June 2017

Consumer insights on managing funds at the time of retirement

Consumer Financial Protection Bureau

About CFPB research, tools, and resources for financial educators

An essential part of the mission of the Consumer Financial Protection Bureau (CFPB or Bureau) is to empower consumers to take more control over their financial lives. Since the Bureau opened its doors in 2011, we have worked to improve the financial literacy of consumers in the United States and to ensure access to tools, information, and opportunities for skill-building that they need to manage their finances.

The Bureau's principal financial education mandate is set forth in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The Dodd-Frank Act created the Bureau and mandated the establishment of an Office of Financial Education to "be responsible for developing and implementing initiatives intended to educate and empower consumers to make better informed financial decisions." 12 U.S.C. § 5493(d)(1).

To better help consumers make well-informed financial decisions and achieve their own life goals, we at the CFPB have sought to increase understanding of three broad areas:

- Consumer financial behavior
- The financial education field
- Effective practices in financial education

We conduct research in these areas to inform the CFPB's own financial education efforts and to share our insights with others who have a common interest in improving the financial well-being of consumers.

The CFPB's goal for its financial education activities is to help consumers move toward financial well-being. In the CFPB's definition of financial well-being, consumers:

- Have control over day-to-day, month-to-month finances
- Have the capability to absorb a financial shock
- Are on track to meet financial goals
- Have the financial freedom to make choices that allow them to enjoy life

To learn more, visit the Resources for Financial Educators webpage at http://www.consumerfinance.gov/adult-financial-education

To get regular updates on CFPB research, tools, and resources for financial educators, sign up for the CFPB Financial Education Exchange (CFPB FinEx) by emailing CFPB_FinEx@cfpb.gov.

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1. Executive summary

Over a lifetime of managing money, consumers often face complex and challenging decisions. The most complicated choices can also have the highest stakes. Choices around retirement savings are important to examine because they are intricate and often irreversible, and these choices can affect many years of a consumer's life.

According to recent studies, many consumers at and near retirement are unprepared to meet retirement challenges. For example, four in ten late baby boomers (currently ages 51 to 59) are reaching retirement with limited or no savings and are projected to face a savings shortfall. Furthermore, with the decline in coverage of traditional defined benefit pension plans that pay a regular monthly amount, consumers bear increasing responsibility for making complicated choices.

Indicators of how this shift is impacting retirement planning are not reassuring. Only 39% of consumers reported having attempted to figure out how much savings they need for retirement, and more than half worry about running out of money in retirement. In fact, 62% of workers between the ages of 55 and 64 over their working lives have accumulated less than one year's worth of income in retirement savings.[1]

To help consumers make well-informed financial decisions and achieve their financial goals, the CFPB commissioned research to better understand solutions to some of the challenges that consumers face in planning for their upcoming retirement and in spending their funds during

[1] Nari Rhee and Ilana Boivie, "The Continuing Retirement Savings Crisis," National Institute on Retirement Security, March 2015.

retirement.[2] The research was undertaken to inform financial education approaches that could help consumers better navigate these challenges, make informed decisions, and achieve greater financial well-being after they retire.

Specifically, the Bureau wanted to learn how consumers respond to retirement planning prototypes and account management approaches that encourage optimal choices through two approaches: simplification and precommitment. The research study explored new tactics and communications designed for consumers approaching retirement, to see how and whether they improved the consumers' understanding of their choices and key information, and how the tactics and communications affected advance planning. The study also tested email messages to identify approaches that were more effective at gaining consumers' attention and spurring them to action.

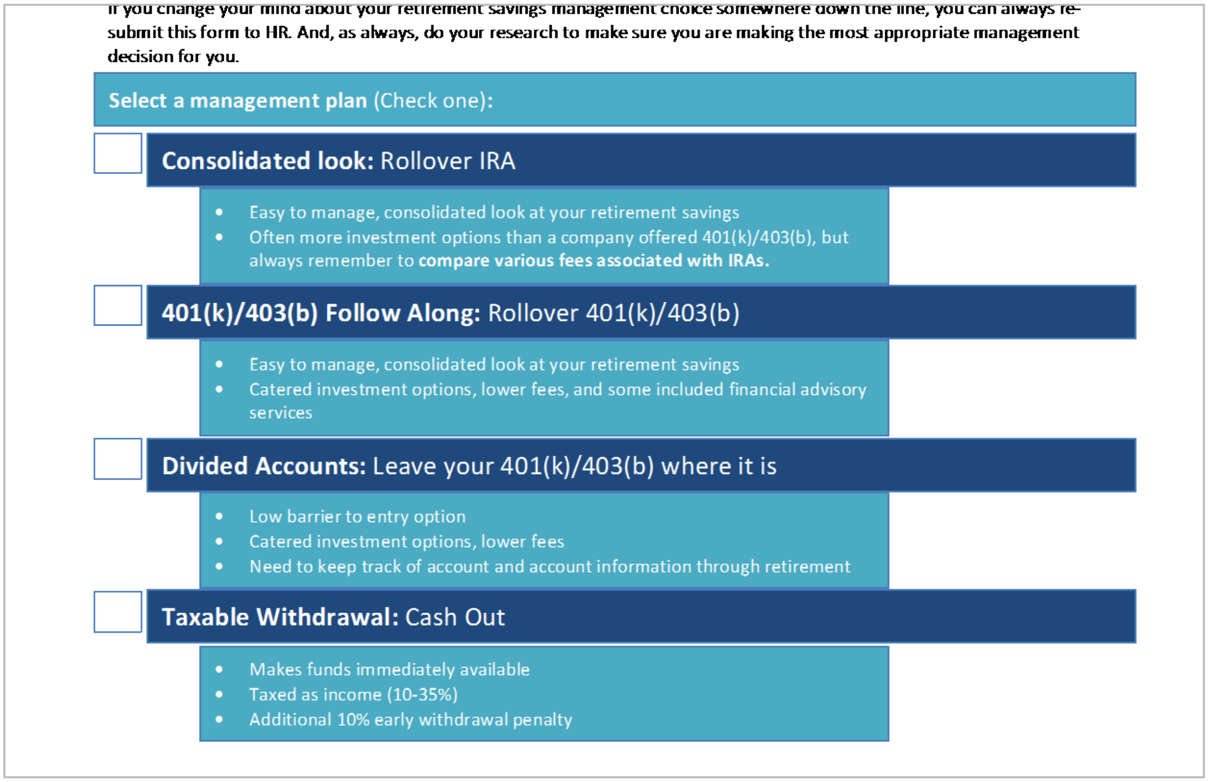
Consumers were interested in straightforward, trustworthy ways to simplify their retirement planning and personal retirement account management. The research resulted in insights gained from consumers, including:

When making decisions before retirement (that is, at age 55 and younger), consumers were interested in an advance planning tool, such as a tool to precommit to a conservative drawdown strategy from personal retirement accounts.

When making decisions at or near retirement (that is, over age 55), consumers reported a preference for simplified forms for managing personal retirement account funds (see example in Figure 1) and for receiving information about retirement accounts.

2 The study was conducted by Behavioral Labs, Inc. (also known as ideas42) under contract with the CFPB after selection through a competitive solicitation (contract number TPD-CFP-12-C-0020).

FIGURE 1: EXCERPT FROM SIMPLIFIED ACCOUNT MANAGEMENT FORM



If you change your mind about your retirement savings management choice somewhere down the line, you can always re-submit this form to HR. And, as always, do your research to make sure you are making the most appropriate management decision for you.

Select a management plan (Check one):

☐ **Consolidated look:** Rollover IRA

- Easy to manage, consolidated look at your retirement savings
- Often more investment options than a company offered 401(k)/403(b), but always remember to **compare various fees associated with IRAs.**

☐ **401(k)/403(b) Follow Along:** Rollover 401(k)/403(b)

- Easy to manage, consolidated look at your retirement savings
- Catered investment options, lower fees, and some included financial advisory services

☐ **Divided Accounts:** Leave your 401(k)/403(b) where it is

- Low barrier to entry option
- Catered investment options, lower fees
- Need to keep track of account and account information through retirement

☐ **Taxable Withdrawal:** Cash Out

- Makes funds immediately available
- Taxed as income (10-35%)
- Additional 10% early withdrawal penalty

With greater understanding of the challenges to optimal decision making related to these issues, the CFPB hopes to spur efforts to support consumers in making choices that result in better outcomes.

Financial educators and counselors can apply this information to their work with consumers to help them plan for retirement and manage personal retirement accounts. Employers and retirement plan administrators can apply this information to their work with employees, helping employees understand options at time of enrollment and at time of separation.

2. About the study

The goal of this research was to identify financial decision-making challenges faced by consumers, and to design and test strategies to help them address those challenges. Through examining the existing research literature, the study identified challenges many consumers experience in a complex retirement account marketplace. It also identified common consumer financial decision-making challenges in complicated and long-term decision making and planning. Combined, these two sets of challenges mean consumers may struggle to make the most of their retirement saving and spending choices.

The study explored potential approaches to help consumers manage retirement decision-making challenges. The CFPB worked with a private-sector company to develop prototypes to test solutions to consumers' retirement challenges.[3] One approach was offering retirement planning resources to help soon-to-be retirees better prepare for retirement, allowing them to streamline and visualize outcomes and to precommit to future decisions early, when the stakes feel lower. And, a second approach addressed personal retirement account drawdown decision-making much earlier, such as when initially enrolling in the plan, as well as simplifying information and reconfirming prior decisions at the time of retirement.

[3] We worked with HelloWallet, a personal financial management software company that partners directly with employers to provide individualized financial guidance for employees. HelloWallet had a Memorandum of Understanding (MOU) with the contractor for this project, Behavioral Ideas Lab Inc. (see footnote 2) to share their findings from the prototype research. The company's participation was determined through an open process for organizations to express interest in working with the CFPB and Behavioral Labs, Inc. on the project. See http://www.consumerfinance.gov/blog/were-looking-for-innovative-partners-for-financial-education-research/ for more details. Working with this company does not constitute an endorsement of this company or its products on the part of the CFPB.

These approaches were tested with consumers. Insights from the design and user testing of these approaches are the basis for this report.

While the consumers who provided feedback were a demographically diverse group, they are not statistically representative of the overall population. Their feedback should be treated as suggestive of some consumers' experience in making decisions about spending in retirement. Testing results are not intended to give us statistically significant data that can be generalized to all consumers.

3. Consumer challenges in managing retirement decisions

3.1 A changing retirement landscape places greater responsibility on consumers' financial decision-making

Current and future generations of consumers retiring with 401(k) accounts and similar defined contribution accounts face a greater risk of shortfalls in retirement than older generations. Compared to earlier generations that retired with a defined benefit plan (that is, a traditional pension), consumers now have more responsibility for managing their nest eggs while working and after retiring. Their choices need to maintain enough money to sustain their quality of life throughout retirement—potentially 20 to 30 years or more. Generally, consumers accumulate only modest balances in 401(k) accounts.

At retirement, making choices for defined contribution plan accounts involves myriad options, tremendous complexity, and sometimes unfamiliar financial products and services. Many individuals must make high-stakes decisions about whether and to what extent the savings in their accounts should be cashed out, rolled over, or retained in an employer's plan. Many are also deciding whether to annuitize their savings.

A COMPLICATED FINANCIAL PICTURE

In addition to decisions about 401(k) savings, at retirement consumers face a complicated array of choices in other parts of their financial lives. They need to consider when to begin receiving Social Security retirement benefits (see “Other CFPB Tools” on page 27). They may have additional savings and investments in taxable accounts. They may consider other assets like their home equity as sources of income, which carries pros and cons. Their personal situations may include health issues and family issues that are stressful, as well as difficult to predict and quantify. Within this complex and quickly-evolving system, consumers are called upon to make one-time, sometimes irreversible decisions.

Because retirement planning and account management decisions are complex, many consumers may find these decisions unpleasant and avoid thinking about them.[4] For example, consumers may delay action, make quick decisions with limited information, or go with the status quo because they do not want to think about what retirement means for them. Additionally, research suggests that consumers who are most vulnerable to a shortfall later in retirement are most likely to make suboptimal cash-out decisions at retirement.[5]

Together, existing research suggests that a complex decision context and common consumer biases increase the risk that consumers make suboptimal decisions regarding how they manage their funds at retirement. We review several of these challenges below.

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[4] Niklas Karlsson et al., *The ostrich effect: Selective attention to information*, 38 Journal of Risk and Uncertainty 95 (2009); George Loewenstein & Jennifer S. Lerner, *The Role of Affect in Decision Making*, *in* Handbook of Affective Sciences 619 (Richard J. Davidson et al. eds., 2003); and George Loewenstein, *Out of Control: Visceral Influences on Behavior*, 65 Organizational Behavior and Human Decision Processes 272 (1996).

[5] Aon Hewitt, *Leakage of Participants’ DC Assets: How Loans, Withdrawals, and Cashouts are Eroding Retirement Income* (2011), and John Sabelhaus et al., *Equity and Bond Ownership in America*, Investment Company Institute (2008).

3.2 Decision context: Challenges in the retirement marketplace

Consumers make retirement decisions in an environment and a marketplace that can create barriers to optimal behavior. Because the marketplace is complex, working through all the aspects of a decision takes so much time and effort that consumers may opt for a suboptimal outcome.

To reveal factors that make managing retirement decisions a challenge for consumers, we examined previously published research reports, articles, and surveys in the field of decision-making. Below is a summary of this examination.

3.2.1 Many market players

Consumers interact with many players in the retirement environment, which requires them to process complex and often conflicting information. ***Human resource and benefits departments*** at companies often offer information, advice, or other services to employees about their options and what they need to do at retirement. ***Financial institutions***, like investment and insurance companies, and ***financial professionals***, like financial advisors, compete for the attention of retiring consumers by offering and advertising an array of products and services. ***Plan administrators***, the individuals responsible for managing a retirement plan on a day-to-day basis, set the processes for accessing retirement savings. ***Nonprofit organizations*** offer retirement planning resources. ***Financial technology firms*** provide advisory and monitoring services to help consumers keep track of their accounts and plan their future finances. ***The government*** sets the regulatory environment in which the various market players act, setting rules about how particular products are offered and placing guardrails on how services operate. Additionally, the government provides retirement benefits, like Social Security and Medicare.

3.2.2 Large number of retirement products and services

Within the retirement marketplace, consumers have a range of products to choose among. They face tradeoffs and calculations among many alternatives. Making an optimal decision would require extensive work to investigate and compare many choices, products, and approaches. For example, consumers at retirement may remain in their existing employer's retirement plan, roll over the money into an individual retirement account (IRA), annuitize, or cash out.[6] This range of options complicates the decision-making process for soon-to-be retirees and for individuals at retirement.

3.2.3 Complexity of retirement products and services

Beyond the sheer number of products available, many of the financial products related to retirement are complex. An optimal decision would require a consumer to do the difficult work of deeply investigating layers of transactions or scenarios. For example, financial writers identify 11 different types of IRAs.[7] If a consumer decides to roll over a 401(k) balance into an IRA, the consumer should compare and consider the impact of the accompanying transaction fees, advisory fees, and minimum initial investment requirements. Choosing an annuity requires the consumer to make assumptions about how long the covered person might live, plus interrelated decisions about the time period of annuity payments, the lives covered, the underlying investments, and fees.

3.2.4 Hard-to-digest information

In the retirement marketplace, information comes from different and competing sources and is not always presented in a clear and uniform way. The presence or absence of alternatives, the framing of consequences, and social pressures can influence how individuals make decisions.[8] Views about the standard way of doing things can lead a consumer to select a strategy that is common for a peer group rather than optimal for the individual consumer.

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[6] *Types of Retirement Plans*, Internal Revenue Service, http://www.irs.gov/Retirement-Plans/Plan-Sponsor/Types-of-Retirement-Plans-1.

[7] David Braze, *All About IRAs: The Eleven Types*, The Motley Fool.

[8] Christopher Hsee & Jiao Zhang, *Distinction Bias: Misprediction and Mischoice Due to Joint Evaluation*, 86 Journal of Personality and Personal Psychology 680 (2004), Christopher Hsee, *The Evolutionary Hypothesis: An Explanation of Preference Reversals Between Joint and Separate Evaluation of Alternatives*, 67 Organizational Behavior and Human Decision Processes (1996).

3.2.5 Limited time frame

Time pressure can make it difficult to optimize a financial decision.[9] The moment of job separation at retirement is a unique time when many consumers take actions that impact the long-term value of their investments and their late-life financial comfort, while at the same time juggling many other important thoughts and decisions.[10] Often in a relatively brief window, individuals may receive information from plan administrators about personal retirement account management options.

Additionally, individuals may receive information or advice from friends, family members, coworkers, talk shows, magazines, blogs, financial advisors, human resource departments, mailers, advertisements, lunch seminars, and a host of other sources.[11] Amid this potentially confusing and contradictory deluge of information, individuals may also be focused on other issues, such as reflecting on the end of their career or thinking about nonfinancial plans for retirement.

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[9] Eldar Shafir & Sendhil Mullainathan. *Scarcity: Why Having Too Little Means So Much.* Allen Lane (2013).Mullainathan, Sendhil, and Eldar Shafir. *Scarcity: Why Having Too Little Means so Much.* London, England: Allen Lane, an imprint of Penguin Books, 2013.Mullainathan, Sendhil, and Eldar Shafir. *Scarcity: Why Having Too Little Means so Much.* London, England: Allen Lane, an imprint of Penguin Books, 2013.Mullainathan, Sendhil, and Eldar Shafir. *Scarcity: Why Having Too Little Means so Much.* London, England: Allen Lane, an imprint of Penguin Books, 2013. Mullainathan, Sendhil, and Eldar Shafir. *Scarcity: Why Having Too Little Means so Much.* London, England: Allen Lane, an imprint of Penguin Books, 2013.

[10] Melissa A. Z. Knoll, *Behavioral and Psychological Aspects of the Retirement Decision*, 71 Social Security Bulletin 15 (2011), available at http://www.socialsecurity.gov/policy/docs/ssb/v71n4/ssb-v71n4.pdf.

[11] Lawrence A. Frolik. *Protecting Our Aging Retirees: Converting 401(k) Accounts into Federally Guaranteed Lifetime Annuities.* Legal Studies Research Paper Series. Working Paper No. 2009-34 (November 2009).

3.3 Common biases: Challenges in making optimal decisions

As noted above, retirement planning and account management decisions can be complicated, one-time decisions that are made in a brief window for action, with many options and associated hassles. The decisions are often difficult in their own right. Complicating the matter further, common attitudes and behaviors can inhibit optimal planning and instead lead consumers to fall short of their goal to maximize their spendable income in retirement.

3.3.1 Inertia

When faced with complicated decisions, consumers can feel paralyzed and take no action.[12] The consumer's inaction then produces a result based on default settings. For example, low balances in many 401(k) plans are cashed out automatically when leaving employment, with the accompanying tax consequences. In later retirement, inaction could lead consumers to neglect to take required minimum distributions from their tax-deferred savings, which results in expensive tax penalties.

3.3.2 "Good enough" decisions

When a decision is difficult or unpleasant, consumers may procrastinate, stick with the status quo, or generally make a quick decision with little analysis.[13] These behaviors can lead to

[12] Sheena S. Iyengar. *The Effects of Choice Proliferation on Retirement Savings Behavior*. TIAA-CREF Institute (May 2008).

[13] Niklas Karlsson, George Lowenstein & Duane J. Seppi. *The Ostrich Effect: Selective Attention to Information.* Journal of Risk and Uncertainty. 38 (95-115). 2009.

decisions that are "good enough" to resolve the issue, but might not optimally benefit the individual. [14]

3.3.3 Salience bias and misjudging risk and reward

Consumers of all ages do not always make decisions that reflect the probability of an event actually happening. Rather than seeking to better understand risks or seeking advice, consumers may instead base decisions on less valid factors. These include salient experiences (for example, a vivid memory of a prior investment loss—or gain), categorical judgments of an entire class of products or services, or skewed weighting of the probability that various things will happen to them.[15]

3.3.4 Present bias

Some people are present-biased, meaning that they may be more focused on the present than on the future.[16] In the retirement context, this could create the risk of spending down retirement savings too quickly or using other money management strategies that are not well suited to their long-term financial well-being.[17]

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[14] Herbert A. Simon. *Administrative Behavior: A Study of Decision-Making Processes in Administrative Organizations* (4th ed. 1997).

[15] Amos Tversky & Daniel Kahneman, *The Framing of Decisions and the Psychology of Choice*, Science, Jan. 30, 1981, at 453, available at http://www.jstor.org/stable/1685855.

[16] O'Donoghue, T., & Rabin, M. (1999). *Doing it now or later*. American Economic Review, 89(1).

[17] Gopi Shah Goda, Matthew Levy, Colleen Flaherty Manchester, Aaron Sojourner &Joshua Tasoff. *The Role of Time Preferences and Exponential-Growth Bias in Retirement Savings*. NBER Working Paper No. 21482 (August 2015).

3.3.5 Overconfidence

Some consumers may be overconfident about their ability to manage finances at retirement. In the retirement context, overconfidence could have consequences such as overtrading in an account, or maintaining an overconcentration in employer stock.[18],[19]

[18] Terrance Odean. *Volume, Volatility, Price, and Profit When All Traders Are Above Average*. The Journal of Finance, 53: 1887–1934 (1998).

[19] Marc M. Kramer. *Financial literacy, overconfidence and advice seeking*, European Financial Management Association working paper (2014).

4. Potential solutions for consumers

The research we reviewed suggests that several approaches may help consumers overcome some of the decision-making challenges outlined above. In this study we focused on two approaches that could have some promising impact in improving retirement decision-making:

Simplification and visualization. Streamlining the ways that choices are presented can help make consequences more vivid and salient and support more optimal decision-making. The goal of the simplification and visualization approaches is to improve the way complicated information about retirement finances could be conveyed to consumers to support optimal decision-making. For example, electronic or printed resources could be provided to consumers that summarize the consequences of various retirement planning and account management options at a glance.

Precommitment. Reducing the time pressure and immediate stakes of retirement decisions can allow cooler and more considered thinking. The goal of precommitment is to encourage consumers to adopt a conservative drawdown strategy for their personal retirement accounts, to decrease the likelihood of a shortfall later in retirement. Decisions made at the moment of retirement may be subject to present bias, while committing to a plan in advance of retirement may help consumers focus on long-term rather than short-term goals. For example, retirement plan providers could provide forms that allow consumers to make personal retirement account management decisions months or years in advance of retirement.

ADDITIONAL APPROACHES THAT SHOW PROMISE

Naturally, there are many approaches to helping consumers navigate the complex retirement marketplace. Others with an interest in helping consumers with this challenge are encouraged to test different directions and ideas to determine consumer interest and effectiveness, including the following approaches:

Decision-making shortcuts. Reduce the mental effort required to process complicated decisions. Develop easy-to-remember rules of thumb to guide consumers through the decision-making process at the time of retirement.

Pause for reflection. Counteract present bias for one decision that is often suboptimal: cashing out a retirement account. Cashing out the account before age 59½ reduces savings through tax penalties, yet still one in three workers who leave their employers between age 50 and 59 cash out their 401(k) accounts.[20] At any age, cashing out the account means the consumer becomes individually responsible for finding a suitable account to hold the money and for choosing whether and how to invest the money for the future—actions that are more difficult than simply spending the money currently. To counteract this, create steps at cash-out to encourage consumers to pause and think about whether cashing out their personal retirement account is their optimal choice. If the consumer still opts to cash out, help the consumer develop a responsible reinvestment and drawdown plan.

4.1 Preparing for retirement

As shown in the table below, we tested approaches with consumers preparing for retirement (age 55 and younger), and consumers at or near retirement (over age 55).[21]

For consumers preparing for retirement (age 55 and younger), the study tested email communications and a retirement approach that simplified and visualized retirement issues and

[20] Aon Hewitt, *Leakage of Participants' DC Assets: How Loans, Withdrawals, and Cashouts are Eroding Retirement Income* (2011).

[21] For the purpose of this study, consumers ages 55 and older are assumed to be at or near retirement given their proximity to key age-related retirement decisions. For instance, in many public and private retirement plans, workers are considered to be eligible for retirement benefits when they attain age 55.

options. Additionally, it tested electronic and hard copy communications that allowed consumers to precommit to a post-retirement savings drawdown strategy.

TABLE 1: TESTING STRUCTURE

	Preparing for retirement	At or near retirement
Simplification and visualization	Email communication	Simplified withdrawal form
Precommitment	Automatic precommitment Precommitment form	Precommitment confirmation form

4.1.1 Email communication

Consumers[22] were presented with email communications that included headings and body text, graphics, and photos designed to simplify and visualize retirement planning and account management decisions. Emails were developed to encourage consumers to act on three categories of retirement decision – *planning for retirement*, *consolidating retirement accounts*, and *saving for retirement emergencies*.

For example, one visualization depicted a tradeoff between going to the doctor for a broken leg versus taking a beach vacation, to encourage consumers to think about what they would give up if not financially prepared for a medical emergency. Consumers preferred visualizations more than the emails with copy alone, and were more likely to open and take action on emails that provided these visualizations. (See Figure 1 to see sample emails with retirement visualizations.)

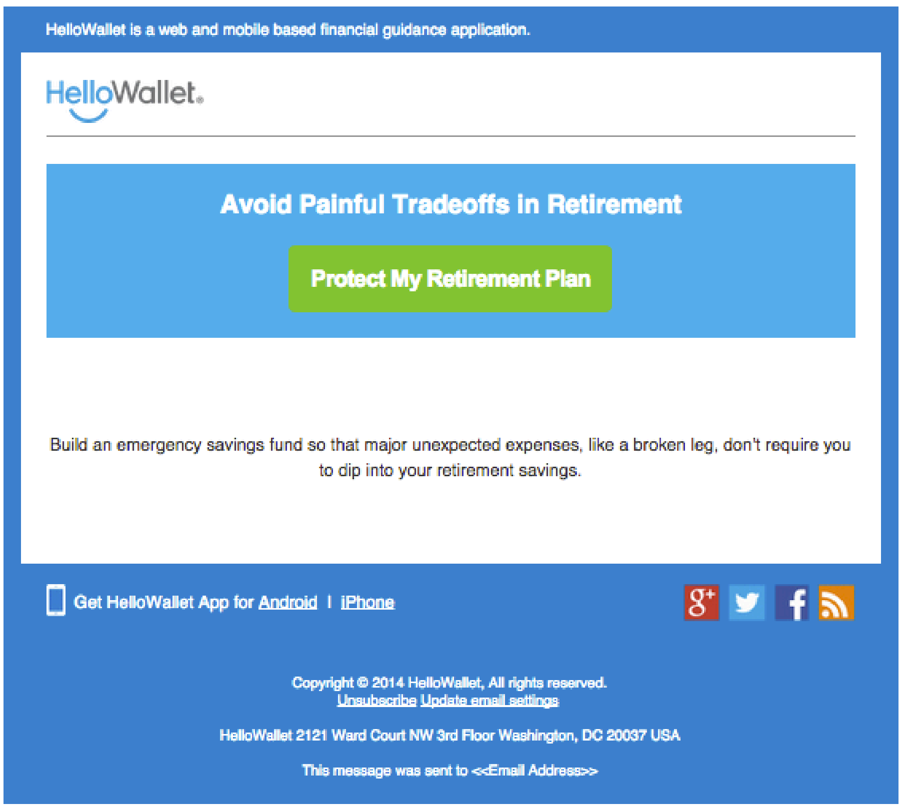
Different messages resonated with different age groups. For example, the *saving for retirement emergencies* email "Avoid Painful Tradeoffs in Retirement" subject line had the highest open rate for consumers age 55 and over. The more general *planning for retirement* email "Retirement Planning in 3 Easy Steps" had the broadest appeal across age ranges.

[22] Following internal testing with five users, 13,162 HelloWallet customers under age 55 participated in user testing.

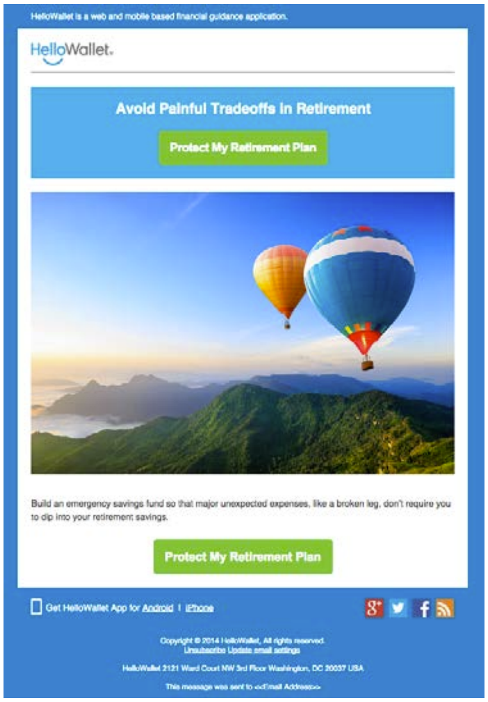
Consumer insights:

- Consumers planning for retirement were interested in all three email categories, and expressed the most interest in *consolidating retirement accounts*.
- Consumers planning for retirement were most likely to log into their account after viewing emails containing text and visuals.
- Consumers broadly preferred emails containing text and visuals over emails containing only text.

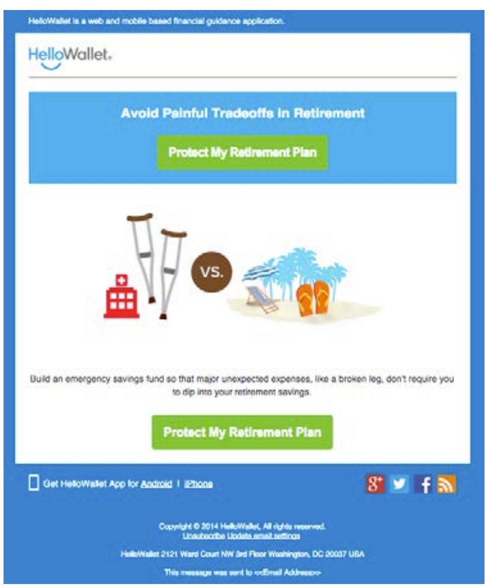
FIGURE 2: SAMPLE EMAILS WITH RETIREMENT VISUALIZATIONS



Control email with no visualization



Email with visual that is not retirement-related, as a control.



Email with visualization of tradeoff between emergency medical costs vs. vacations

4.1.2 Precommitment form

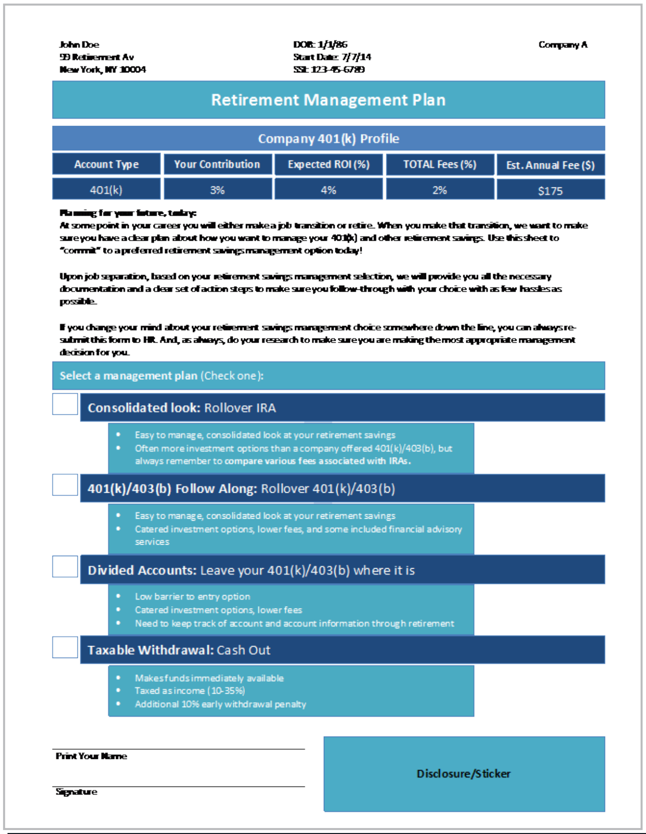
We tested a sample precommitment form that allows users to commit to future personal retirement account management decisions at the time of enrollment in an employer's retirement plan.[23] The precommitment form describes options that will be available to the consumer at the time of retirement or separation from their employer. The consumer precommits to one of those options at enrollment. Upon reaching retirement, no default option is presented to the consumer. Instead, the consumer can confirm the prior selection—or switch to a different option. (See Figure 3 for a sample precommitment form.)

Consumer insights:

- Consumers liked the description of options and the projections provided on the precommitment form.
- Consumers liked the instructions on the form highlighting their ability to change their precommitment at any time.
- Some consumers were uncomfortable committing to a retirement drawdown strategy at such an early stage, even with this knowledge.

[23] Internal testing with eight users followed a review of related user testing of the withdrawal form with four HelloWallet customers.

FIGURE 3: SAMPLE PRECOMMITMENT FORM



John Doe
59 Retirement Av
New York, NY 10004

DOB: 1/1/86
Start Date: 7/7/14
SSI: 123-45-6789

Company A

Retirement Management Plan

Company 401(k) Profile				
Account Type	Your Contribution	Expected ROI (%)	TOTAL Fees (%)	Est. Annual Fee ($)
401(k)	3%	4%	2%	$175

Planning for your future, today:
At some point in your career you will either make a job transition or retire. When you make that transition, we want to make sure you have a clear plan about how you want to manage your 401(k) and other retirement savings. Use this sheet to "commit" to a preferred retirement savings management option today!

Upon job separation, based on your retirement savings management selection, we will provide you all the necessary documentation and a clear set of action steps to make sure you follow-through with your choice with as few hassles as possible.

If you change your mind about your retirement savings management choice somewhere down the line, you can always re-submit this form to HR. And, as always, do your research to make sure you are making the most appropriate management decision for you.

Select a management plan (Check one):

☐ **Consolidated look:** Rollover IRA
- Easy to manage, consolidated look at your retirement savings
- Often more investment options than a company offered 401(k)/403(b), but always remember to compare various fees associated with IRAs.

☐ **401(k)/403(b) Follow Along:** Rollover 401(k)/403(b)
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☐ **Divided Accounts:** Leave your 401(k)/403(b) where it is
- Low barrier to entry option
- Catered investment options, lower fees
- Need to keep track of account and account information through retirement

☐ **Taxable Withdrawal:** Cash Out
- Makes funds immediately available
- Taxed as income (10-35%)
- Additional 10% early withdrawal penalty

Print Your Name

Signature

Disclosure/Sticker

Form that could be used by employers or retirement plan administrators to encourage consumers to precommit to retirement choices about their 401(k) plan well before the actual time of retirement.

4.1.3 Automatic precommitment

The automatic precommitment approach is a withdrawal option designed to function in an online retirement planning tool with the goal of committing consumers to a conservative retirement account drawdown strategy, well before retirement. Once consumers develop a plan for saving for retirement, they are then shown a projection of their savings drawdown through retirement as a basis for precommitting to a strategy for spending their funds once they retire.[24]

[24] Following internal testing with four users, four HelloWallet customers participated in one-on-one user testing.

The strategy automatically becomes the default drawdown schedule upon reaching retirement age. While consumers are focused on the future, the automatic precommitment approach takes advantage of this orientation to help the consumer be less prone to make a present-biased decision later, at the moment of retirement.

Although consumers are free to change the drawdown strategy later, the precommitment is designed to allow consumers to set it and leave it as a one-time decision, reducing the likelihood that consumers would be presented with opportunities to change the drawdown strategy. Precommitment requires consumers to formally opt in to the preset schedule only once, at retirement, with no annual withdrawal forms required thereafter.

Consumer insights:

- About half of the consumers stated that they would be interested in automatic precommitment.
- Consumers who were interested in using automatic precommitment liked how it simplified management of their retirement accounts and trusted that the drawdown plan would optimize spending of their savings and protect them from drawing down savings too quickly. As one user noted, with the automated drawdown, she "wouldn't have to keep track to see if she was still on track" with respect to drawing down too quickly.
- The other half were not interested, because either they were still weighing plan options on their own, or they preferred to have more control and preferred a manually scheduled drawdown.
- Consumers who were cautious about automatic precommitment were concerned about their ability to modify withdrawals in retirement if their financial situation changed.

4.2 At or near retirement

For consumers near or at retirement, the study tested consumer response to tools to optimize time-of-retirement decisions through simplification and visualization. These communications tested a simplified withdrawal form and a precommitment confirmation form.

4.2.1 Simplified withdrawal form

Standard withdrawal forms are often several pages long, present retirement management options without description, and include follow-through steps that contribute little to the consumers' understanding of their options. As an alternative to standard personal retirement account withdrawal forms, the simplified withdrawal form is designed to increase the likelihood that consumers will make optimal account management decisions at retirement.[25] The simplified withdrawal form's streamlined presentation reduces length to one page, adds description of management options, and removes follow-through steps that are needed only after a consumer selects an option. The simplified form's organization features any plan to which the consumer may have precommitted.

Consumer insights:

- All consumers preferred the simplified withdrawal form over the standard form, and reported that the simplified form was clear and easy to use.
- Consumers unanimously appreciated how the simplified form presented options, and liked that the management options were easier to understand and compare on the simplified form.
- Consumers indicated that they would be better able to understand and enact an optimal management option using the simplified withdrawal form. One consumer stated that the simplified form "helped make clearer what the options were" and "simplified how one would step through the various options."

4.2.2 Precommitment confirmation form

In conjunction with the precommitment form signed by consumers upon retirement plan enrollment, the research tested a precommitment confirmation form designed to encourage

[25] Following internal testing with eight users, four HelloWallet customers over age 55 participated in one-on-one user testing.

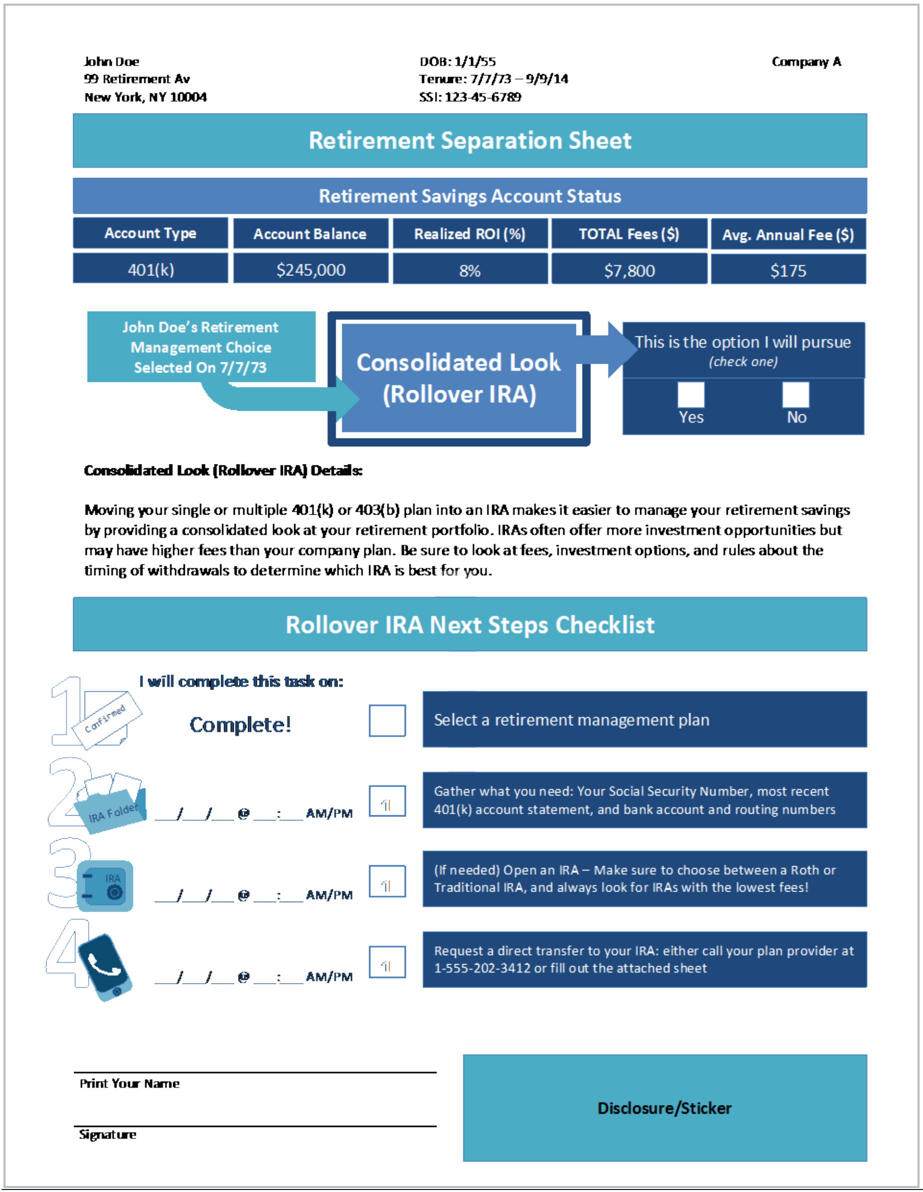
consumers to follow through on prior precommitment decisions upon reaching retirement.[26] The precommitment confirmation form summarizes the management and drawdown strategy that the consumer selected upon enrollment in a retirement plan. In an effort to overcome present bias, the precommitment confirmation form does not contain information about other strategies, although those options are available upon request. (See Figure 4 for a sample precommitment confirmation form form.)

Consumer insights:

- Consumers liked the information provided on the precommitment confirmation form, and reported they felt confident following through on their precommitment decision.
- Consumers also appreciated the ability to change to a different personal retirement management plan at retirement, though they indicated that they would likely follow through with their precommitment decision.

[26] Internal testing with eight users followed a review of related user testing of the withdrawal form with four HelloWallet customers.

FIGURE 4: SAMPLE PRECOMMITMENT CONFIRMATION FORM


John Doe
99 Retirement Av
New York, NY 10004

DOB: 1/1/55
Tenure: 7/7/73 – 9/9/14
SSI: 123-45-6789

Company A

Retirement Separation Sheet

Retirement Savings Account Status				
Account Type	Account Balance	Realized ROI (%)	TOTAL Fees ($)	Avg. Annual Fee ($)
401(k)	$245,000	8%	$7,800	$175

John Doe's Retirement Management Choice Selected On 7/7/73

Consolidated Look (Rollover IRA)

This is the option I will pursue
(check one)
Yes No

Consolidated Look (Rollover IRA) Details:

Moving your single or multiple 401(k) or 403(b) plan into an IRA makes it easier to manage your retirement savings by providing a consolidated look at your retirement portfolio. IRAs often offer more investment opportunities but may have higher fees than your company plan. Be sure to look at fees, investment options, and rules about the timing of withdrawals to determine which IRA is best for you.

Rollover IRA Next Steps Checklist

I will complete this task on:

1. Complete! — Select a retirement management plan
2. __/__/__ @ __:__ AM/PM — Gather what you need: Your Social Security Number, most recent 401(k) account statement, and bank account and routing numbers
3. __/__/__ @ __:__ AM/PM — (If needed) Open an IRA – Make sure to choose between a Roth or Traditional IRA, and always look for IRAs with the lowest fees!
4. __/__/__ @ __:__ AM/PM — Request a direct transfer to your IRA: either call your plan provider at 1-555-202-3412 or fill out the attached sheet

Print Your Name

Signature

Disclosure/Sticker

This form could be used by employers or retirement plan administrators to remind consumers at the time of retirement about their precommitment, determine whether they still want to follow the precommitment course of action, and then move forward on implementing the choice.

5. Conclusion

The goal of this research is to help consumers more effectively plan for retirement and manage personal retirement accounts. The prototypes are examples of how to help consumers better visualize consequences, plan their decision-making, and make optimal decisions about retirement finances – by overcoming common biases and challenges in the decision context. Response to the retirement planning and management approaches we tested suggests positive consumer demand for such help.

These research findings can be used by a wide variety of participants in retirement financial decisions, services, and products, including employers, retirement plan administrators, financial educators, and others who help consumers with retirement choices. Employers and retirement plan administrators can consider adopting and scaling the approaches tested, such as the simplified withdrawal form and the pre-commitment and drawdown options. In addition, several of the tested features could be integrated into personal financial management tools offered by private-sector organizations, nonprofits, and others.

Financial educators can use these findings to inform their consumer education and financial coaching efforts around making decisions at time of retirement. And consumers can apply some aspects of this research by considering key retirement and employment separation choices well before the time of retirement.

In conclusion, this research suggests that developing mechanisms or approaches that allow consumers to understand their retirement planning and management options would be valuable in overcoming the barriers to optimal retirement choices created by marketplace and consumer decision-making challenges.

Other CFPB tools to help consumers with retirement decisions

Planning for Retirement

An interactive tool to help consumers make an informed decision about when to claim their Social Security benefits.

consumerfinance.gov/retirement

Pension Lump-Sum Payouts and Your Retirement Security

A guide to help consumers retiring with a traditional pension benefit navigate their payout options. The guide gives near-retirees the information they need to understand the trade-offs of taking their pension in a monthly payment or in a lump sum.

http://files.consumerfinance.gov/f/201601_cfpb_pension-lump-sum-payouts-and-your-retirement-security.pdf