GAO Highlights

Highlights of GAO-16-433, a report to congressional requesters

August 2016

401(K) PLANS

DOL Could Take Steps to Improve Retirement Income Options for Plan Participants

Why GAO Did This Study

As 401(k) plan participants reach retirement they face the challenge of making their savings last for an unknown lifespan, and many 401(k) plan sponsors do not offer options to help participants with this complex task. GAO was asked to review any related challenges and potential changes to help plan sponsors and participants.

This report examines, among other things, what is known about the adoption of lifetime income options in 401(k) plans, barriers that deter plan sponsors from offering such options, and the defaults that exist for participants who do not choose a lifetime income option. GAO administered a non-generalizable questionnaire to record keepers, conducted a non-generalizable survey of 54 plan sponsors, and interviewed a range of stakeholders.

What GAO Recommends

GAO makes seven recommendations to DOL, including that it clarify the criteria to be used by plan sponsors to select an annuity provider, consider providing limited liability relief for offering an appropriate mix of lifetime income options, issue guidance to encourage plan sponsors to select a record keeper that offers annuities from other providers, and consider providing RMD-based default lifetime income to retirees. DOL generally agreed, and described actions it would take to address the intent of the recommendations.

View GAO-16-433. For more information, contact Charles A. Jeszeck at (202) 512-7215 or jeszeckc@gao.gov.

What GAO Found

Workers relying in large part on their 401(k) plan in retirement may not always have a feasible way to make their savings last throughout retirement. Responses to GAO's non-generalizable questionnaire from 11 401(k) plan record keepers—entities that manage participant account data and transactions for plans—showed that most plans covered by the questionnaire had not adopted products and services that could help participants turn their savings into a retirement income stream (referred to as lifetime income options in this report). Responses to the questionnaire represented more than 40 percent of all 401(k) assets and about a quarter of plans at the end of 2014. GAO found that of the plans covered by the questionnaire, about two-thirds did not offer a withdrawal option — payments from accounts, sometimes designed to last a lifetime—and about three-quarters did not offer an annuity—arrangements that can guarantee set payments for life.

Concerns about legal risks and record keeper constraints may deter many plan sponsors—typically employers that provide 401(k) plans and establish investment and distribution options—from offering lifetime income options. The Department of Labor (DOL) issues regulations and guidance for plan sponsors and is responsible for educating and assisting them to help ensure the retirement security of workers. For example, DOL has prescribed steps plan sponsors can take to satisfy their fiduciary duties (i.e. act prudently and in the best interest of participants) when selecting an annuity provider for a 401(k) plan. However, according to industry stakeholders GAO interviewed, those steps are not often used because they include assessing "sufficient" information to "appropriately" conclude that the annuity provider will be financially able to pay future claims without definitions for those terms. Without clearer criteria to select an annuity provider, fear of liability may deter plan sponsors from offering annuities. Further, GAO found that a mix of lifetime income options to choose from is not usually available. DOL provides an incentive in the form of limited liability relief to plan sponsors who, among other things, provide participants at least three diversified investment options. However, no such incentive exists for plan sponsors offering a mix of lifetime income options. Without some degree of liability relief, plan sponsors may be reluctant to offer a diverse mix of lifetime income options to their participants. Lastly, stakeholders told GAO that record keepers may make only their own annuities available to the plans they service. DOL provides guidance on selecting service providers, but it does not encourage plan sponsors to seek choices from their service providers, which may prevent plans from having appropriate annuity options available to offer participants.

Required minimum distributions (RMD) can offer a default for those who do not choose a lifetime income option by setting a minimum amount of taxable 401(k) income for those age 70 ½ or older, based on life expectancy. Some plan sponsors know how to administer RMDs, and some already choose to provide RMD payments calculated to last a lifetime. However, DOL's guidance on default lifetime income is focused on a particular annuity type used only by a few plans. By issuing guidance encouraging plans to consider letting RMDs be the default distribution process for retiring participants, DOL may help create lifetime income for participants who do not choose an option.