

## HOW MUCH DO HRS RESPONDENTS KNOW ABOUT THEIR TAX-DEFERRED CONTRIBUTION PLANS?

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Research evidence has shown that Americans at retirement age are not well-informed about important aspects of their defined benefit pensions such as plan values and ages of eligibility. These findings are a matter of concern because of the important role that defined benefit pensions represent in the post-retirement wealth of this cohort. However, younger workers are increasingly likely to be enrolled in employer-sponsored defined contribution plans rather than defined benefit pension plans. Relatively little research has examined the accuracy of employee information regarding defined contribution plans. Gustman and Steinmeier (2004) compare Health and Retirement Study (HRS) respondent reports of accumulations in defined contribution plans to values derived from employer pension plan descriptions submitted to the Department of Labor, so-called plan documents. They find substantial differences between self-reported plan values and accumulations calculated from plan documents. The authors conclude that in plans with no provision for voluntary employee contributions, accumulations calculated from plan descriptions provide a more accurate measure of the true value of the pension.

In defined contribution plans with voluntary contributions, such as 401(k)-type plans, however, the single contribution rate reported in the employer plan may not reflect contribution rates in effect either prior to or after submission of the plan document. From a public policy perspective, this issue is important because from the time of eligibility, employees' decisions regarding annual contributions play a major role in determining their pension wealth at retirement.

We use information from Social Security W-2 records to examine employees' knowledge of their defined-contribution pensions (DC). We examine employee's tax-deferred contributions to defined contribution pensions, the most common of which are 401(k)-type plans. We compare the accuracy of information reported by respondents ages 51–61 in the original HRS cohort with that of two younger cohorts, the War Babies (WB) and Early Baby Boomer (EBB) cohorts. Members of these younger cohorts, born in 1942–47 and 1948–53 respectively, are more likely to be enrolled in defined contribution plans, and accumulations in these plans are likely to represent a much larger share of their post-retirement wealth. We would thus expect them to be better informed about their plans than the older cohort. We test this premise by first comparing the relative accuracy of their

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reports of participation in a defined contribution plan with evidence from the W-2 records. We then compare respondents' reported annual contribution amounts to such plans with values obtained from these records. This analysis is the first to make use of information in W-2 records to assess the reliability of employee reports regarding their participation in defined contribution plans and their annual tax-deferred contributions.

We find that, among private sector wage and salary workers, a significantly larger proportion of respondents in the more recent cohort (42 percent) made contributions to tax-deferred plans compared to respondents in the older cohort (33 percent). In addition, both self-reported and W-2 record contributions are larger in the younger cohort.

We also find that respondents in the WB/EBB cohort are significantly more likely than those in the HRS cohort to correctly report their inclusion in a DC plan. However, contrary to our expectation, we find that, among respondents who report being included in a DC plan, identical proportion of respondents in each cohort correctly reported whether they made a tax-deferred contribution to their plan. In addition, the two cohorts do not differ with respect to the degree of reporting accuracy of contribution amounts: approximately 50 percent of respondents in each cohort reported contributions that were within plus/minus 25 percent of the true value. We find that, in both cohorts, self-reported contributions are systematically larger than W-2 record contributions.

These findings suggest that while respondents in the younger cohort more accurately identify their plan type and whether they made a tax-deferred contribution or not, they are no more accurate in reporting their contribution values than the older cohort. There is, thus, no strong evidence that, despite the recent growth of tax-deferred contribution plans, employees are better aware of the importance of these plans in insuring financial security in retirement.

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