Helping Workers Prepare for Successful Retirements

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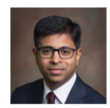
KEY INSIGHTS

- Retirees who took advantage of their 401(k)s while they were working are highly satisfied and financially stable in retirement.
- Existing 401(k) plans can ensure retiree satisfaction via plan design that increases participation and savings rates.
- Employee education programs should use retiree satisfaction data to help workers understand the reasons to save.



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For private sector American workers, funding retirement is now largely dependent on workplace-provided 401(k) plans and Social Security. New T. Rowe Price research shows that it is a system that can be successful when people have access to it and use it.

Retirees' Experience Exceeds Expectations

What is a successful retirement? Our research shows that retired workers are faring better than current workers expect to fare (Figure 1), and better than what they had expected themselves.

(Fig. 1) Retirement Expectations of Current Workers vs. Retirees

	Current Workers	Retirees
I will work at least part time in retirement	52%	16%
I will have enough money to pay for health care	46%	77%
I will have to reduce my standard of living	41%	20%
I will live as well or better as I did when I was working	39%	69%
I will be able to leave money to family members or charities	32%	59%
I will run out of money	25%	9%
I will be able to help out younger family members with tuition or housing expenses	25%	27%

76%

of satisfied retirees report that they live as well or better in retirement as they did while working.

(Fig. 2) Financial Data

	Satisfied Retirees[1]	Unsatisfied Retirees[2]
Median household income	$90,000	$65,000
Average household debt[3]	$15,000	$24,000
Money held in retirement accounts[4]	$370,000	$281,000

Drivers of Retiree Satisfaction

Of the total population of retirees we surveyed, 85% indicated that their retirement turned out to be as good or better than expected, with 80% saying that their retirement years are more enjoyable than their working years. By contrast, 14% indicated that retirement was worse than expected. We can gain valuable insights into potential drivers of satisfaction by examining the differences between satisfied and unsatisfied retirees.

Financial matters—income, assets, and both current and anticipated expenses—are the primary drivers of retiree satisfaction. Satisfied retirees have more assets, greater incomes, less debt, and fewer concerns about future expenses. Clearly, public policy, plan design, and participant education that encourage early, adequate, and steady savings will go far to mitigate the shortfalls that contribute to retiree dissatisfaction.

Also critical for individuals is their ability to maintain a standard of living in retirement that is similar to their working years. This affirms our belief that finances play an important role in retiree satisfaction:

- 76% of satisfied retirees report that they live as well or better in retirement as they did while working, compared with only 37% of unsatisfied retirees.
- 15% of satisfied retirees expect to have to reduce their standard of living, compared with 48% of unsatisfied retirees.
- 5% of satisfied retirees expect to run out of money, compared with 28% of unsatisfied retirees.

Retiring When I Want, and Working Only for Enjoyment

Our research shows that retiring in an orderly fashion, when the individual is ready and has saved enough, is much more likely to produce post-retirement satisfaction than when the individual must retire unexpectedly:

- 62% of satisfied retirees reported retiring when they were ready or at the point they had planned to, compared with 51% of unsatisfied retirees.
- 52% of satisfied retirees report that they had attained their desired level of assets, age, and savings, compared with only 31% of unsatisfied retirees.

While only 15% of respondents report working or looking for work, the reasons for working are telling. For unsatisfied retirees, 70% of those still working report that they are doing so because they need the money compared with only 42% of satisfied retirees. Conversely, 32% of unsatisfied retirees report liking the mental stimulation provided by their current work, whereas 52% of satisfied retirees do.

[1]Agreed “somewhat” or “completely” that “so far, my retirement has turned out to be just as good or better than expected.”
[2]Agreed “somewhat” or “completely” that “so far my retirement has turned out to be worse than expected.”
[3]All types of debt, self or other adult. 51% of satisfied retirees report no debt, versus 43% of unsatisfied retirees.
[4]Market value of accounts of self and other adult, including traditional or Roth IRAs, 401(k), Roth 401(k), 403(b), 457, profit sharing, or other DC accounts at current or former employers.

Your 401(k) Will Work—If You Use It

Our research finds that a 401(k) plan can make the difference between a satisfied retirement and an unsatisfied one. Employees with sufficient retirement savings can retire when they want, work in retirement only if they choose to, and generally enjoy a more satisfactory retirement. The key to success is saving enough—starting early, saving at high enough rates, and staying on track.

Actions for Advisors and Plan Sponsors

Understanding the drivers of retiree satisfaction can help plan sponsors and their advisors create better plans. First, and most importantly, since retirement assets and income play such an important role in satisfaction, plan design initiatives should push early, steady, and higher rates of saving. These include increasing the initial automatic deferral rate to at least 6% and adding automatic escalation so that participants reach a savings rate of 15% (including employer contributions) as early as possible in their careers.

Second, employee communication strategies should teach employees that beyond the savings rate, other factors such as health care costs, how someone retires, and post-retirement employment, can make the difference between retiree satisfaction and dissatisfaction. Many plans ignore these, stressing only a targeted savings goal. But participants who first understand the reasons for accumulating assets by learning about the causes of an unsuccessful retirement, and then understanding their own ability to retire on their own terms, might actually take the actions that their calculators suggest.

ABOUT OUR RESEARCH

T. Rowe Price engaged NMG Consulting to conduct a national study of 3,005 adults aged 21 and older who have never retired and are currently contributing to a 401(k) plan or are eligible to contribute and have a balance of at least $1,000. We also included an oversample of 1,005 adults who have retired with a rollover IRA or left-in-plan 401(k) balance. The online survey was conducted from July 24 to August 14, 2018. This is the fourth in a series of participant surveys, and data from prior surveys is used in this report for comparison purposes.

For more information on this and our other extensive research on retirement savings and spending, please contact your T. Rowe Price representative.

FINAL THOUGHTS

Advisors and other experts have advocated for saving early and steadily for retirement. This research supports the wisdom of that advice.

Retirees who prepared and took advantage of their 401(k) plans have generally maintained the same lifestyle in retirement as in their working years.

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