically seven years longer than that of recipients who reinvested proceeds outside IRAs. With respect to total household financial assets, those who rolled over proceeds into IRAs typically owned a broader range of investments than those who did not use IRAs (Figure 31). More retirees who rolled over proceeds into IRAs consulted professional financial advisers for investment advice than those who reinvested proceeds outside IRAs.

FIGURE 31

Financial Investments of Lump-sum Distribution Recipients Who Reinvested Proceeds

	Reinvested Proceeds in IRAs[1]	Not in IRAs
Investments Owned at the Time of the Survey[2, 3]		
(percent of respondents who received lump-sum distributions and reinvested all or some of the proceeds)		
Bank deposits	78	88
Money market mutual funds	35	12[a]
Individual bonds or bond mutual funds (including U.S. savings bonds)	46	35
Individual stocks or stock mutual funds (including employer stocks)	69	53
Hybrid mutual funds	45	26[a]
Whole life insurance with an accumulated cash value	37	57[a]
Fixed or variable annuities not from an employer-sponsored retirement plan	24	28
Real estate other than primary residence	28	23
Some other type of investment	15	7
Allocation of Investments at the Time of the Survey		
(mean percent of household financial assets)		
Bank deposits and money market mutual funds	17	38[a]
Individual bonds or bond mutual funds (including U.S. savings bonds)[4]	14	8
Individual stocks or stock mutual funds (including employer stocks)[5]	43	20[a]
Whole life insurance with an accumulated cash value	6	15[a]
Fixed or variable annuities not from an employer-sponsored retirement plan	6	9
Real estate other than primary residence	8	9
Some other type of investment	6	1

[1]Includes respondents who reinvested some proceeds in IRAs and some outside IRAs.

[2]Includes assets held in employer-sponsored retirement plans but excludes primary residence.

[3]Multiple responses included.

[4]Includes 40 percent of respondents' balanced mutual fund holdings.

[5]Includes 60 percent of respondents' balanced mutual fund holdings.

[a]Responses of recipients who reinvested lump-sum distribution proceeds in IRAs are statistically different from those who reinvested the proceeds but not in IRAs.

Note: Number of respondents varies.

Appendix A

Survey Methodology and Characteristics of Survey Respondents

Research Design

The report is based upon a survey of retirees who were participating in defined contribution plans and other individual account-type plans at the time they retired. The purpose of the survey is 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 1995 or later;
3. Have personally contributed to a defined contribution plan or some other individual account-type plan at the organization from which he or she retired; and
4. Have 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 Roper Starch Worldwide 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.

Sample Frame

Because the survey's targeted population was very specific, 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 age 60 to 74 years, the age group most likely to be recently retired.[20] This sample is called the age-targeted sample.

[20] 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 age of head of the household based on either known age-related data or a statistical estimate of age-computed data 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 age 60 to 74 years.

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. Roper Starch 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.

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 calculate 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, sex, census region, and whether the retirement distribution was postponed. The later variable was used in the weighting to control for the possibility that the mix of cases selected using the list sample might differ somewhat from that selected using the age-targeted sampling.

Data Collection

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

The initial telephone interviews were conducted between April 10, 2000 and May 3, 2000. These interviews screened individuals for eligibility to participate in the survey.[21] A total of 1,009 individuals were identified as eligible to participate in the survey. Of this group, 835 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, Roper Starch interviewers telephoned the recruits to obtain their answers. Of the 835 recruits, 659 completed the follow-up telephone survey by May 15, 2000 and were 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 defined contribution plan or other individual, account-type plan balances. These options included a lump-sum distribution, an annuity, installment payments, and deferral of receipt of the account balance until a later date. In the latter case, the balance would have remained with the retiree's employer plan.

The questionnaire also asked about the retirees' choices and the various factors that might have influenced their 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 defined benefit plans, their views on saving and investing in retirement, their tolerance for financial risk, and financial resources provided by their spouses or partners.

The self-administered questionnaire was printed in a booklet format with large typeface to ease respondent burden.[22] A letter from ICI's chief economist outlining the importance of the survey, along with three exhibits, was included with the questionnaire. The exhibits provided definitions of the types of defined

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

[22] In self-administered questionnaires, appearance is an important variable in securing respondent cooperation. For a detailed discussion of self-administered questionnaires, see Donald S. Tull and Del I. Hawkins, *Marketing Research: Measurement and Method,* 6th ed. (New York: Macmillan Publishing Company, 1993).

contribution or other employee contributory plans available, retirement plan disbursement options, and various types of investments.[23] 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 Roper Starch project group.

The survey questionnaire was pretested to ensure that respondents could understand question wording. Pretest participants completed the self-administered questionnaire at home and then 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.[24] 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 659, the overall sampling error on a mid-range percentage (i.e., a percentage near 50 percent) is plus or minus 4.0 percent at the 95 percent confidence level for a simple random sample (Figure 32).

The age-targeted and list-based samples drawn for this study were the practical equivalent of a simple random sample. Use of the age-targeting procedure, however, precluded any chance of the inclusion of households with unlisted telephone numbers in the sample. Because the list-based sample was drawn from a database that does not include all U.S. households, not all persons meeting the four criteria outlined on page 39 had the chance for inclusion in the list-based sample. Due to the differences between the conceptual target universe and the households that could be reached using the actual sampling procedures, some error other than sampling error may be present in study estimates.

FIGURE 32

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	3	3	3	3
750	2	3	3	4	4
659	2	3	3	4	4
500	3	4	4	4	4
250	4	5	6	6	6
100	6	8	9	10	10

This table shows, for example, that if the sample size is 659 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 + or - 2 percent 95 percent of the time.

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

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

Summary Characteristics of Respondents

The survey respondents differ in several respects from the general population of U.S. retirees. These differences primarily 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 compared with a median age of 70 years for all retirees (Figure 33).[25] Because survey respondents were younger than all U.S. retirees, more had continued to work and fewer were widowed. The median household income and financial assets of survey respondents were significantly greater than those of U.S. retirees in part because more survey respondents were working and also had working spouses.

FIGURE 33

Selected Characteristics of Survey Respondents and All Retired U.S. Household Financial Decisionmakers

	All Survey Respondents[1]	All Retired U.S. Household Financial Decisionmakers[2]
Median		
Age	65 years	70 years
Household income	$44,700	$30,000
Household financial assets	$229,600	$67,500
Percent		
Married or living with a partner	82	60
Widowed	9	11
Employed full- or part-time	27	15
College or postgraduate degree	36	29

[1]Based on a Spring 2000 telephone-mail-telephone survey of 659 primary or co-decisionmakers for saving and investments who retired from their lifetime occupations in 1995 or later, and had participated in a participant-directed employer-sponsored defined contribution retirement plan at the company from which they retired.

[2]Based on a Spring 2000 telephone survey of 3,000 U.S. households, of which 25 percent had a primary or co-decisionmaker for saving and investments who was retired from his or her lifetime occupation.

[25] Data on the characteristics of retired U.S. household financial decisionmakers was collected in a Spring 2000 Institute survey of 3,000 randomly selected U.S. households, of which 25 percent had a primary or co-decisionmaker who was retired from his or her lifetime occupation.

Views About Financial Situation in Retirement

With their relatively high level of household income and assets, it is not surprising that 90 percent of the retirees surveyed described their financial situation as either well-off or comfortable (Figure 34). Most also indicated they had enough money to cover their basic expenses in retirement and fund recreation, travel, and entertainment activities (Figure 35). Nonetheless, the majority of respondents stated they were saving regularly and consciously conserving their financial assets.

Although most were financially comfortable, the majority of respondents expressed concerns about paying for healthcare, maintaining their standard of living, protecting family members from the unexpected, having inflation erode the value of their investments, and managing financially should they become sick or disabled (Figure 36). Most respondents were not concerned about leaving an inheritance, managing financially if a spouse or partner became sick or disabled, or paying taxes.

FIGURE 34

Financial Situation at the Time of the Survey and Immediately Before Retirement

(percent of respondents)

At the Time of the Survey	
My household is well-off and has few financial worries	44
My household is comfortable, with some financial worries	46
My household does not seem to have enough money, and finances are an ongoing concern	10
Number of respondents	655
Immediately Before Retirement	
My household was well-off and had few financial worries	52
My household was comfortable, with some financial worries	43
My household did not seem to have enough money, and finances were an ongoing concern	5
Number of respondents	652

FIGURE 35

Views About Financial Situation in Retirement

(percent of respondents)

	Strongly Agree	Somewhat Agree	Neither Agree nor Disagree	Somewhat Disagree	Strongly Disagree	Number of Respondents
I am making a conscious effort to conserve my financial assets.	49	38	9	2	1	659
Even though I am retired, I am continuing to save regularly.	35	32	16	9	8	659
I have accumulated enough money to cover my basic expenses throughout retirement.	31	39	13	10	8	658
I tend to rely on the advice of a professional financial adviser when making financial decisions.	24	35	19	9	13	659
I have enough money to enjoy recreation, travel, and entertainment activities throughout my retirement.	19	41	18	12	10	659

FIGURE 36

Issues of Concern in Retirement

(percent of respondents)

	Very Concerned	Somewhat Concerned	Neither Concerned nor Unconcerned	Somewhat Unconcerned	Very Unconcerned	Number of Respondents
Paying for health care needs	34	39	14	9	5	659
Maintaining a comfortable standard of living	28	41	20	8	4	659
Protecting your family from the unexpected	25	44	19	8	3	657
Having the value of your investments eroded by inflation	21	47	19	9	4	658
Managing financially should you become sick or disabled	19	47	18	10	6	659
Paying taxes	15	31	32	12	11	659
Outliving your money	12	35	30	14	9	659
Managing financially should you lose your spouse or partner	10	26	29	15	21	655
Leaving an inheritance	8	27	40	13	11	659

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 allows retirees either to withdraw plan balances as cash or roll them over into Individual Retirement Accounts (IRAs).[26] With cash distributions, recipients may spend or reinvest the proceeds, although in either case the cash distributions can be subject to income taxation. Balances rolled into IRAs are not taxed until withdrawn.

A second distribution option is an annuity. Annuities provide retirees with guaranteed monthly incomes for life and may include features such as joint coverage for spouses or guaranteed payment periods that extend beyond the death of the annuitants.

A third option, installment payments, is similar to an annuity in that it provides retirees with regular payments made from their plan balances. Unlike an annuity, however, the payments are not guaranteed to 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, or monthly payments based on an IRS life expectancy table. Until depleted, the balance remains invested in the plan typically at the discretion of the retiree.

The final option permits retirees to defer any distributions of their accumulated plan balances.[27, 28] 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 them into an IRA for convenience or satisfaction with the plan's investment options, among other reasons.

The four options are not necessarily mutually exclusive, and the plan sponsor may allow retirees to combine two or more of the available options. However, plan sponsors are not required to make all options available and may use a single method for distributing account balances to retiring employees.

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[26] Under current law, distributions from 457 plans cannot be rolled over into IRAs (see page 46).

[27] The Internal Revenue Code's "minimum distribution" rules require that individuals begin to take distributions of defined contribution plan and 457 plan balances 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 completely defer a distribution 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.

[28] 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)(b) and 401(a)(9) of the Internal Revenue Code. For a general discussion, see Gary S. Lesser and Susan D. Diehl, *SIMPLE, SEP and SARSEP 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.[29]

The 401(k) plan is the most widespread type of defined contribution plan. These plans are primarily established by private firms. Most 401(k) plans provide retiring employees with multiple distribution options for receiving plan account balances. Nearly all 401(k) plans provide lump-sum payments, about three-fifths offer installment payments, and nearly two-fifths provide annuities.[30] Two-thirds allow retirees to defer their distributions if the plan balance exceeds $5,000, and about one-fifth permit deferrals of balances of $5,000 or less.[31]

Certain nonprofit organizations and public educational institutions can establish 403(b) plans for their employees. Although traditionally 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 defined contribution retirement plan for federal government workers and has features similar to those found in 401(k) plans. Federal TSP distribution options at retirement include a lump-sum distribution, an annuity, installment payments, and deferral of the distribution until age 70½, at which time certain minimum distributions must begin.

Section 457 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 their particular plans, retiring employees can take lump-sum distributions, annuities, installment payments, or defer their distributions until no later than age 70½. Current tax law prohibits the rollover of account balances from 457 plans into IRAs.

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 no more than 100 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 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.

[29] 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).

[30] See *42nd Annual Survey of Profit Sharing and 401(k) Plans* (Profit Sharing/401(k) Council of America, 1999), p. 31. The data from this survey include profit sharing plans, and participating plan sponsors tend to be those from large plans.

[31] Ibid.

Appendix C

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

Certificates of Deposit (CDs): 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 Funds: An investment that pools the money of many people and invests it in stocks, bonds, and money market securities.

> ***Stock mutual funds:*** 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 funds:*** 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 funds that invest 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 funds:*** A mutual fund that invests in short-term, high-grade money market securities and must have average maturities of 90 days or less.

Fixed or Variable Annuity Issued by a Life Insurance Company: Life insurance contracts issued by an insurance company that guarantee 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 you live 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.

Appendix D

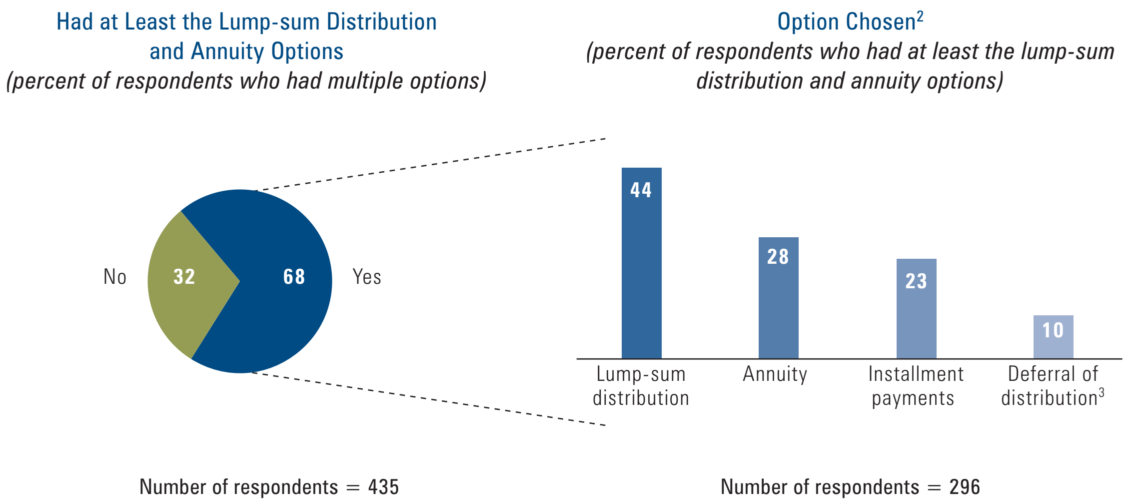
Choice Between the Lump-sum Distribution and Annuity Options

Sixty-eight percent of retirees whose employers provided more than one distribution option could choose between receiving a lump-sum distribution or an annuity (Figure 37). In most instances, these retirees also had at least one other distribution option.

Forty-four percent of this group chose to receive a lump-sum distribution, 28 percent opted to annuitize their proceeds, 23 percent decided to defer the distribution, and 10 percent selected installment payments.[32]

FIGURE 37

Selection of Lump-sum Distribution or Annuity Option[1]



[1]*Based upon respondents' recall.*

[2]*Multiple responses included because 15 respondents with both the lump-sum an annuity 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.*

[32] 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 only part of the proceeds.

FIGURE 38

Demographic Characteristics of Retirees Who Had at Least the Lump-sum Distribution and Annuity Options, by Distribution Choice

	Had at Least the Lump-sum Distribution and Annuity Options	Choice		
		Lump-sum Distribution	Annuity	Deferral or Installment Payments
Median				
Age at retirement	61 years	62 years	60 years	61 years
Household income[1]	$47,100	$47,100	$41,200	$58,400
Household financial assets[1, 2]	$251,900	$272,700	$128,900	$371,900
Annual amount of defined benefit payment[3]	$15,000	$10,400	$13,100	$28,100
Years planning ahead financially	16 years	16 years	16 years	15 years
Percent				
Male	60	71[a]	45	55
Married or living with a partner	83	87	75[b]	87
Widowed	8	5	16[b]	5
Currently employed full- or part-time	24	24	27	22
Have college or postgraduate degree	39	40	37	42
Currently receiving defined benefit plan proceeds	54	52	55	58
Self-assessed state of health:				
Excellent/good	84	84	87	85
Fair/poor	16	16	13	15
At retirement was willing to take:				
Substantial or above-average risk for substantial or above-average gain	37	45[a]	35	30
Average risk for average gain	50	41	48	61
Below-average or no risk for below-average or no gain	13	14	17	9
Have spouse or partner who currently:[4]				
Works full- or part-time	33	37	27	35
Contributes to defined contribution plan	16	15	15	18
Receives defined benefit plan payment	29	27	33	32
Is in fair or poor health	19	15	22	24
Type of plan from which defined contribution plan proceeds came:				
401(k) plan	54	72[a]	31	41
403(b), 457, TSP, or other type of plan	46	28	69	59
Mean percent of household income from:[1]				
Social Security payments	28	33[a]	24	22
Defined benefit plan payments	26	16[a]	34	35
IRA withdrawals	8	10	7	8
Salary from full- or part-time job	18	22	17	14
Other sources	20	19	18	21

[1]*At the time of the survey.*

[2]*Includes assets held in employer-sponsored retirement plans but excludes primary residence.*

[3]*Of those currently receiving defined benefit plan proceeds in annuity payments.*

[4]*Of those married or living with a partner.*

[a]*Responses of recipients who chose to receive proceeds in a lump-sum distribution are statistically different at the 95 percent confidence level from those who chose an annuity or other option.*

[b]*Responses of recipients who chose to receive proceeds as an annuity are statistically different at the 95 percent confidence level from those who chose a lump-sum distribution or other option.*

Note: Number of respondents varies.

Marital status, affluence, health, gender, and tolerance for financial risk were important factors for those retirees who could choose between the lump-sum and annuity options.

A significantly higher proportion of the annuitants were widowed compared with those who opted for a lump-sum distribution (Figure 38). Retirees who chose a lump sum typically had greater household income and total household financial assets than those who opted for the annuity. Among those who were married or living with a partner, annuitants were more likely than lump-sum recipients to have a spouse or partner who was in fair or poor health. Finally, males tended to favor lump-sum distributions, whereas females favored annuities.

Retirees who selected annuity payments were generally more conservative about finances than those who opted for a lump-sum distribution. Thirty-five percent of those who chose annuity payments described their willingness to take financial risk before retiring as above-average or substantial, compared with 45 percent of those who opted for a lump-sum distribution. At the time of the survey, retirees who annuitized plan proceeds allocated one-fourth of total assets to equities, but those who took lump-sum distributions, on average, allocated nearly two-fifths of assets to equities (Figure 39). Annuitants, consistent with their conservative investment behavior, typically held a greater percentage of total assets in bank deposits or money market funds than lump-sum recipients.

FIGURE 39

Financial Investments of Retirees Who Had at Least the Lump-sum Distribution and Annuity Options, by Distribution Choice[1]

	Had at Least the Lump-sum Distribution and Annuity Options	Choice		
		Lump-sum Distribution	Annuity	Deferral or Installment Payments
Investments Owned at the Time of the Survey[2]				
(percent of respondents who at least the lump-sum and annuity options)				
Bank deposits	81	79	81	85
Money market mutual funds	29	31	18[b]	33
Individual bonds or bond mutual funds (including U.S. savings bonds)	42	42	30	50[d]
Individual stocks or stock mutual funds (including employer stocks)	65	67	49[b]	75
Hybrid mutual funds	39	41	34	38
Whole life insurance with an accumulated cash value	51	48	56	53
Fixed or variable annuities not from an employer-sponsored retirement plan	36	30	29	48[c]
Real estate other than primary residence	35	30	36	39
Some other type of investment	19	16	20	24
Allocation of Investments at the Time of the Survey				
(mean percent of household financial assets)				
Bank deposits and money market mutual funds	22	19	25[e]	22
Individual bonds or bond mutual funds (including U.S. savings bonds)[3]	10	11	8	9
Individual stocks or stock mutual funds (including employer stocks)[4]	33	39[a]	26	29
Whole life insurance with an accumulated cash value	10	10	15	9
Fixed or variable annuities not from an employer-sponsored retirement plan	8	7	7	9
Real estate other than primary residence	11	9	12	14
Some other type of investment	6	5	7	8

[1]*Includes assets held in employer-sponsored retirement plans but excludes primary residence.*

[2]*Multiple responses included.*

[3]*Includes 40 percent of respondents' balanced mutual fund holdings.*

[4]*Includes 60 percent of respondents' balanced mutual fund holdings.*

[a]*Responses of recipients who chose a lump-sum distribution are statistically different at the 95 percent confidence level from those who did not chose a lump-sum distribution or annuity.*

[b]*Responses of recipients who chose an annuity are statistically different at the 95 percent confidence level from those who chose a lump-sum distribution or another option.*

[c]*Responses of recipients who did not chose a lump-sum distribution or annuity are statistically different at the 95 percent confidence level from those who chose a lump-sum distribution or annuity.*

[d]*Responses of recipients who did not chose a lump-sum distribution or annuity are statistically different at the 95 percent confidence level from those who chose an annuity.*

[e]*Responses of recipients who chose an annuity are statistically different at the 95 percent confidence level from those who chose a lump-sum distribution.*

Note: Number of respondents varies.

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1401 H Street, NW
Suite 1200
Washington, DC 20005-2148

202/326-5800
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