

Defaulting 401(k) Assets into Payout Annuities For “Pretty Good” Lifetime Incomes

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Abstract

Some US defined contribution plans offer retirees access to an annuity or lifetime income stream as payout options from their 401(k) accounts, though some retirees may hesitate to elect lifetime income streams as a drawdown vehicle. To counter this, plan sponsors could automatically allocate some of retirees’ 401(k) assets to annuities, now that regulatory barriers to doing so have eased. Using a lifecycle economic model, we evaluate defaulting retirees’ 401(k) assets into payout annuities, and document that defaulting 20% of a retiree’s assets over a threshold into an immediate annuity enhances retirement security for most plan participants.

Keywords: life cycle saving; household finance; annuity; longevity risk; 401(k) plan; retirement

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