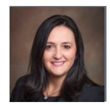
Bridging the Gap Between Accumulation and Decumulation for Participants

A Guide for Plan Sponsors

March 2020



Lorie Latham, CFA®
Senior Defined Contribution Strategist

KEY INSIGHTS

- Defined contribution plan participants are increasingly keeping retirement balances in plan, and a growing number of plan sponsors are interested in retaining these balances.
- Information gleaned from focus groups suggests that participants have misperceptions about the value of staying in plan. Some participants do not even know that staying in plan is an option after retirement.
- Participants approaching retirement age are inundated with information and even "advice" from sources outside their plan, but the quality of this information and advice can be uneven, misguided, or ill-informed. Plan sponsors can position themselves as a reputable resource and guide.
- If plan sponsors want to maintain retirees in plan, they should not keep it a secret. It's crucial that they engage with participants early and often.

Emerging data suggest that more defined contribution (DC) plan participants are keeping retirement balances in their employer-sponsored plans after retirement. We first detected this trend within T. Rowe Price's proprietary recordkeeping data—a source that we regularly mine to unearth productive insights for our clients and partners. Over the last three years of available data, participants who separated from service at age 65 or older retained more assets within their DC plans than in prior years. For example, in 2012, 45% of account assets remained in plans at least a year after retirement. That figure catapulted to 61% in 2018.[1]

Our observations are supported by data from the University of Michigan Health and Retirement Study (often referred to as the "HRS database"). Among participants who retired during the two-year period from 2016 to 2018, only 13% withdrew their entire plan balance or rolled to an individual retirement account (IRA).[2]

Our latest Retirement Income paper, "It's Time to Get Serious About Retirement Income Solutions," highlighted that many plan sponsors have signaled a desire for their plans to become "destination accounts" where participants aggregate assets and keep them there throughout their retirement. In fact, T. Rowe Price's research with plan sponsors revealed a widely held preference to keep retiring participants within their plans.

Fewer than 6% of sponsors with plans greater than $500 million indicated a desire for retiring participants to leave their plans. In contrast, 50% of the same group of sponsors have a clear preference for participants to stay in their plans into retirement.[3] Whether their aim is to maintain and grow their plan's assets (and the economies of scale that come with it) or to be part of the retirement journey with their workforce, growing data sources reveal that plan sponsors and participants are in alignment. In short, more retirees are staying in plan, and many employers are happy to keep them.

T. Rowe Price has been conducting extensive research on retiree needs and behaviors for many years. In the last few years, some key trends have emerged that offer a direct line of sight to participant views. To build on our work and explore these emerging trends, we conducted focus groups across multiple cities to better understand the decision-making process of preretirees and recent retirees. Our objective was to better understand the criteria and considerations used in determining when to retire and the corresponding actions taken to prepare for their retirement. We looked to uncover participants' understanding of the various destination accounts they considered and why. We also wanted to understand where they turned for guidance and information. Mounting evidence continues to reveal the unique nature of each person's needs and objectives in retirement. These focus groups, combined with our extensive research to date, have helped us develop actionable ideas that we believe will help plan sponsors going forward.

Many participants simply do not have the full picture. In the participant focus group sessions, it was clear early on that individuals in these groups—those edging up to preretiree (older Generation X), those in the preretiree phase, and those early in retirement—were missing important information about their DC plans. What we learned was quite surprising, and in some cases represented a disconnect from reality. Our three key findings offer valuable insight for sponsors to help reduce the misperceptions.

1 Participants Have Misperceptions About Costs and Plan Sponsor Motives

Surprisingly, many of the focus group participants had not considered that they could keep money in an employer-sponsored retirement plan after they retired. While they did view the DC plan as a primary tool for accumulation to get them to retirement, it was less common for participants to acknowledge these plans as somewhere they could maintain their accounts after they retired. When approached with the idea, some participants were open to considering staying in plan but were unclear of the benefits when compared with other options.

One common area of misperception centered around the cost associated with an employer-sponsored plan. When we asked participants if they thought fees were higher inside or outside their DC plan, some of the (often incorrect) sentiments included:

- In-plan DC fees are higher.
- There are “a lot” of hidden fees.
- DC plans have extra fees that do not exist at the retail level.
- Employers do not care about lowering fees.
- Participants have limited awareness of the buying power and scale of their employer-sponsored plan.

We also heard misperceptions about plan sponsor motives related to DC plans, including:

- They may not be looking out for their participants’ best interests.
- They may be receiving kickbacks.

These misperceptions really got our attention. As an investment manager, a recordkeeper, and a partner to DC plan sponsors, we experience firsthand the fiduciary oversight and extensive work invested in DC plans.

We know these perceptions do not reflect reality. However, what became clear from our focus groups is that sponsors may not be getting credit for acting with participants’ best interests in mind to set them up for a successful retirement.

PLAN SPONSORS: HOW TO OVERCOME PARTICIPANT MISPERCEPTIONS

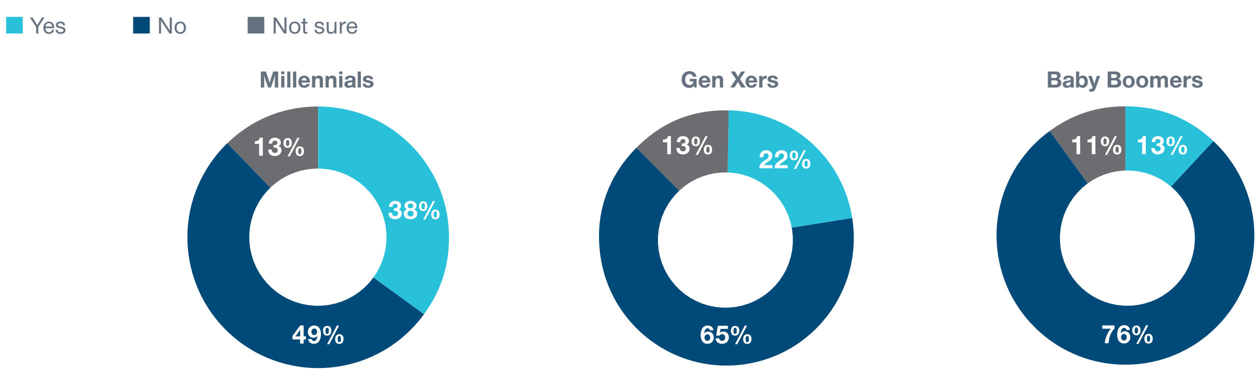
Across generations, there appears to be very limited awareness of the benefits of being in the DC plan or remaining in the DC plan after retirement (Fig. 1). Plan sponsors should consider touting the many benefits of staying in plan and do so long before participants retire. Plan sponsors should actively convey many of the key benefits to staying in plan, including:

- The potential for lower fees
- The value of investment oversight
- The value of account consolidation and scale
- Continued access to credible information and resources

Ultimately, DC plan participants are looking for help as they transition from a savings mindset to a spending mindset, and they also may not be aware of the work being done to negotiate competitive fees on their behalf. Plan sponsors should feel confident educating their participants about the benefits of staying in plan and correcting inaccurate misperceptions.

(Fig. 1) Participant Responses by Generation[4]

Has your employer informed you about potential advantages to staying in your workplace retirement plan after you retire?



2 There Is an Unfounded Bias Toward "Choice"

Many focus group participants—especially those near or at retirement—made frequent references to "choice" when discussing retirement plans. This stood out to us because it is another area of both misunderstanding and opportunity.

Our focus group conversations inevitably revealed that in preparation for retirement, there is a high desire for choice, and there is a consistent perception that IRAs provided them with more investment options. Group participants viewed the narrow list in a DC lineup as limiting. We realized that these individuals tended to value quantity over quality. Importantly, we also found that there was very little understanding of why the "choice" they sought was helpful or valuable.

It appears that many participants are unaware of the work that goes on behind the scenes by plan fiduciaries overseeing the plan and their consultants, who wade through the full landscape of investment offerings and select investment options that are in the participants' best interests.

> "68% of DC plan participants report a need for advice or support in managing a plan to convert retirement assets into a stream of income.[3]

The negative association with the limited investment options available within a plan is an obstacle plan sponsors need to work to overcome. Importantly, as we consider the cohorts of individuals moving close to and into retirement, this is an opportune time for sponsors to build on the way they wish to engage with their postretirement workforce in the form of retirement income offerings.

Plan sponsors have an opportunity to raise awareness, provide insight, and increase the number of income offerings they make available to encourage an evolved mindset by participants about the value of being in DC plans.

The perceived "more is better" barrier will not be eliminated with communications alone. Plan sponsors need to use their knowledge of the choice obstacle as a key input when discussing their retirement tier. Furthermore, we believe there is not one single retirement income solution that will meet all of the vast needs of the participant population. To read more about T. Rowe Price's views on the spectrum of retirement income solutions, read "It's Time to Get Serious About Retirement Income Solutions."

PLAN SPONSORS: HOW TO MANAGE THE "MORE IS BETTER" ATTITUDE

It's important to understand the underlying drivers that lead participants to believe that more is better. First, keep in mind that this is likely the largest amount of money participants will have ever saved, and their funds must last multiple decades and through various market cycles. It's no wonder they would want to avoid feeling boxed in by staying in plan. However, we see an opportunity for plan sponsors to reframe the conversation.

- Switch the focus from a "more is better" mindset to a "quality" mindset.
- Take time to explain the level of care and attention taken to curate the lineup.
- Take the opportunity to share that your committee has a duty that is not only based on investment performance, but is also focused on bringing participants the best value for their money. This means a heightened focus on performance net of fees and moving investments to less expensive share classes as they become available.
- Share the benefits of your buying power as your plan grows.

3 The Quality of Information and Guidance Varies

From our focus group discussions, it was clear that retirement plan participants are looking for help as they move from a saving mindset to a spending mindset. We learned that the range of how individuals feel about whether they are ready for retirement varies quite a bit. Some said they felt ready. Others felt uncertain. And many said they were struggling with the idea of drawing from retirement savings after working for years to grow their balances.

So what do anxious preretirees do? They go to multiple sources over many years to find help and information, with mixed results.

The Good:
We heard from one recent retiree who had a very positive retirement experience, and the plan sponsor was the driver of the positive outcome.

"[When I retired], the human resources department was great. You could just call them [when you were ready to discuss your options], and there was one lady in particular that—I mean, she really made it easy."

Additionally, we heard that some highly qualified advisors were providing great services for preretirees and retirees.

"[I said] 'This is how much I think I'll need,' and my advisor helped me figure out where to take from. And we've got it planned out, when I do get Social Security...I have a whole prediction or online report I can run that shows me every month how much is coming from each bucket....And I can also say, 'For the next six months, I need this much more.' It makes it easier."

However, experiences appear to be inconsistent. At the same table of the participant quoted above, another participant indicated that his advisor hadn't performed any of the services described.

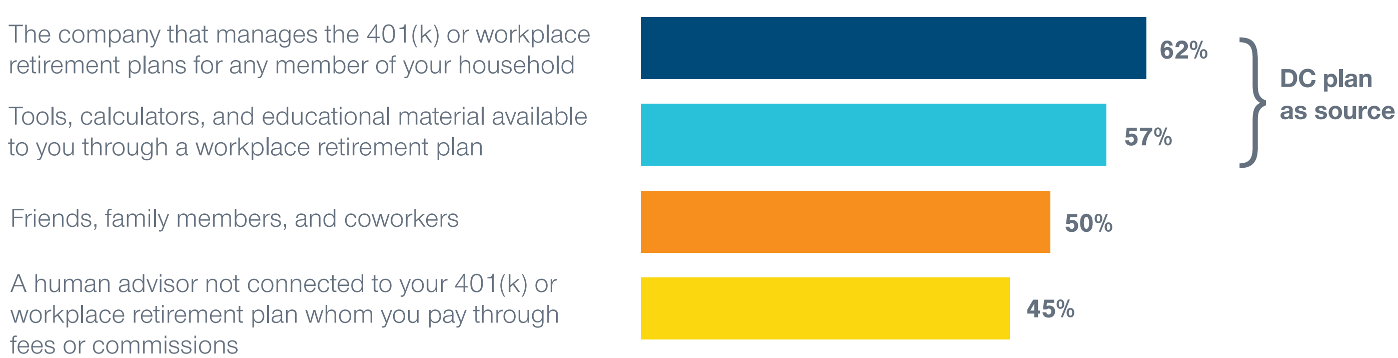
The Bad:
One participant referenced following someone on social media and making investment decisions based on what they learned on this platform.

"I follow this one guy on [a popular social media site], but I can't think of his name. Somebody that I read about. And he just posts kind of interesting little things."

The Worst:
One participant described some predatory practices toward preretirees.

"[A popular social media site] has all sorts of stuff that hits you all the time. Once they find out you're retired, you get every known financial advisor pitching you."

(Fig. 2) Participants' Sources of Advice to Achieve Their Lifetime Financial Goals[4]



PLAN SPONSORS: HOW TO BECOME A TRUSTED RESOURCE

As a plan sponsor, you monitor and are able to control the quality of the education and guidance given to your participants leading up to and into retirement. You can ensure that participants are receiving quality insights by being clear, consistent, and informed.

- **Be Clear:** Avoid jargon when communicating with plan participants, and use relevant, focused content that comes with a strong call to action.
- **Be Consistent:** Offer insights early and often in the retirement journey. Retirees view the plan sponsor and recordkeeper as a trusted source of information, so be sure to build on that trust by engaging with participants over time.
- **Be Informed:** Ask your plan provider how they communicate the option of staying in plan. When do they start communicating retirement account options? Do they offer advice to participants at the time of retirement? Is it a balanced approach about the benefits of both staying in plan and rolling over?

FINAL THOUGHTS

Retirement plan participants are increasingly keeping money in plan after they retire, but many simply have not considered the benefits of the DC plan as a place to keep their money.

Most employers want to be part of the retirement journey with their workforce—both in the accumulation phase and beyond. Now is the time to understand how we can better prepare coming generations of participants for a successful retirement.

If your committee would like to maintain retirees in your plan, don't keep it a secret. Engage early, communicate often, and ensure that the opportunities to engage and communicate are not limited to the point in time at retirement. Moreover, it's crucial that plan sponsors provide high-quality, trusted insights and guidance that cut through the noise and misinformation participants may receive from external sources.

If you're interested in learning best practices in communicating the benefits of keeping assets in plan to your participants, check our other paper on this topic, "Tell Them It's OK to Stay."

ABOUT OUR RESEARCH

T. Rowe Price worked with aQity Research & Insights to conduct a qualitative study composed of six focus groups between June 24 and July 1, 2019. Focus groups were conducted across three locations—Tempe, Arizona; Buckhead, Georgia; and Oak Brook, Illinois—without T. Rowe Price being identified as the survey sponsor, and a $150 incentive was provided to each participant. The 39 focus group participants met the following qualifications:

- Between the ages of 45 and 70 years old and the primary or co-decision-maker for household investments.
- Either recently retired (past 1–5 yrs.), soon-to-be retired (next 1–5 yrs.), or older Gen X participants (5+ years from retirement).
- Participated in a 401(k) plan offered by a large employer (5,000+ employees) and had 401(k) assets between $100,000 and $1,000,000.

For more information on this and our other extensive research, please contact your T. Rowe Price representative.

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Footnotes

[1] Source: T. Rowe Price Retirement Plan Services, Inc. Percent of account value retained by defined contribution plan participants age 65 or older after 1, 2, 3, 4, or 5 calendar years following separation from service.
[2] Retired participants age 60–69. Health and Retirement Study (HRS Core) public use data set. Produced and distributed by the University of Michigan with funding from the National Institute on Aging (grant number NIA U01AG009740). Ann Arbor, MI, 2014 and 2016.
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