



Highlights of [GAO-03-810](#), a report to Congressional Requesters

PRIVATE PENSIONS

Participants Need Information on Risks They Face in Managing Pension Assets at and during Retirement

Why GAO Did This Study

The decisions that retiring workers make about how and when to draw down their pension plan assets determine in part whether they will have pension income that lasts throughout retirement. Individuals will need pension and other retirement income to sustain them over a longer period of time than in the past. Moreover, the continuing trend towards pension plans with individual accounts has increased participants' responsibility for managing their pension assets during retirement. As such, our objectives were to determine: (1) what benefit payout options and accompanying information pension plans make available to participants at retirement, (2) what benefit payouts plan participants receive at retirement, and (3) the actions available to help retiring participants preserve their pension and retirement savings plan assets.

What GAO Recommends

GAO is not recommending executive action. However, to improve public awareness and understanding of important considerations related to managing pension and retirement assets in retirement, the Congress may wish to consider amending the Employee Retirement Income Security Act to require plan sponsors to provide participants with a notice on risks that individuals face in managing their income and expenditures at and during retirement. The Congress could consider stipulating that this notice must be provided at certain key milestones.

www.gao.gov/cgi-bin/getrpt?GAO-03-810.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Barbara Bovbjerg at (202) 512-7215 or bovbjergb@gao.gov.

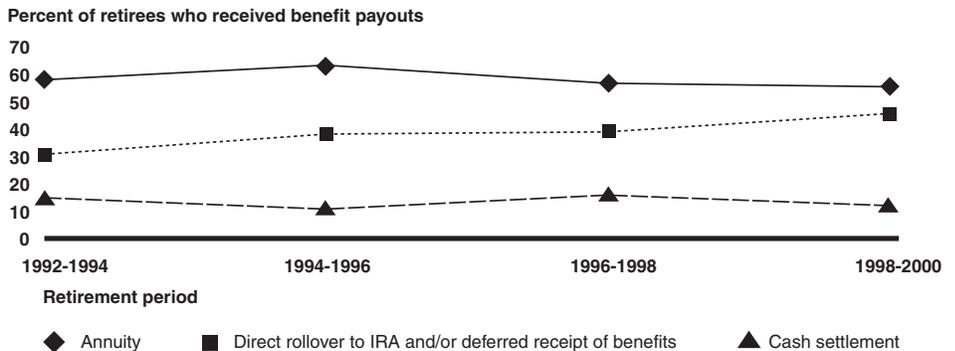
What GAO Found

Defined benefit (DB) plans make annuities available to all participants at retirement, while defined contribution (DC) plans make lump sums available to almost all participants. Recent data also show that about half of private sector workers who participated in DB plans had a lump sum option at retirement, and over a third of their counterparts in DC plans had an annuity option. Plan sponsors GAO spoke with provide retiring participants with applicable notices about their benefit payout options available under the plan. Additional information provided by plan sponsors GAO spoke with primarily focused on saving for retirement. Risks that can affect retirement income, or other considerations relevant to managing pension assets at and during retirement were generally not discussed.

According to GAO's analysis, while 60 percent of recent retirees received annuities, an increasing percentage from 1992 to 2000 directly rolled over lump sum benefits into an individual retirement account or deferred their receipt by leaving these assets in the plan, a trend in part explained by the shift toward retirees with DC plan benefits. Additionally, GAO found that a growing percentage of those retirees who reported having a choice of benefit payouts chose to directly roll over their lump sum benefits or leave benefits in the plan rather than receive annuities.

Actions available to help retiring participants preserve their pension and retirement savings plan assets range from options that would encourage the receipt of annuities to providing information to help participants make better decisions about managing their pension assets at and during retirement. According to an expert panel GAO used as part of this study, retirees need to be aware of the risk of outliving one's assets in retirement and the financial risks individuals face in retirement. Over 90 percent of GAO's panelists rated providing information on such risks as very or extremely effective in helping retiring participants make decisions about managing their pension assets.

Types of Pension Payouts Received by Retirees



Source: GAO analysis of weighted HRS data 1992-2000.