

Client Advocate Alert July 2022

Why are there “Estimated Lifetime Income” illustrations on my 401(k) statement? And what do they really mean?

You may have noticed new information and disclosures on your participant statement related to Estimated Lifetime Income. Here's what's going on.

Background: In December 2019, Congress passed the SECURE Act. The law requires 401(k) plan administrators to include (at least annually) two illustrations of a participant's account balance converted to a lifetime income equivalent – one as a single life annuity (SLA) and another as a qualified joint and survivor annuity (QJSA). The deadline for adding this information to statements was June 30, 2022, which is why you may be seeing it for the first time now.

The Goal: Provide participants with estimates of how much monthly income their existing 401(k) account balance may generate upon retirement. It is hoped that the information will help them understand the potential need to defer more in their 401(k) plan to retire comfortably.

What you should know: For complete legal disclosures, please refer to your participant statement. The following is a summary.

- The illustration requirement applies to every 401(k) plan with individual participant accounts.
- Illustrations must use certain assumptions to calculate monthly income illustrations.
- These assumptions are general and, thus, not specific to your unique situation. (Visit with your financial and tax advisors for more personalized and accurate information.)
- The assumptions include:
 - ✓ Annuity start date and account value used: Based on the last day of the current benefit statement period.
 - ✓ Age on annuity start date: Age 67 or actual age if already over age 67.
 - ✓ Marital status and survivor benefit for the QJSA: Spouse is the same age (regardless of your marital status) and survivor benefit is 100%.
 - ✓ Interest rate used: 10-year constant maturity Treasury rate on first business day of the last month of the statement period.
 - ✓ Mortality: Unisex mortality described in the Internal Revenue Code for pension plans.
 - ✓ Plan loans: If allowed in a plan, loans are included in the account balance, unless they are in default
 - ✓ Illustrations DO NOT consider future contributions and investment returns.
- Other disclosure information:
 - ✓ Lifetime income illustrations are not guaranteed
 - ✓ Actual monthly income will likely be different than the illustration, due to a variety of factors.

Things to think about:

- Simply think of these illustrations as financial planning snapshots, since future contributions and investment returns are not considered, and nothing is guaranteed.
- For an employee starting out, the estimated income will be small. As they defer more over time, the estimate will become more meaningful.
- For an employee with a larger balance and closer to retirement age, the information can be useful for determining how much one's 401(k) and/or Rollover IRA may generate in monthly income.
- For most employees, the Estimated Lifetime Income illustrations can be very helpful in determining whether to increase plan contributions or modify one's investment mix.