

THEME TWO

Financial Wellness

The need to offer holistic, personalized help to savers



At T. Rowe Price, we've developed a framework called the Retirement Behavior Index™ (RBI) that.... measures how well a person is able to manage their day-to-day household financial behaviors....

Our research suggests that keeping people on the path to their desired outcomes in retirement may require holistic help that goes beyond saving and investing for retirement. Conversations with plan sponsors reveal converging demands to help their employees that require breaking down the silos between retirement, wealth, and planning for future health care expenses in retirement.

What has changed? The concept of “financial wellness” has been around for some time, but it feels different now. Plan participants are seeking solutions, plan sponsors are more willing to offer them, and financial professionals and plan consultants increasingly are offering innovative products and services to help meet the needs of their clients.

This sea change has multiple drivers. First, young employees entering the workforce today have different expectations of their employers and the benefits offered to them than did previous generations. Second, employers have begun to better understand the role of benefits as potential strategic levers that can be pulled to attract and retain talent. Third, technology continues to increase and improve the user experience of services that can be delivered to plan sponsors and participants. Fourth, and last, these services are increasingly viewed by participants as valuable and potentially worth paying for.

Who Needs Help and Why

Financial wellness is a lifelong pursuit, and it means different things to different people. Ultimately, it comes down to this question: “How do I make the best decisions about the wealth and savings I have to achieve the goals that I’ve set?” However, because what people have and what they want both can differ, everyone has their own best answer to this question.

There are barriers to being financially well. For example, financial stress can impact individuals’ ability to save for retirement. T. Rowe Price research found that one-third of workers struggled to stick to their monthly budgets, and one-third of workers with student debt said they felt challenged by trying to repay it. Our research also suggests that the challenges of balancing day-to-day household finances, juggling competing financial goals, and feeling confident about retirement often persist throughout a person’s working years and into retirement. Further, the effects of financial stress are increasingly recognized by all stakeholders as a common barrier for participants saving for retirement. This has amplified the demand for potential solutions.

Our research and our experience working with clients suggest that the financial needs of participants evolve with both time and experience. The challenge that most participants face is that of establishing sound financial behaviors and setting and making progress toward financial goals. Whether we call it financial wellness, wealth management, or financial planning, the basic concepts and goals are similar. There are multiple stakeholders, such as employers, recordkeepers, financial professionals, and plan consultants, that can help those saving for retirement pursue successful outcomes.

The challenge essentially boils down to the ability to strike a financial balance between one’s present and future self. At T. Rowe Price, we’ve developed a framework called the Retirement Behavior Index™ (RBI) that seeks to do just that. On a scale of 0–100, with 0 being the lowest and 100 being the highest, the RBI measures how well a person is able to manage their day-to-day household financial behaviors, set and make progress toward their personal financial goals, and express their beliefs about what will be true about their future retirement, such as maintaining their standard of living.

See pages 17-18 of the full 2023 U.S. Retirement Market Outlook for T. Rowe Price research sources.

Our research found that among people struggling with financial wellness, expressed as an RBI score, their stress often stems from an inability to manage debt, handle household budgeting, or accumulate adequate retirement and nonretirement savings (Figure 1). People with higher levels of financial wellness said that they were more concerned with health care costs or managing their investments, so financial stress for these investors may stem more from managing wealth than from paying down debt.

Though RBI scores are measured at the individual level, we found differing patterns of interest among demographic groups. Among those saving for retirement through their employer's retirement plans, younger workers had greater interest in all types of financial wellness assistance, especially budgeting and cash flow management, as well as managing student loan debt. Women expressed more interest than men in all financial wellness categories, with budgeting and cash flow management, as well as building an emergency savings fund, ranking highest.

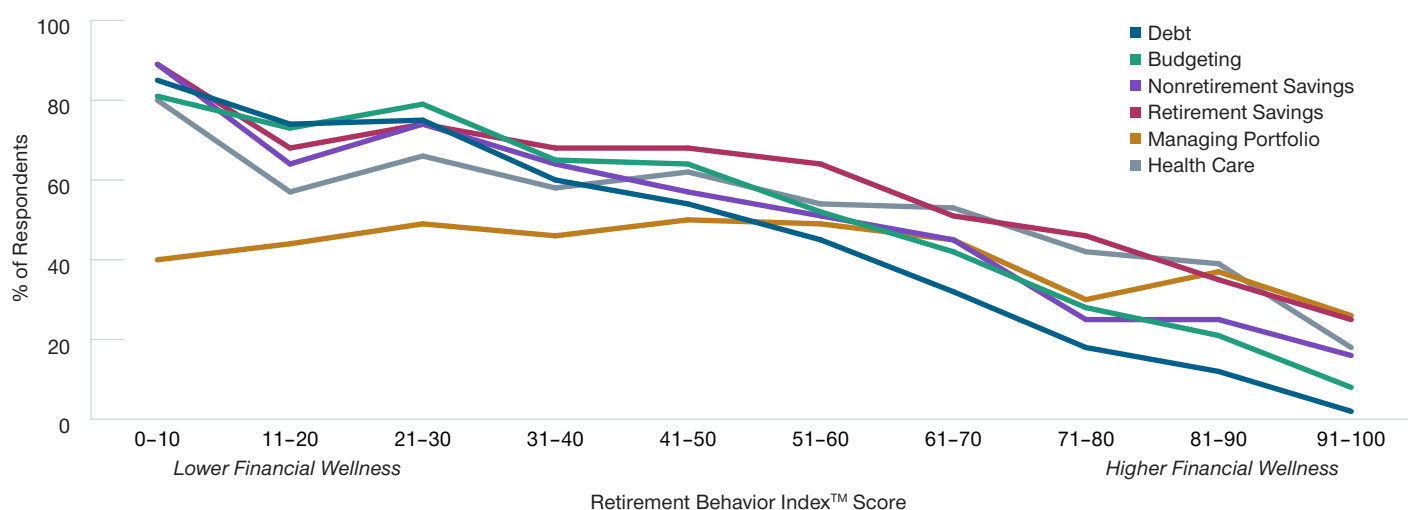
Not surprisingly, our research found that income plays a key role in what type of help is most appealing. Households making less than \$50,000 had the greatest interest in receiving help to build emergency savings funds. In contrast, the highest-earning households, those with incomes greater than \$150,000, were least likely to express interest in help provided through their employers.

More Advice for More People

Our research also suggests that people increasingly want holistic financial advice and that the world is moving toward more advice for more people. We asked retirees and active workers what financial advice they consider very valuable. Retirees named investment selection and asset allocation/rebalancing as their top two, followed by retirement planning and tax planning. In contrast, active workers most often saw value in paying for retirement planning and tax planning, followed by investment selection and asset allocation/rebalancing.

Debt, Budgeting, and Savings Are the Three Most Common Drivers of Financial Stress

(Fig. 1) Moderate to high levels of financial stress by source



As of August 2021.

Source: T. Rowe Price, 7th Annual Retirement Savings and Spending Study.

See pages 17-18 of the full 2023 U.S. Retirement Market Outlook for T. Rowe Price research sources.

One size doesn't fit all, neither with financial planning guidance nor with investment advice. Along with implementing an impactful financial wellness program, employers and financial professionals increasingly are offering investment advice to plan participants in the form of a personalized portfolio. We view this as a natural extension of the effort to offer employees more personalized help with their financial lives. While target date strategies remain the most prevalent default vehicles and have benefited millions of Americans investing for retirement, adding a personalized portfolio as a target date alternative or as an additional choice in a plan lineup recognizes that some participants may seek more personalized solutions, particularly as they get closer to retirement.

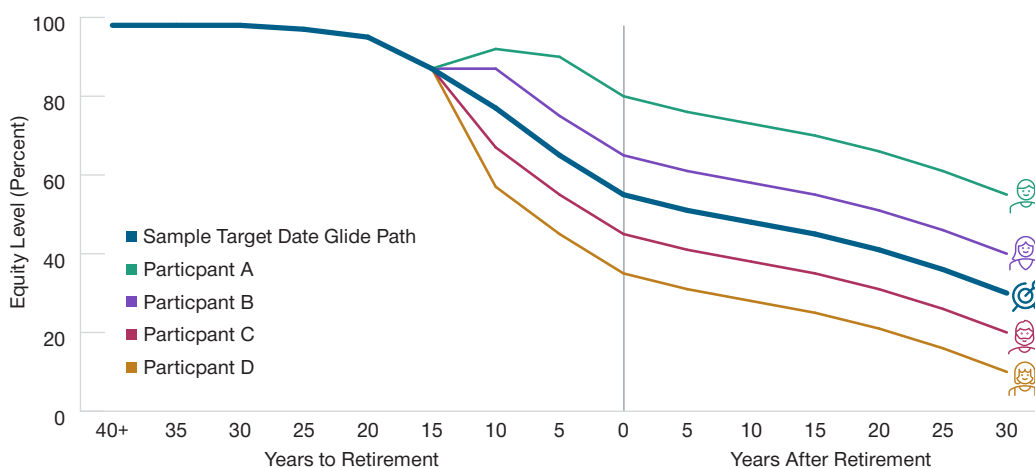
The distinctions between work and retirement also are blurring. A 2019 paper from the National Bureau of Economic Research indicated that only

37% of individuals followed the standard pattern of retiring directly and completely from their full-time jobs. Another 14% took part-time jobs before retirement, 10% remained in full-time jobs until age 70, 16% switched to part-time jobs and did not retire until age 70, and the rest followed more complex retirement pathways (such as retiring and then returning to work).¹

A growing emphasis on personalization and holistic financial wellness services is beginning to be reflected in the investment solutions offered to retirement plan participants, particularly those nearing retirement. Hybrid solutions that seamlessly transition a retirement investor from a target date strategy to a personalized allocation, typically 15 years prior to retirement, are attracting attention as a mechanism to move retirement investors to a more customized investment vehicle at a point in time when they can potentially derive the most value from personalization (Figure 2).

Hybrid Personalized Allocations Can Extend Traditional Target Date Investing

(Fig. 2) Equity levels in various hypothetical hybrid personalized glide paths



Plan Sponsor Views

92% of plan sponsors identified the hybrid/dynamic concept as "interesting."

45% agreed that focusing on older populations should drive higher levels of engagement with a hybrid/dynamic solution.

T. Rowe Price, 2019 An Informed, Research-Based Approach to Better Retirement Outcomes*

Source: T. Rowe Price.

*See Page 17 of the full 2023 U.S. Retirement Market Outlook for additional information.

For illustrative purposes only. Does not represent an actual investment or strategy. This is not intended to be investment advice or a recommendation to take any particular investment action. Each individual's circumstance and what is appropriate will vary.

¹ The Effects of Job Characteristics on Retirement, National Bureau of Economic Research, October 2019. On the Web at <https://www.nber.org/papers/w26332>

See pages 17-18 of the full 2023 U.S. Retirement Market Outlook for T. Rowe Price research sources.

Our research, as well as academic studies, suggests that comprehensive and integrated solutions may lead to better outcomes.² Having a customized investment portfolio, as well as guidance in areas such as setting the appropriate drawdown rate, factoring in nonretirement wealth, and providing tools to optimize Social Security benefit claims, can be especially valuable for those nearing and in retirement, in our view.

For plan sponsors contemplating a hybrid approach in a qualified default investment alternative, we believe it is important that the target date vehicle and the personalized solution both follow a consistent approach that employs the same underlying glide path methodology and uses similar asset class building blocks. A participant's asset allocation shouldn't change simply because they are switching methodologies at a certain point in their life cycle.

Delivering Personalized Advice and Guidance

Among our institutional clients, we are seeing retirement and wealth managers increasingly converge on the delivery of personalized financial coaching and investment advice as opportunities for differentiation and growth in their practices.

For many financial professionals, individual financial coaching is no longer a fuzzy, vague service that's a sideline to their core services to retirement plan sponsors. Instead, it has become a key part of their value proposition. The firms making headway in winning and keeping business today have evolved their practices and value

propositions based on their ability to help employees with their financial lives in a more holistic way.

Similarly, recordkeepers, financial professionals, and plan consultants have increased the availability of holistic help for retirement savers that is increasingly personalized, specific, bite-sized, easily actionable, and delivered digitally. Examples include:

- **Personalized messages**, which can influence investor behavior. Our research showed that participants between the ages 30 and 50 were 30% less likely to make an online withdrawal if they had engaged with financial wellness content.
- **Interactive videos** that use personalized data. Our research found that participants who watched short, personalized, interactive videos were twice as likely to increase their deferrals compared with those who did not.
- **Innovation that seeks to improve financial resiliency.** Emergency savings programs both within and outside a retirement plan can help savers address financial shocks (e.g., unexpected car repairs, medical bills, etc.) without tapping in to long-term retirement savings.

Investor demand for holistic financial wellness advice continues to grow and we believe the many stakeholders in the retirement savings process, including financial professionals, plan consultants, and recordkeepers, will continue to evolve and innovate their services to meet the opportunity.

² See, for example, "Broad Framing in Retirement Income Decision Making;" Hal E. Hershfield, Suzanne Shum, Stephen Spiller, David B. Zimmerman; National Bureau of Economic Research, September 2020.

On the Web at nber.org/programs-projects/projects-and-centers/retirement-and-disability-research-center/center-papers/nb20-10

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Investment Risks:

The principal value of **target date strategies** is not guaranteed at any time, including at or after the target date, which is the approximate year an investor plans to retire. These products typically invest in a broad range of underlying mutual funds that include asset classes such as stocks, bonds, and short-term investments and are subject to the risks of different areas of the market. A substantial allocation to equities both prior to and after the target date can result in greater volatility over short term horizons. In addition, the objectives of target date funds typically change over time to become more conservative.

Hybrid and personalized solutions are subject to risks including possible loss of principal. There is no assurance that any investment objective will be met.

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