

Expert: Secure Act regulations seek to dispel 'illusion of wealth' for older adults

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Most employees in the U.S. with certain retirement accounts may be surprised when they open their next quarterly statements—and not just because of recent turmoil in financial markets, according to a paper

from a University of Illinois Urbana-Champaign expert on U.S. tax policy and retirement issues.

The Setting Every Community Up for Retirement Enhancement Act was enacted in December 2019 and requires that participants in employment-based retirement plans receive projections of what their [account](#) balances will provide in monthly [income](#) upon retirement. Regulations implementing the law became effective the [second quarter](#) of 2022 and apply to employees who save for their retirement through 401(k) or 403(b) plans.

The new disclosures might alarm some [workers](#) who find their projected retirement income to be "seriously deficient," says Richard L. Kaplan, the Guy Raymond Jones Chair in Law at Illinois.

"The idea behind the new law is that the account balances that are shown online or in regular statements do not readily translate into what people most want to know—namely, how much monthly income they can expect when they retire," Kaplan said. "People might see that they have, say, \$300,000 in their retirement account and think they're all set. But this amount might produce a monthly income of only \$750, assuming a 3% long-term rate of return."

When combined with federal taxation of most retirement plan income as ordinary income, the result is that lump-sum retirement account balances create an "illusion of wealth" for the typical retirement account holder, Kaplan said.

"Unlike most defined benefit plans, defined contribution plans generally do not provide estimates—let alone guarantees—of projected monthly income at retirement," he said. "Rather, it's the responsibility of individual plan participants to convert their retirement plan balances into budget-friendly monthly income estimates."

Financial service companies have generally hesitated to provide monthly income estimates, in part because they are afraid that "people will take these projections as a promise, rather than a possibility," Kaplan said.

"To be fair, translating retirement account balances into projections of monthly income requires one to make various assumptions about the rates of withdrawal, annual inflation and the health of the stock market, to name just a few key variables," he said. "Most financial planners provide that service to their clients, but the vast majority of Americans don't have a financial planner, which means they're less informed about what to expect when they retire."

The single most controversial assumption of the new regulations is their use of age 67 as the retirement age, Kaplan said.

"That particular age was chosen by the U.S. Department of Labor because it's the full retirement age under the federal government's Social Security program for workers born after 1959, but that fact does not make it universally relevant," Kaplan said. "Most lower- and middle-income workers begin taking Social Security retirement benefits well before age 67. Accordingly, these workers will need to adjust the income projections to better correspond to their anticipated retirement plans."

Although the new regulations might encourage current workers to modify their savings behavior before they retire, the fact remains that the 401(k) and 403(b) plans that have largely replaced defined benefit [retirement plans](#) put most of the burden on the employees for achieving [financial security](#) in [retirement](#), Kaplan said.

"These income projections should, however, help them with that responsibility," he said.

The paper, "The new income projection rules for defined contribution

plans," published by *Tax Notes Federal*, was co-written by Barry E. Federici, a financial planner in Sycamore, Illinois.

More information: Kaplan, Richard L. and Federici, Barry, The New Income Projection Rules for Defined Contribution Plans (August 9, 2021). *Tax Notes Federal*, Volume 172, August 2021, University of Illinois College of Law Legal Studies Research Paper No. 21-21, Available at SSRN: ssrn.com/abstract=3908601

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