

Lifetime Income Disclosures Are Coming to 401(k) Statements

An opportunity for sponsors and providers to help

Starting in September 2021, participants in 401(k) and other defined contribution (DC) plans will start seeing a new number on their statements at least once per year: the amount of lifetime income their balance is expected to generate in retirement.¹

When a participant views this projection for the first time, they're likely to experience a wake-up call. The number might be much lower than they thought. They may become concerned they won't have enough income in retirement.

The projection is based on the assumption that the worker is about to retire and uses the total account balance to purchase an annuity from an insurance company. In real life, few retirees go this route, preferring to self-insure their retirement by withdrawing a "safe withdrawal" amount such as 4% based on financial planning industry standards. We asked pre-retirees one year away from retirement how they might react and change their behaviors when they receive their disclosures that show their current balance and projected income in retirement.²



PRE-RETIREES

Imagine a scenario where...

you are retiring in one year and you have \$200,000 in your current employer's retirement savings plan, for example, a 401(k)*.

You have received statements indicating that this amount can generate \$966 in monthly retirement income for yourself, payable for life.

Right before your retirement, you learn that the \$966 indicated in your statements will only be \$666.

The reason it is less is that financial experts suggest withdrawing only 4% of your initial retirement balance annually if you wish to retain access to your assets and have a good chance of not running out of money in retirement.**

The amount communicated in your statements was based on annuitizing your full account balance.

This scenario triggered a range of emotions for participants, with 86% likely to turn to their plan sponsors for solutions and tools to enhance their retirement income.

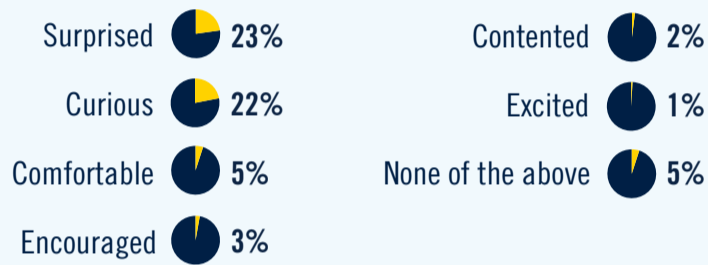


HOW WOULD YOU FEEL IN THIS SCENARIO?

NET NEGATIVE (79%)

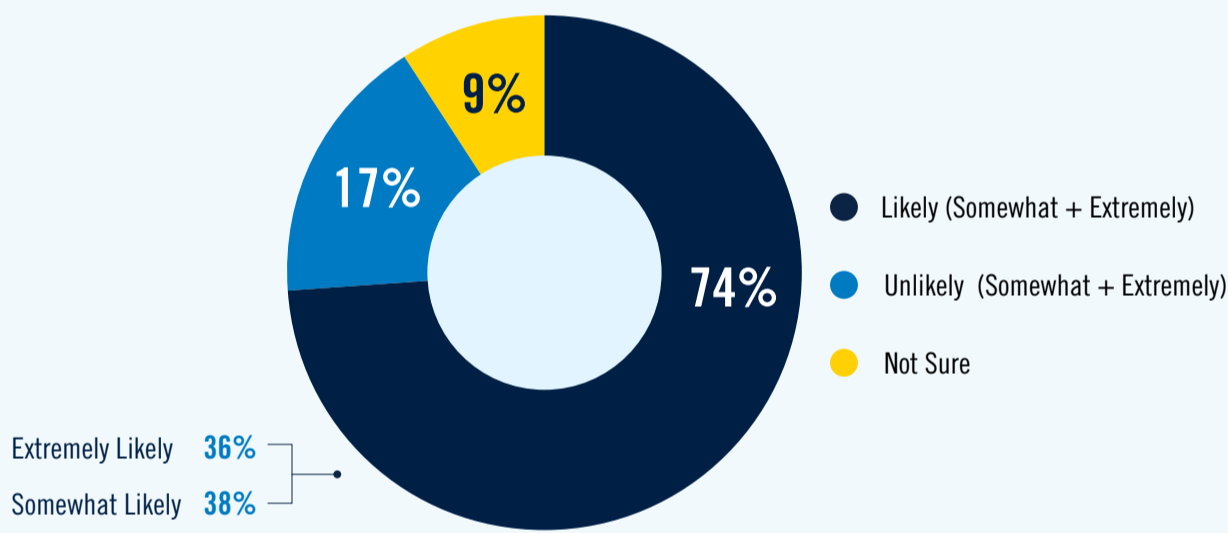


NET NEUTRAL / POSITIVE (43%)



Survey Question: How would you feel in this scenario? Please select all that apply.

LIKELIHOOD TO TAKE ACTION



Survey Question: How likely or unlikely would you be to do something or take action with respect to your retirement plan in this scenario? Please select one response.

INTEREST IN FOLLOWING ADVICE, INFORMATION, TOOLS, AND SOLUTIONS



Advice on how best to stay on track for retirement savings



Information on whether I am on track with retirement savings



Solutions and tools to enhance my retirement savings



Solutions and tools to enhance my retirement income

Survey Question: If you were in this situation, how interested would you be in each of the following types of information or advice? Please provide a rating for each option.

Opportunities for Sponsors and Providers



Lifetime income disclosures are a great first step, but workers are going to need more assistance in generating and protecting their lifetime income. With lifetime income disclosures, pre-retirees will begin to focus on retirement income much earlier as DC plans such as 401(k)s evolve from being just savings plans to true retirement plans.

The results point to opportunities for providers and sponsors to play a stronger role in improving outcomes for pre-retirees with smaller asset levels who may be less likely to be on track with their retirement savings.

Lifetime income disclosures are a positive step in helping workers think about their DC plans in terms of future retirement income. However, plan sponsors need to be ready to respond to the additional assistance workers will be seeking.

To learn more about the lifetime income disclosures, read our new white paper: [Lifetime Income Illustrations: Preparing for Participant Reactions](#) or contact your Prudential representative.

¹ While some DC recordkeepers may have provided a projection in the past, this new projection will likely be different based on new Department of Labor rules.

² National online poll conducted April 27 – 28, 2021, via Morning Consult's National Tracking Poll.

*Pre-retirees with higher balances were presented with a different set-up.

**What "annuitize" means in this case is turning over all of your assets to an insurance company and they will guarantee you the amount communicated in your statements as your monthly income for life. Retirement plan assets can be fully or partially annuitized and the guaranteed income for life would change accordingly.

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