T.RowePrice®
INVEST WITH CONFIDENCE

Retirement Spending: Revolutionize Your Thinking

Retirees are thinking differently about retirement spending. *Are you?*

PresenterName Bold, PresenterTitle Unbold
Event Date

What we'll cover

Different Preferences

Conventional Wisdom vs. Retiree Spending

Mapping Preferences to Solutions

Different Preferences

Conventional Wisdom vs. Retiree Spending

Mapping Preferences to Solutions

THE YEAR WAS 1781...

Continental Army and local militia

Photo Source: Guilford Courthouse National Military Park, National Park Service (NPS), https://www.nps.gov/guco/learn/historyculture/patriot-soldiers.htm

Guilford Courthouse battle plan

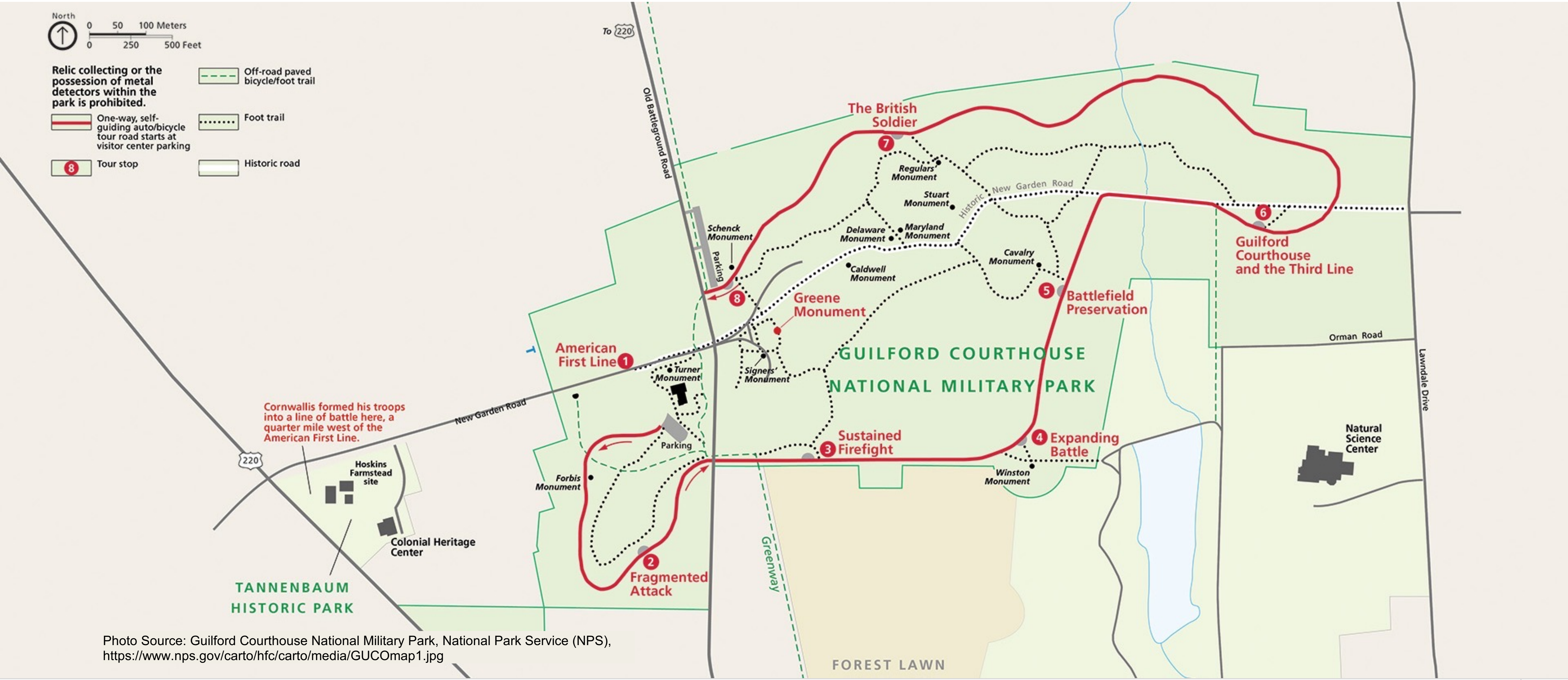


Photo Source: Guilford Courthouse National Military Park, National Park Service (NPS), https://www.nps.gov/carto/hfc/carto/media/GUCOmap1.jpg

Guilford Courthouse battle plan

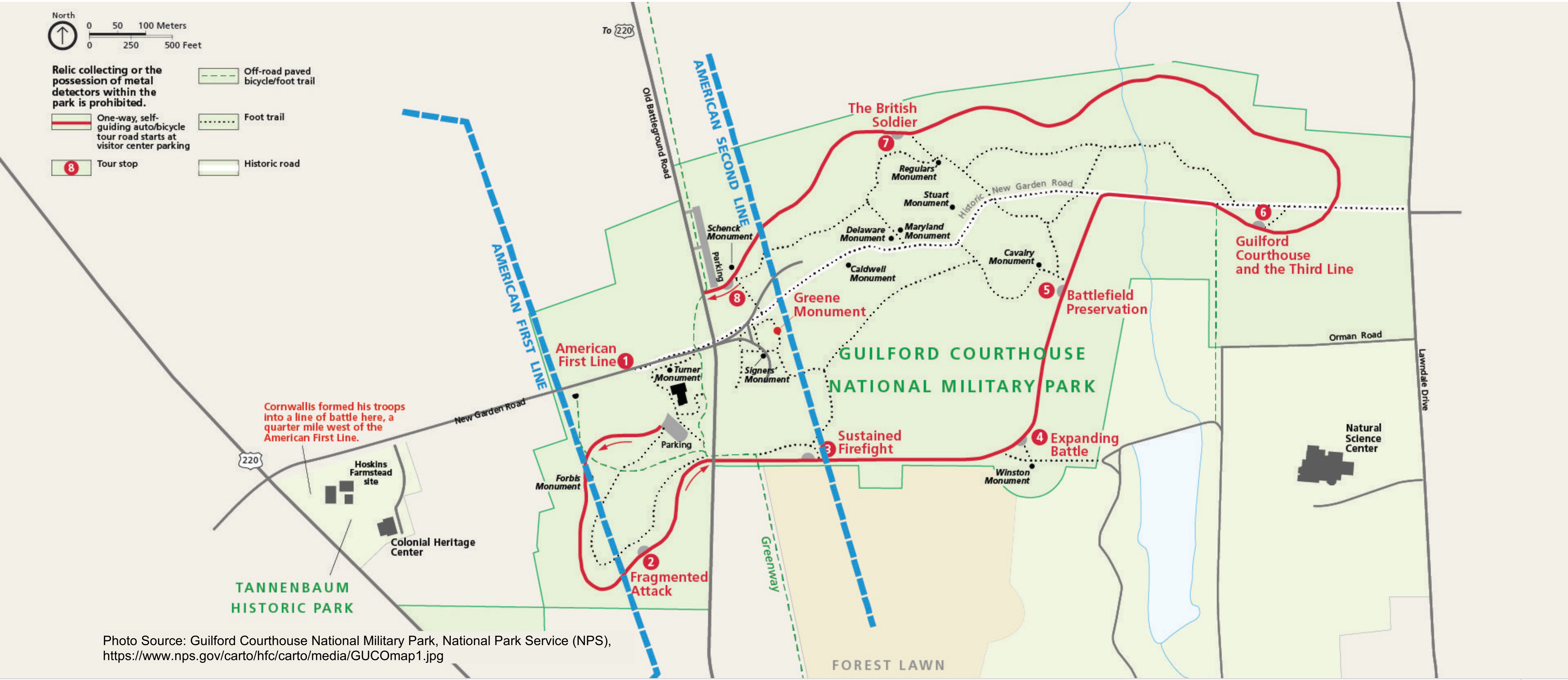


Photo Source: Guilford Courthouse National Military Park, National Park Service (NPS), https://www.nps.gov/carto/hfc/carto/media/GUCOmap1.jpg

Guilford Courthouse battle plan

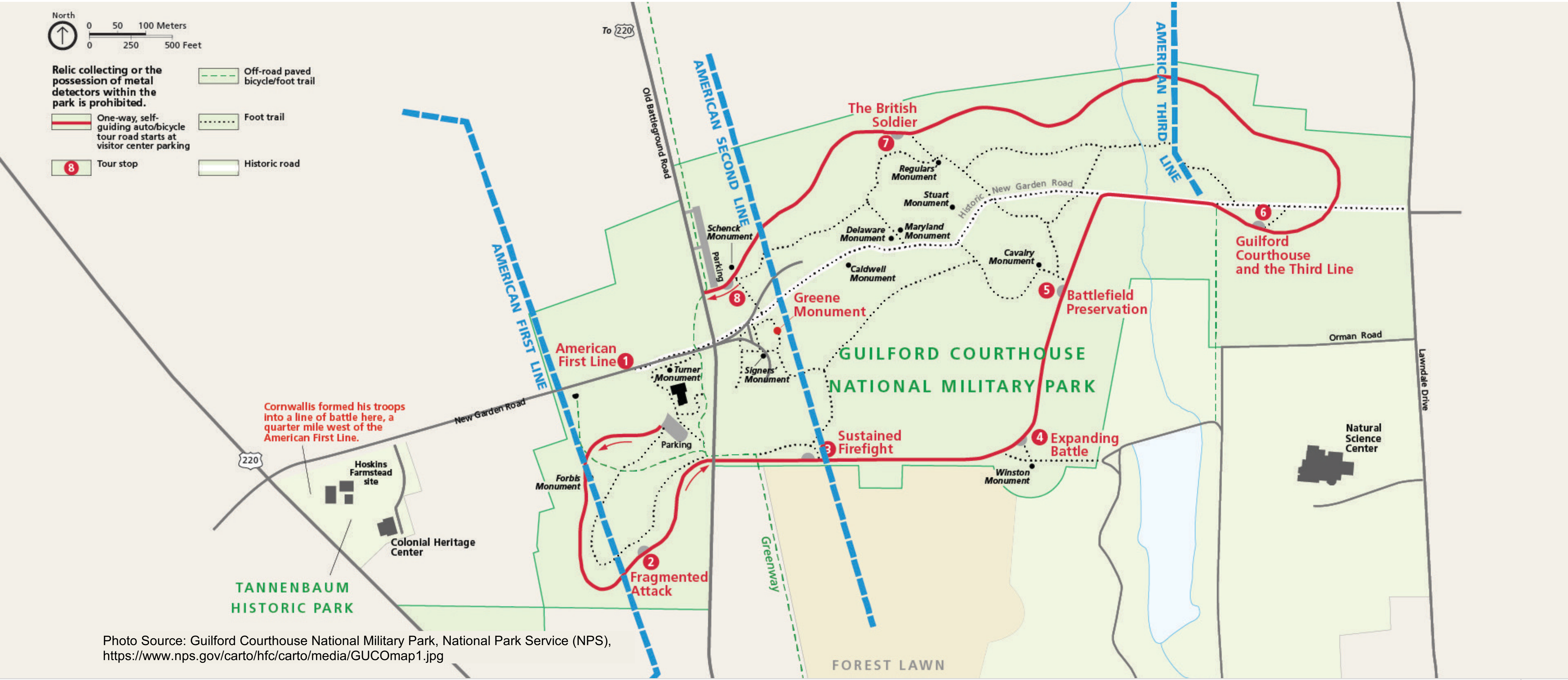


Photo Source: Guilford Courthouse National Military Park, National Park Service (NPS), https://www.nps.gov/carto/hfc/carto/media/GUCOmap1.jpg

Retirement spending

- Conventional wisdom assumes one behavioral approach
- Most strategies are designed for that one outcome
- But different retirees have different preferences
- Retirement planning should be flexible

Conventional Wisdom:
THE SPENDERS

Adjust their **balance** to maintain their **spending**

The Retirement Revolutionaries:

THE SAVERS

The Retirement Revolutionaries:

THE SAVERS

Adjust their **spending** to maintain their **balance**!

The Retirement Revolutionaries: The Savers

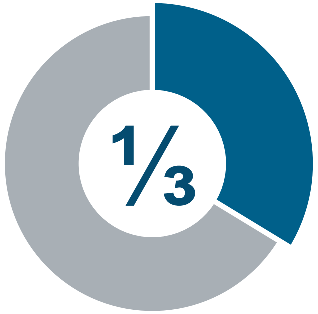
The Retirement Revolutionaries: The Savers

Nearly 6 in 10 retirees say they want to **maintain or even grow** their assets in retirement.[1]

[1] T. Rowe Price Retirement Savings and Spending Study (2020), Question 80, Table 194-1 and Lucas, Lori, *Why Do People Spend the Way They Do in Retirement? Findings From EBRI's Spending in Retirement Survey*, Employee Benefits Research Institute (EBRI), Issue Brief, January 14, 2021, No. 522, Figure 16, pg. 15.

The Retirement Revolutionaries: The Savers

Nearly 6 in 10 retirees say they want to **maintain or even grow** their assets in retirement.[1]



For **one-third of retirees**, compared with balance at retirement:

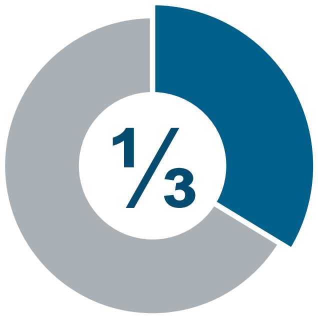
- 20 years in, balance was higher.
- At death, balance was the same.[2]

[1] T. Rowe Price Retirement Savings and Spending Study (2020), Question 80, Table 194-1 and Lucas, Lori, *Why Do People Spend the Way They Do in Retirement? Findings From EBRI's Spending in Retirement Survey*, Employee Benefits Research Institute (EBRI), Issue Brief, January 14, 2021, No. 522, Figure 16, pg. 15.

[2] Banerjee, Sudipto, *Asset Decumulation or Asset Preservation? What Guides Retirement Spending?*, Employee Benefits Research Institute (EBRI), Issue Brief, April 3, 2018, No. 447, Figure 19, pgs. 1 and 4.

The Retirement Revolutionaries: The Savers

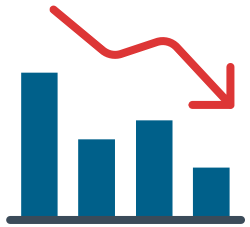
Nearly 6 in 10 retirees say they want to **maintain or even grow** their assets in retirement.[1]



For **one-third of retirees**, compared with balance at retirement:

– 20 years in, balance was higher.

– At death, balance was the same.[2]



Market **decline**:[3]

– Only 8% would use savings to maintain spending.

– 27% would dip into savings.

– 65% would spend less.

[1] T. Rowe Price Retirement Savings and Spending Study (2020), Question 80, Table 194-1 and Lucas, Lori, *Why Do People Spend the Way They Do in Retirement? Findings From EBRI's Spending in Retirement Survey*, Employee Benefits Research Institute (EBRI), Issue Brief, January 14, 2021, No. 522, Figure 16, pg. 15.

[2] Banerjee, Sudipto, *Asset Decumulation or Asset Preservation? What Guides Retirement Spending?*, Employee Benefits Research Institute (EBRI), Issue Brief, April 3, 2018, No. 447, Figure 19, pgs. 1 and 4.

[3] Lucas, Lori, *Why Do People Spend the Way They Do in Retirement? Findings From EBRI's Spending in Retirement Survey*, Employee Benefits Research Institute (EBRI), Issue Brief, January 14, 2021, No. 522, Figure 22, pg. 20.

The Retirement Revolutionaries: The Savers

Almost three of four 65- to 69-year-olds make no withdrawals from their retirement accounts.

Source: Poterba, James, Steven Venti, and David Wise, *The Drawdown of Personal Retirement Assets: Husbanding or Squandering?*, National Bureau of Economic Research (NBER), January 2011, Revised January 2013.

The Retirement Revolutionaries: The Savers

Almost three of four 65- to 69-year-olds make no withdrawals from their retirement accounts.

In 2009, when RMDs were suspended, about ⅓ chose not to take them.

Source: Poterba, James, Steven Venti, and David Wise, *The Drawdown of Personal Retirement Assets: Husbanding or Squandering?*, National Bureau of Economic Research (NBER), January 2011, Revised January 2013.

The Retirement Revolutionaries: The Savers

Almost three of four 65- to 69-year-olds make no withdrawals from their retirement accounts.

In 2009, when RMDs were suspended, about ⅓ chose not to take them.

About one-third of IRA withdrawals are saved in another account.

Source: Poterba, James, Steven Venti, and David Wise, *The Drawdown of Personal Retirement Assets: Husbanding or Squandering?*, National Bureau of Economic Research (NBER), January 2011, Revised January 2013.

Retiree Spenders vs. Savers

Fit the conventional wisdom of spending in retirement.

Draw down their balance to maintain their spending.

Spenders

Retiree Spenders vs. Savers

Spenders

Fit the conventional wisdom of spending in retirement.

Draw down their balance to maintain their spending.

Savers

Don’t follow conventional wisdom.

Adjust their level of **spending** to preserve their **balance**.

Retiree Spenders vs. Savers

30% — **Spenders**

Fit the conventional wisdom of spending in retirement.

Draw down their balance to maintain their spending.

70% — **Savers**

Don’t follow conventional wisdom.

Adjust their level of **spending** to preserve their **balance**.

Source: T. Rowe Price Retirement Savings and Spending Study (2021), Question 83, Tables 232-1 and 233-1

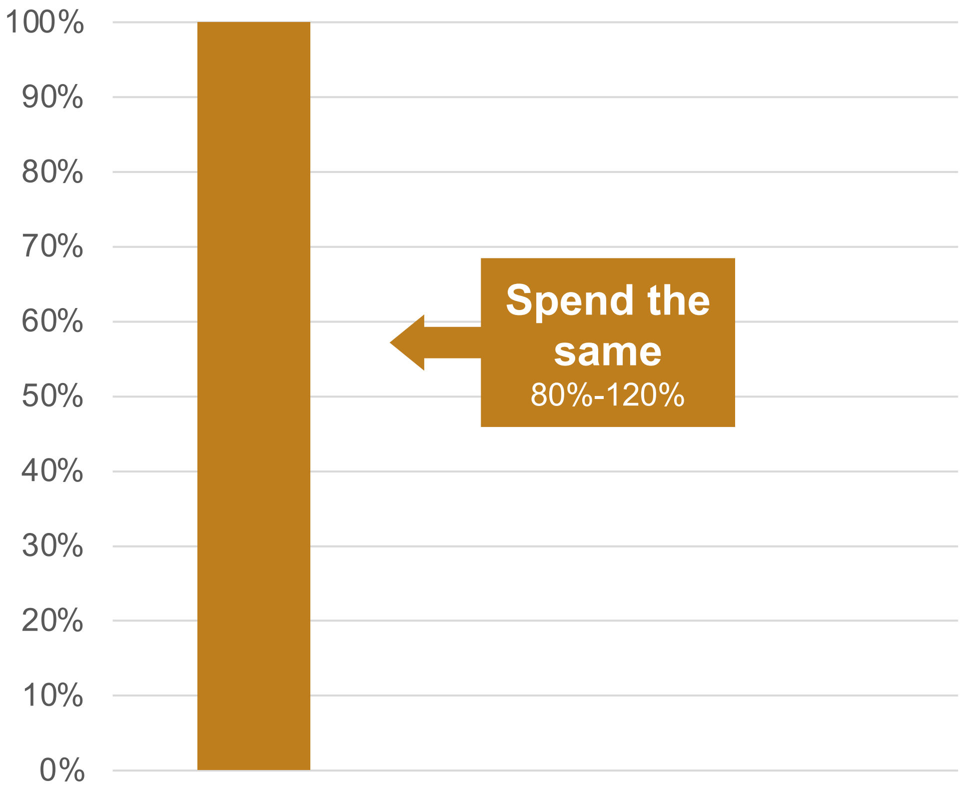
Different Preferences

Conventional Wisdom vs. Retiree Spending

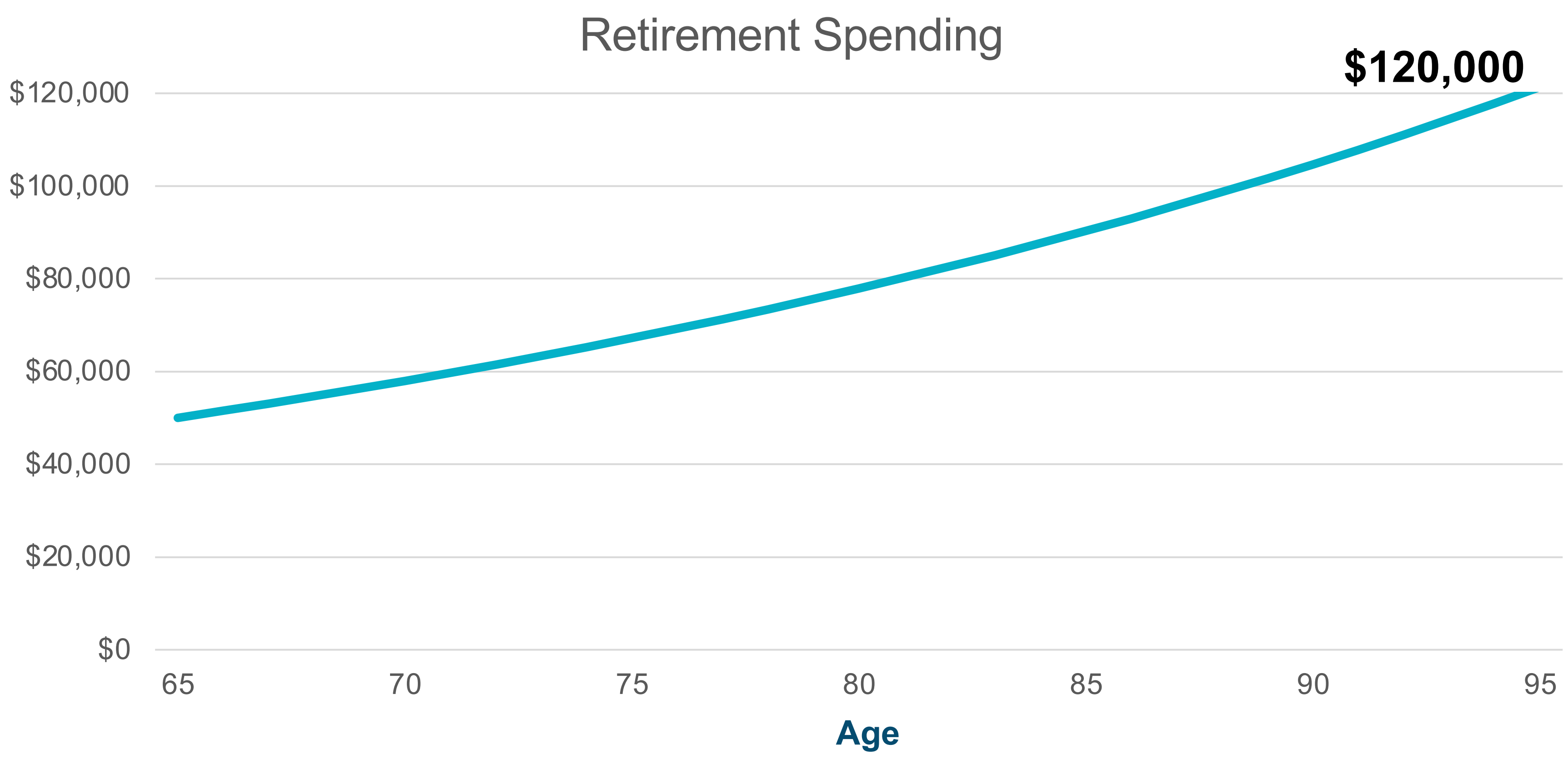
Mapping Preferences to Solutions

CONVENTIONAL WISDOM

Spending at retirement



Spending through retirement

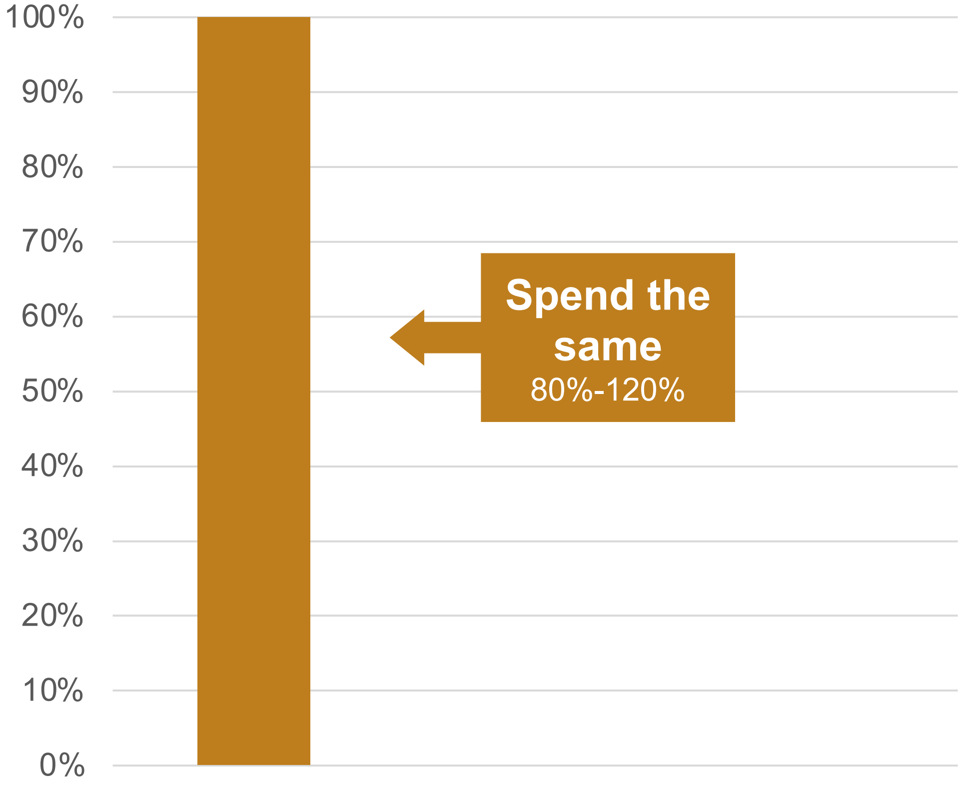


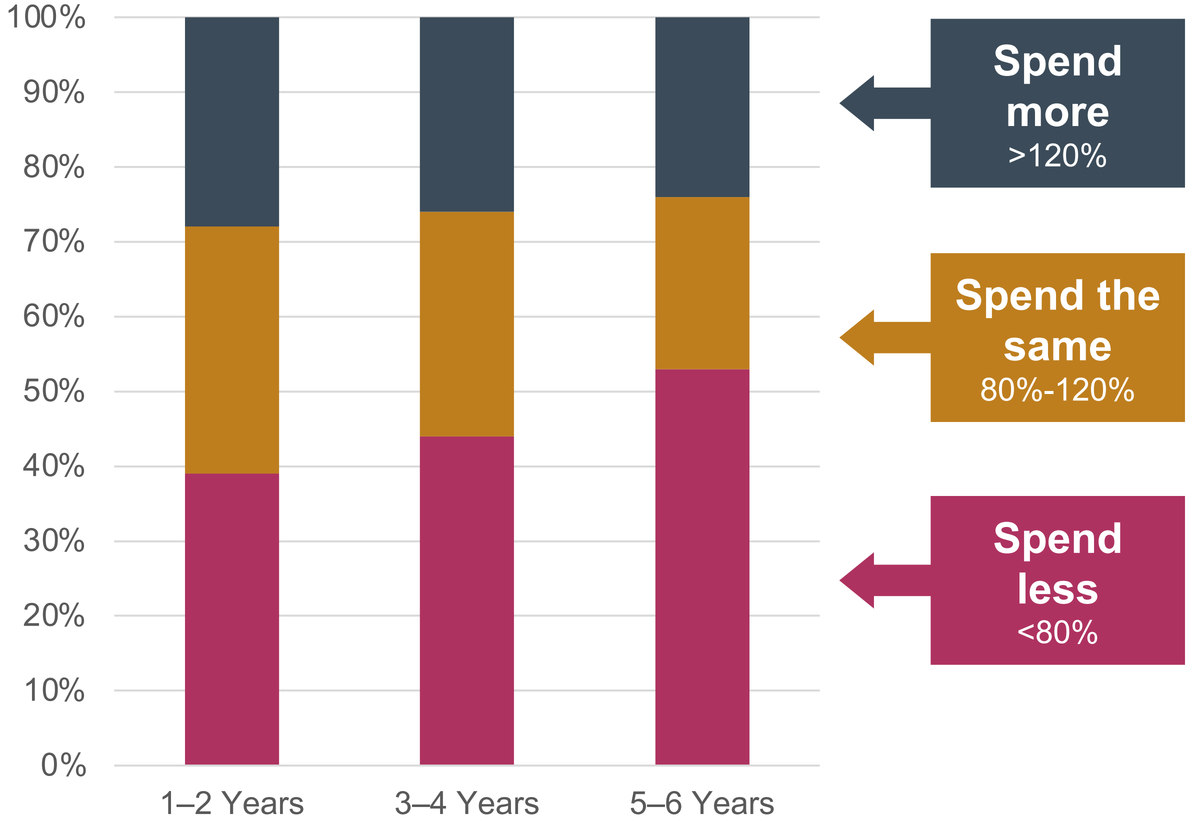
Conventional

Spending Increases by Inflation Rate

ACTUAL RETIREE SPENDING

Spending at retirement

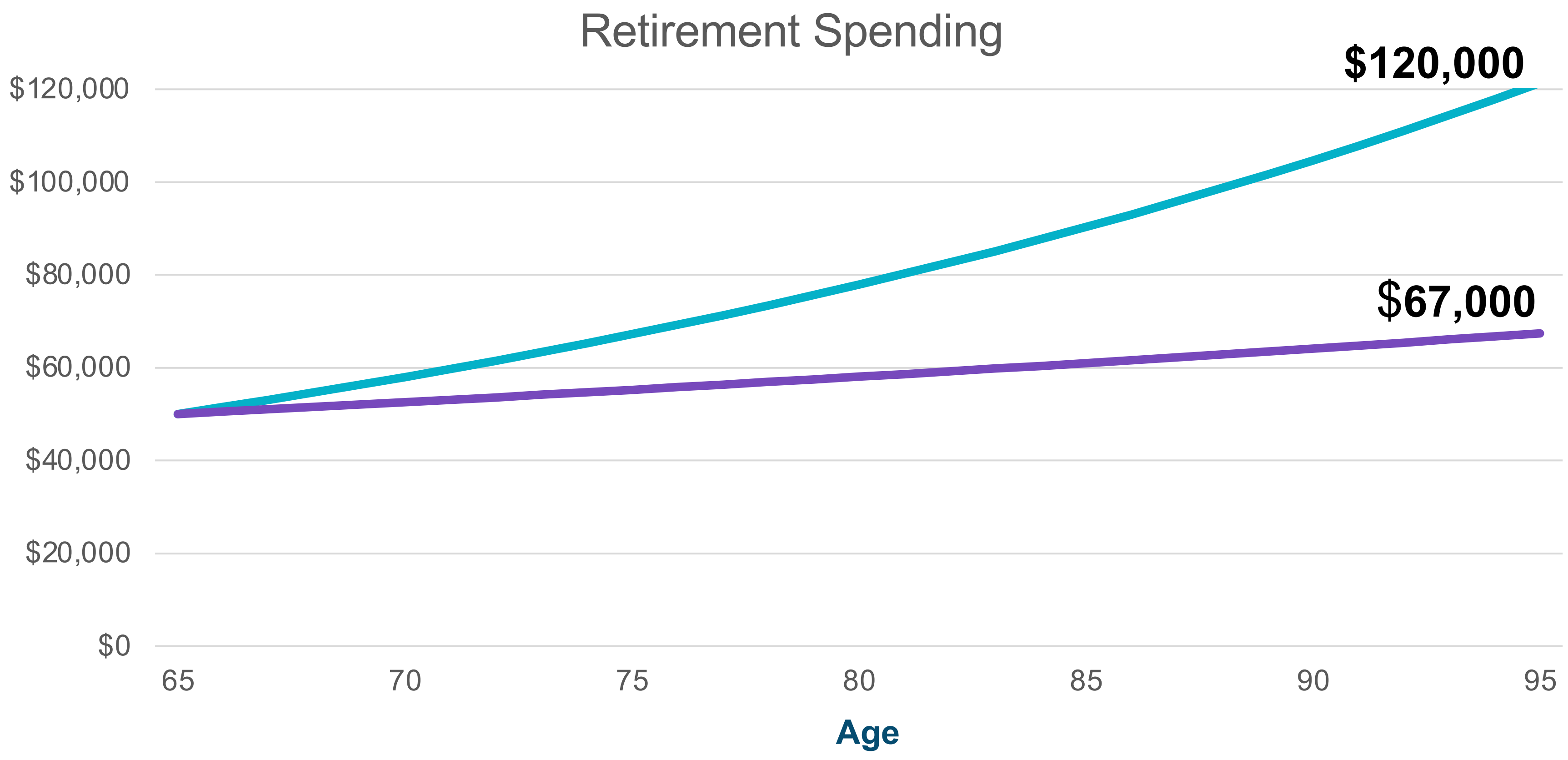




Banerjee, Sudipto, *Change in Household Spending After Retirement: Results from a Longitudinal Sample*, Employee Benefits Research Institute (EBRI), Issue Brief, November 2015, No. 420, Figure 9, pg. 19.

Spending through retirement

Retirees increase their spending by 2% less than Conventional each year



Conventional

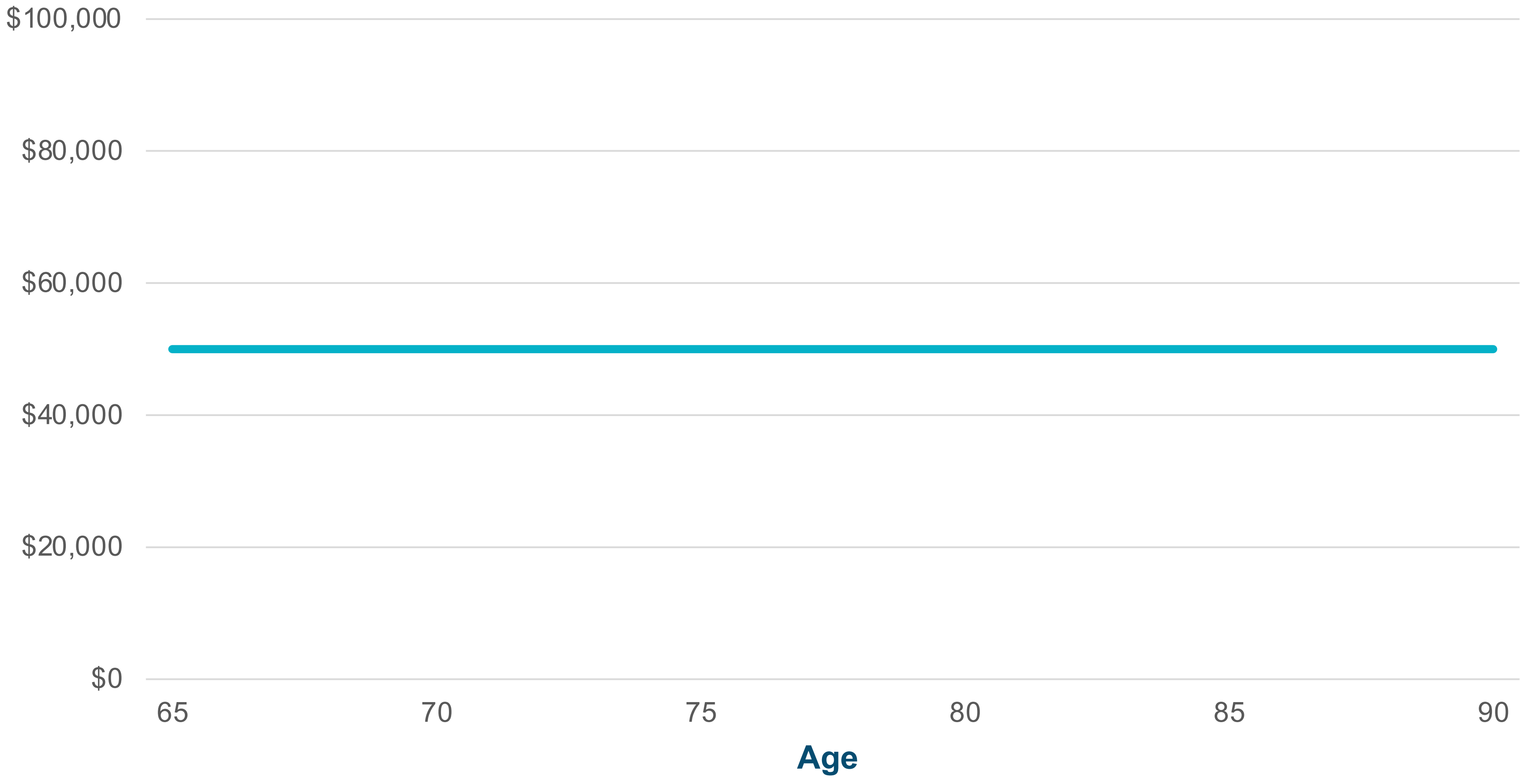
Spending Increases by Inflation Rate

Banerjee

Spending Increases by 2% Less Than Conventional

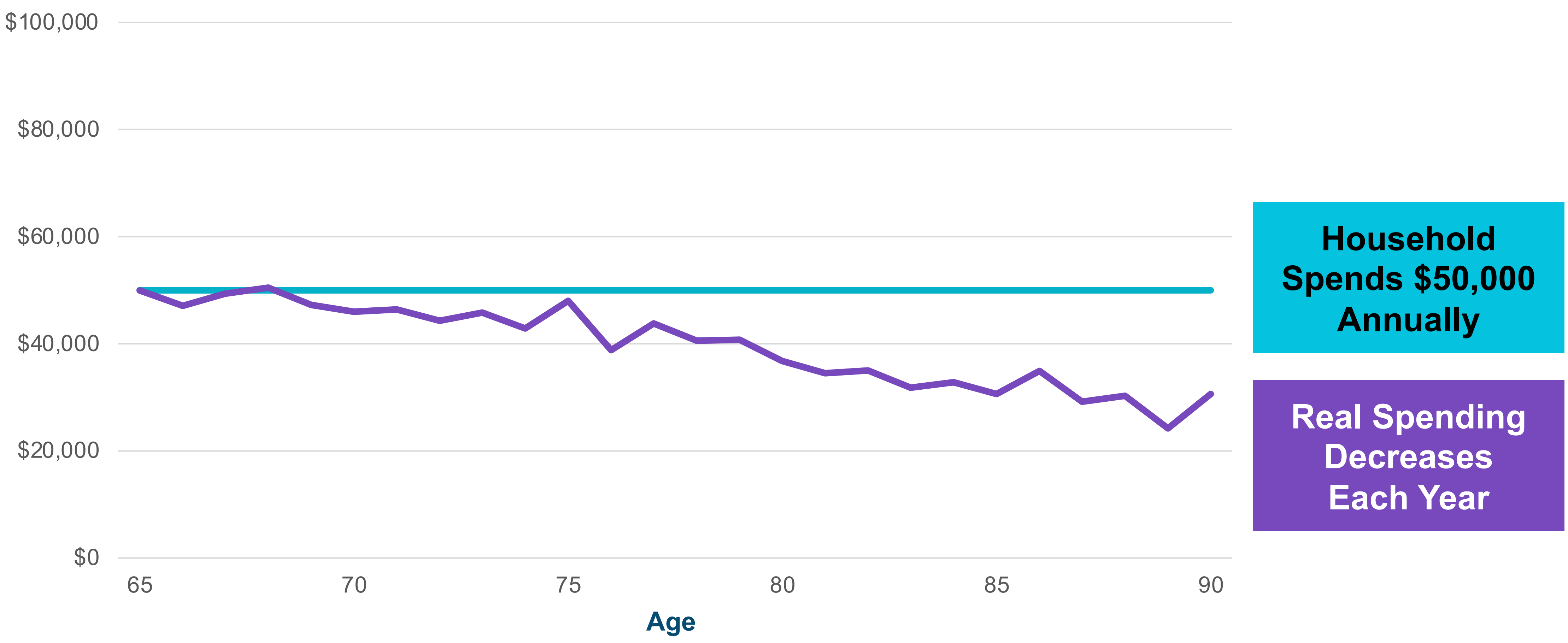
Source: Banerjee, Sudipto, *Decoding Retiree Spending*, T. Rowe Price Insights on Retirement, T. Rowe Price Group, Inc., March 2021 analysis of Health and Retirement Study, public use dataset. Produced and distributed by the University of Michigan with funding from the National Institute on Aging (grant number NIA U01AG009740). Ann Arbor, MI.

Real spending (adjusted for inflation)



Household Spends $50,000 Annually

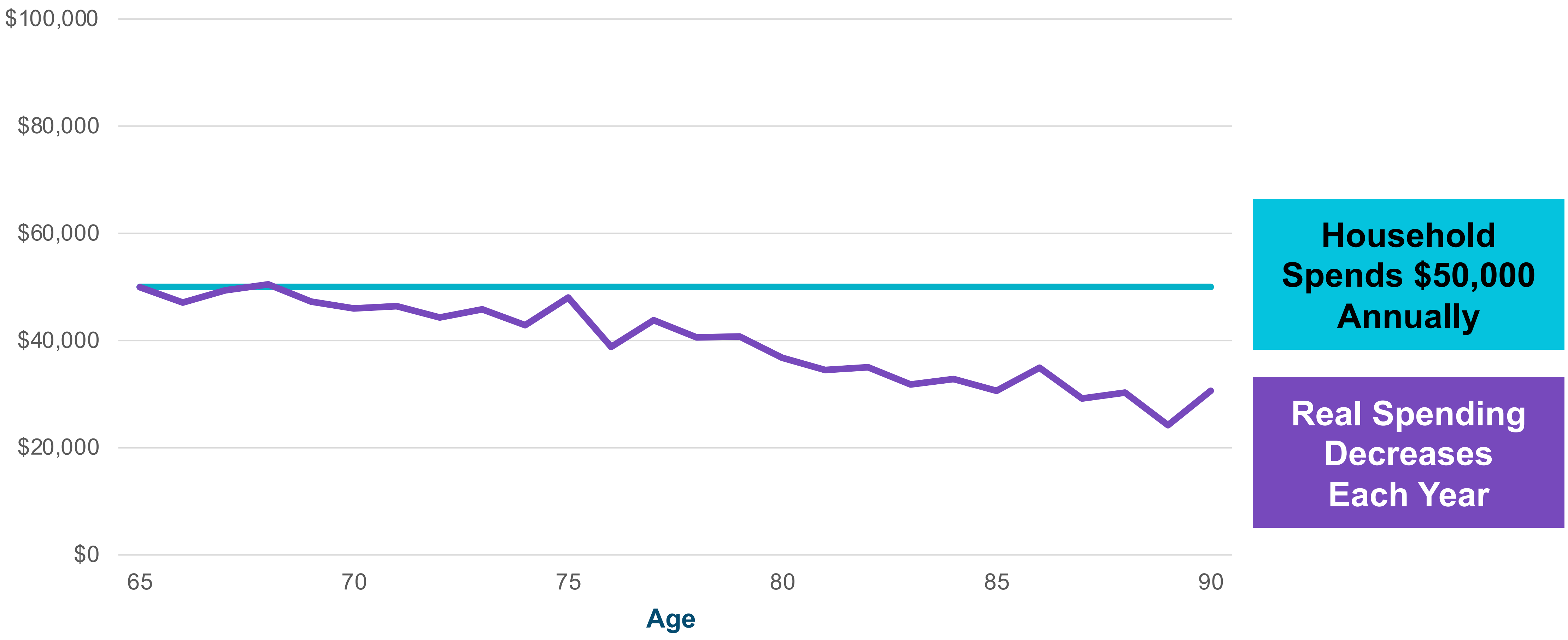
Real spending (adjusted for inflation)



Source: Banerjee, Sudipto, *Decoding Retiree Spending*, T. Rowe Price Insights on Retirement, T. Rowe Price Group, Inc., March 2021 analysis of Health and Retirement Study, public use dataset. Produced and distributed by the University of Michigan with funding from the National Institute on Aging (grant number NIA U01AG009740). Ann Arbor, MI.

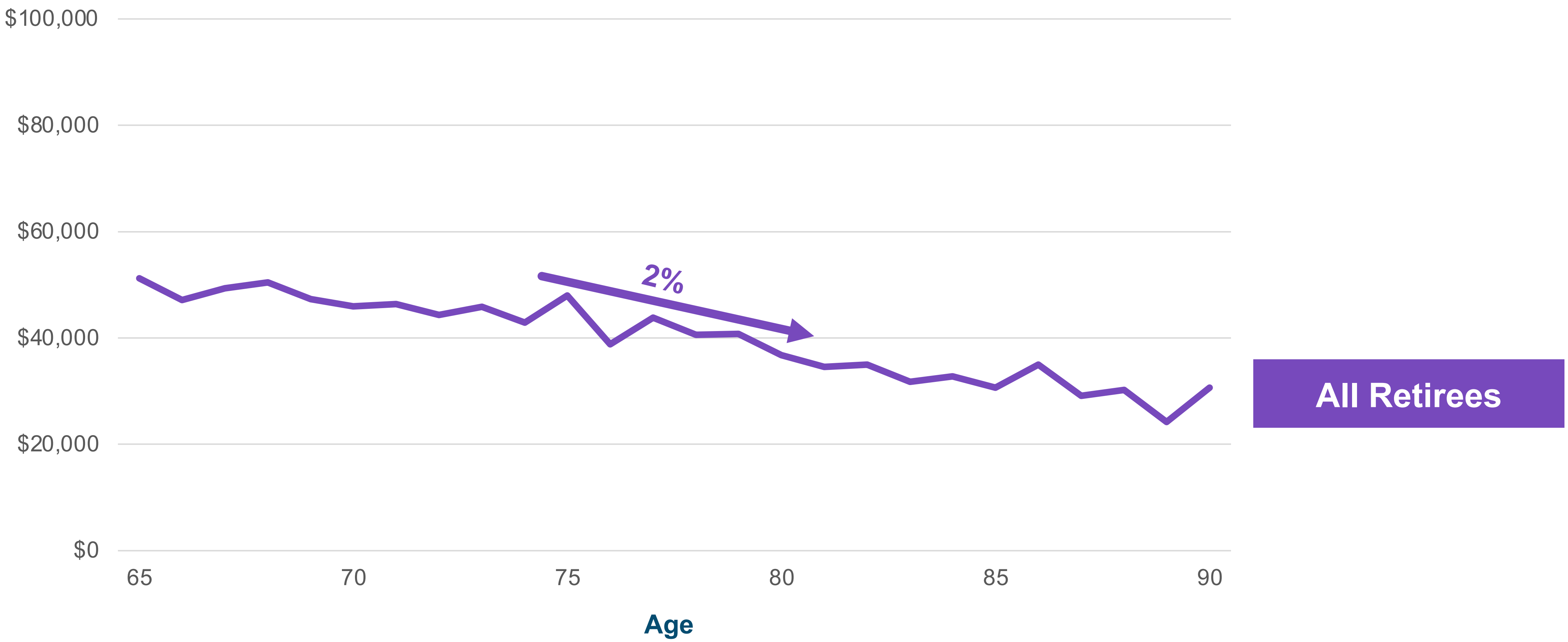
HOUSEHOLD NET WORTH

Real spending (adjusted for inflation)



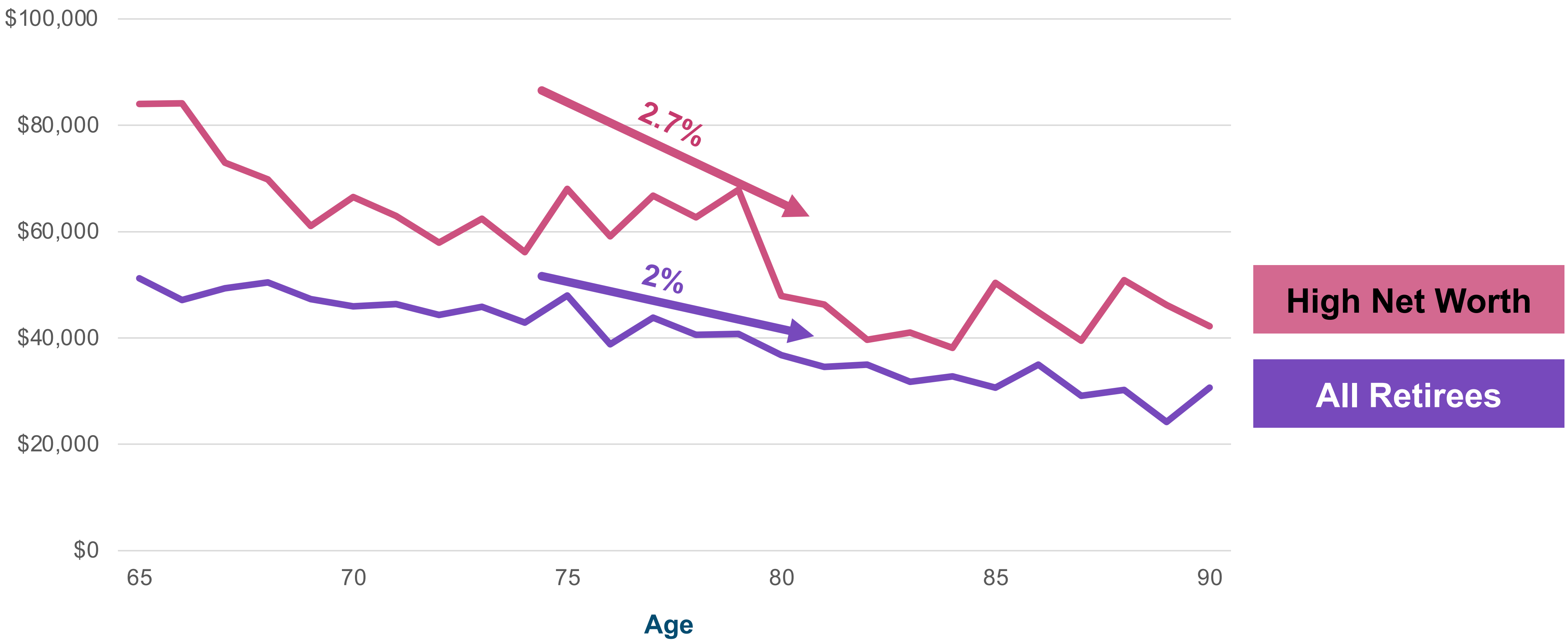
Source: Banerjee, Sudipto, *Decoding Retiree Spending*, T. Rowe Price Insights on Retirement, T. Rowe Price Group, Inc., March 2021 analysis of Health and Retirement Study, public use dataset. Produced and distributed by the University of Michigan with funding from the National Institute on Aging (grant number NIA U01AG009740). Ann Arbor, MI.

Real spending (adjusted for inflation)



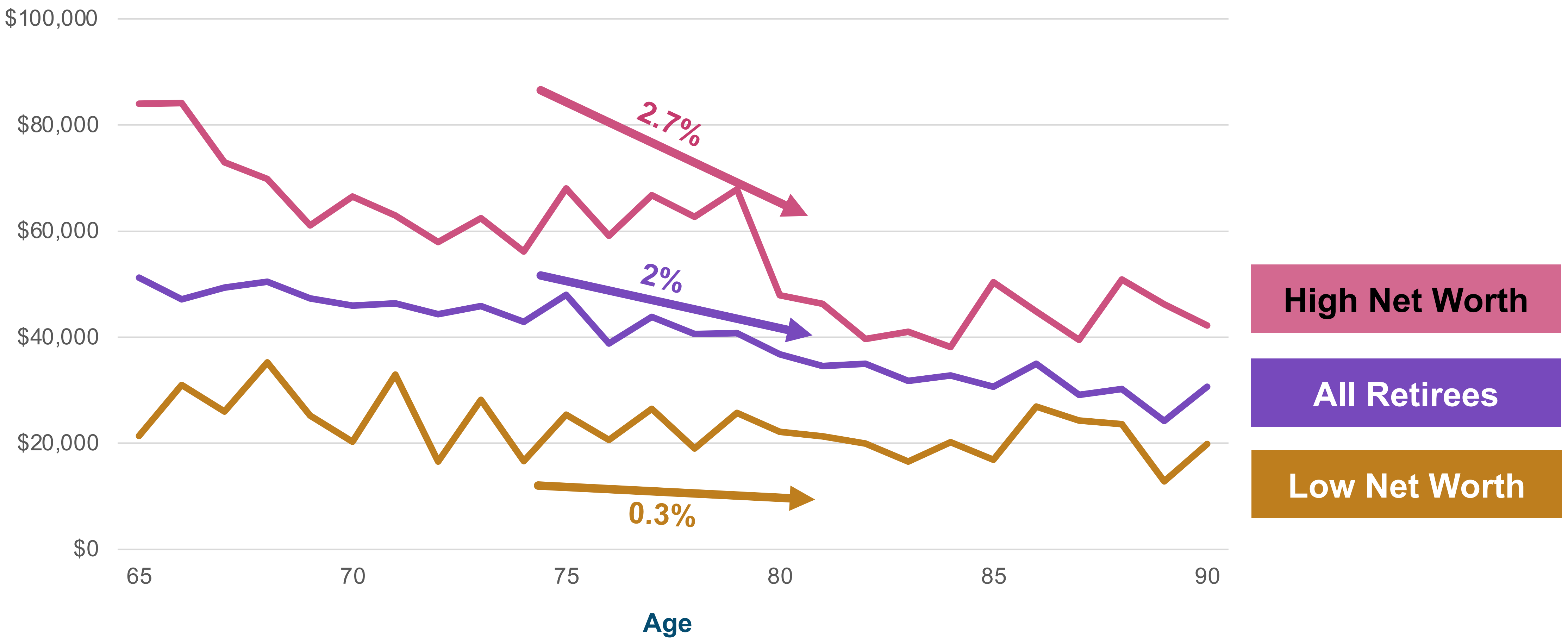
Source: Banerjee, Sudipto, *Decoding Retiree Spending*, T. Rowe Price Insights on Retirement, T. Rowe Price Group, Inc., March 2021 analysis of Health and Retirement Study, public use dataset. Produced and distributed by the University of Michigan with funding from the National Institute on Aging (grant number NIA U01AG009740). Ann Arbor, MI.

Real spending (adjusted for inflation)



Source: Banerjee, Sudipto, *Decoding Retiree Spending*, T. Rowe Price Insights on Retirement, T. Rowe Price Group, Inc., March 2021 analysis of Health and Retirement Study, public use dataset. Produced and distributed by the University of Michigan with funding from the National Institute on Aging (grant number NIA U01AG009740). Ann Arbor, MI.

Real spending (adjusted for inflation)



Source: Banerjee, Sudipto, *Decoding Retiree Spending*, T. Rowe Price Insights on Retirement, T. Rowe Price Group, Inc., March 2021 analysis of Health and Retirement Study, public use dataset. Produced and distributed by the University of Michigan with funding from the National Institute on Aging (grant number NIA U01AG009740). Ann Arbor, MI.

Retiree spending

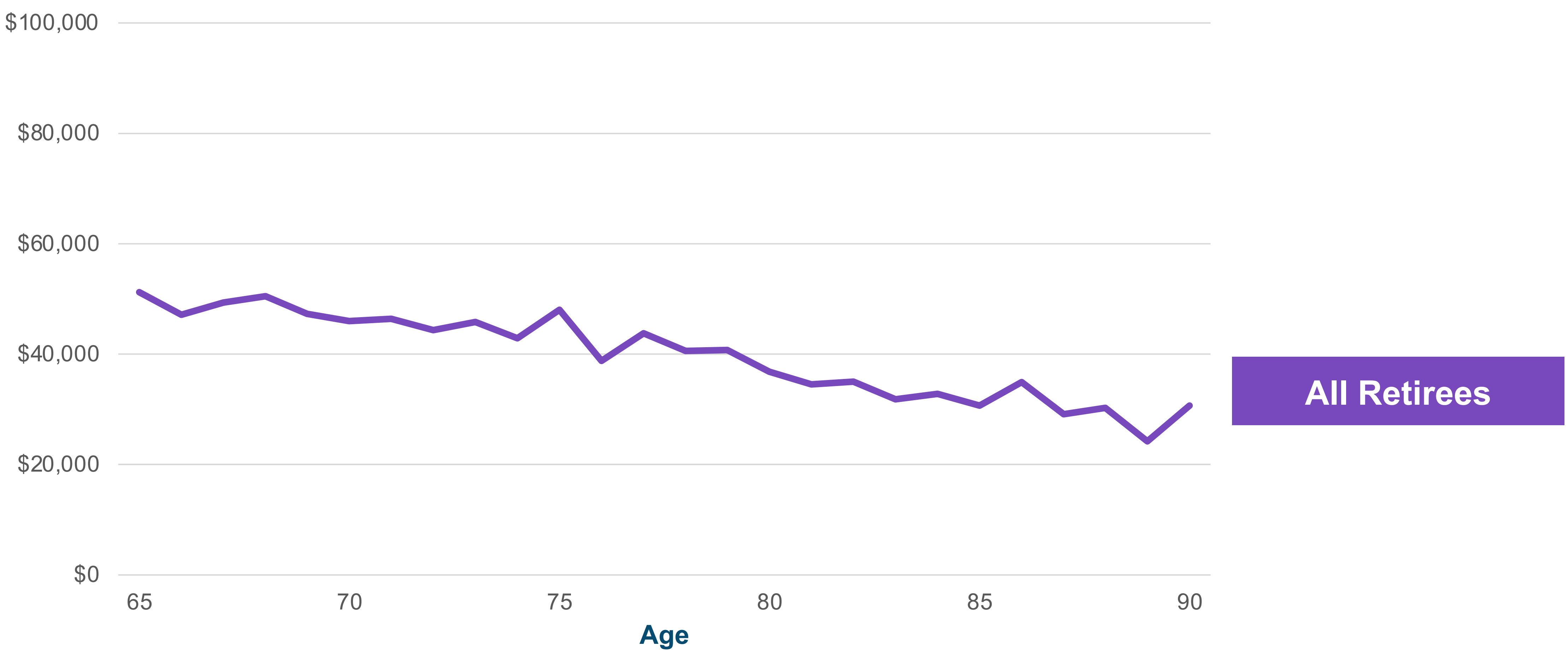
Retirees group these expenses together

- Housing
- Transportation
- Health Care
- Food
- Clothing

Foundational Five

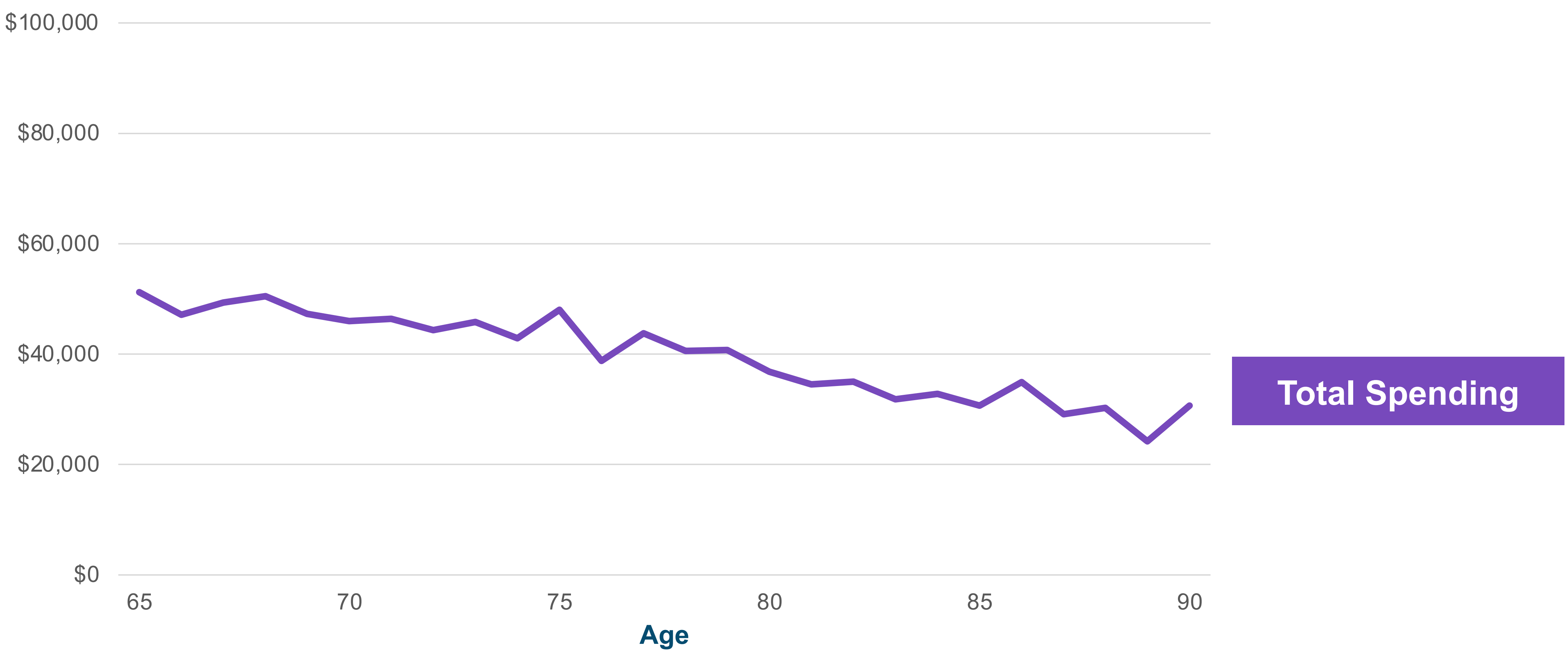
Source: U.S. Bureau of Labor Statistics, Consumer Expenditure Survey, 2022, Table 1300. Age of reference person: Average annual expenditures and characteristics.

Real spending (adjusted for inflation)



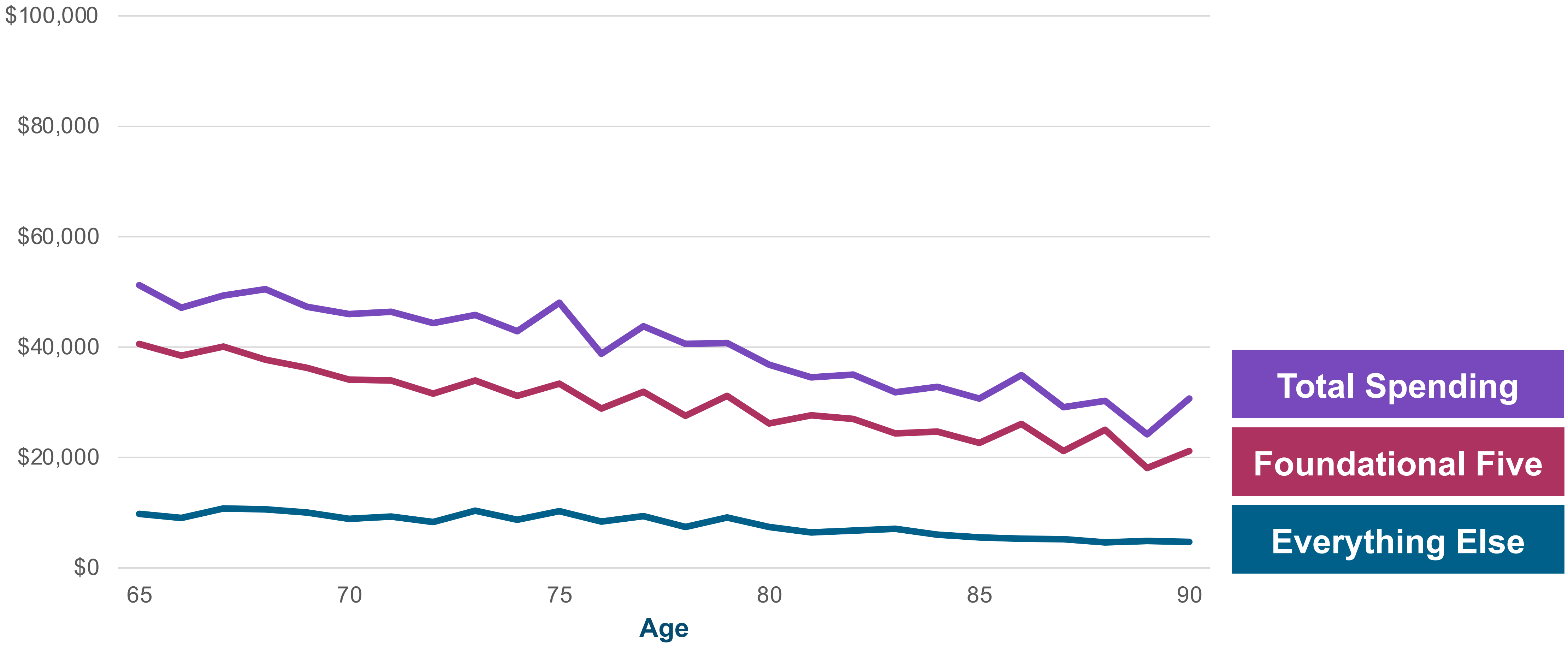
Source: Banerjee, Sudipto, *Decoding Retiree Spending*, T. Rowe Price Insights on Retirement, T. Rowe Price Group, Inc., March 2021 analysis of Health and Retirement Study, public use dataset. Produced and distributed by the University of Michigan with funding from the National Institute on Aging (grant number NIA U01AG009740). Ann Arbor, MI.

Real spending (adjusted for inflation)



Source: Banerjee, Sudipto, *Decoding Retiree Spending*, T. Rowe Price Insights on Retirement, T. Rowe Price Group, Inc., March 2021 analysis of Health and Retirement Study, public use dataset. Produced and distributed by the University of Michigan with funding from the National Institute on Aging (grant number NIA U01AG009740). Ann Arbor, MI.

Real spending (adjusted for inflation)



Source: Banerjee, Sudipto, *Decoding Retiree Spending*, T. Rowe Price Insights on Retirement, T. Rowe Price Group, Inc., March 2021 analysis of Health and Retirement Study, public use dataset. Produced and distributed by the University of Michigan with funding from the National Institute on Aging (grant number NIA U01AG009740). Ann Arbor, MI.

INCOME

“Income”: Conventional wisdom

Interest

Dividends

Wages from working

RMDs

Withdrawals from retirement and taxable accounts

Sources: T. Rowe Price Retirement Savings and Spending Study (2020), Question 15, Table 189-1 and Lucas, Lori, *Why Do People Spend the Way They Do in Retirement? Findings From EBRI’s Spending in Retirement Survey*, Employee Benefits Research Institute (EBRI), Issue Brief, January 14, 2021, No. 522, Figure 12, pg. 13.

“Income”: Actual retirees

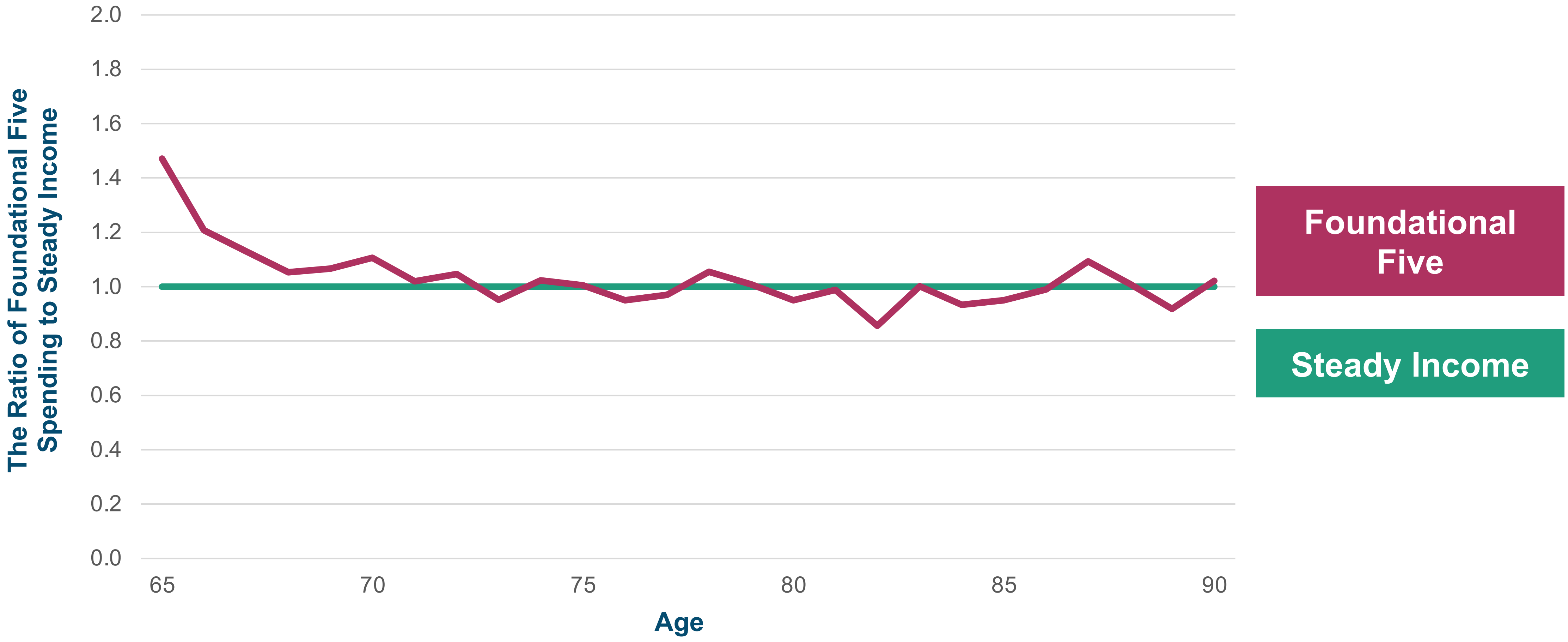
Social Security

Pension

Annuities

Source: Banerjee, Sudipto, *Decoding Retiree Spending*, T. Rowe Price Insights on Retirement, T. Rowe Price Group, Inc., March 2021 analysis of Health and Retirement Study, public use dataset. Produced and distributed by the University of Michigan with funding from the National Institute on Aging (grant number NIA U01AG009740). Ann Arbor, MI.

Retirees adapt spending to their steady income



Source: Banerjee, Sudipto, *Decoding Retiree Spending*, T. Rowe Price Insights on Retirement, T. Rowe Price Group, Inc., March 2021 analysis of Health and Retirement Study, public use dataset. Produced and distributed by the University of Michigan with funding from the National Institute on Aging (grant number NIA U01AG009740). Ann Arbor, MI.

Let’s talk pensions: Assets after 18 years

With pension

Assets dropped

4%

Without pension

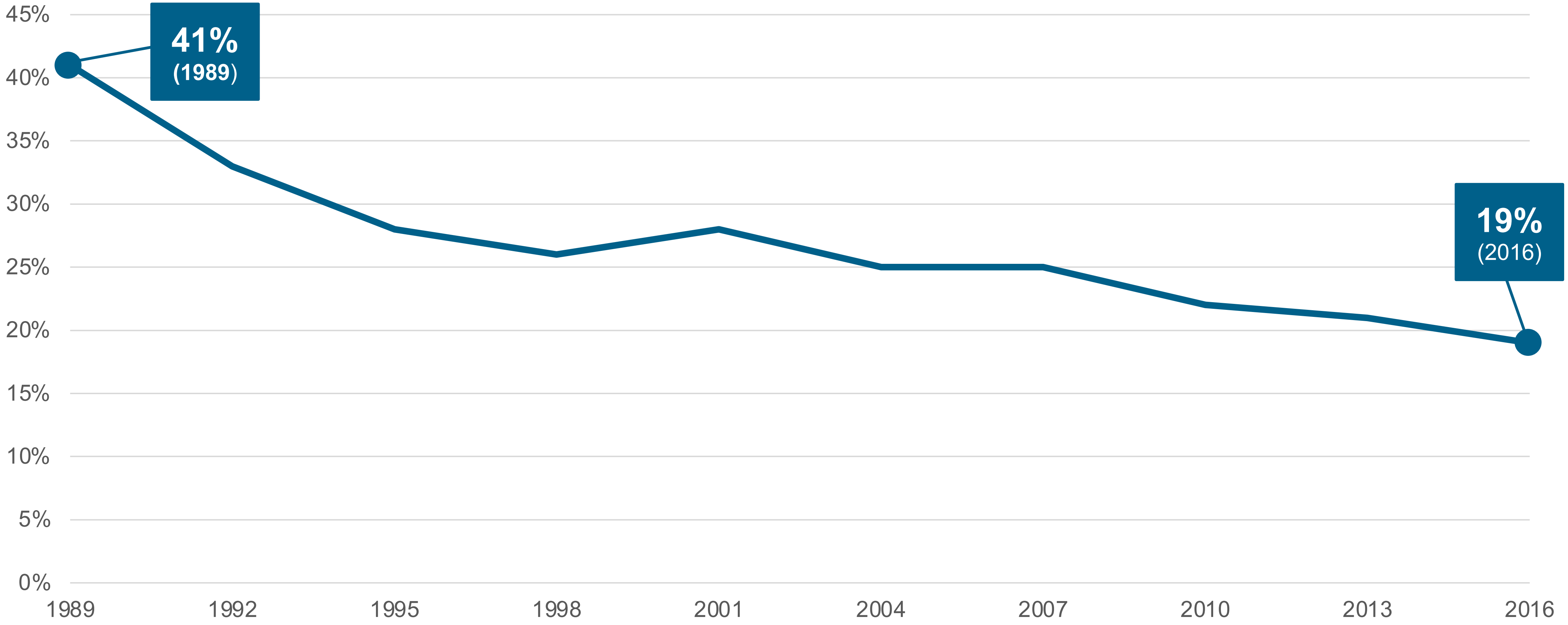
Assets dropped

34%

Source: Banerjee, Sudipto, *Asset Decumulation or Asset Preservation? What Guides Retirement Spending?*, Employee Benefits Research Institute (EBRI), Issue Brief, April 3, 2018, No. 447, pg. 10.

Let’s talk pensions

Percentage of families age 32–61 with DB plan



Source: Morrissey, Monique, *The State of American Retirement Savings*, Economic Policy Institute, December 10, 2019, Chart 2, pg. 5, epi.org/136219

SAVER BEHAVIOR

Potential saver motivators

Rational

Psychological

Behavioral

Rational

Specific Goal

- Medical/Nursing home bills
- Leave it to the kids
- Leave it to charity

Rational

Specific Goal

- Medical/Nursing home bills
- Leave it to the kids
- Leave it to charity

Unknown Goal

- Unsure what a safe spending rate is
- Provides options for future spending
- "Just in case" something bad happens

Psychological

Satisfaction From the Balance Itself

- Utility theory/Wealth Depletion Aversion
- Balance improves feeling of financial well-being and life satisfaction

Psychological

Satisfaction From the Balance Itself

- Utility theory/Wealth Depletion Aversion
- Balance improves feeling of financial well-being and life satisfaction

Comparison

- Higher balance = more successful

Behavioral

Habit

- Used to a lifestyle that moderates spending
- More conscientious/biased toward the balance

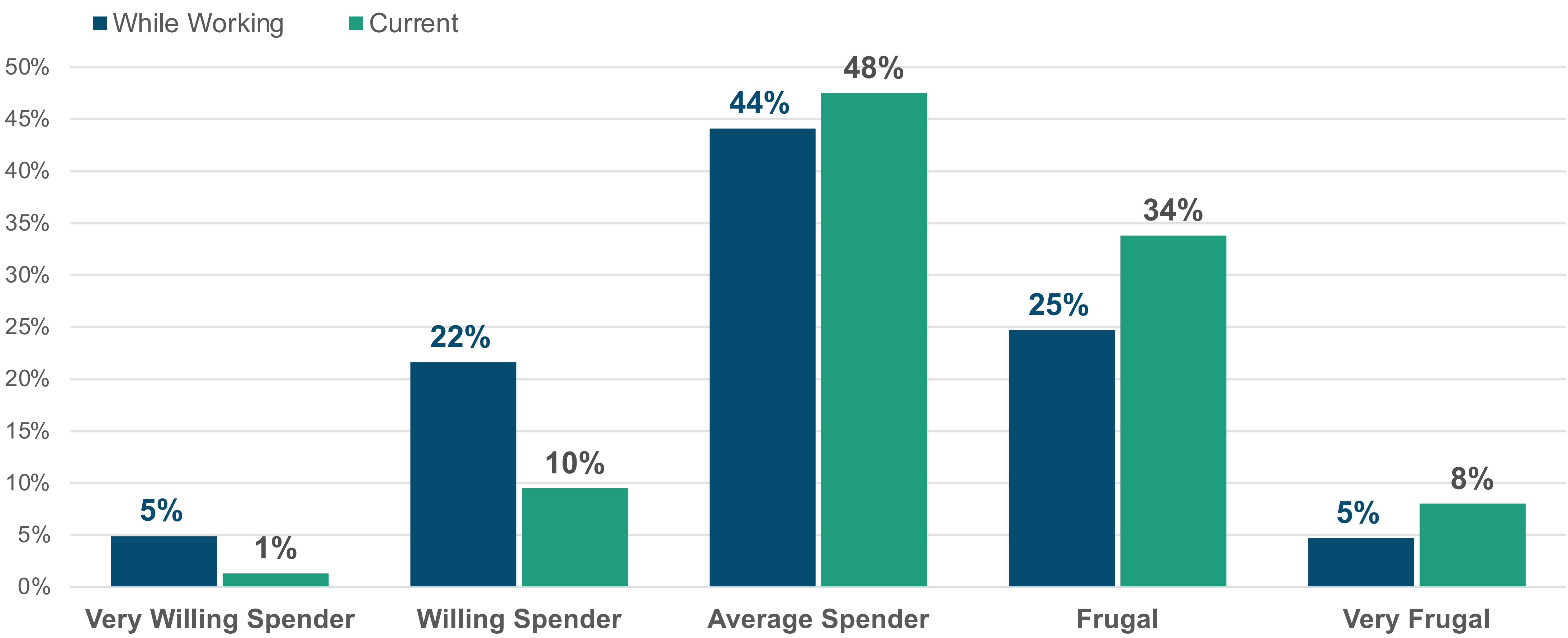
Behavioral

Habit

- Used to a lifestyle that moderates spending
- More conscientious/biased toward the balance

Changing Preferences

Preferences change: Frugality increases in retirement



Source: Lucas, Lori, *Why Do People Spend the Way They Do in Retirement? Findings From EBRI's Spending in Retirement Survey*, Employee Benefits Research Institute (EBRI), Issue Brief, January 14, 2021, No. 522, Figure 19, pg. 18.

Different Preferences

Conventional Wisdom vs. Retiree Spending

Mapping Preferences to Solutions

Uncovering preferences

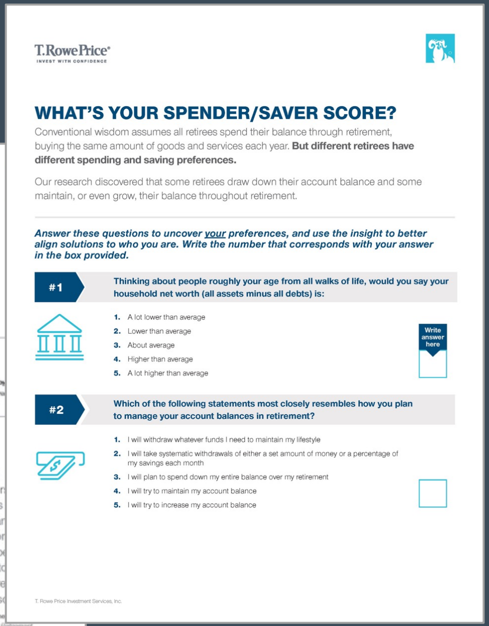
- **Use *What's Your Spender/Saver Score?***
  - Combines demographic indicators with expressed preferences
- **Read *Decoding Retiree Spending***

T. ROWE PRICE INSIGHTS
ON RETIREMENT

Decoding Retiree Spending

A better understanding of spending patterns may transform retirement income solutions

Decoding Retiiree Spending



T.RowePrice

WHAT'S YOUR SPENDER/SAVER SCORE?

Conventional wisdom assumes all retirees spend their balance through retirement, buying the same amount of goods and services each year. **But different retirees have different spending and saving preferences.**

Our research discovered that some retirees draw down their account balance and some maintain, or even grow, their balance throughout retirement.

Answer these questions to uncover your preferences, and use the insight to better align solutions to who you are. Write the number that corresponds with your answer in the box provided.

#1 Thinking about people roughly your age from all walks of life, would you say your household net worth (all assets minus all debts) is:

1. A lot lower than average
2. Lower than average
3. About average
4. Higher than average
5. A lot higher than average

Write answer here

#2 Which of the following statements most closely resembles how you plan to manage your account balances in retirement?

1. I will withdraw whatever funds I need to maintain my lifestyle
2. I will take systematic withdrawals of either a set amount of money or a percentage of my savings each month
3. I will plan to spend down my entire balance over my retirement
4. I will try to maintain my account balance
5. I will try to increase my account balance

Spender/Saver Tool

Reconsider what it takes to make someone happy

- Always have the exact same lifestyle?
- Always buy the same goods and services?
- Always spend the same (real) amount of money?
- It changes!

Applying preferences

Applying preferences

- Communicating
- Planning discussions should cover financial **and** emotional aspects
- Align wording to what they want to hear (income vs. balance; spending vs. saving)

Charles the Spender

- Focus is on using his money to maintain his spending
- Communicate in a way that connects back to his spending preference
  - Describe solutions in terms of how they could support his spending
  - Talk about how much his income might be

Catherine the Saver

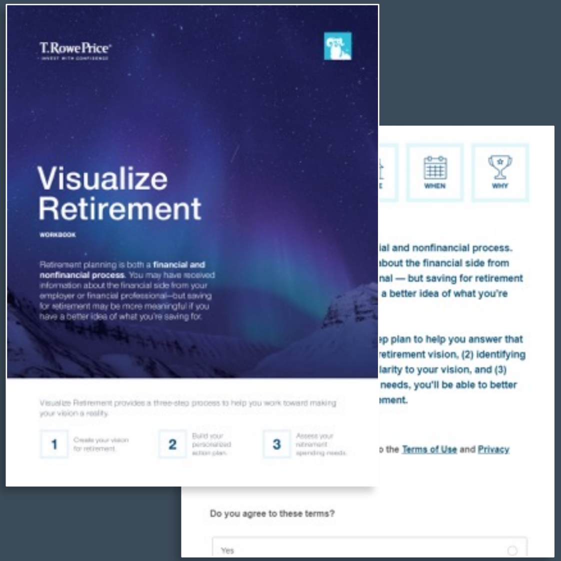
- Focus is on maintaining her balance for the future
- Communicate in a way that connects back to her saving preference
  - Describe solutions in terms of how they could support her balance
  - Talk about how her balance will be sustained

Resources

Decoding Retiree Spending

What's Your Spender/Saver Score?

Visualize Retirement Program



Conversation Starters

HOW IT ALL TURNED OUT…

After Battle of Guilford Courthouse...Yorktown

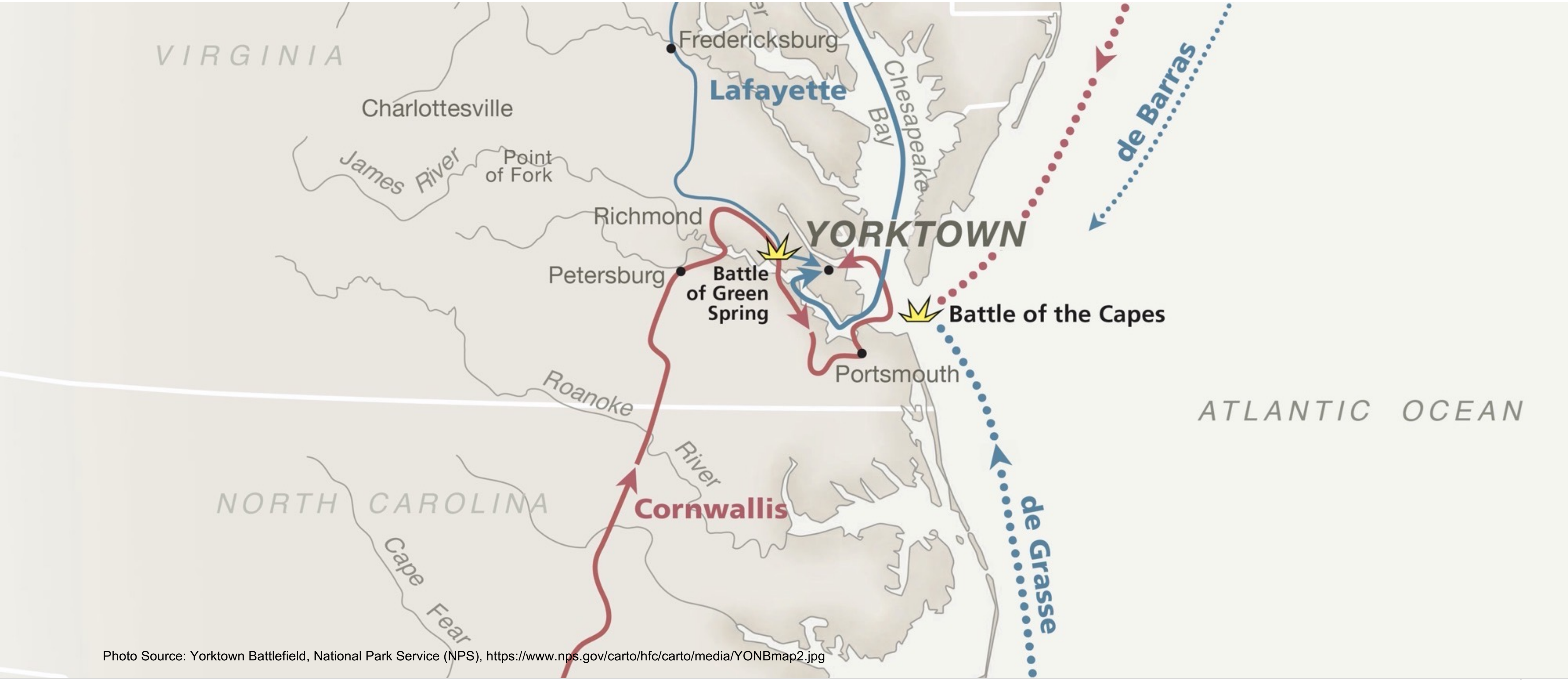


Photo Source: Yorktown Battlefield, National Park Service (NPS), https://www.nps.gov/carto/hfc/carto/media/YONBmap2.jpg

Retirement planning lessons

Recognize that different people have different preferences.

Determine what those preferences are.

Pursue solutions that are in line with those preferences.

Important information

This material, including any statements, information, data, and content contained within it and any materials, information, images, links, graphics, or recording provided in conjunction with this material are being furnished by T. Rowe Price for general informational purposes only. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The views contained herein are as of the date presented 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.

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 and is not intended to suggest any particular investment action is appropriate for you. Please consider your own circumstances before making an investment decision.

All investments are subject to risk, including the possible loss of principal.

T. Rowe Price Investment Services, Inc.

THANK YOU

CCON0164323
202312-3175225