



# Insights on the Retirement Environment

For Investment Professional, Institutional Investor, and Plan Sponsor Use Only.

# Multiple perspectives sharpen our focus



1 Multiple Perspectives

2 Outcomes Matter

3 Revisiting Capital Preservation

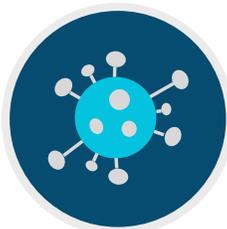
4 Beyond Conventional DC

## Evolution, turbulence, and the need to adapt



### Legislative and regulatory landscape

In the face of a whirlwind of DOL activity, the retirement community has reoriented short- and long-term priorities.



### Turbulence fueled by public health crisis

Pandemic-induced market volatility triggered greater participant engagement.



### Rising to the challenge, together

Workforce savings needs are more complex, requiring plan sponsors and providers to adapt to new expectations.

# Proprietary retirement research from T. Rowe Price



## Participants

Findings from a nationally representative sample of 3,000+ plan participants, as well as 2M+ participants from the T. Rowe Price recordkeeping platform



## Plan Sponsors

Insights from over 175 plan sponsors



## Consultants

Insights from consulting firms with over 5,500 clients and \$3.9T AUA



## Consultant Views

At various points in the year, we asked consultants how they expected plan sponsors to adapt to new priorities.



### After SECURE Act legislation

Retirement income solutions and financial wellness programs were the top anticipated areas of focus.

### After CARES Act legislation

Plan sponsors prioritized adoption of CARES Act provisions, communicated “stay the course,” and reevaluated retirement-related goals for the year.

### A look at the year ahead

Consultants expect plan sponsors to focus on prior strategic objectives, including the evaluation of retirement income solutions and financial wellness programs.

# Retirement Outcomes Matter



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Beyond Conventional DC

DC plans play a key role in retirement savings, and in more recent years, plan sponsors have acknowledged the opportunity to help beyond basic accumulation.



## Participant Views

When it comes to advice and support about how to achieve your lifetime financial goals, to what extent do you rely today on the following sources?

62%

Advice and support from the company that manages **your workplace retirement plan**

57%

Tools, calculators, and education from the company that manages **your workplace retirement plan**

50%

Advice and support from friends, family, and coworkers

45%

Advice and support from an advisor paid through fees or commissions

T. Rowe Price, 2019 Retirement Savings and Spending Study.



## Consultant & Plan Sponsor Views

Both consultants and plan sponsors reported **longevity risk** as a top concern when evaluating a QDIA.

### Longevity Risk

Behavioral Risk

Downside Risk

Volatility Risk

Inflation Risk



T. Rowe Price, 2020 Defined Contribution Consultant Study.



Consultants

&  
Plan Sponsors



T. Rowe Price, 2019 A Research-Based Approach to Better Retirement Outcomes.

Shouldn't we consider a participant's **full retirement journey** to better target desired outcomes?

86% of plan sponsors agree

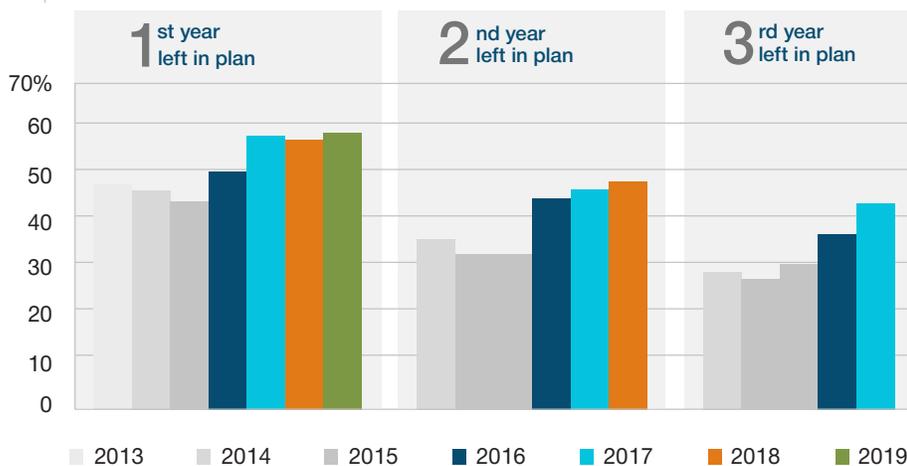
T. Rowe Price, 2018 Plan Sponsor Views on Retiring Participants.



## Participant Views

Our recordkeeping data suggest that more participants are remaining in plan at retirement.

### DC assets retained beyond age 65



T. Rowe Price Retirement Plan Services DC plan participants as of 12/31/2019.

Moreover, we find that a majority of participants across generations would consider remaining in their plan if the plan offered investment solutions that could help them generate income.

T. Rowe Price, 2019 Retirement Savings and Spending Study



## Consultant & Plan Sponsor Views

Consultants observe that while many plan sponsors have made a point to

Focus on preserving or building plan scale

Focus on retirement savings outcomes

There is an opportunity to deliberately reach out to participants about staying in plan at retirement.



## Plan Sponsor Views

Many plan sponsors agree that there are potential benefits for retirees who stay in plan

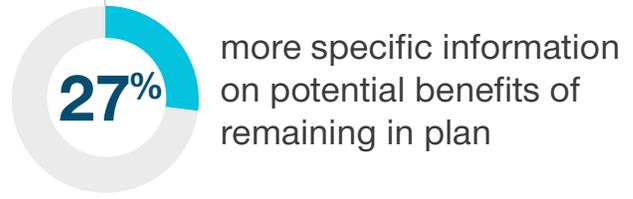


Fewer take steps to **communicate the advantages.**

Participants are usually better off keeping their DC balances in plan rather than rolling over to an IRA after retirement because of



To help participants decide what to do with their DC balances after retirement, **plan sponsors choose to provide**



T. Rowe Price, 2018 Plan Sponsor Views on Retiring Participants.

# Beyond basic accumulation: solving for retirement income



## Consultant & Plan Sponsor Views

Retirement income **hurdles** are narrowing



but still exist

However, despite these challenges

there is appetite for solutions, and the industry is moving forward.

Solutions Ahead

Even with the passage of the SECURE ACT, concerns remain about retirement income

- Recordkeeping operations limitations
- Resources for communications
- Added costs and risk
- Administrative burden

T. Rowe Price, 2020 Defined Contribution Consultant Study.



Make an explicit decision on keeping retirees in plan.



Offer retirement education and income planning tools earlier to smooth the transition.



Ensure retirees can request partial distributions and systematic withdrawals.



Consider creating a tier of retirement-oriented investments with features useful to retirees.

94% of consultant firms believe multiple retirement income investment solutions—with varying levels of income guarantees or liquidity—should be offered to retirees to accommodate their wide-ranging need.

T. Rowe Price, 2018 Plan Sponsor Views on Retiring Participants.

# Revisiting Capital Preservation

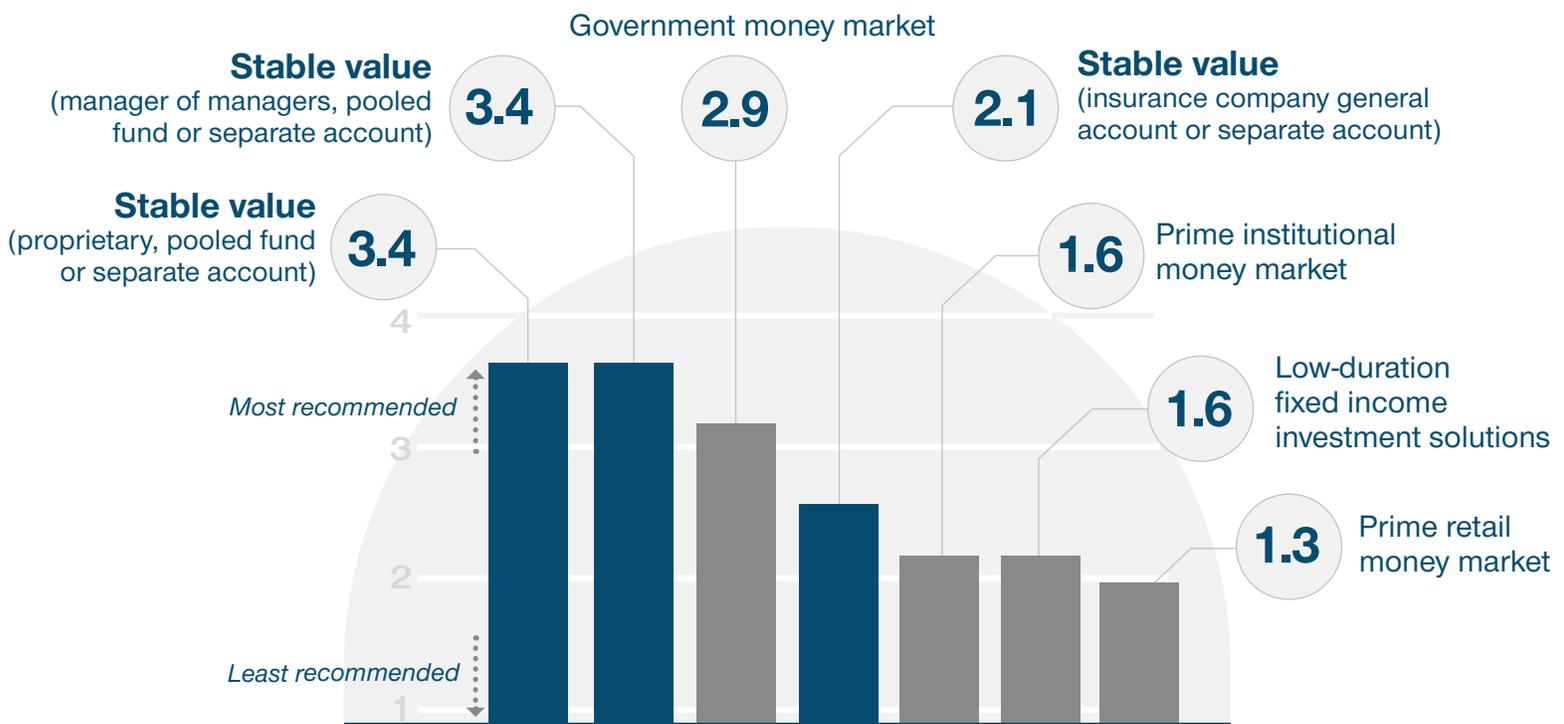


- 1** Multiple Perspectives
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## Consultant Views

Among various capital preservation offerings within DC plans, stable value is the most recommended by consultants, due in part to increased focus on its role as a foundation of a retirement income tier.

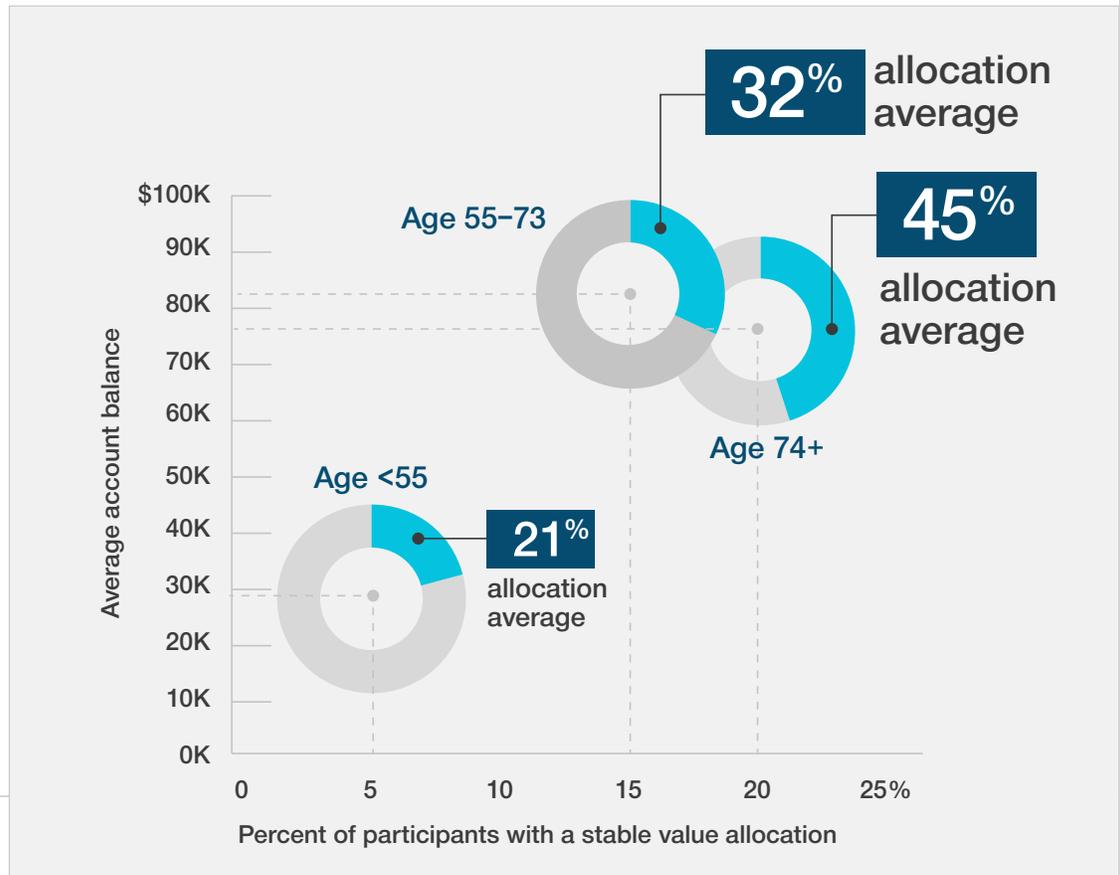


# Who Uses Stable Value?

Stable value investment allocation increases among older participants who maintain higher account balances.



## Participants Stable value—participant use, average balance, and allocation by age



T. Rowe Price Retirement Plan Services DC plan participants as of 12/31/2019.



## Consultant Views

Stable value is expected to have the highest appeal for both sponsors and participants as a portfolio component for retired participants.

and

Appeal of annuity solutions is low and dependent on location, in or out of the plan.

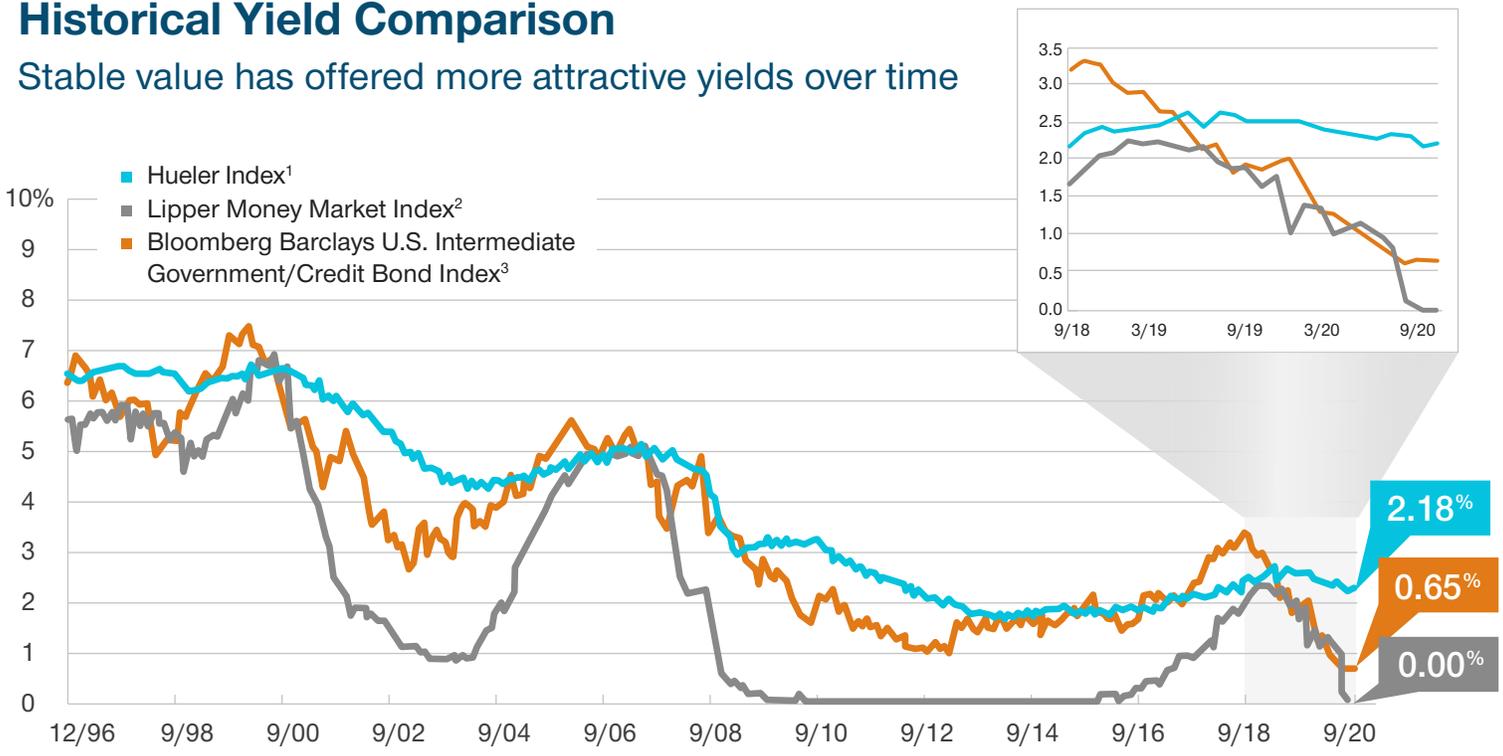
T. Rowe Price, 2020 Defined Contribution Consultant Study.

# History has shown stable value investments have performed well relative to

- 1** Money market investments
- 2** Other short-term bonds
- 3** Inflation across various interest rate environments

## Historical Yield Comparison

Stable value has offered more attractive yields over time



As of September 30, 2020. Past performance is not a reliable indicator of future performance. Money market and stable value funds have different risks. It is important that you carefully review the legal documents for each type of vehicle prior to investment to determine if it is appropriate for your plan. Figures are calculated in U.S. dollars. See the end of this piece for information on the indices used within this historical yield comparison and a table comparing the important differences between money market and stable value funds.

Stable value is growing as a preferred capital preservation solution.

Historically low current yields from conventional bond investments offer minimal return.

Potential for future increases in interest rates that could erode the value of conventional bonds.

# Beyond Conventional DC

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## Consultant Views

In November 2020, DC consultants expressed that the following will be the top financial wellness topics as we enter 2021.

1

Improving overall financial knowledge

2

Determining how much to save and measuring progress

3

Building emergency savings

4

Estimating retirement income needs

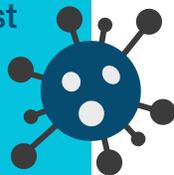
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General debt management

6

Student loan debt management

**Pandemic impact:** Interest in emergency savings has increased dramatically in the wake of the financial impact of the coronavirus pandemic



**...but** as we move toward a post-pandemic era, other priorities—like dealing with student debt—will likely reemerge.





## Consultant Views

Plan sponsors may find it valuable to meet participants where they are to help them establish a savings hierarchy for their competing financial priorities.

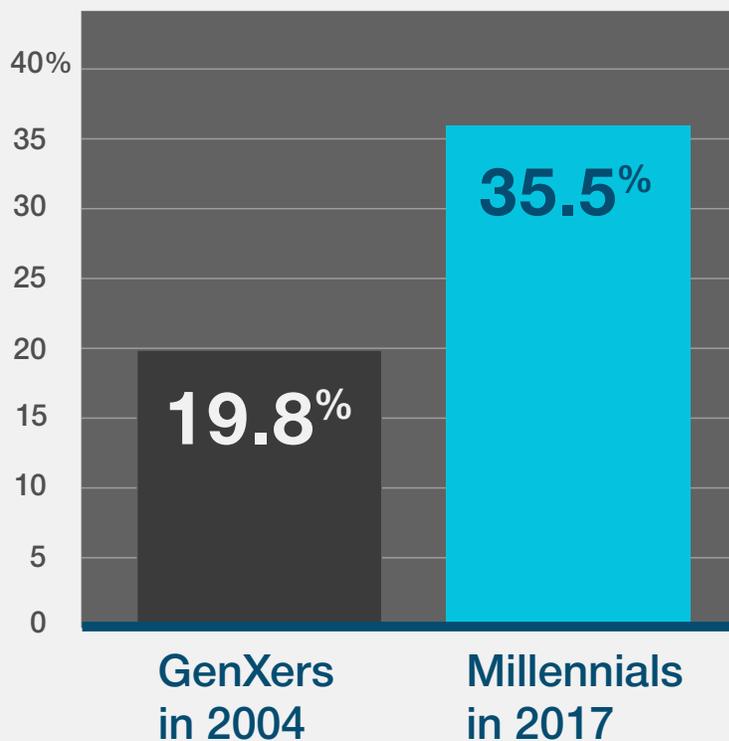


Most consultants identified **student debt repayment programs** as an attractive benefit and an interesting opportunity.

T. Rowe Price, 2020 Defined Contribution Consultant Study.



### Incidence of student debt



At a comparable lifestage, more millennials were burdened with student debt than their Gen X predecessors.

Christopher Kurz, Geng Li, and Daniel J. Vine (2018). "Are Millennials Different?," Finance and Economics Discussion Series 2018-080. Washington: Board of Governors of the Federal Reserve System, <https://doi.org/10.17016/FEDS.2018.080>. Federal Reserve Bank of NY Consumer Credit Panel/Equifax. Note: The full table within the study reports various components of household liabilities for the youngest working cohort and the population in 2004 and 2017. Median values are conditional on having a positive balance.



# Consultant & Plan Sponsor Views

## A deeper dive into financial wellness programs



Plan sponsors and consultants agree on the **top reasons for adding financial wellness programs** to the retirement offer

- Improved worker satisfaction
- Reduced employee financial stress
- Improved employee retention
- Increased employee productivity
- Improved workforce management for retirement



and they agree that measuring the impact of financial wellness programs is key to asserting their value

- Worker satisfaction and retention
- Reduced employee financial stress

T. Rowe Price, 2020 Defined Contribution Consultant Study. Lori Lucas and Jack VanDerhei, "2019 Employer Approaches to Financial Wellbeing Solutions," EBRI Issue Brief, no. 491 (Employee Benefit Research Institute, September 26, 2019).

We expect to see

continued creativity and advancements in financial wellness programs as plan sponsors and consultants work hard to improve the retirement and financial security of plan participants.



## Key Takeaways



**Consider revisiting strategic priorities** relative to the SECURE Act and retirement-related provisions of the CARES Act.



**Ensure the QDIA and retirement income strategies** used in your plan are aligned to desired retirement outcomes for your participants.



**Evaluate capital preservation investments** in your core lineup and ensure their characteristics are consistent with your strategic goals.



**Explore beyond conventional DC plan strategies** to set up your plan to help participants along the entire retirement planning journey.

Interested in learning more about proprietary retirement environment insights from T. Rowe Price?

Visit

[troweprice.com/dcio](https://troweprice.com/dcio)

## T. Rowe Price Proprietary Retirement Research

### **2020 Defined Contribution Consultant Study**

Conducted in partnership with Schaus Group. Survey population includes 20 defined contribution consulting firms responding to a total of 41 questions from January 7 through February 13, 2020, and April 8 through April 21, 2020. Participating firms also received a custom report comparing their firm's responses with the aggregate responses.

### **2019 A Research-Based Approach to Better Retirement Outcomes**

Survey conducted by P&I Content Solutions Group during November and December 2019, and statistical analysis conducted by Signet Research Inc. Survey population included 451 plan sponsors. Not all survey respondents completed all survey questions. T. Rowe Price designed the survey questions and is solely responsible for the interpretation of the results.

### **2019 Retirement Savings and Spending Study**

Survey conducted by NMG Consulting and included a sample of 3,016 retirement plan participants, 250 eligible non-plan participants, and 603 individuals without access to workplace savings plans. The survey was conducted online from June 13 through June 25, 2019.

### **2019 Participant Focus Groups: Bridging the Gap Between Accumulation and Decumulation**

Research included six focus groups with 39 individuals, all near retirement or recent retirees, age 45–70, in Phoenix (Tempe), AZ; Atlanta (Buckhead), GA; and Chicago (Oak Brook), IL. Conducted by aQity Research & Insights in July 2019. T. Rowe Price was not identified as the research sponsor.

### **2018 Plan Sponsor Views on Retiring Participants**

Survey conducted by P&I Content Solutions Group during September and October 2018, and statistical analysis conducted by Signet Research Inc. Survey population included 210 plan sponsors. Not all survey respondents completed all survey questions. T. Rowe Price designed the survey questions and is solely responsible for the interpretation of the results.

### Historical Yield Comparison Chart (page 10)

<sup>1</sup> The Hueler Pooled Fund Index is provided by Hueler Analytics, Inc., a stable value data and research firm, which has developed the Hueler Analytics Stable Value Pooled Fund Comparative Universe (Universe) for use as a comparative database to evaluate collective trust funds and other pooled vehicles with investments in GICs and other stable value instruments. The Hueler Pooled Fund Index is an equal-weighted total return average across all participating funds in the Universe and represents approximately 75% of the stable value pooled funds available to the marketplace. Universe rates of return are reported gross of management fees. © Hueler Companies, Inc. and Hueler Analytics, Inc. 2021. All rights reserved. Hueler Index statistics are presented for comparative purposes only. Any further dissemination, distribution, or copying of the Hueler Universe data is strictly prohibited without prior approval or authorization from Hueler Analytics.

<sup>2</sup> Source for Lipper index data: Lipper Inc. Portions of the information contained in this display was supplied by Lipper, a Refinitiv Company, subject to the following: Copyright 2021 © Refinitiv. All rights reserved. Any copying, republication or redistribution of Lipper content is expressly prohibited without the prior written consent of Lipper. Lipper shall not be liable for any errors or delays in the content, or for any actions taken in reliance thereon. Bloomberg Index Services Limited.

<sup>3</sup> The Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index is a component of the Bloomberg Barclays U.S. Government & Credit Index. The Government & Credit Index includes securities in the Government and Credit Indices. The Government Index includes Treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than 1 year) and agencies (i.e., publicly issued debt of U.S. government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. There is no standardized industry-accepted benchmark for stable value portfolios; all information on this page is provided for illustrative purposes only. Source for Bloomberg Barclays index data: Bloomberg Index Services Limited. Please see Additional Disclosures for information about this Bloomberg information. BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, “Barclays”), used under license. Bloomberg or Bloomberg’s licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

### Comparison Table

Stable value and money market funds have some important differences

	Money Market Fund	Stable Value Fund
Net Asset Value (NAV)	Stable	Stable
Participant Liquidity	Daily	Daily
Plan Withdrawals	Daily	Subject to withdrawal provisions <sup>4</sup>
Participant Withdrawals	Daily	Daily
Participant-Directed Transfers	Daily	Daily to noncompeting investment options <sup>5</sup>
Annualized Yield <sup>6</sup>	0.00% <sup>7</sup>	2.18% <sup>8</sup>

<sup>4</sup>Most stable value portfolios are subject to a put provision, meaning that plan sponsors need to notify the asset manager and wait a set amount of time before exiting.

<sup>5</sup>Stable value participants generally may not directly exchange assets from stable value to a competing investment option (typically shorter-duration bond funds and money market funds) unless such transfer is first subject to a 90-day transfer into a noncompeting fund.

<sup>6</sup>As of September 30, 2020.

<sup>7</sup>Based on the Lipper Money Market Index.

<sup>8</sup>Based on the Hueler Pooled Fund Index.

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