



# First Look: Assessing the New Retiree Experience

401(k) participants are transitioning with considerable assets,  
high satisfaction

## ABOUT THE STUDY

### WHAT:

Quantitative, independent national consumer study conducted by BrightworkPartners LLC for T. Rowe Price.<sup>1</sup>

### PRIMARY FOCUS:

Examine spending behaviors, attitudes, and experiences of newly retired 401(k) participants.

### METHODOLOGY:

Research is based on online interviews with workers and retirees, conducted between February 19, 2014, and March 3, 2014.

**RETIREEES** are represented by 1,507 adults who:

- Retired in the past one to five years
- Have a Rollover IRA or a 401(k) account balance

**WORKERS** are represented by 1,030 adults who:

- Are age 50 and older
- Are contributing to a 401(k) plan or are eligible to contribute and have a balance in their current employer's 401(k) plan of at least \$1,000

<sup>1</sup> This study is based on online interviews with workers and retirees: Interviewees included 1,030 working adults age 50 or over who are currently contributing to a 401(k) plan or are eligible to contribute and have a balance in their current employer's 401(k) plan of \$1,000 or more and 1,507 adults who have retired in the past one to five years and have a Rollover IRA or a balance remaining in a 401(k) plan. Interviewing was conducted between February 19 and March 3, 2014. Findings in both samples are subject to a margin of error of just under 3%.

# SUMMARY:

## 401(k) participants are transitioning with considerable assets, high satisfaction

How are new retirees managing in retirement? Research by T. Rowe Price Retirement Plan Services, Inc., suggests they are faring quite well.

A quantitative study, **First Look: Assessing the New Retiree Experience**, provides insight into the spending behaviors and experiences of people who have been part of the 401(k) system and are now about three years into retirement. While the research reflects a diverse range of participants, ages under 50 to 75 and older, the majority are baby boomers 50 to 68 years old.

According to Anne Coveney, who led the development of this study for T. Rowe Price Retirement Plan Services, this group of new retirees is of interest “because they are experiencing the transition from traditional defined benefit (DB) plans to increasing reliance on defined contribution (DC) plans.” To add some context: While 46% of retiree respondents are drawing income from a DB plan, for those households, it represents, on average, 41% of their income. In addition, 35% of households are withdrawing from DC plans, and 49% indicate that they draw income from personal savings and investment accounts, including IRAs. Overall, Social Security benefits are the largest component of retiree income.

### A POSITIVE PICTURE

Overall, the research shows a positive picture of retirement, especially in terms of the adjustments that retirees have made at this early stage: They are moving confidently into retirement and managing their spending according to their income. Eighty percent say they track expenses carefully, and only three in 10 are surprised by how hard it is to live without their preretirement paycheck.

Attitudinally, these individuals are in a good place. They are content with what they have and are already being flexible with their spending. Nearly 90% of survey respondents say they are satisfied with their retirement so far, and almost three-quarters feel they are better off financially than their parents at the same age.

Coveney is quick to point out that the research also shows some segments of the 401(k)-affiliated group are challenged, such as single households and, in particular, female households.

“While we know there are people with little or no retirement savings, our sample indicates that many who saved in a 401(k) plan are entering retirement with considerable assets,” said Coveney. “What’s more, we are also seeing some evidence of financial discipline in budgeting and spending,” adds Coveney.

### A GROWING BODY OF EVIDENCE

Study results complement the general feeling in the retirement plan industry: Current research by both EBRI<sup>2</sup> and ICI,<sup>3</sup> for example, draws a correlation between participating in an employer-sponsored DC plan and the potential to enter retirement with substantial accumulated savings at retirement age—enough to “provide meaningful retirement benefits.”

The analysis captures a moment in time—while many early retirees have yet to tap into their 401(k) balances and Social Security is the main source of their income. Nonetheless, study results send a powerful message to plan sponsors, advisors, and especially those still preparing for retirement:

“New retirees are making retirement work. It is possible to save in a 401(k) plan and enter retirement in a positive state.”

Anne Coveney

<sup>2</sup> “What Causes EBRI Retirement Readiness Ratings™ to Vary: Results from the 2014 Retirement Security Projection Model®,” February 2014 *EBRI Issue Brief* #396, Employee Benefit Research Institute.

<sup>3</sup> *Our Strong Retirement System: An American Success Story*, December 2013. A paper prepared by the staffs of the American Benefits Council, the American Council of Life Insurers, and the Investment Company Institute, based on a draft written by Robert Stowe England.

# CONCLUSIONS:

## How recent retirees are doing it: Five most important findings

The **First Look** study offers compelling data to show how retired 401(k) participants are making the first years of retirement work for them. Here are topline results of how the retirees are defining their success:

### RETIREE PROFILE

Based on a national sample, retirees in the study:

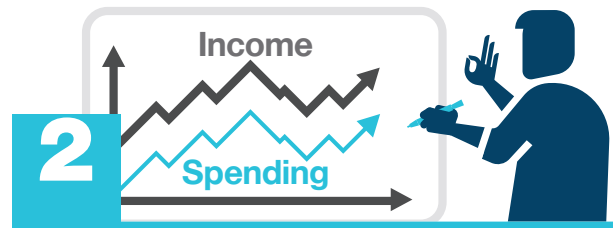
- Have an average age of **65** years old
- Have been retired, on average, **2.8** years
- Have a household income of **\$77,000**, on average (\$58,000 median)
- Have household investable assets plus home equity less debt of **\$1,303,000**, on average (\$473,000 median)



### NOT OVERSPENDING

New retirees are living on less and reporting satisfaction with their lifestyle. On average, they are:

- **Living on less**—about 66% of their preretirement income.
- **Maintaining a plan**—48% indicate they have a withdrawal plan.
- **Withdrawing roughly 4% or less of their balances**—even though the majority of respondents say they are not following the 4% withdrawal rule.



### ADAPTING TO CHANGES

An important finding shows that retirees demonstrate a high degree of agility and flexibility in managing their spending. Of those surveyed:

- **89% have found they can adjust their lifestyle** to fit their income.
- **60% prefer to adjust spending up and down** depending on the market to maintain the value of their portfolios.
- **78% reduce spending immediately** if spending exceeds their income.

Retirees are in a good place. Only three in 10 respondents say they are surprised by how hard it is to live without their preretirement paycheck, and 85% indicate they don't need to spend as much as they did when they were working to be satisfied.



3

### LIVING THE NEW RETIREMENT

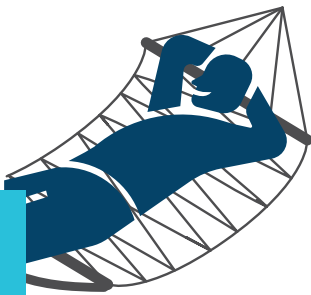
The research shows work is indeed part of the retirement picture:

While 65% of respondents are fully retired, **21% are working** and another 14% are looking for work.

Work status emerged as a key variable in terms of financial and demographic profiles:

Those retirees who are working are relatively **well educated with higher incomes compared with those looking for work.**

Sixty-three percent of all retirees don't plan to use their 401(k)s or IRAs until required to do so at age 70½.



5

### REPORTING SATISFACTION IN RETIREMENT

While satisfaction generally increases with age, this study reflects that even early on—just three years into retirement, on average—retirees are satisfied where they are:

- 89% report that they are satisfied with their retirement so far
- 74% say that they are better off financially than their parents
- 78% feel comfortable they are on track to meet financial goals

For more study findings and additional insights from the **First Look** study, visit [troweprice.com/retirementforall](https://troweprice.com/retirementforall).



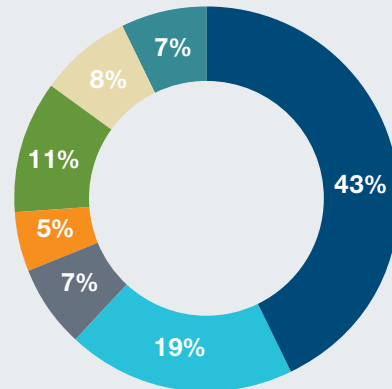
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### FOLLOWING RULES OF THUMB

New retirees are applying some basic financial planning guidelines to manage their money. Survey results show they are:

- **Seeking guidance.** More than half of those surveyed (52%) have a financial advisor, and 56% of those use their advisor for guidance on withdrawal planning for retirement income.
- **Sticking to a budget.** The majority of respondents (80%) say they track expenses carefully; 41% have a written or online spending budget.
- **Setting up an emergency fund.** Thirty-three percent maintain a separate fund, which is estimated to meet their household expenses for a median of 12 months.

### WHERE RECENT RETIREES DERIVE THEIR INCOME: (Mean %, based on study responses)



■ Social Security	43%
■ Traditional defined benefit pension plan	19%
■ Defined contribution plans	7%
■ Other workplace retirement plans	5%
■ Personal investments and savings (including IRAs)	11%
■ Earnings from employment	8%
■ Other	7%

63% of survey respondents say they don't expect to use their DC or IRA balances until age 70½.

# NEXT STEPS:

## Study is good news for current workers with a 401(k)

As part of the research, T. Rowe Price also analyzed the attitudes and circumstances of those who are getting ready for retirement who have a 401(k) plan.

Unlike the recent retiree group, today's workers, age 50+, are measurably more anxious about the future. What we learned:

- 57% expect to work in retirement, but only 29% of retirees expect to work at least part time in retirement.
- 49% are confident that they will have enough money to pay for health care, whereas 70% of retirees say they do have enough to pay for health care.
- Only one-third of preretiree workers expect to live as well or better in retirement as they do today, but 57% of retirees say they already do.

Another point of interest is older workers' views on job security and delaying retirement:

This year, 30% of age 50+ workers are very or somewhat concerned about losing their job in the next 12 months, and 43% have considered postponing their retirement.

### SENDING THE MESSAGE

Plan sponsors and advisors can provide the support preretirees need to feel more comfortable with saving and the transition to retirement, as well as continue to foster the saving habits of younger participants. (See sidebar.)

## Plan Sponsors and Advisors: Keep the momentum going

### BUILD YOUR KNOWLEDGE AND EXPERTISE

Retirement For All® | On the Web and iPad

- Get ideas to understand the mind-sets and challenges of workers and preretirees.
- Dig deeper into research, like the First Look study.
- Explore offerings, including the Faces of Retirement<sup>SM</sup> series. Check these timely releases: Thoughts on Transitioning to Retirement and Advice to My Younger Self.

Visit [troweprice.com/retirementforall](https://troweprice.com/retirementforall) or download the free mobile app: Log in to the App Store. Search for "T. Rowe Price Retirement for All," and click install.

### PROMOTE BETTER SAVING AND PLANNING

Participant website | [rps.troweprice.com](https://rps.troweprice.com)

Foster good savings habits at any lifestage:

- Personalized Check-In with Confidence Number<sup>SM</sup>

Direct preretiree workers to calculators geared for retirement income planning:

- Social Security Benefits Evaluator
- Ready-2-Retire<sup>TM</sup>
- Retirement Income Calculator

Offer food for thought during the transition to retirement:

- Practice Retirement<sup>®</sup>



