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Pension Distributions and Financial Literacy

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Distribution Options

While the pension landscape is changing rapidly, many workers in large companies continue to be covered by DB and DC pension plans

As these workers approach retirement, they must decide how to accept their retirement benefits

Distribution Options

DB plans offer life annuities to retiring workers but many plans also include lump sum options

DC plans report account balances and retirees can take these funds as a lump sum; some companies offer annuitization of these assets and any retiree could roll these funds over into an IRA

Distribution Options

Previous studies have examined annuitization of DC account balances

Other studies have examined lump sum distributions from DB plans primarily for early departures prior to retirement

Research Methodology

This research based on surveys of retirement eligible workers at two large firms.

All respondents are covered by a mandatory DB plan, by a voluntary DC plan, and all have access to retiree medical coverage

Plans differ in several respects

Research Methodology

Workers attend a retirement planning seminar offered by the employer

Surveyed before and after the seminar

Survey contains considerable economic and demographic data on respondents

Research Methodology

This paper focuses on the workers' plans for accessing their retirement benefits. Key questions are:

1. Can you accept a lump sum distribution from the DB plan?
2. If so, do you plan to take a lump sum?
3. Do you plan to annuitize some or all of the DC account balance?

Research Methodology

Workers are asked these distributional questions before and after the seminar.

Seminar contains information about the retirement plans including distributional rules; also other information about retirement planning and retirement benefits

Research Methodology

Can plans for distributional choices be explained?

Does participation in a retirement planning seminar alter plans for distributional choices?

Distributional Choice: Defaults and Framing

	Both Default Options	Lump Sum (DB Choice)	Annuitize (DC Choice)	Non- Default Choices
Full Sample	56.1%	21.8%	14.4%	7.7%
PE	61.9%**	13.1%***	19.1%***	5.9%
BD	52.6%**	27.1%***	11.5%***	8.9%
Women	60.9%**	22.1%	12.0%	5.0%**
Men	52.8%**	21.5%	16.0%	9.7%**

Distributional Choice: Defaults and Framing

	Both Default Options	Lump Sum (DB Choice)	Annuitize (DC Choice)	Non- Default Choices
Full Sample	56.1%	21.8%	14.4%	7.7%
Married	52.9%***	22.6%	15.4%	9.1%**
Not Married	67.4%***	18.8%	10.9%	2.9%**
Yrs Service <20	64.7%**	19.9%	8.8%**	6.6%
Yrs Service 20+	53.7%**	22.3%	15.9%**	8.1%

Distributional Choice: Defaults and Framing

	Change: default to lump sum DB	Change: default to annuitize DC
Full Sample	11.2%	21.9%
PE	7.9%**	28.8%***
BD	13.8%**	18.0%***
Women	16.0%***	20.1%
Men	7.6%***	23.4%

Key Findings from Regression Analysis

1. Positive relationship between lump sum DB and annuitizing DC
2. PE workers less likely to choose lump sum even though it is a cash balance plan
3. No difference in plans to annuitize DC between BD and Progress even though retiring workers can annuitize with the plan at BD

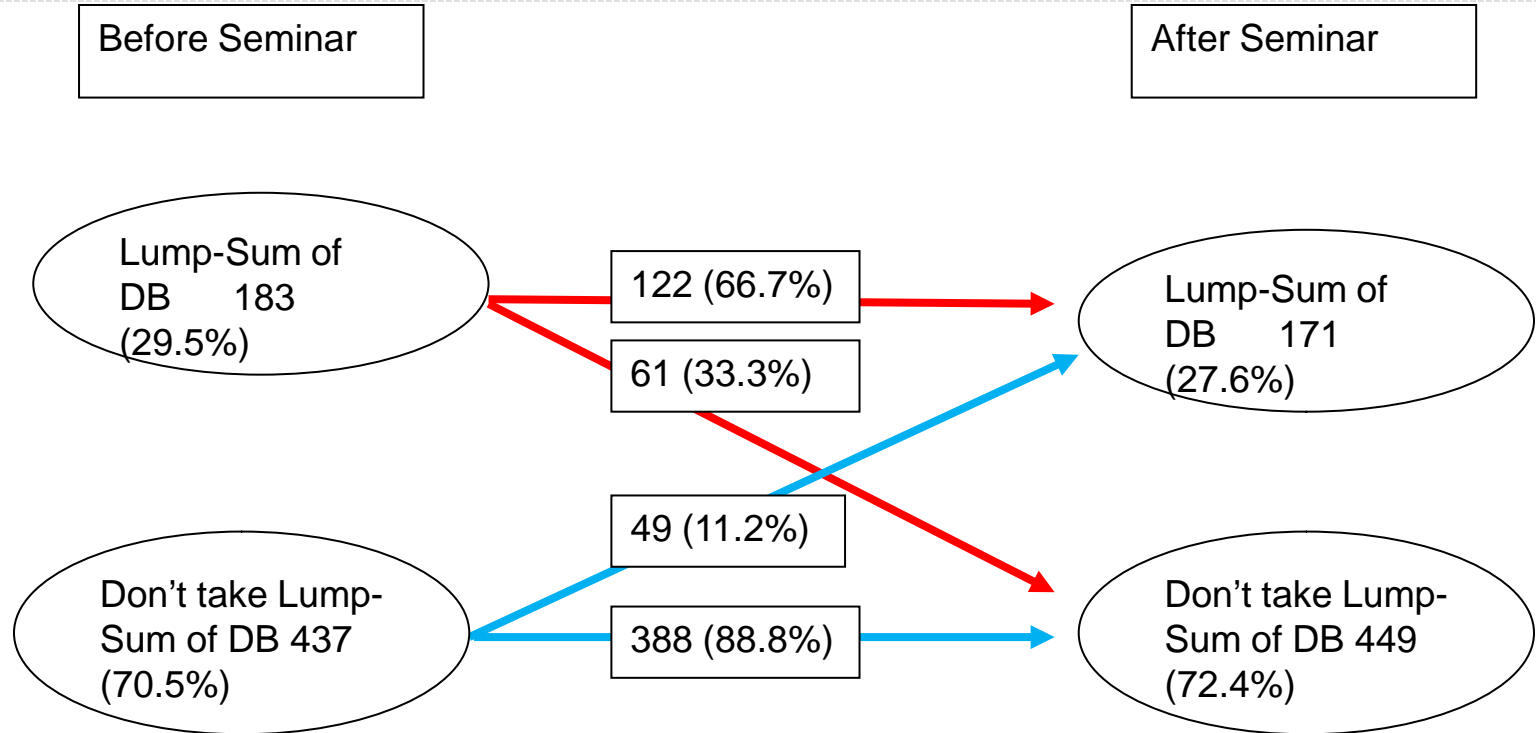
Key Findings from Regression Analysis

4. Years of service, and hence size of DB benefit, positively associated with choosing lump sum
5. Small differences by gender or marital status
6. Greater knowledge prior to seminar is associated with more likely to opt for lump sum from DB and less likely to annuitize DC

Key Findings from Regression Analysis

7. Substantial proportion of workers change plans after the seminar
8. Women more likely to change plans to lump sum from DB
9. Increase in knowledge index is not associated with a greater probability of changing distributional choices; however, most of the change to lump sum comes from those that did not know they had this choice

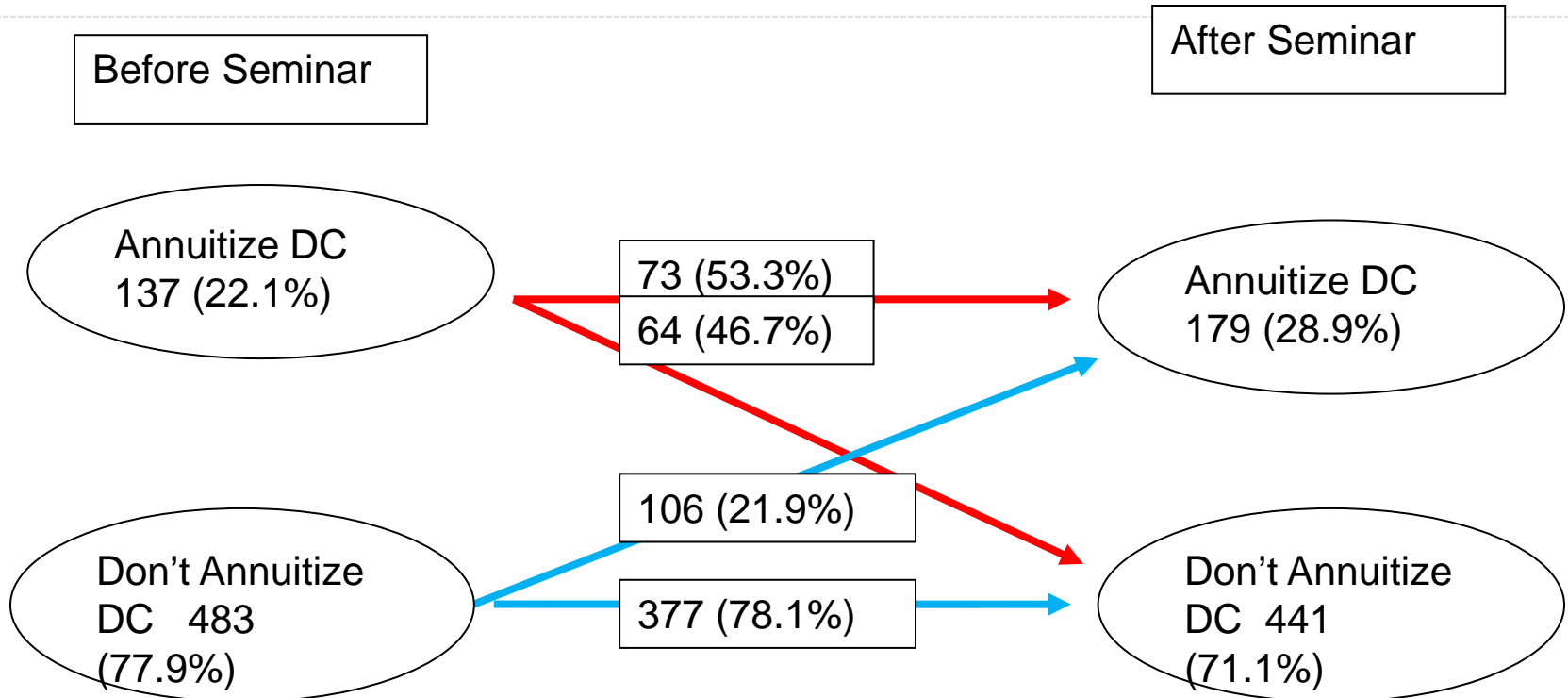
Impact of Seminar



Note: Total sample size: 620

Blank responses were considered to be DK

Impact of Seminar



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Next Steps

- Include data from other employers in PARS dataset.
- Model how quantity of retirement planning contributes to observed relationships.
- Consider how different types of financial knowledge and literacy impact distribution plans.