Survey reveals growing importance of financial planning for retirement

In the Spotlight
March 2024

Key Insights

- Demand for financial planning services is strongest among participants who are within one to five years of their retirement date than among other participants.
- Retirement planning can improve participant confidence. Survey respondents with a formal plan were 62.5% more confident about their financial outlook.
- Survey results highlight an opportunity to develop and integrate digital and specialized financial planning for retirement income and other related decisions.

Bill Meyer
Head of Retiree, Inc.,
T. Rowe Price

The value of financial planning for retirees is high. Research shows that an actively managed, well-executed decumulation strategy can make a client's assets last meaningfully longer during retirement.[1]

The Pew Research Center estimates that 10,000 baby boomers are expected to turn age 65 each day until 2030. Unlike the accumulation (saving) phase of retirement, the decumulation (spending) phase is more complex and requires the coordination of several key decisions such as Social Security; Medicare; tax minimization; legacy planning; and hedging against inflation, market, and longevity risk. As the narrative shifts from "how much do I need to retire?" to "how can I do better with what I have?" most people don't know where or how to start.

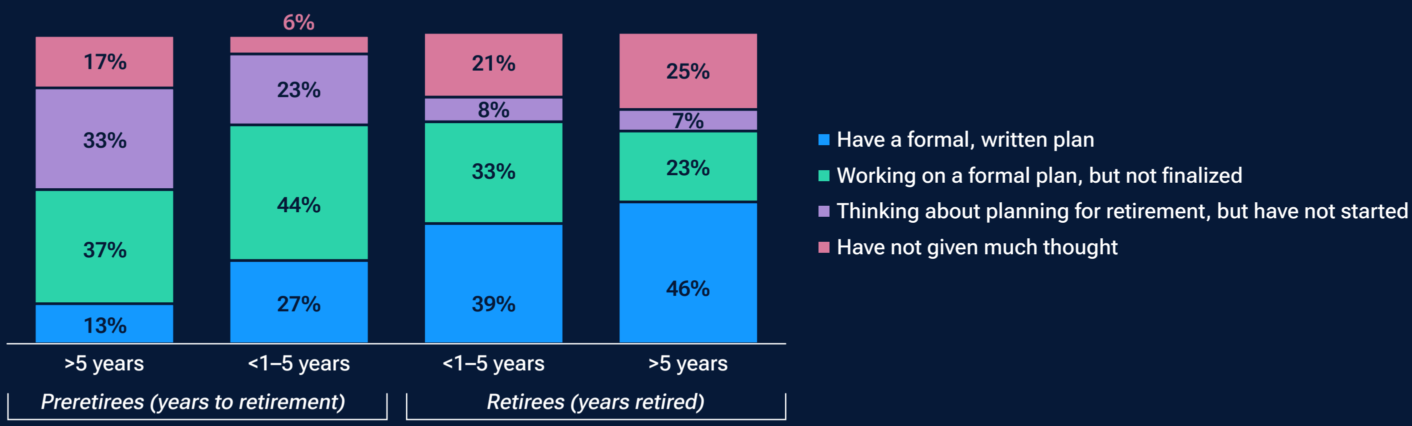
It is therefore not surprising that among the respondents to our 2023 T. Rowe Price Retirement Savings and Spending Study, which surveys a nationally representative group of 401(k) participants, 64% of baby boomers reported moderate to high levels of stress about their retirement savings. Plan sponsors and financial professionals—who have helped drive retirement savings for these participants—are well positioned to

[1] Meyer and Reichenstein, *Journal of Financial Planning,* "How the Social Security Claiming Decision Affects Portfolio Longevity," 2012, and Cook, Meyer, and Reichenstein, *Financial Analyst Journal,* "Tax-Efficient Withdrawal Strategies," 2015.

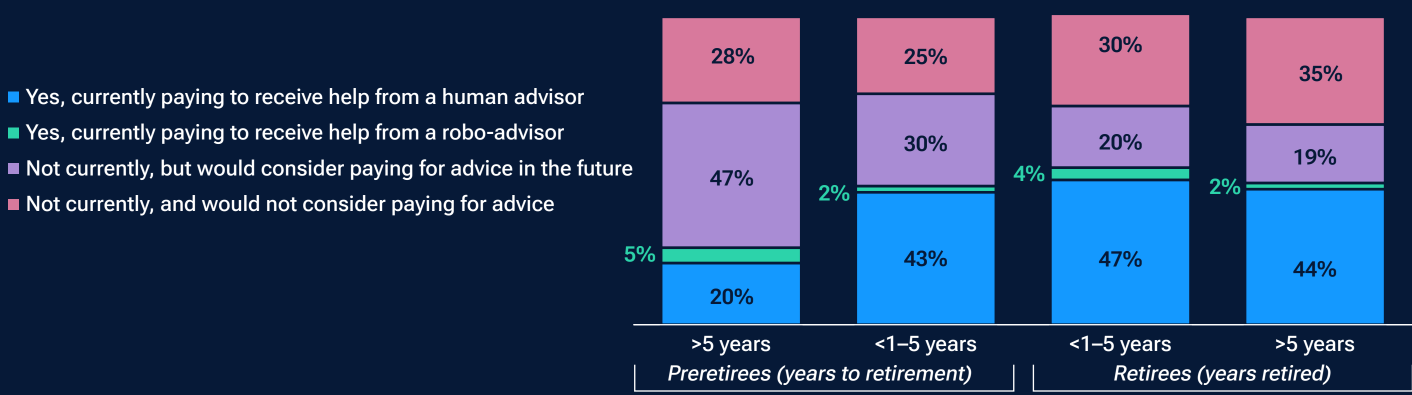
Most retirees form a plan for retirement or seek help from advisors in the five years before and after retirement

(Fig. 1)

State of retirement planning—by years to/since retirement



Help from advisor—by years to/since retirement



Source: T. Rowe Price Retirement Savings and Spending Study, 2023.
Numbers may not total 100% due to rounding.

also help them with retirement planning services, especially since over 60% of participants in the study indicated that the workplace and retirement plan recordkeepers are the primary sources for accessing educational tools and financial guidance.[2]

A formal plan for retirement is vital

Creating a formal plan for retirement has shown some crucial benefits for preretirees; most notably, that they feel more confident and excited about retirement. Still, 17% of preretirees who responded to our study had not given much thought to forming a retirement plan, while 7 in 10 preretirees who responded to the survey were in the process of forming a retirement plan or thinking about it. However, for preretirees who were within five years of retirement and for retirees in the five years after their retirement date, data showed a meaningful increase in formal retirement planning (Fig. 1).

Notably, our research found that individuals with a formal plan tend to be over two to almost four times wealthier than preretirees without a plan. These savers typically contribute more toward their retirement and are more likely to have an advisor. Meanwhile, preretirees who are working on a retirement plan or are thinking about planning, for the most part, do not have an advisor. This finding highlights an opportunity for plan sponsors and recordkeepers to develop digital do-it-yourself (DIY) planning services for participants.

[2] T. Rowe Price Retirement Savings and Spending Study, 2023.

Collectively, these preretirees and retirees who are in the early planning stages hold significant investable assets that represent a huge opportunity for plan sponsors and advisors who can develop self-directed participant resources that help to address the multitude of decisions a participant faces when entering and during retirement. We believe preretirees will value a range of services that will help them plan for retirement. These can include specialized education to help with the withdrawal and income phase, or with key decisions such as when to collect Social Security. These services can be a catalyst for retaining and aggregating assets for plan sponsors, recordkeepers, and advisors.

Driving interest and engagement

Investors acknowledge the benefits of financial planning services, but also convey negative impressions. Advisors usually request several inputs from their clients, which can be tedious and off-putting. Also, typical advice for preretirees is to save more along with unrealistic guidance that is often presented in an unmotivating way.

A prompt, such as "you need to save $5,000 more a month to maintain your standard of living in retirement," can be discouraging to participants because the goal, for most people, is unattainable.

In the 2023 T. Rowe Price Retirement and Savings Study, more than 38% of respondents over the age of 50 indicated that not having enough money was their most significant obstacle to starting retirement planning. Individuals with less assets were, therefore, less likely to hire or interact with a financial professional for help navigating their retirement journey. As outlined earlier, the workplace and retirement plan recordkeepers remain the primary sources for participants to access educational tools and financial guidance. This is an opportunity for plan sponsors, recordkeepers, and advisors to promote financial planning tools and resources to plan participants regardless of their assets. Promotional messages can help with participant engagement by making the tools and resources accessible, user-friendly, and less intimidating.

We believe that new participant experiences that "bread crumb" or ask for minimal inputs to process, develop, and deliver SMART—Specific, Measurable, Achievable, Relevant, and Time-Based—goals to clients can form a positive framework for guidance. Iterative feedback with minimal user inputs helps increase ongoing engagement and education on relevant topics that preretirees and retirees need to be aware of. These digital techniques that minimize inputs have been shown to increase engagement and click-through rates compared with long entry forms asking for a lot of personal data. Additionally, as clients achieve their goals and feel even more confident due to positive reinforcement, the plan can gradually shift focus to loftier goals and implementing strategies for better outcomes.

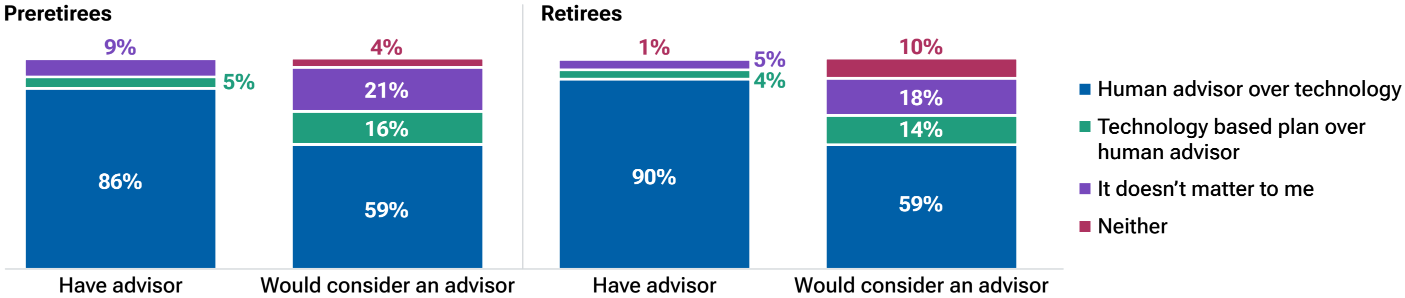
In the past, financial planning services required expensive one-on-one consultations with an advisor. Today, education and advice can be delivered many ways beyond a financial plan—including via solutions for delegators and educational tools for hands-on DIY experiences. Technology advancements have transformed financial services and are starting to allow for the cost-effective, digital delivery of sophisticated and personalized solutions. These solutions have grown popular because they are accessible to everyone regardless of wealth, and they provide clients with convenient and efficient ways to manage their finances.

As more defined contribution (DC) platforms and services incorporate digital planning, we expect plan sponsors to evolve static educational content into more personalized and actionable guidance. These services are also scalable and can help plan advisors and aggregators to more efficiently identify and target participants that they can best help with advanced personalized planning.

"...digital techniques that minimize inputs have been shown to increase engagement and click-through rates...."

Preretirees and retirees prefer human advisors, but many are also open to digital advice solutions

(Fig. 2) Preferred advisor approach, in person or digital



Source: T. Rowe Price Retirement Savings and Spending Study, 2023.

Further, preretirees place a lot of value in being able to delegate planning and investment management responsibility to their advisors. The complexity involved in maximizing savings positions advisors and solution providers as valuable to a large audience who desire the guidance. Of our survey respondents, 40% said they are willing to use an advisor and are also open to leveraging digital tools (Fig. 2). The number of self-directed or DIY participants and the size of assets within these households represents massive potential demand for better digital planning experiences and is likely to drive the next large innovation in the DC ecosystem.

Limited knowledge could lead to uninformed decisions

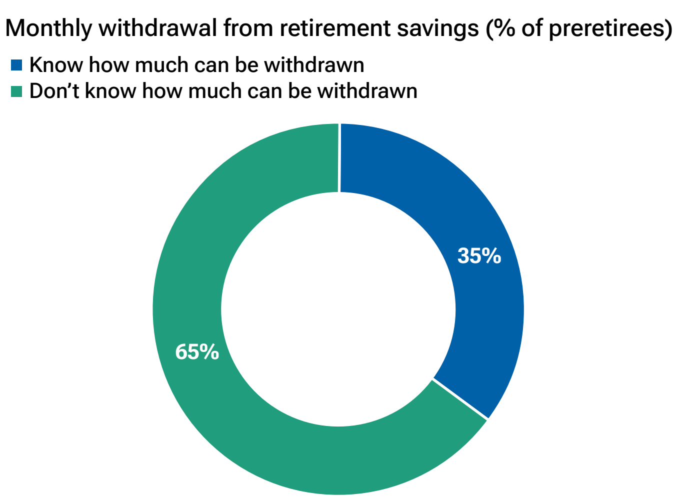
The understanding of investments and insurance products among preretirees is low. In our study, 35% to 56% of preretirees reported that their understanding of investment and annuity products was not very good or not good at all. This limited level of knowledge also applied to preretirees working with an advisor.

In addition, 65% of preretirees do not know how much can be withdrawn from their retirement savings (Fig. 3). Even estimates from knowledgeable preretirees may not be accurate. This is a problem, as overspending could deplete retirement assets early while underspending could impede financial satisfaction.[3]

[3] Banerjee, Sudipto, Planning for Spending Volatility in Retirement, 2023. https://www.troweprice.com/institutional/us/en/insights/articles/2023/q3/planning-for-spending-volatility-in-retirement-na.html

Most preretirees do not know how much they can withdraw each month from their retirement savings

(Fig. 3)

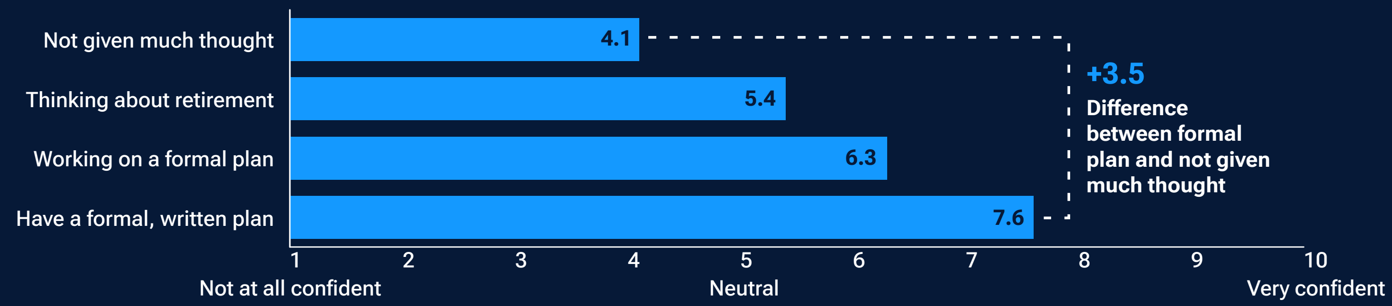


	Influencing factors	Know how much can be withdrawn
Advisor relationship	Have advisor	50%
	Don't have advisor	28%
Household investable assets	<$50k	18%
	$50k to <$250k	26%
	$250k to <$750k	39%
	$750k plus	54%
State of retirement planning	Has formal written plan	70%
	Working on a formal plan	38%
	Don't have plan	18%
	<5 years to retirement	50%

Source: T. Rowe Price Retirement Savings and Spending Study, 2023.

Having a formal plan can improve confidence about retirement outlook

(Fig. 4) Preretirees confidence about retirement



Source: T. Rowe Price Retirement Savings and Spending Study, 2023.

When coupled with the key decisions outlined earlier that retirees must make about the transition to retirement (such as those regarding Social Security, Medicare, etc.), advisors can add value by helping retirees generate income and optimize their drawdown strategy. In particular, solutions with detailed, personalized, and actionable guidance that incorporate both in and out of plan savings, as well as coordinate both investment and non-investment decisions a retiree faces, would be very beneficial.

Final thoughts

The income needs of millions of baby boomers entering retirement could be transformative for the retirement industry and represents an opportunity to help improve retirement outcomes for preretirees and retirees, whether they have a formal retirement plan or not (Fig. 4). Past academic research from Meyer and Reichenstein[4] has shown that an actively managed plan for retirement that looks across a household to generate income can add up to seven more years of savings longevity.

The value of this planning to a client is recorded in our recent survey by an increase of 62.5% in confidence about their retirement by having a written formal plan. As illustrated in Figure 4, the percentage is even higher if you look at the 4.1 rating of responders who had not given thought to creating a plan to the 7.6 level of responders who had a written formal plan.

Given the number of complex decisions retirees face as they seek to maintain an income stream from their savings, the need for better planning and related guidance is obvious. Similarly, individuals with a plan are clearly less stressed and more confident about their future. The results of our survey imply the following services will be highly valued by participants:

1. **Digital planning**—Plan sponsors should seek out recordkeepers and asset managers that provide value-added planning services and tools. Our recent survey showed a high willingness by participants to use digital tools and services to plan for retirement. Better "light" planning can be incredibly valuable to participants who need a better understanding of income products, solutions, and ways to maximize their resources.

2. **Financial wellness for decumulation**—New educational content and resources should be developed to address the

> "...an actively managed plan for retirement... can add up to seven more years of savings longevity.

[4] Meyer and Reichenstein, *Journal of Financial Planning,* "How the Social Security Claiming Decision Affects Portfolio Longevity," 2012, and Cook, Meyer, and Reichenstein, *Financial Analyst Journal,* "Tax-Efficient Withdrawal Strategies," 2015.

impending needs of preretirees and families in retirement. Targeted content should include topics that address decisions around Social Security, Medicare, risks of living longer than you expect, and varying ways to generate income to maximize savings.

3. **Scaling financial planning with an advisor**—Plan advisors and aggregators who already provide planning to participants on both their in-plan and out-of-plan assets are seeing significant growth and demand. To provide more access and planning services to participants, plan sponsors and advisors will need to develop or partner with providers who can offer engaging products and services that address retirement planning needs of preretirees over age 50.

Plan sponsors who provide digital education and light planning services may be able to recruit and retain more employees who value these services. Furthermore, advisors who focus on retirement planning to individuals over the age of 50 can be well positioned to grow their assets under management given the strong demand, as illustrated in our 2023 T. Rowe Price Retirement Savings and Spending Study.

Retirement Savings and Spending Study

The Retirement Savings and Spending Study is a nationally representative online survey of 401(k) plan participants and retirees. The survey has been fielded annually since 2014. The 2023 survey was conducted between July 24, 2023, and August 13, 2023. It included 3,041 401(k) participants, full-time or part-time workers who never retired, currently age 18 or older, and are either contributing to a 401(k) plan or eligible to contribute with a balance of $1,000 or more. The survey also included 1,176 retirees who have retired with a Rollover IRA or left a 401(k) plan balance.

RETIRE WITH CONFIDENCE®

T. Rowe Price focuses on delivering investment excellence and retirement services that institutional, intermediary, and individual investors can rely on—now and over the long term.

To learn more, please visit **troweprice.com/retirementUS**.

Important Information

This material is provided for general and educational purposes only and is not intended to provide legal, tax, or investment advice. This material does not provide recommendations concerning investments, investment strategies, or account types; it is not individualized to the needs of any specific investor and not intended to suggest any particular investment action is appropriate for you, nor is it intended to serve as a primary basis for investment decision-making.

Any tax-related discussion contained in this material, including any attachments/links, is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding any tax penalties or (ii) promoting, marketing, or recommending to any other party any transaction or matter addressed herein. Please consult your independent legal counsel and/or tax professional regarding any legal or tax issues raised in this material.

The views contained herein are as of the date written and are subject to change without notice; these views may differ from those of other T. Rowe Price associates.

This information is not intended to reflect a current or past recommendation concerning investments, investment strategies, or account types, advice of any kind, or a solicitation of an offer to buy or sell any securities or investment services. The opinions and commentary provided do not take into account the investment objectives or financial situation of any particular investor or class of investor. Please consider your own circumstances before making an investment decision.

Information contained herein is based upon sources we consider to be reliable; we do not, however, guarantee its accuracy.

Past performance is not a reliable indicator of future performance. All investments are subject to market risk, including the possible loss of principal. All charts and tables are shown for illustrative purposes only.

T. Rowe Price Investment Services, Inc., distributor, and T. Rowe Price Associates, Inc., investment adviser.

ID0006719 (03/2024)
202402-3368987