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By Alicia H. Munnell, PhD, and Gal Wettstein, PhD

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ABSTRACT

Although annuities ensure higher levels of lifetime income, reduce the likelihood that people will outlive their resources, and alleviate some of the anxiety associated with post-retirement investing, the market for annuity products is minuscule. Explanations for the low demand include the high cost of private annuities due to adverse selection, a reluctance to hand over a pile of accumulated assets for a stream of future income, and a failure to understand the value of insurance against outliving one's resources. To address these impediments, employers could increase the availability of lifetime income by adopting a Social Security "bridge" strategy within their 401(k) plans. The bridge option would use 401(k) assets to pay retirees an amount equivalent to their Social Security benefits so they can postpone claiming benefits, thereby increasing their monthly benefits when they do eventually claim.

This paper gauges workers' potential interest in a bridge option, using an online sample representative of the relevant population and it experimentally tests whether framing the bridge as insurance and making it a default affects the outcome. The results indicate that a substantial minority, i.e., up to about one-third, of respondents would use the bridge—even though the concept is totally new. The experiment shows that framing increases the share of assets allocated to æthe bridge strategy and that defaulting workers into the strategy is even more effective. Further, each of the two treatments substantially increases projected Social Security benefits. Although the opt-out rate of the default is quite high, it likely reflects the ease of doing so within the experiment. The results suggest that the default allocation to the bridge—up to half the participant's assets—may be too aggressive, and that the opt-out would be lower under a default with a smaller share of assets devoted to the bridge.

INTRODUCTION

As the first cohort of workers almost entirely dependent on 401(k) plans starts to retire, the question of how they will manage their assets takes on increased urgency. Without some guidance, retirees risk spending too quickly and exhausting their resources or spending too slowly and depriving themselves of necessities. They also must decide how to invest their assets. For decades, academics have argued that using at least some 401(k) assets to buy an annuity can significantly mitigate these risks.[1] But few plans offer options to annuitize, in part because only a small fraction of participants use them even when they are available (Baily and Harris 2019; Hurwitz 2019).

The minuscule demand for annuities has been attributed in part to psychology: People are reluctant to turn over 401(k) balances, accumulated over decades, for a stream of future income. Moreover, they often do not appreciate the insurance that annuities provide against running out of income and tend to view the low expected returns associated with this service within an investment framework (Wettstein et al. 2021). At the same time, annuities are expensive for the average person due to adverse selection—they are most attractive to people who are likely to live for a long time, raising premiums for others. The complexity of annuities and consumer distrust of insurance companies further reinforce biases against buying them as investments.[2]

One way to circumvent some of the impediments to annuitization is to enable 401(k) participants to essentially buy additional annuity income from Social Security by delaying claiming, using other resources to bridge the gap between retirement and the beginning of benefit payments.[3] Purchasing additional Social Security income does not involve handing over accumulated assets to an insurance company, provides a familiar form of lifetime income that is adjusted for inflation, and does not expose the purchaser to higher costs from adverse selection. This paper assesses the extent to which participants might be willing to use their 401(k) assets to buy such additional annuity income in the form of higher Social Security benefits. Specifically, the analysis explores worker interest in embedding such a strategy in their 401(k) plans.

To assess participant interest, a survey was conducted using the NORC AmeriSpeak panel.[4] The survey asked respondents whether they would use an employer bridge plan that would automatically pay them an amount equal to their foregone Social Security payment out of their 401(k) balances when they retire, so that they could postpone claiming and receive additional inflation-indexed lifetime income.

In addition to assessing willingness to participate, the survey included an experiment in which different respondents were randomly presented with one of four treatments: (1) a limited information description of the bridge (the "Control Group"); (2) an explicit explanation of the pros and cons of the bridge, as insurance versus investment (the "Insurance Framing Group"); (3) a more detailed explanation of the mechanics of the bridge option (the "Additional Information Group"); and (4) a setup in which the bridge is the default choice, with participants allowed to opt out entirely or make changes to the default allocation of assets to this strategy (the "Default Group").

BACKGROUND

The first cohorts almost entirely dependent on 401(k) plans are now entering retirement. Managing these assets requires determining how to finance potentially many years of retirement but not unduly restricting consumption. The one class of products that experts consistently recommend for this purpose is annuities, but only a small fraction of the population buys these products. Purchasing annuity products, however, is not the only way for 401(k) participants to acquire additional annuity income; most individuals could annuitize more of their assets by claiming Social Security later.

Although workers cannot directly purchase a higher Social Security benefit, they can increase their monthly benefit by 76 percent by claiming at age 70 (the maximum claiming age) rather than at 62 (the earliest eligibility age). Using their 401(k) assets as a substitute for Social Security benefits when they retire—as a bridge to delayed claiming—would allow participants, in essence, to buy a higher Social Security benefit (see table 1).

The bridge strategy has received some attention from academics (Koenig et al. 2018; Vernon 2018; Munnell et al. 2022), but its adoption by retirees in practice has been very limited. Most retirees claim Social Security within a short time after leaving the labor force, although that gap has increased slightly as the full retirement age (FRA) has risen (Deshpande et al. 2020). The potential for enhancing annuity income through Social Security is substantial because most retirees claim before their FRA and about 95 percent claim before age 70.[5]

The hypothesized reasons for the reluctance to adopt a bridge strategy range from the fully rational, e.g., individuals already are annuitized enough and should preserve liquidity for medical expenses or bequests; to the misguided, e.g., a belief that the Social Security program will not be able to pay any benefits once the trust fund is depleted (see Quinby and Wettstein 2021); to the irrational, e.g., individuals are myopic, and thus do not value deferred payments such as Social Security. In addition, the option of delaying claiming involves pondering the issue and making an active decision.[6] Also, individuals may tend to retire at ages that serve as a focal point, such as Social Security's FRA (Seibold 2021), and pay little attention to the implications for their annuitized income.

Prior research has highlighted the potential of a bridge option adopted by employers for addressing these impediments to delayed claiming (Munnell et al. 2022).[7] This option would make postponing claiming convenient—potentially as a default—thereby allowing individuals to pursue this strategy without complicated calculations or the need to make active decisions. The option also would help break the link between retirement and claiming because it is designed specifically to allow workers to exit the labor force without simultaneously claiming benefits.

Under the bridge proposal, employers would distribute payments to retirees from their 401(k) plans equal to the Social Security benefits those retirees would get if they claimed. This stream of payments would continue as long as the funds set aside for it lasted, or until age 70. This simple approach would allow retirees to enjoy an income stream consistent with their expected lifelong benefit level while increasing that level through delayed claiming.

To make this process as seamless as possible, the proposal envisions making it the default, with either 20 percent or 40 percent of a worker's 401(k) assets allocated to the bridge.[8] A default is much more likely to be maintained by plan

Table 1

WITH AND WITHOUT A BRIDGE OPTION—AN ILLUSTRATION

Monthly income and 401(k) assets with and without a bridge option to claim at 65, for a person with an age-62 monthly benefit of $1,500 and $150,000 in a 401(k)

	Without bridge option		With bridge option		
Age	Monthly Social Security income	Total taken out of 401(k)	Monthly Social Security income	Monthly bridge option income	Total taken out of 401(k)
62 (retire)	$1,500	$0	$0	$1,900	$23,000
63	$1,500	$0	$0	$1,900	$46,000
64	$1,500	$0	$0	$1,900	$69,000
65+	$1,500	$0	$1,900	$0	$69,000

Source: CRR illustration

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participants than a process requiring active choice (Choi et al. 2002). To the extent that lack of annuitization is caused by the complexity of the products and the real and psychological costs of seeking out and buying an annuity, this approach would mitigate those factors.

On the other hand, if participants do not appreciate the insurance value of annuity income, they might not want to draw down their accumulated 401(k) balances for a higher monthly benefit. In this case, educating participants that annuitized income insures against outliving one's resources might increase the attractiveness of the bridge option.

To gauge interest in an employer-facilitated bridge, this project surveyed a representative sample of workers. The bridge was explained to them briefly, and then they were asked whether they would participate and how much of their 401(k) balances they would like to allocate to the strategy. Respondents were further randomized into various treatments that presented the bridge in different ways to assess potential barriers to adoption and how to overcome them, as detailed below.

METHODS

The survey was conducted using the AmeriSpeak panel run by NORC at the University of Chicago. The panel is nationally representative, and participants were eligible for this study if they were between the ages of 50–65, not retired, and had balances of at least $25,000 in their 401(k) plans. These restrictions ensure that the sample is representative of the population that might benefit from the bridge strategy. The survey was conducted online during July 2021 and included a total of 1,349 respondents.

The panel includes demographic information about respondents, such as gender, race, education, and marital status. To supplement this baseline information, the survey included questions about other forms of respondent and household saving, including the current account balances of 401(k) plans and similar employer-sponsored retirement plans. Furthermore, to properly assess the scope for the bridge strategy and its potential impact, respondents were asked what share of household 401(k) balances were in the respondent's (rather than another household member's) account. Respondents also provided their planned retirement age and the typical retirement age in their workplace to inform calculations of projected balances that would be available for use in the bridge strategy. Finally, respondents shared their household and personal income to allow projections of their expected Social Security benefits as a function of their eventual claiming age.

Projecting a respondent's 401(k) balances at retirement and expected Social Security benefits involved some assumptions. Specifically, the calculations assumed an annual return on 401(k) balances of 4.75 percent and a combined employer-employee contribution rate of 10 percent of earnings from the respondent's current age until the planned retirement age.[9] Expected Social Security benefits were calculated to match the estimates that the Social Security Administration provides with its "quick calculator" online tool, considering birth cohort and current labor income.[10]

Finally, respondents were asked how likely they would be to choose a bridge option if their employer offered it. They also were asked what probability they had of living to age 85 or older to check for adverse selection in take-up of the bridge—whether people who believe they will live a long time choose options that yield higher annuitization rates.

EXPERIMENTAL TREATMENTS

The survey included a randomized trial of different ways to present the bridge strategy. Respondents were randomly assigned to one of four groups. Each group was presented the choice of whether to participate in the bridge option and how much of their 401(k) assets to allocate to that option.

GROUP 1: CONTROL GROUP

Respondents were given the following minimal information about the bridge option:

> *If you retire at age [planned retirement age], you will receive approximately [projected Social Security benefit] each month from Social Security and are projected to have [projected 401(k) balance] in your 401(k).*
>
> *Imagine that your plan offers you an option to use up to half the balance in your 401(k) at your time of retirement, or up to [half of the projected 401(k) balance], to increase your monthly Social Security benefit.*
>
> *Select the option below that shows how much of your 401(k) assets you would use to increase your income from Social Security.*

The options ranged from 0–50 percent of assets, in 10-percentage-point increments. Each option showed the respondent-specific monthly Social Security benefit that would correspond to delaying claiming by as much as the chosen allocation would permit. For example, if a 20-percent allocation would permit postponing claiming by one year, the respondent would see the projected benefit corresponding to a one-year-later claiming age. The maximum allocation to the bridge is the lesser of half the projected account balance and the amount that leads to claiming at age 70.

GROUP 2: INSURANCE FRAMING GROUP

This condition framed the choice as one of insurance versus investment, highlighting the pros and cons of each. Its presentation was identical to the Control Group, with the exception

that Social Security benefits were described as a "lifetime-income account" with the following characteristics:

- Provides stable income
- Keeps up with inflation
- Continues for life

The 401(k) assets were described as a "wealth account" with these characteristics:

- Provides liquid assets
- Usually increases, but can lose value
- Can run out

GROUP 3: ADDITIONAL INFORMATION GROUP

To test whether merely providing more information about the bridge option would make people more comfortable with it—rather than changing the framing as in Group 2—Group 3 was simply given more details about the option. Following the same opening paragraph presented to Groups 1 and 2, Group 3 received the following prompt:

> *Imagine that your plan offers you an option to use up to half the balance in your current 401(k), or up to [half of the projected 401(k) balance], to increase your monthly Social Security benefit by delaying when you claim.*
>
> *If you choose this option, as soon as you retire, your 401(k) plan will provide monthly income that you will receive from Social Security when you claim later. Once you are eligible for the higher Social Security benefit, payments from the 401(k) plan will stop, and Social Security will continue to provide you with the higher monthly income for the rest of your life.*

GROUP 4: DEFAULT GROUP

This treatment tested how effective making the bridge option the default would be in increasing take-up. To that end, this group saw the following text:

> *Imagine that, by default, your employer uses [maximal delay amount] from your current 401(k) plan to increase your Social Security benefit by [delayed benefits amount]/month.*

Respondents were then shown a table detailing how much of their 401(k) would be allocated to the bridge by default, and what their projected Social Security benefit would be if they stayed with the default allocation. They were then asked if they wished to keep the default or not. If not, they were directed to click on a link that would allow them to change the amount allocated to the bridge option, much like the Control Group's prompt. Thus, the default in this setting is a very weak nudge, because changing the default in the survey involves only a few seconds of time.

Table 2

SUMMARY STATISTICS FOR THE FULL SAMPLE

Variable	Observations	Mean	Std. dev.	Min	Max
Likelihood of using the bridge	1,338	0.281	0.45	0	1
Percent of assets allocated to the bridge	1,319	0.206	0.199	0	0.5
Household income (in $100,000s)	1,349	1.393	2.784	0.03	70
Household retirement savings (in $100,000s)	1,349	3.5	5.416	0	75
Probability of living to 85	1,334	62.966	24.782	0	100
Understanding of the bridge option	1,346	4.62	1.938	1	7
White	1,349	0.792	0.406	0	1
Black	1,349	0.09	0.286	0	1
Other	1,349	0.013	0.112	0	1
Hispanic	1,349	0.056	0.229	0	1
2+ Races	1,349	0.018	0.132	0	1
Asian	1,349	0.032	0.176	0	1
Female	1,349	0.549	0.498	0	1
Less than high school	1,349	0.008	0.09	0	1
High school	1,349	0.099	0.299	0	1
Some college	1,349	0.319	0.466	0	1
Bachelor's degree	1,349	0.308	0.462	0	1
Graduate degree	1,349	0.258	0.438	0	1
Respondent age	1,349	56.999	4.114	50	65

Source: Authors' calculations.

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Table 3

MEANS BY TREATMENT GROUP

	Control	Insurance framing	Additional information	Default
Number of observations	363	351	332	303
Likelihood of using the bridge	0.268	0.297	0.306	0.25
Percent of assets allocated to the bridge	0.147	0.183	0.161	0.359
Household income (in $100,000s)	1.522	1.35	1.312	1.378
Household retirement savings (in $100,000s)	3.322	3.576	3.494	3.632
Probability of living to 85	61.878	62.971	63.725	63.437
Understanding of the bridge option	4.704	4.84	4.631	4.254
White	0.788	0.792	0.816	0.772
Black	0.096	0.077	0.075	0.112
Other	0.022	0.009	0.015	0.003
Hispanic	0.041	0.077	0.048	0.056
2+ Races	0.022	0.014	0.018	0.017
Asian	0.03	0.031	0.027	0.04
Female	0.556	0.536	0.536	0.568
Less than high school	0.006	0.011	0.009	0.007
High school	0.121	0.083	0.093	0.099
Some college	0.322	0.311	0.352	0.287
Bachelor's degree	0.306	0.325	0.292	0.31
Graduate degree	0.24	0.268	0.244	0.284
Respondent age	56.581	57.205	56.843	57.432

Source: Authors' calculations.

The respondents in all four groups are similar in their demographic characteristics (see tables 2 and 3), as anticipated given the random assignment into the groups.[11] Thus, simply comparing means across groups should reveal the effects of the different treatments. The next section shows the results of these comparisons.[12]

RESULTS

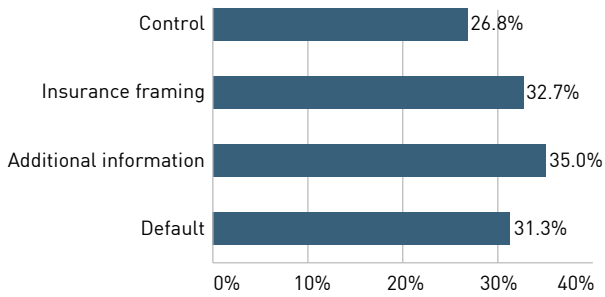
This section describes the results, focusing first on willingness to participate, then on allocation of assets to the program, and finally on the impact on Social Security payments. The results focus on how the different treatments affected interest in the bridge strategy. The section concludes with the implications of the findings.

TREATMENT EFFECTS ON ANY USE OF THE BRIDGE STRATEGY

The first question the analysis aims to answer is what share of workers would be interested in using the bridge strategy if it were available. Figure 1 answers this question; robustness to inclusion of further controls is demonstrated in table 4. Focusing on figure 1, in the Control Group, 26.8 percent of respondents said they would use the bridge to some extent. Perhaps surprisingly, the share choosing to take up the bridge option does not display any significant difference between the treatment groups and the Control Group. Nevertheless, those in the Additional Information Group were marginally significantly more likely to use the bridge than the Control Group, by 8.2 percentage points, yielding a total of 35 percent of this group. The other treatment groups were between the Control and Additional Information groups, at just under one-third of each group, with none of the differences significant at conventional levels.

Figure 1

SHARE OF RESPONDENTS WHO WOULD USE THE BRIDGE STRATEGY BY TREATMENT GROUP



Note: None of the treatment groups are different statistically from the Control Group at conventional levels. The difference between the Additional Information Group and the Control Group is marginally significant ($p<0.1$).

Source: Authors' calculations.

Table 4

SHARE OF RESPONDENTS WHO WOULD USE THE BRIDGE STRATEGY

Variables	(1) No controls		(2) With controls		(3) With added controls	
Constant	0.268	***	0.614	***	0.369	**
	(0.0306)		(0.151)		(0.168)	
Insurance framing	0.0587		0.0344		0.0469	
	(0.0484)		(0.0470)		(0.0469)	
Additional information	0.0821	*	0.0825	*	0.0958	**
	(0.0489)		(0.0452)		(0.0444)	
Default	0.0448		0.0292		0.0599	
	(0.0503)		(0.0488)		(0.0485)	
Household income (in $100,000s)			0.00140		0.000729	
			(0.00567)		(0.00570)	
Household retirement savings (in $100,000s)			−0.00142		−0.00149	
			(0.00281)		(0.00280)	
Black			0.149	**	0.152	**
			(0.0600)		(0.0590)	
Other			−0.108		−0.122	
			(0.104)		(0.103)	
Hispanic			0.101		0.110	
			(0.0678)		(0.0676)	
2+ races			−0.142	**	−0.111	*
			(0.0671)		(0.0625)	
Asian			0.217	**	0.202	**
			(0.0858)		(0.0815)	
Female			−0.0607	*	−0.0509	
			(0.0340)		(0.0347)	
High school			−0.436	***	−0.416	***
			(0.152)		(0.154)	
Some college			−0.342	**	−0.327	**
			(0.148)		(0.150)	
Bachelor's degree			−0.301	**	−0.287	*
			(0.149)		(0.151)	
Graduate degree			−0.396	***	−0.390	***
			(0.148)		(0.150)	
Ages 55–59			0.0237		0.0147	
			(0.0404)		(0.0399)	
Ages 60–65			−0.0264		−0.0235	
			(0.0428)		(0.0430)	
Probability of living to 85					0.00102	
					(0.000690)	
Understanding of the bridge option					0.0321	***
					(0.00827)	
Observations	1,328		1,338		1,328	
R-squared	0.066		0.004		0.070	

*Notes: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.*
Source: Authors' calculations.

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The results indicate a substantial interest in the bridge strategy. This strategy is novel, and the survey is likely the first time that respondents would have encountered the idea of drawing down their 401(k) plans to postpone claiming Social Security. The fact that more than one-quarter of respondents would adopt the strategy based on such limited information as the Control Group had is noteworthy. This share also compares favorably with the share of workers who choose annuities in existing plans that offer lifetime income options; for example, in 2018 only 30.5 percent of TIAA beneficiaries elected a lifetime income option (Brown et al. 2021). That any additional information seems to increase interest in the bridge approach suggests the popularity of the option would increase with additional exposure.

TREATMENT EFFECTS ON ALLOCATION TO THE BRIDGE STRATEGY

Moving beyond willingness to participate, the share of assets that individuals would allocate to the bridge provides a finer measure of interest in the strategy. This measure is explored in table 5. Individuals who do not wish to use the bridge at all are coded as allocating none of their assets to that strategy.

The unconditional treatment effects on the percentage of assets allocated to the bridge strategy are presented in table 5, column 1. The omitted category here is the Control Group, thus the regression coefficients provide an estimate of the effect of each treatment, relative to the Control Group, which is represented by the constant. Column 2 adds baseline controls, and column 3 adds two additional controls: how well respondents rated that they understood the bridge option and the self-reported probability of living to at least age 85. The results across specifications are stable, but the incremental controls included in column 3 potentially are endogenous to the treatment, i.e., both questions were asked following treatment. Thus, column 2 results are used as the reference point for this discussion.

For the Control Group, the constant in each specification yields the mean share of assets devoted to the bridge, 14.5 percent in column 2.[13] The different experimental treatments yield very different levels of allocations to the bridge strategy. Most effective, by a large margin, is the Default Group. Respondents in this group said they would allocate 20.4 percentage points more of their assets to the bridge than the Control Group ($p<0.01$). This incremental allocation more than doubles the share allocated by the Control Group, from 14.5 to 34.9, a dramatic effect for a default that is very easily changed by merely clicking on a link.

A smaller, but still tangible, impact is evident from framing the decision of allocation to the bridge as one of insurance (treatment group 2). This treatment group allocates, on average, 4.8 percentage points more of their assets to the bridge than the Control Group ($p<0.01$). Interestingly, merely adding information about the bridge (treatment group 3) does not appear to increase the allocation. The information treatment displays a 1-percentage-point increase in bridge allocation (not statistically significant) and shows that just explaining the bridge more does not significantly increase use.

Coupled with the slight increase in willingness to participate for the Additional Information Group (in figure 1), the results do suggest that those who learn more about the bridge option increasingly want to participate in it, albeit at a relatively low intensity. Further supporting this notion is the fact that those who thought they understood the bridge strategy best were more likely to want to make any use of the bridge (table 4, column 3), albeit less likely to allocate as much of their assets to it (table 5, column 3).

The results on self-reported understanding must be interpreted with caution, however. These correlations, although significant, were rather small. Understanding of the bridge strategy was rated on a 7-point scale of 1 (did not understand) to 7 (completely understood). A 1-point increase in this rating is associated with a 3-percentage-point increase in the likelihood of using the bridge at all ($p<0.01$) and less than a 1-percentage-point reduction in assets allocated to the bridge ($p<0.05$). Furthermore, this finding is entirely correlational and may reflect the effect of other factors, e.g., more sophisticated respondents may understand the bridge better but also value it less because they could replicate this strategy without the intervention of their employer.

Interestingly, no evidence of adverse selection is apparent in these data (tables 4 and 5, columns 3). That is, the self-reported probability of living at least to age 85 has no significant correlation with the likelihood of using the bridge or with the share of assets allocated to it. This lack of selection may not be surprising given the complexity of the setting: Individuals must link the attractiveness of the bridge with their survival probabilities to realize whether they should adopt the strategy conditional on their survival expectations.

EFFECTS OF TREATMENT ON PROJECTED SOCIAL SECURITY BENEFITS

The point of the bridge strategy, of course, is to increase Social Security benefits. The analysis therefore turns next to assessing how much each treatment is anticipated to increase monthly benefits. Table 6 shows the change in projected Social Security benefits in dollar terms.[14] The different specifications presented again correspond to the different sets of controls described for tables 4 and 5.

Before discussing the treatment effects on Social Security benefits, consider the coefficients on the baseline characteristics in

Table 5

PERCENTAGE OF 401(K) ASSETS ALLOCATED TO THE BRIDGE STRATEGY

Variables	(1) No controls		(2) With controls		(3) With added controls	
Constant	0.149	***	0.145	***	0.200	***
	(0.0120)		(0.0469)		(0.0568)	
Insurance framing	0.0487	***	0.0483	***	0.0485	***
	(0.0180)		(0.0177)		(0.0177)	
Additional information	0.00698		0.0138		0.0132	
	(0.0172)		(0.0167)		(0.0167)	
Default	0.207	***	0.204	***	0.201	***
	(0.0242)		(0.0223)		(0.0221)	
Household income (in $100,000s)			−0.000558		−0.000498	
			(0.00191)		(0.00192)	
Household retirement savings (in $100,000s)			−0.00126		−0.00116	
			(0.00127)		(0.00124)	
Black			0.0617	***	0.0590	***
			(0.0207)		(0.0205)	
Other			−0.0543		−0.0474	
			(0.0339)		(0.0325)	
Hispanic			0.0116		0.00845	
			(0.0347)		(0.0351)	
2+ races			−0.0361		−0.0437	
			(0.0282)		(0.0272)	
Asian			0.0547		0.0564	
			(0.0362)		(0.0365)	
Female			0.0274	*	0.0218	
			(0.0141)		(0.0152)	
High school			−0.0239		−0.0237	
			(0.0502)		(0.0498)	
Some college			−0.0221		−0.0256	
			(0.0464)		(0.0458)	
Bachelor's degree			−0.0236		−0.0271	
			(0.0466)		(0.0458)	
Graduate degree			−0.0233		−0.0268	
			(0.0465)		(0.0458)	
Ages 55–59			0.0243		0.0254	
			(0.0175)		(0.0175)	
Ages 60–65			0.000500		0.00508	
			(0.0182)		(0.0181)	
Probability of living to 85					−0.000106	
					(0.000296)	
Understanding of the bridge option					−0.00907	**
					(0.00403)	
Observations	1,319		1,309		1,296	
R-squared	0.164		0.185		0.195	

*Notes: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.*
Source: Authors' calculations.

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Table 6

INCREASE IN PROJECTED SOCIAL SECURITY BENEFITS

Variables	(1) No controls		(2) With controls		(3) With added controls	
Constant	272.3	***	97.97		200.0	*
	(26.07)		(78.08)		(105.0)	
Insurance framing	95.27	**	86.27	**	83.10	**
	(44.22)		(39.73)		(39.79)	
Additional information	8.377		7.773		7.133	
	(40.50)		(38.20)		(37.99)	
Default	202.2	***	192.4	***	181.2	***
	(48.10)		(46.93)		(46.15)	
Household income (in $100,000s)			32.99	***	32.78	***
			(7.804)		(7.815)	
Household retirement savings (in $100,000s)			20.26	***	20.76	***
			(3.778)		(3.962)	
Black			80.48	*	78.17	*
			(42.19)		(42.32)	
Other			−147.1	**	−135.9	**
			(71.11)		(68.35)	
Hispanic			27.22		21.42	
			(66.93)		(67.44)	
2+ races			28.32		15.04	
			(107.2)		(105.9)	
Asian			155.4		160.6	
			(96.68)		(98.50)	
Female			−60.78	**	−74.00	**
			(29.66)		(30.86)	
High school			62.27		56.89	
			(78.42)		(79.24)	
Some college			68.74		61.91	
			(74.68)		(75.28)	
Bachelor's degree			127.8		122.1	
			(77.82)		(78.13)	
Graduate degree			146.6	*	135.1	*
			(78.99)		(79.58)	
Ages 55–59			−6.005		−5.021	
			(37.42)		(37.25)	
Ages 60–65			−107.5	***	−103.2	***
			(38.14)		(38.26)	
Probability of living to 85					−0.112	
					(0.680)	
Understanding of the bridge option					−17.01	**
					(8.349)	
Observations	1,319		1,309		1,296	
R-squared	0.033		0.202		0.207	

*Notes: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.*
Source: Authors' calculations.

table 6, column 2. These correlations validate the rest of the analysis by displaying the expected signs. Generally, those with higher household incomes and 401(k) assets are expected to receive higher monthly Social Security benefits. No other personal characteristic besides other race, female, and being in the oldest age group is significantly associated with projected benefits, which is sensible given that assets and, especially, income, capture the essential variation on which benefits are based.[15]

Regarding treatment effects, they qualitatively are similar across specifications. Furthermore, the analysis of the impact of the different treatments on projected benefits is consistent with the findings surrounding allocation of assets to the bridge: Relative to the Control Group, the Insurance Framing Group leads to mildly higher projected benefits and the Default leads to substantially larger benefits. Considering column 2, the Insurance Framing treatment leads to a projected increase in monthly benefits of $86 ($p<0.05$), or of about 4.5 percent (although the latter is only significant at the 10-percent level, see table A1 in the appendix). In contrast, the Default treatment increases monthly benefits by $192 ($p<0.01$) or 9.2 percent ($p<0.01$).[16] Again, the additional information treatment does not lead to any change in projected benefits in any specification.

IMPLICATIONS

The results indicate that a substantial minority is interested in the bridge option in the Control Group. Among this group, 26.8 percent would use the bridge and allocate 14.5 percent of their 401(k) assets to it. The analysis also found that the Insurance Framing and Default treatments had a meaningful impact on allocation of assets to the bridge, although not a statistically significant effect on the likelihood of using the bridge at all. In particular, framing the choice as one of insurance versus investment increased the share of assets allocated to the bridge by 4.8 percentage points, and defaulting respondents into the bridge increased that share by 20.4 percentage points. The default in this context was very easy to change, thus likely representing a lower bound on the effectiveness of a default in the real world outside the experimental setting. Meanwhile, merely explaining the bridge in greater detail had no significant effect on the share of assets that respondents wished to allocate to it.

The results showed no statistically significant effect of any of the treatments on willingness to participate in the bridge. Considering this finding in light of the increased allocation of assets to the bridge, particularly in the Default Group, leads to the implication that those defaulted into allocating the maximum amount to the bridge were quite likely to take the extra effort of undoing the default—the vast majority of them did so. The general pattern of results points to the default allocation in this setting being too high. Future work should examine how the default allocation affects the propensity of remaining with the default.

The effects of these treatments, particularly the default, on projected Social Security benefits also were large. The default treatment would increase monthly Social Security benefits by $192 per month, or more than 9 percent. The insurance framing of the choice had a smaller but still important effect here, increasing projected monthly Social Security benefits by nearly 5 percent.

One implication of these findings is that misperception of annuities as investments really is a barrier to wider adoption of annuities. Merely laying out the pros and cons of insurance versus investments leads to substantial increases in annuitization choices, at least in the context of the bridge strategy. These changes in behavior then translate to meaningful differences n lifetime income.

The second implication of these findings is that a simple nudge can dramatically increase use of the bridge option (on the intensive margin). One note of caution here is that only a minority of respondents say they would be interested in using the bridge option. This finding might warrant further consideration of whether the default is appropriate, assuming that some real or psychological cost is involved in changing the default and that most people would end up paying that cost. If the bridge is adopted as a default, consideration also should be given to what the default allocation should be. A less-aggressive default than was used in this study (up to half of all assets) might lead to less opt out and potentially even higher average bridge allocations overall.

One auxiliary outcome examined was self-reported understanding of the bridge option. The average understanding among Control Group respondents was a 5 on a scale from 1 (did not understand) to 7 (completely understood). Neither the insurance frame nor the additional information treatment led respondents to feel as though they understood the bridge better than the Control Group. However, the default condition led to a significantly lower level of understanding, of about 0.65 points ($p<0.01$).[17] If some of the cost of making active decisions is due to the effort of paying attention to the details of the options, the default option does seem to provide some benefit by reducing the effort exerted by respondents.

CONCLUSION

The lack of annuitization among individuals with 401(k) plans has long puzzled researchers. Some of the prominent hypotheses for this behavior are irrational biases: People view annuities as investments rather than insurance; and people do not like to give up a pile of assets for a promised stream of future income. Other possible reasons are more rational, specifically, adverse selection leads private annuities to be expensive for the average person.

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A solution to the latter impediment to annuitization is the Social Security bridge. By relying on a program that does not reduce benefits when the mortality of beneficiaries is low eliminates adverse selection as a reason to avoid the bridge. However, passivity and incorrect framing of annuities as investments still could be insurmountable hurdles to take-up of this option.

This paper tested whether individuals would be willing to use a bridge option offered by their employer. It also experimentally examined different contexts for this choice that either provided a frame of the pros and cons of insurance versus investment, or that defaulted participants into the bridge. To distinguish the framing effect from merely providing more information, a third treatment that just gave more details about the bridge also was included.

The results show that a substantial minority would be interested in the bridge option. Furthermore, individuals presented with the pros and cons of annuitization versus investment chose to allocate a small but meaningfully larger share of their assets to the bridge strategy. More strikingly, those defaulted into the bridge option ended up allocating much more of their assets to the bridge. These two treatments also led to large increases in projected monthly Social Security benefits. If borne out, these increases would contribute to retirement security by giving retirees additional income guaranteed for the duration of their lives.

The results here are a first step. Although they indicate interest in the bridge strategy and suggest some means of increasing take-up, future work should examine the impact of a default in a more realistic setting. The true costs of changing a default are much larger than those imposed in this experiment because they involve hard choices, time, and effort. On the one hand, these extra costs likely would make the default much more effective in inducing take-up; on the other hand, they would be a real imposition on those who choose to change the default choice. In this more-realistic context, testing what the default allocation to the bridge should be also would be a necessary input into the decisions of employers considering adopting a bridge strategy for their workers.

APPENDIX

See Table A1 on page 44.

Alicia H. Munnell, PhD, is director of the Center for Retirement Research at Boston College and the Peter F. Drucker Professor of Management Sciences at Boston College's Carroll School of Management. Contact her at crr@bc.edu.

Gal Wettstein, PhD, is a senior research economist at the Center for Retirement Research at Boston College. Contact him at crr@bc.edu.

ENDNOTES

1. See Benartzi et al. (2011) for a summary.
2. Brown et al. (2008) provide insight into the mechanics of how framing a 401(k) as an investment versus a consumption account, e.g., a defined benefit pension, could influence people's willingness to annuitize the assets. Because 401(k)s are introduced to participants as investment accounts, they continue to treat the accounts as such and resist annuitizing because annuities purchased with 401(k) assets are viewed as investments.
3. See Munnell et al. (2022) for a description of this option, including an analysis of its financial merits.
4. The nonpartisan and objective research organization NORC at the University of Chicago. https://www.norc.org/About/Pages/default.aspx.
5. See U.S. Social Security Administration, "Annual Statistical Supplement to the Social Security Bulletin, 2018," table 6. B5. 6.17," https://www.ssa.gov/policy/docs/statcomps/supplement/2018/supplement18.pdf.
6. In terms of accumulating retirement savings, research shows most people are passive savers; see, e.g., Chetty et al. (2014); Garcia-Miralles and Leganza (2021).
7. One advantage of this proposal is that it likely can be implemented by employers even now, without any legislative or regulatory changes, although some clarifying regulations likely would help reassure employers considering such an arrangement.
8. Munnell et al. (2022) generally found outcomes to be better the greater the allocation to the bridge.
9. The assumed rate of return corresponds to a return of 6.5 percent on equities, 3 percent on bonds, and a portfolio split equally between equities and bonds.
10. This calculator is accessible at https://www.ssa.gov/OACT/quickcalc/.
11. As expected, due to randomization, only a small number of demographic characteristics vary significantly across the groups, consistent with type 1 errors. These differences are, in detail: The default group is more likely to be of other race than the Control Group ($p<0.05$); the Insurance Framing Group is more likely to be Hispanic ($p<0.05$); the Insurance Framing Group is more likely to have only a high school degree (marginally significant, $p<0.1$); and the Insurance Framing and Default groups are older ($p<0.05$ and $p<0.01$, respectively). For this latter contrast, despite the statistical significance of the difference, the substantive differences are small. The Insurance Framing Group is 0.6 years older than the Control Group, on average, and the Default Group is 0.9 years older.
12. The regressions are all ordinary least squares, use robust standard errors, and are weighted to match the Current Population Survey on demographics for workers ages 50–65.
13. After accounting for the controls.
14. Table A1 shows the changes in percentage terms, with qualitatively similar patterns.
15. Being of other race is negatively associated with a change in expected benefits. Being in the oldest age group of 60–65 also is associated with lower benefits. Holding income and assets constant, those in the oldest group compare unfavorably to younger respondents, who still have time to grow their income and assets. Women are more likely than men to be homemakers, and thus have lower projected benefits (based on their records) conditional on household income.
16. Note that the percentage changes relative to the absolute changes imply relatively high projected Social Security benefits for the respondents overall. For example, for a $192 additional benefit to represent only a 9.2-percent increase implies that the base benefit is $2,096 per month, although the average benefit for the full population of retirees in 2021 was only $1,555 (U.S. Social Security Administration 2021, https://www.ssa.gov/news/press/factsheets/basicfact-alt.pdf.) This divergence from the general population is due to the sample being selected for individuals capable of using the bridge option, namely, those still working and possessing more than $25,000 of 401(k) assets.
17. Full results of the understanding outcome are available upon request.

Table A1

APPENDIX
PERCENTAGE INCREASE IN PROJECTED SOCIAL SECURITY BENEFITS

Variables	(1) No controls		(2) With controls		(3) With added controls	
Constant	0.162	***	0.0527		0.116	**
	(0.0155)		(0.0345)		(0.0508)	
Insurance framing	0.0481	**	0.0429	*	0.0413	*
	(0.0243)		(0.0226)		(0.0227)	
Additional information	0.00484		0.00322		0.00313	
	(0.0236)		(0.0224)		(0.0222)	
Default	0.0998	***	0.0918	***	0.0857	***
	(0.0271)		(0.0261)		(0.0257)	
Household income (in $100,000s)			0.00964	**	0.00961	**
			(0.00398)		(0.00396)	
Household retirement savings (in $100,000s)			0.0110	***	0.0113	***
			(0.00238)		(0.00250)	
Black			0.0551	**	0.0541	**
			(0.0270)		(0.0269)	
Other			–0.103	***	–0.0969	***
			(0.0348)		(0.0335)	
Hispanic			0.0117		0.00830	
			(0.0376)		(0.0381)	
2+ races			–0.00234		–0.0104	
			(0.0497)		(0.0489)	
Asian			0.106	**	0.107	**
			(0.0527)		(0.0540)	
Female			–0.0129		–0.0199	
			(0.0172)		(0.0177)	
High school			0.0625	*	0.0594	*
			(0.0356)		(0.0351)	
Some college			0.0757	**	0.0713	**
			(0.0334)		(0.0328)	
Bachelor's degree			0.0779	**	0.0743	**
			(0.0340)		(0.0331)	
Graduate degree			0.0781	**	0.0715	**
			(0.0347)		(0.0342)	
Ages 55–59			–0.00462		–0.00435	
			(0.0212)		(0.0211)	
Ages 60–65			–0.0584	***	–0.0554	***
			(0.0212)		(0.0213)	
Probability of living to 85					–0.000144	
					(0.000378)	
Understanding of the bridge option					–0.00979	**
					(0.00468)	
Observations	1,319		1,309		1,296	
R-squared	0.025		0.142		0.147	

*Notes: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.*
Source: Authors' calculations.

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5619 DTC Parkway, Suite 600
Greenwood Village, CO 80111
Phone: +1 303-770-3377
Fax: +1 303-770-1812
www.investmentsandwealth.org