2024
U.S. Retirement Market Outlook

Three themes to help investors tailor their retirement planning

Three themes to help investors tailor their retirement planning in 2024

Key Insights

- Successful retirement income planning involves active management of your sources of income and sequence of withdrawals.
- Diversifying an asset allocation strategy is important to help achieve security in retirement, as is having varied account types to hold those assets.
- A trusted financial planner can help you understand and coordinate the complexities of accumulating and drawing down your assets in retirement.

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Looking ahead to 2024, three major trends have emerged that could affect the way people are saving for and withdrawing income in retirement. Woven throughout these themes is the concept of active management, serving not just as a conventional method of investment selection, but also as an essential foundation for helping to achieve a prosperous financial future.

Considering the perspectives of financial professionals and individuals, we identified the following:

Retirement income is an active and individualized experience.

Retirement income cannot be solved by a single investment plan or solution. With growing demand from retirees, increasingly supportive legislation, and a continued evolution of products and services, we think the time is now for broader innovation and adoption of retirement income experiences.

Diversification is more than investment allocation.

Diversification is fundamental to helping investors reduce exposure to risk and achieve successful retirement outcomes over the long term. Investors are looking for a broader set of practical retirement solutions that can help address market risks and support tax efficiency throughout the accumulation and decumulation stages of retirement.

Personalization can drive changes in behavior.

Consumers are increasingly looking for personalization in all aspects of their lives. The retirement experience is no different. Data from our workplace retirement plan participants shows that tailored and targeted experiences can drive behavioral change and help improve an investor's likelihood of sticking to their plan.

Retirement income

Actively managing your sources of income and sequence of withdrawals.

The Pew Research Center estimates that 10,000 baby boomers are expected to turn age 65 each day until 2030. Up until this point, retirement strategies for this cohort have emphasized accumulation—how much you need to accrue in your retirement accounts to maintain your lifestyle with a reasonable level of certainty. Once retired, however, decumulation—i.e., a withdrawal or drawdown strategy—becomes the priority.

Retirement income as a process-based experience

In our view, individuals' retirement income needs can best be met through process-based experiences that involve the strategic coordination of variables such as your sources of income, Social Security claiming strategies, sequence of withdrawals, and cash flow. Along these lines, investors need to think of their portfolios holistically across all accounts (at the household level) rather than each account separately.

Our view on how individuals should consider these experiences is as follows:

- **When developing a withdrawal strategy, coordinating income sources and benefits (such as Social Security and Medicare) with the sequence in which you make withdrawals from different account types can help minimize tax impacts.**
  - Tax-efficient concepts such as asset location, household-level rebalancing, and withdrawal strategies that emphasize managing taxes over time are becoming a higher priority to investors. (See "The importance of tax-efficient account diversification" on page 5.)
  - The goal is to make retirement income generation more tax-efficient while maintaining the right risk/reward balance.
  - Current financial planning software emphasizes ways to liquidate assets and uses a simple default strategy for the order of withdrawals by account type, but more sophisticated solutions are gaining traction.
- **The key to success will be active coordination of many factors, dynamically and over the course of what could be a retirement lasting multiple decades.** The decisions retirees typically face are interdependent. For example, your Social Security claiming strategy and timing may affect which accounts you draw from and when. Other factors that require active coordination are:
  - Changing goals and spending patterns, including areas prone to change such as health care, housing, travel, and gifting goals.
  - Different tax circumstances over various phases of retirement (caused by timing of required minimum distributions (RMDs), Social Security claiming, and possibly years as a surviving spouse).
  - Potential for a lengthier drawdown period—due to both longer life spans and a growing shift to earlier partial retirement and later full retirement.
  - Recent and potential tax and legislative changes (tax cut reversion, SECURE Act).
  - Interest, dividends, and capital gain distributions. While some investors equate these with "retirement income," they could be seen as a tax liability (in taxable accounts) and should be viewed as part of the broader solution.
- **Education, financial tools, products (investment and insurance), and personalized services—including advice, calculators, and insights—can help retirees get the most out of all their retirement savings.**

> "Current financial planning software... uses a simple default strategy for the order of withdrawals by account type, but more sophisticated solutions are gaining traction.

Establishing your withdrawal strategy before you reach retirement can help ensure you distribute your savings across accounts in a way that best supports your retirement income needs. This is particularly important to keep in mind as catch-up contribution limits increase in the years approaching retirement and as opportunities for Roth conversions arise.

The role of Roth accounts

Roth accounts are an increasingly powerful tool for diversifying the taxation of income in retirement. In addition to contributions, **Roth conversions** may be valuable to many individuals. (That tactic involves moving Traditional individual retirement account (IRA) or other tax-deferred savings into a Roth account, ideally at a lower tax rate today than might be expected for withdrawals in the future.)

- Roth access is expanding significantly, due in large part to wider adoption in employer-based retirement plans and provisions of SECURE 2.0.
- Factors such as the elimination of the stretch IRA for most beneficiaries and the scheduled income tax rate reversion in 2025 have helped to make Roth accounts more attractive as access has increased.
- Roth assets can provide flexibility in retirement to handle spending spikes efficiently, with no additional tax impact.

Since qualified Roth withdrawals are tax-free,[1] taking them strategically can help make your savings last longer, increase your spending capacity, or leave a larger legacy to your heirs, depending on your specific goals.

What's next?

When you enter retirement, most of your retirement savings still qualifies as "long term" because you won't be using your entire nest egg all at once. Any additional after-tax gains you can achieve with these funds will help to maximize the amount available to you as you move through the later years of retirement. Since different accounts offer different tax treatments, thinking carefully about which accounts you want to use to fund your retirement and in what order can have a positive impact over time.

> "The more diverse your potential sources of income are, the more flexible your withdrawal plan can be.

The looming depletion of the **Social Security** trust fund will gain more attention in the coming years. Investors should be aware of potential changes to the system but not become paralyzed into inaction. (They should also consider avoiding rash, fear-based decisions, such as claiming earlier than recommended to address an unlikely resolution by the government.) Financial professionals can help people take an objective look at history, likely legislative approaches, and strategies that consider the possible outcomes.

Key takeaways for investors to consider:

- Start retirement income planning—beyond "how much"—well before retirement.
- Throughout retirement, think of retirement income as a process that needs ongoing evaluation and coordination.
- Retirement income is more complex than accumulation, so be sure to take advantage of key windows for meaningful action (such as between retirement, Social Security, and RMDs) and resources (including financial planning programs, financial professionals, and more widely available educational content).

[1] A qualified distribution is tax-free if taken at least 5 years after the year of your first Roth contribution AND you've reached age 59½, become totally disabled, or died. If your distribution is not qualified, any earnings from the Roth portion will be taxable in the year it is distributed. These rules apply to Roth distributions only from employer-sponsored plans. Additional plan distribution rules apply.

Diversification

Allocating and rebalancing your assets and accounts.

Diversification is fundamental to helping investors achieve successful retirement outcomes over the long term. During a lifetime of investing, individuals will face many risks, and achieving adequate portfolio growth during the retirement journey is critical, as is planning for the bumps that can and will happen along the way.

Outlining the importance of diversification can seem like stating the obvious, but the 2022 steep correlated sell-off in both stocks and bonds prompted valid questions about the role of diversification in helping to mitigate risk. **Diversification should not just be about asset allocation between traditional stocks and bonds.** While a mix across these asset classes typically influences portfolio growth, diversification across multiple market segments—such as sub-asset classes, regions, and sectors, among others—could boost results during different market regimes or hedge against specific risks and help improve retirement outcomes.

Although many investors understand how and why to diversify their stock portfolios, they often aren't equipped to properly diversify their bond holdings. In a complex market environment where inflation persists and interest rates are expected to stay higher for longer, a well-diversified fixed income allocation is especially critical.

Time to check under the hood

For over a decade following the 2008–2009 global financial crisis (GFC), inflation was not a major concern. Low interest rates meant that borrowing was cheap and prices on consumer goods and services were stable, but investors had to grapple with the impact of ultralow interest rates on their portfolios and seek additional ways to generate returns.

However, in recent years, the U.S. Federal Reserve and other major central banks have aggressively increased interest rates to combat elevated inflation. This, in turn, has provided opportunities for investors to enhance portfolio returns without increasing exposure to equity risk. But inflation risk lingers, and it remains unclear when interest rates will peak. **Therefore, it is more important than ever for investors to reexamine the fixed income asset allocation structure in their portfolio—and seek opportunities for further diversification.** (See "What's Next" on page 6.)

The importance of tax-efficient account diversification

Diversification probably plays a heavy role in your retirement planning already. But asset allocation isn't the only important means of diversification. By spreading savings across accounts that offer different tax treatments, an investor may be able to increase his portfolio's after-tax gains. This tax-efficient diversification can, in turn, help maximize the investor's retirement income.

Different types of accounts used for retirement provide different tax advantages (see Table 1). Consider the following:

- Making tax-deferred contributions to some retirement accounts, including **Traditional IRAs and 401(k) plans**, can reduce your taxable income.

- Making contributions to **Roth accounts** (both Roth IRAs and Roth 401(k)s) does not provide an immediate deduction, but qualified distributions are tax-free.

- Saving for retirement in a **taxable account** helps those who can't save in employer accounts or who want to save beyond IRS contribution limits. These accounts can also provide more penalty-free accessibility to assets than retirement accounts.

- **Health savings accounts** (HSAs) can act as a tax-efficient supplementary retirement savings vehicle for those with high-deductible health plans (HDHPs).

- In addition to using different types of accounts, an investor can invest in different types of securities across those accounts to benefit from different tax advantages. That approach is known as asset location. It is a powerful tool, but as noted earlier, it needs to be coordinated with the rest of an retirement income plan. For example, if an investor withdraws money from one account that is allocated differently than the overall target, the investor needs to rebalance the household portfolio to maintain proper diversification.

Considering Roth and traditional

As investors build their retirement savings, the choice between contributing to a traditional or Roth account depends at least in part on their current tax bracket relative to their anticipated tax bracket in the future. However, determining when and how much to contribute to a Roth account versus a traditional account over time can be a moving target. The ability to make Roth conversions means these decisions don't have to be set in stone.

Regardless of an investor's income-based eligibility to contribute to a Roth IRA in the past, converting a Traditional IRA to a Roth IRA can prove advantageous. While it may not be the right choice for everyone, **Roth conversions can provide tax diversification and help many investors increase their future financial flexibility in retirement**.

Tax treatments of different accounts

(Table 1) Different types of accounts offer different tax advantages for your retirement strategy.

	Traditional IRA or 401(k)	Roth IRA or 401(k)	Taxable Accounts	Health Savings Account*
Contribution Type	Tax-deferred or pretax	After tax	After tax	Tax-deferred or pretax
Income Tax on Earnings	Deferred	Deferred	Varies†	Deferred
Income Tax on Distribution or Liquidation	Ordinary rate	Tax-free for qualified distributions‡	Return of cost basis tax-free; gains at rates applicable to short-term or long-term capital gains	Tax-free if for qualified medical expenses

* HSAs are only available for those with HDHPs; health care plans should be selected primarily based on insurance coverage needs. Some HSA tax benefits only accrue if assets are invested in the account over the longer term. After age 65, nonqualified distributions will be taxed but not penalized.

† Taxable account appreciation earnings are taxed when liquidated, ordinary income-generating (e.g., interest) earnings are taxed at the ordinary rate, and capital gains are taxed at the qualified dividend rate.

‡ A qualified distribution from a Roth account is tax-free if taken at least 5 years after the year of your first Roth contribution AND you've reached age 59½, become totally disabled, meet the requirements for first-time homebuyer (for IRAs, only), or died. If your distribution is not qualified, any earnings from the Roth portion will be taxable in the year it is distributed.

What's next?

When considering components of a portfolio, diversified segments of the fixed income market may provide benefits over the long term and could help to make a portfolio more durable over a range of market environments. Some segments historically have had higher correlations to equities, while others have demonstrated superior inflation-fighting properties and less correlation to stocks.

Key takeaways for investors:

Within fixed income allocations, consider the following:

Looking beyond U.S. investment grade
Our research suggests that supplementing a core fixed income allocation with international bonds, in particular currency-hedged bonds, allows for additional interest rate and global opportunity diversification, which could lower volatility during periods of risk aversion.

Adding other sources of diversification
Core fixed income assets now provide positive real yields and can still have a valuable role to play in mitigating downside risk. However, if inflation risk remains persistent, other strategies may help offset risk in market environments like the one seen in 2022.

Higher-yielding fixed income—including high yield bonds, bank loans, and emerging market debt—could generate attractive returns in the current yield environment. Although non-core bonds can be highly correlated with equities in extreme market environments, they offer other meaningful diversification benefits that could make them potentially strong complements to equities as sources of growth and income.

Fixed income diversification with these "plus" sectors could help investors better navigate the various risks they will face over the life cycles of these sectors as well as the market conditions they may experience as they prepare for and go through retirement.

Take a broader view

Diversification of all kinds, including tax diversification, is typically best viewed across an entire portfolio rather than only in retirement accounts. Strategies aimed at maximizing after-tax gains and keeping market risk tolerable, such as setting asset allocation targets and rebalancing periodically, can often be applied more flexibly and successfully across all of an investor's accounts, including taxable investments. In other words, we believe tax efficiency should be part of any investor's regular review of both their retirement plans and their entire portfolio.

Personalization

Driving behavioral change through targeted experiences.

We discussed retirement income under our first theme, a very personal experience—given different needs and preferences—that requires a tailored solution. But personalization is not limited to products. It also includes services, which intersect with financial health.

During your working years, you may face challenges as you aim to save for retirement while also balancing day-to-day household finances and juggling competing financial goals. These include repaying student loans or other debt, starting and raising a family, purchasing a home, or saving for a child's education, among others.

Therefore, it's more important than ever to have access to comprehensive and tailored experiences that can help you navigate both short-term and long-term financial goals. Data show that personalized experiences can improve potential outcomes.

For example, T. Rowe Price Retirement Plan Services has found that 401(k) participants who watched personalized videos on financial topics were twice as likely to take action (such as increasing their deferral rate or adding/updating their beneficiaries). This helps to illustrate that personalization can not only educate, but it can motivate positive change.

How investor characteristics affect whether someone considers an advice aspect valuable

(Fig. 1) "Higher" indicates that a person with this characteristic is more likely to consider an advice aspect very valuable.

Advice Aspects	Investor Characteristics: Age	Retiree	Gender	Assets in Retirement and Bank Accounts	Assets in Taxable Accounts	Education Level	Contributing Enough for Retirement	Stressed About Debt
Retirement planning	↑ Higher for age 30+	↓ Lower		↑ Higher			↓ Lower	↓ Lower
Tax planning		↓ Lower		↑ Higher	↑ Higher	↑ Higher for above an assoc. degree		
Investment selection		↑ Higher					↑ Higher	
Asset allocation and rebalancing					↑ Higher			
Prioritizing goals and monitoring	↓ Lower for age 60+	↑ Higher						
Ongoing help and coaching						↑ Higher for above high school		
Estate planning and other		↑ Higher	↑ Higher for women				↑ Higher	
Day to day	↓ Lower for age 35+		↑ Higher for men		↓ Lower	↓ Lower for above high school	↑ Higher	↑ Higher

Source: T. Rowe Price Retirement Savings and Spending Study, 2021. The T. Rowe Price Retirement Savings and Spending Study (RSS) is an annual study that has been conducted online since 2014. The study annually surveys approximately 3,000–4,000 participants who are currently contributing to a 401(k) plan or eligible to contribute and have a balance of at least $1,000. The survey also includes an additional 1,000–1,500 retirees who have retired with a Rollover IRA or left-in-plan balance. The study investigates saving attitudes and behaviors of plan participants and retirees. The 2021 RSS was conducted between June 9, 2021 and August 4, 2021 and included 3,844 plan participants and 1,332 retirees.

How investors value advice

Financial professionals can help investors to evaluate and personalize their experiences related to the varying aspects of their financial goals. In our research, we asked investors to assess the value of these aspects of advice, ranging from asset allocation and investment selection to tax planning, behavioral coaching, and estate planning. The most valued advice aspects—namely, retirement planning, tax planning, investment selection, and asset allocation—were those that are more readily quantifiable than the less valued aspects, which tended to be more behavioral in nature. The most valued advice aspects overall were retirement planning, tax planning, investment selection, and asset allocation. However, the assessment of value varied widely depending on the characteristics of the investor (see Fig. 1).

What's next?

More and more, individuals need help sorting out options that best fit their personal situations across all stages of the retirement journey. How do I balance saving versus paying down debt? How much should I contribute? Should I make Roth or pretax contributions? Should I invest on my own or use default investments? At what age should I claim Social Security? How do I draw down my assets? Personalized services—like advice, tools such as income calculators and portfolio optimizers, as well as employer and other wellness programs—can help address many of these questions.

A growing emphasis on personalization and holistic financial planning services has meant that financial firms are increasingly offering investment advice in the form of personalized portfolios that consider an individual's circumstances beyond age, such as other savings they might have, debt, and detailed financial goals. We expect demand to grow for these individualized investment advice and professional portfolio solutions.

Conclusion

Viewing the big picture across all stages of retirement planning.

Establishing a flexible retirement strategy isn't a set-it-and-forget-it exercise. Although your goal of generating an appropriate level of retirement income will remain the same throughout, how you support that goal will change based on variables that evolve over time. Consider these actions that can help keep your goals in view and your plans on track:

- **Build a flexible withdrawal strategy.** Consider all your options for producing retirement income over time, including sources from outside your retirement accounts. Maximize Social Security income and use Roth assets to minimize tax impacts where possible. Remember to develop a strategy before retirement, if possible, so that you maintain as much flexibility as you can.
- **Diversify investments with growth potential, risk, and tax efficiency in mind.** Look beyond your stock/bond allocation for opportunities that reflect the recent increase in interest rates. As you approach retirement, it's important to keep an eye on your current tax rate and compare it with your expected tax rate during retirement so that you can direct your contributions to the most appropriate accounts.
- **Take a comprehensive approach to your retirement strategy.** Investing and rebalancing decisions that diversify your holdings may better support your long-term goals if you consider your asset allocation across your household's entire portfolio rather than setting targets solely for your retirement accounts.
- **Take advantage of all available resources.** In addition to the growing number of tools included with workplace retirement plans and financial planning offerings, consider finding a trusted financial planning professional to help tailor your plans to meet your needs, both as they stand today and as they evolve in the future.

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