



Living in Retirement

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KEY INSIGHTS

- Retirees who actively participated in 401(k) plans are generally happy, in good financial shape, and optimistic about the future.
- Newly retired people are anxious about income and health care expenses, but some anxiety seems to fade as retirees age.
- Retirees want help and advice, particularly with converting assets into income.



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New research from T. Rowe Price finds that retirees who were (or currently are) participants in 401(k) plans are generally happy and optimistic about their futures. Figure 1 shows that for several key financial objectives, retirees have had substantial success, reporting “some” or “a great deal” of progress.

Retirees’ optimism is likely correlated with economic expansion. In mid-2018, we asked retirees how the economy will be performing in 12 months, and 26% believed it would be growing robustly.

This optimism more than doubled since 2015, when a similar study found that only 11% believed in a growing economy. Still, some retirees are pessimistic, believing that the economy has peaked and is headed for a downturn. In 2015, 16% expected the economy to be in recession 12 months out. By 2018, the number had edged up to 20%.

Income in Retirement Is Top of Mind

We asked retirees to rank five financial objectives. Interestingly, predictability of income far exceeds leaving a legacy. The top two objectives were nearly tied:

(Fig. 1) Progress toward Financial Goals

Maintaining an acceptable quality of life



Maintaining and budgeting for everyday expenses



Overall having financial peace of mind

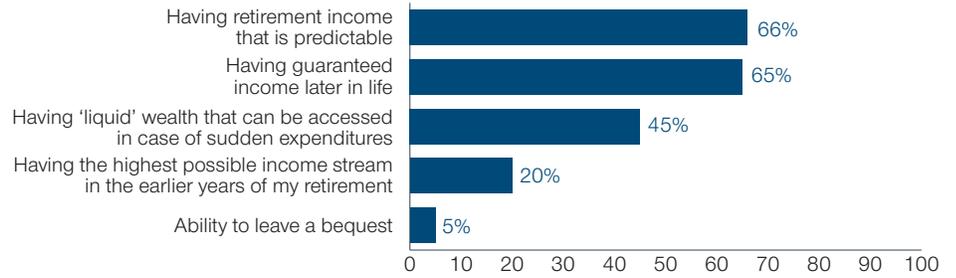


Reducing non-mortgage household debt



“Fewer participants are concerned about their assets lasting once they’re in retirement.”

(Fig. 2) Financial Objectives in Retirement



“having guaranteed income later in life” and “having retirement income that is predictable,” were ranked first or second in importance by most. Likewise, the ability to leave a bequest was ranked last. See Figure 2.

Interestingly, despite wanting predictability or even a guarantee of income, retirees are skeptical of deferred annuities. Three-quarters described them as “not very attractive” or “not attractive at all” and only 5% described them as “very attractive.”

Post-Retirement Experience Quells Pre-Retirement Anxiety

Not surprisingly, retirement can turn out differently than expected for many retirees, with some concerns diminishing

and others increasing (see Figure 3). We asked respondents to think about certain concerns and tell us how concerned they were about them prior to retirement compared with now. For the most part, pre-retirement concerns diminish slightly after retirement, with two notable exceptions. “My health” is the top concern before retirement and remains so afterward, with 69% reporting they were and still are “somewhat” or “very” concerned. And while concerns about physical health don’t diminish after retirement, concerns about financial health do. Fully 65% reported that they had been somewhat or very worried about whether their assets would last after retirement, but that concern dropped to 53% after retirement.

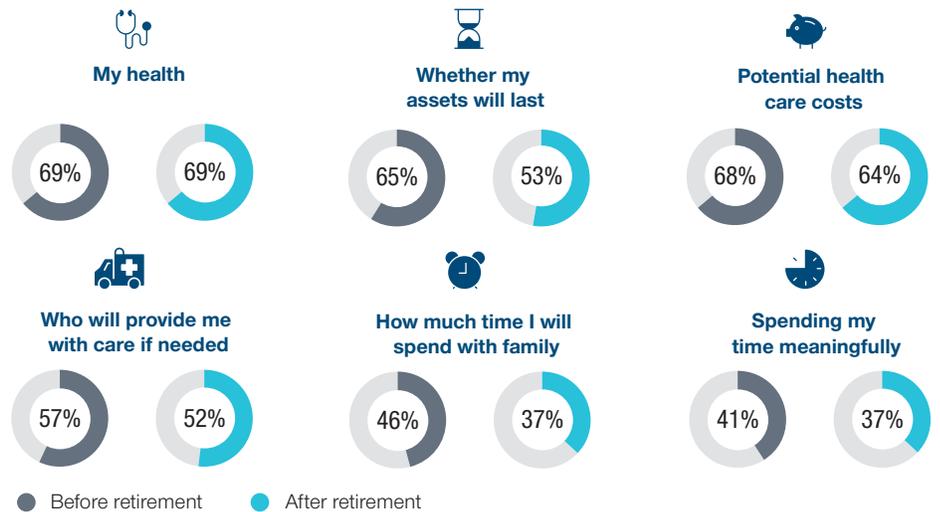
65%

concerned before retirement

53%

concerned after retirement

(Fig. 3) Pre- and Post-Retirement Concerns*



*Somewhat or very concerned

(Fig. 4) Top and Bottom Three Advice Attributes*



*Somewhat or very concerned

70%

want help/advice when managing a plan to convert retirement assets into a stream of income for retirement

Desire for Financial Wellness Continues Through Retirement

In several recent reports, T. Rowe Price has reported research findings that show 401(k) participants want help determining contribution amounts and tracking progress. Help with choosing investments is less important. The desire for advice continues into retirement, particularly in two key areas. When managing a plan to convert retirement assets into a stream of income for retirement is a major or minor objective, 70% of retirees want help or advice. When saving to fund health care expenses in retirement is a major or minor objective, 63% want help or advice.

Preferences for how advice is delivered vary widely, with some attributes being more important than others (see Figure 4). Retirees want easy-to-use options, alerts, and a relationship with an advisor. They're much less interested in referrals, digital prompts, and mobile device access.

When it comes to advice, retirees want personal interaction. While only 22% reported not wanting any advice at all, fully 62% wanted advice from someone they could interact with. Only 3% were interested in a "robo" advisor (digital, automated, or algorithm-driven advisor), and only 13% would be interested

in robo advice in combination with a human advisor.

Actions for Plan Sponsors and Advisors

Plans that provide retirement income options, including flexible retirement withdrawal options, not only support the needs of retirees but can also make the plan more attractive to all participants. In addition, options to leave balances in the plan, make partial withdrawals in retirement, and roll assets from other 401(k)s into the plan can result in higher asset levels which can generate economies of scale that benefit all participants.

Retirees with balances are an important subset of the participant population, and sponsors should consider their needs when developing communication plans. Also, the experience of retirees can be a powerful tool in supporting communications campaigns for current employees.

Advisors helping sponsors with plan designs should point out the value of options the plan provides to retirees, including keeping assets in plan after retirement. Advisors who work directly with individuals should be heartened by the continued need for the human

touch well into retirement. And as 401(k) assets become an increasingly important component of retiree's assets, advisors may want to renew their focus on this group of clients.

About Our Retiree 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 elements from prior surveys are 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

As more and more participants use their 401(k) plans as a focal point for financial wellness, the importance of financial wellness tools for participants will increase. This is one area where service provider offerings vary greatly. Plan sponsors will want to select a service provider that can address a broad range of participants' financial planning needs.

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