



What Factors Impact Retirement Income the Most, and Which Factors Impact It the Least

A Supplement that Demonstrates The Magnificent Seven—A Means to Define and Predict Retirement Success

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During the last 15 years, our industry has seen an unprecedented amount of focus on the reasonableness of fees in 401(k) plans. While such focus is required of every fiduciary for every service provider that is paid from plan assets, it is important to note that the DOL admonishes fiduciaries to “not consider fees in a vacuum.” Why is that? Because the DOL smartly understands what truly impacts retirement income.

The simple calculation below shows that deferral rates, employer match rates and plan performance have the greatest impact on retirement income, and that changes in retirement plan fees have the least—even if they are decreased by 20%.

An Illustration Helps Make This Point Clear: Fees Have Little Impact on Retirement Income

Let’s start with assumptions of a somewhat typical (but hypothetical) employee with an employer-sponsored retirement plan:

Retirement Outcomes Base Case Assumptions

Factor	Assumption
Salary	70,784
Inflation	2.00%
Beginning Balance	\$80,000
Age	44
EE Contribution	6.00%
ER Match	50.00%
Earnings	7.00%
RK Fees	\$165
Retirement Age	67
Annuitization Rate	Current Rates

We’ll also assume a 2% annual increase for inflation. With these assumptions, simple mathematical projections show a retirement income beginning at **\$3,983 per month**

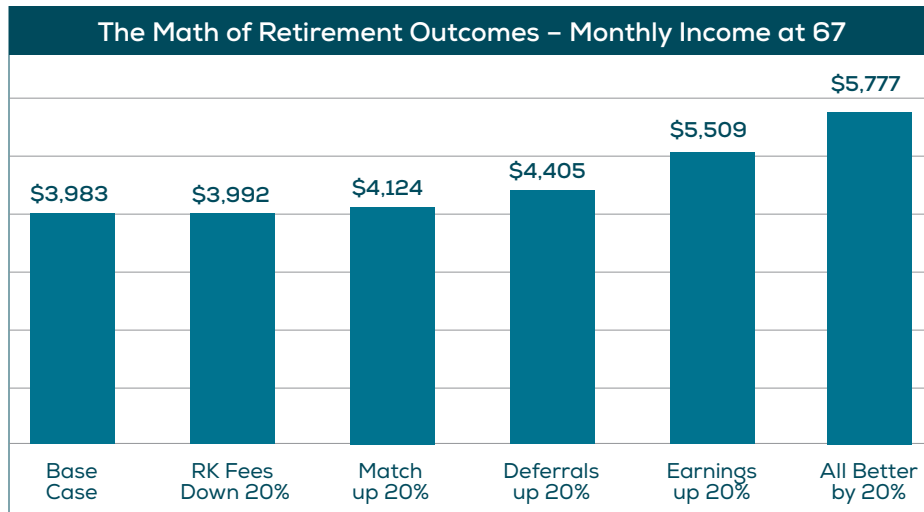


Popularized by Mark Twain, as the famous saying goes, “Numbers don’t lie.”

Now, let's go a step further and conduct a sensitivity analysis (a mathematical approach for determining the most impactful item) where we change some variables by the same percentage, in this case 20%. We'll apply a 20% change to each factor, to determine which variable has the largest impact on this participant's retirement.

• The Base Case of Retirement Income	\$3,983
• Reducing the Recordkeeping Fee from \$165 to \$132	\$3,992 (0.2% more)
• Increasing the Employer Match from 50% to 60%	\$4,124 (3.5% more)
• Increasing the Deferral Rate from 6.00% to 7.20%	\$4,405 (10.6% more)
• Increasing the Earnings from 7.00% to 8.40%	\$5,059 (27.0% more)
• Doing all of the above	\$5,777 (45% more)

Here is what these changes look like in a bar graph:



The Bottom Line: While Fees Are Important, Other Factors Drive Retirement Outcomes

The biggest drivers of increased retirement income, as shown in the bar graph illustration below, are the deferral rate, the employer match and the investment performance. Mathematically, even a 20% reduction in fees will likely have a minor impact on the retirement outcomes of participants.

The retirement plan industry would be much better served by focusing on better saving, investing and spending behavior. And that is why Fiduciary Decisions includes the Magnificent Seven as part of our reports for plan fiduciaries.

We Can Help

Please share this Impact of Key Metrics on Retirement Income supplement with plan sponsors, plan advisors and others to encourage them to help retirement plan participants reach their goals. Download the PDF [here](#).

Click [here](#) for the entire article, "The Magnificent Seven – A Means to Define and Predict Retirement Success".

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