Briefly Noted

Consistent 401(k) Participants Have Larger Savings

About one-quarter of the 27.1 million workers participating in 401(k) plans have consistently done so for six or more years. These are workers who have maintained their accounts through the entire period of 2010 through 2016.

Representatives of the Employee Benefit Research Institute (EBRI) and the Investment Company Institute (ICI) parsed the data contained in the EBRI/ICI 401(k) database to determine how the accounts of these longer-term participants compare to the average 401(k) participant. Among the conclusions reached by the researchers, two stand out.

First, account balances, not surprisingly, are larger for consistent participants. The median account balance for those who have stayed in a 401(k) plan for at least six years was $82,338 at the end of 2016 versus $16,836 for all participants. There was also a large gap among balances when measured on an average basis: $167,330 versus $75,358. More than a quarter (26.4%) of those in the consistent group had more than $200,000 saved in their 401(k).

Second, tenure plays a big role in account balances. For all age groups, those with longer tenures had the largest account balances. The difference in the size of the account balances was more than double for those with tenures exceeding 20 years compared to those with tenures of just five to 10 years. While salary plays a role, the cumulative benefit of ongoing contributions and the capturing of long-term investment returns has a far bigger impact.

When all components affecting account growth—employee contributions, employer matching contributions, investment returns, withdrawals, loans and loan repayments—are considered, the median account balance grew at a compound annual average of 18.3% between 2010 and 2016. This number is higher than the return of the financial markets because of the impact that ongoing savings contributions have had on account balances.

In terms of asset allocation, consistent participants had a 46.3% allocation to equity funds and a 17.5% allocation to target date funds. This compares to 43.5% and 21.3% respectively for the entire EBRI/ICI database. Among all participants, target date fund usage was the highest among those in their 20s, accounting for 43.6% of their allocation. Though not specifically stated in the report, this may be due to the use of target date funds as the default option in 401(k) plans with an auto-allocation feature for new participants.

Source: "What Does Consistent Participation in 401(k) Plans Generate? Changes in 401(k) Plan Account Balances, 2010–2016," by Sarah Holden, Jack VanDerhei and Luis Alonso; Investment Company Institute, November 2018.

Delaying Retirement Has a Small Impact on Men's Longevity

Delaying retirement by working longer has some positive impact on life-span and health, but the effect varies by gender. Men who delay retirement reduce their mortality risk, but it is unclear as to whether the same is true for women.

The finding is based on an analysis of Dutch workers. The Doorwerkbonus, introduced in 2009, incentivized workers to postpone retirement. Workers became eligible for a scaled bonus based on their taxable income and how long they postponed retirement between the ages of 62 and 65. The Dutch data included information about income, employment status and dates of death, as well as prescription drug use. Combined, the data allowed researchers to assess how workers who postponed retirement fared relative to those who didn't based on rolling five-year periods between 1999 and 2011.

There was a 32% reduction in average mortality risk among men who worked between the ages of 62 through 65 relative to those who didn't work at the same age. Though this may seem large, it equates to an increased life-span of just three months. The study's authors acknowledge the possibility of the increase in life expectancy being larger if the effect of delaying retirement was measured over a longer period than five years.

It was harder to identify an effect of delaying retirement for women. This may not mean there isn't a benefit to working longer for women; the finding could simply be reflective of the smaller impact the Doorwerkbonus had on incentivizing women to work longer.

The findings on depression and diabetes were inconclusive. Men and women who worked were less likely to take anti-depressants, but the effect vanished when men who may not have worked because of depression was controlled for. An association between working longer and a reduction in diabetes risk was also found, but the data did not support a causal relationship.

Notably, the findings of previous studies are mixed. Some found working longer increases life-spans, while others haven't. In other words, there so far isn't a consensus on a beneficial health impact to delaying retirement.

Source: "How Does Delayed Retirement Affect Mortality And Health?," by Alice Zulkarnain and Matthew S. Rutledge; Center for Retirement Research at Boston College, October 2018.

Savings Medicare Beneficiaries May Need for Health Care

A 65-year-old couple will need between $174,000 and $296,000 to cover health expenses in retirement. The amounts are based on an updated analysis conducted by the Employee Benefit Research Institute. Like all such estimates, the amount needed is based on costs assumed and the level of care required.

The costs factored into this analysis are premiums for Medicare Parts B and D, premiums for Medicare Plan F and out-of-pocket spending for outpatient prescriptions. Medicare Part B covers the treatment of medical conditions and preventative care. Medicare Part D covers prescription drugs. Medicare Plan F, also known as Medigap, covers the coinsurance payments for Medicare Part A and B.

The lower estimate assumes a 50% chance of there being enough saved to cover medical expenses. The higher estimate assumes a 90% chance of having enough saved. These amounts may not be enough if either or both spouses incur a very high level of medical expenses. A couple whose drug expenses will be in the top 10% throughout retirement will need $399,000 to have a 90% chance of covering health care costs. The dollar amounts are based on present day and are assumed to be invested in a portfolio realizing a median 7.3% rate of return.

All individuals and couples are assumed in this analysis to have Medicare Plan F. The Plan F premiums are used instead of trying to predict when a person will incur health expenses. Effective January 1, 2020, Medicare Supplement Plan F will no longer be available to new enrollees.

Drug costs are based on out-of-pocket spending from the Medical Expenditure Panel Survey data. Retirees incur coinsurance expenses under Medicare Part D. Excluded from the estimates are services not traditionally covered by Medicare, such as dental care. Long-term care, which can be costly, is also excluded from the calculations.

There are two other factors to consider. Shorter expected life-spans decrease the amount needed, while longer life-spans increase it. The timing and severity of illnesses and accidents also play a role. As such, while these estimates can serve as guidelines, actual spending will vary by individual and couple.

Source: "Savings Medicare Beneficiaries Need for Health Expenses: Some Couples Could Need as Much as $400,000, Up From $370,000 in 2017," by Paul Fronstin, Ph.D., and Jack VanDerhei, Ph.D.; Employee Benefit Research Institute, October 8, 2018.

The SEC Wants to Hear From Individual Investors

The U.S. Securities and Exchange Commission (SEC) is seeking more input from individual investors about their policy initiatives. To help facilitate this, the agency has created a "Tell Us" page at www.sec.gov/tell-us. On this page, you will find information about specific topics the SEC is seeking input on and links to questionnaires for providing feedback.

The page will be periodically updated, so be sure to bookmark it if you are interested in participating on an ongoing basis.

Among the initiatives currently listed (as of November 2018) is gathering opinions on whether you are getting useful information about mutual funds and other funds. The SEC wants to know what information you consider to be important when choosing a fund, whether you read the summary or full prospectus and find them useful, and how you wish to receive the fund information.

Another initiative is a proposal to improve disclosure for variable annuities and variable life insurance products. The goal would be to improve both the content provided and the way in which it is presented to investors.

The proposal would allow for a summary prospectus on such products to be provided to new investors. The initial summary prospectus would include:

- An overview of the contract;
- A table summarizing the contract's fees, risks and other important considerations; and
- More detailed disclosures about fees, purchases, withdrawals and other contract benefits.

Existing investors would receive an updating summary prospectus that would include a brief description of certain changes made to the contract during the previous year and key information from the initial prospectus. In both cases, the documents would be accessible online and with paper copies available—at no cost—upon request.

For those of you who work with a financial adviser or a broker, the SEC wants to hear your opinion on a proposed relationship summary. This document would list the services offered, their costs, the firm's obligation to you and certain conflicts of interest. You would also be informed about how to research the disciplinary history for the firm and the investment professional as well as how to report a problem.

Source: "Tell Us About Your Investment Experience," Securities and Exchange Commission.