
# INSIDE THE MINDS OF PLAN PARTICIPANTS

## RETIREMENT—READY OR NOT...

**IN THIS PAPER: RETIREMENT CONFIDENCE** is noticeably higher than it has been in over a decade, but retirement readiness is still on shaky ground for many Americans. One important way to improve how workers save is developing more targeted communications and engagement methods that can increase the financial literacy and investment capabilities of different investor "personas."

# ABOUT AB'S DEFINED CONTRIBUTION RESEARCH

The Defined Contribution (DC) team at AllianceBernstein (AB) has conducted annual surveys of employees since 2005 and biennial surveys of plan sponsors since 2006. These snapshots help us understand the attitudes and behaviors of workers toward retirement saving, the changing state of DC plans, and the concerns, perspectives and strategies of plan sponsors.

We want to share this research with plan sponsors. We believe it will help them understand how to lead participants to better savings outcomes and more comfortable, confident retirements. We conducted our 13th annual web-based plan-participant survey in May 2018. It was based on a national sample of 1,002 employees. Of these, 893 were full-time workers participating in a workplace retirement savings plan at their current employer and 109 were retirees who had previously worked full time and participated in a workplace savings plan.

MEDIAN AGE: **44**

MEDIAN HOUSEHOLD INCOME: **$82,000**

MEDIAN HOUSEHOLD DC SAVINGS: **$93,000**

**SLIGHTLY MORE THAN HALF (53%)** ARE FEMALE

**TWO THIRDS (66%)** HAVE A COLLEGE/ TECHNICAL DEGREE OR HIGHER

"Target date" in a fund's name refers to the approximate year when a plan participant expects to retire and begin withdrawing from his or her account. Target-date funds gradually adjust their asset allocation, lowering risk as a participant nears retirement. Investments in target-date funds are not guaranteed against loss of principal at any time, and account values can be more or less than the original amount invested—including at the time of the fund's target date. Also, investing in target-date funds does not guarantee sufficient income in retirement.

How our survey explained an additional target-date fund feature of a guaranteed stream of income in retirement:

"The income payments would be based on a percentage of your highest account balance in the years leading up to your retirement. This type of fund would be offered to you at a very competitive price. This type of enhanced target-date fund would offer you: an income stream that will last as long as you live; the potential to increase the size of your income stream with gains in your investments; income protection in down markets—they won't reduce the size of your guaranteed payments; the flexibility to take part or all of your money out of your account at any time without incurring withdrawal fees."

# OVERVIEW

In the nearly 15 years we've been charting the financial and emotional fortunes of retirement plan participants, millions of Americans have retired each year…and millions more have entered the workforce.

Our participant surveys have followed workers from the euphoric times of climbing capital markets, through the shattered dreams of a global financial crisis, and into a prolonged period of personal challenge, doubt, growing fiscal discipline and, perhaps, a hint of hope. Our current survey quantifies some interesting attitude adjustments—but also some daunting obstacles on the path to better retirement outcomes for more American workers.

**RETIREMENT CONFIDENCE**

Retirement confidence is pushing toward 50%, but that still leaves more than half of American workers unsure. The key confidence ingredients? Steady saving and guaranteed retirement income—in whatever form that takes.

**NEW! LIVING THE (RETIREMENT) DREAM?**

A solid majority of our retired respondents give an upbeat assessment of their retirement finances and standard of living. But too many—nearly one-third—are not doing well.

**NEW! WHAT DC PARTICIPANTS WANT**

Many workers want a steady income stream in retirement, and they're increasingly concerned about paying for healthcare and living comfortably. But they're also concerned that their investments align with their ethics.

**FINANCIAL LITERACY: "AND THE ANSWER ISN'T…"**

Confidence may be up, but financial literacy is down—and that literacy wasn't particularly good in our previous surveys. That's worrisome, because better financial literacy goes hand in hand with more diligent savings habits.

**TARGETING BETTER RETIREMENT READINESS**

Target-date funds are increasingly prevalent in DC plans, and many participants use and appreciate them. But despite familiarity and appeal, target-date funds are still not well understood. In fact, there's less clarity now about these funds than there was three years ago.

**WHO DO YOU THINK YOU ARE?**

Our survey's investor personas uncovered some interesting insights about three main types of investors. Surprisingly, generational markers aren't as helpful in targeting participant outreach as attitudes are.

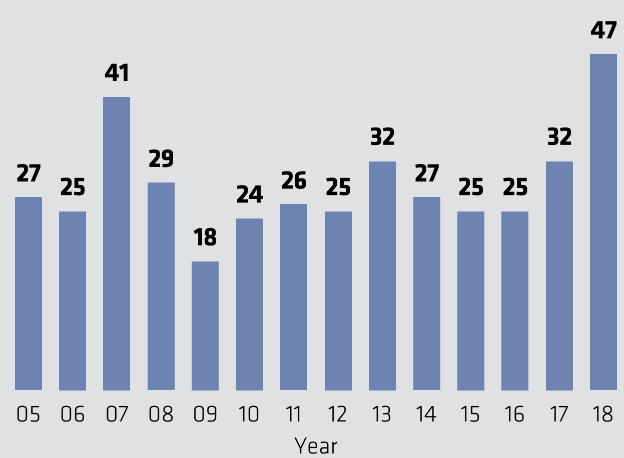
# RETIREMENT CONFIDENCE ON THE RISE?

By the numbers, retirement confidence is high. But there's still a shortfall in savings levels, and American workers need help now if they're going to reach their goals.

One of the longest-running bull markets has not only increased retirement savings, it has helped increase retirement confidence significantly. Since 2010, US retirement assets have jumped from $18 trillion to $28 trillion in early 2018.[1] At the same time, households significantly shrank their outstanding debt—dropping from over 13.0% of disposable personal income to less than 10.5%. That debt reduction also helped improve the average American FICO (or credit worthiness) score, which reached an all-time high in the summer of 2017. It's no wonder, then, that both consumer and retirement confidence has soared. In fact, retirement confidence in our recent survey leaped to its highest level. Nearly half our respondents (47%) feel either confident or very confident about their retirement prospects.

**A BIG JUMP IN RETIREMENT CONFIDENCE**

"How confident are you that you'll have a comfortable retirement?"
% of employees who are confident/very confident




Source: AB Research, 2018

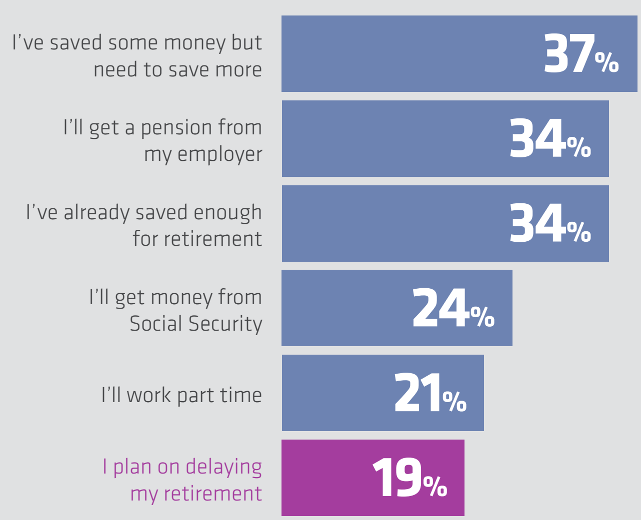
### MAJOR CONFIDENCE UPTICK FROM PAST

That's a surprisingly hefty 15 percentage points higher than 2017, which was already a strong increase over the prior three years. That entire four-year period saw somewhat steady increases in the capital markets and a healthy decline in unemployment. Nevertheless, about one-third of respondents both last year and now feel so-so about their confidence, though the percentage of respondents who have a negative outlook is vastly lower this year—20% versus 33% last year.

We asked those optimistic respondents why they were confident/very confident. The most often-cited answers were that they've been saving (and will continue to do so) and that they'll get a pension from their employer. About one-fourth of these confident respondents cited the money they expect from Social Security, and roughly 20% say they will work part time in retirement or delay retiring altogether. Interestingly, 20% among the less confident respondents say they, too, will work part time, and 15% plan on delaying retirement.

**KEY REASONS FOR UPBEAT RETIREMENT CONFIDENCE**

Confident/Very Confident Respondents




Source: AB Research, 2018

1 Investment Company Institute, Quarterly Retirement Market Data, June 21, 2018.

## WILL TODAY'S CONFIDENCE LAST?

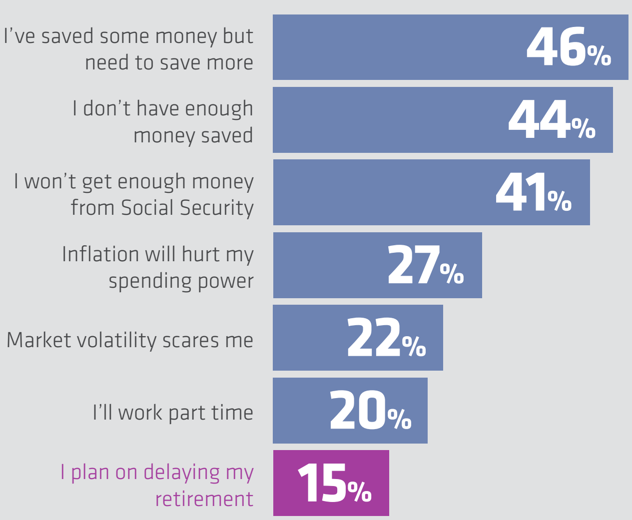
Confidence is up, but there are cautionary signs just under the surface. For instance, while America's debt-to-disposable income ratio is far lower (and better) than before the global financial crisis, there's already been a significant uptick in consumer debt in the past year alone. And while retirement confidence is pushing toward 50% in our survey, that still leaves slightly more than half of American workers feeling unsure.

Whether confident or not, many plan participants voice concerns over the timing of their retirement. Roughly one in five say they'll either work part time or delay retiring, and 17% say they either haven't thought about retirement or don't even plan to retire. Altogether, that's close to 40% of respondents.

Zooming in on some specific demographics, we find that the highest percentage of confidence (63%) is among those age 25–34, the age range associated with Millennials. In contrast, pre-retirees (age 55–64) are the most wary, with only 35% expressing confidence. But whether youthful optimism or more seasoned realism, money is a clear marker: roughly 50% of households with $100–$250 thousand in retirement savings report confidence in a comfortable retirement. When those assets rise above $250,000, 58% say they're confident—and that solid majority rises to 78% when retirement savings reach beyond $500,000.

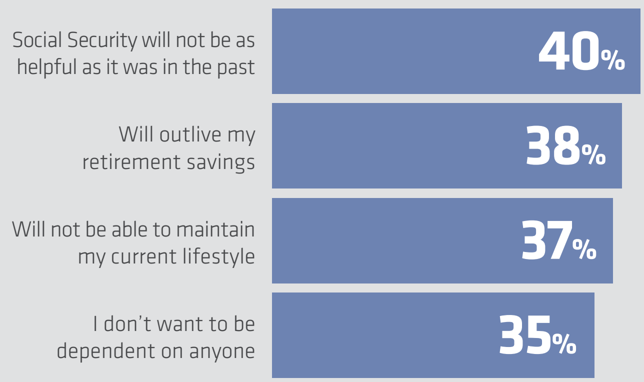
**KEY REASONS FOR LOW RETIREMENT CONFIDENCE**

% of Respondents with Low/No Confidence




Source: AB Research, 2018

**"WHAT ARE YOUR MAIN CONCERNS WITH RESPECT TO LIVING IN RETIREMENT?"**




Source: AB Research, 2018

## RETIREMENT CONCERNS BEYOND SAVINGS

Over the years of our surveys, the same long-standing issues dominate most workers' concerns about living in retirement. But the current sociopolitical environment has perhaps altered the ranking of those worries. This year is the first time that concern over the viability of Social Security is the most-cited issue—slightly more prominent than the potential of outliving their retirement savings, maintaining their lifestyle or being dependent on others.

And those concerns extend beyond whether Social Security will help *enough*, to whether it—as well as Medicare—will continue to exist at all. Over 90% of our respondents were at least somewhat concerned about those programs, and two-thirds find them very important. We also asked respondents how today's political environment affects their confidence in being able to reach their retirement goals. Roughly one-third say it has no effect and about 15% say their confidence has improved. But just over half our respondents feel today's political environment has lowered their retirement confidence—most noticeably among Millennials.

# RETIREMENT REALITY

Where are American retirees in their journey through retirement? What would you do differently if you could do it over?

As John Lennon noted, “Life is what happens to you while you’re busy making other plans.” That’s why we decided this year to start building a composite portrait of the realities of retirement painted by the people who are doing it, not just planning for it.

Most of our retired respondents were in the age bracket of 65–75, though 17% were younger. We asked them to think back 10 years before they retired, and tell us at what age they assumed or hoped they would retire. The average expectation was they’d retire at age 65, but the actual retirement age was closer to 62—three years earlier. One interesting finding was that 16% expected to retire before the age of 60, and yet a far larger 39% actually *did* retire before that milestone.

It’s possible that some respondents retired earlier for reasons connected to the recession following the global financial crisis. But employment, including part time, has been steadily on the rise for the past five years, and much of the labor market has been quite tight for a few years at least—these conditions might have convinced many retirees to reenter the workforce. But very few of our retirees are even working part time. In fact, 93% are fully retired.

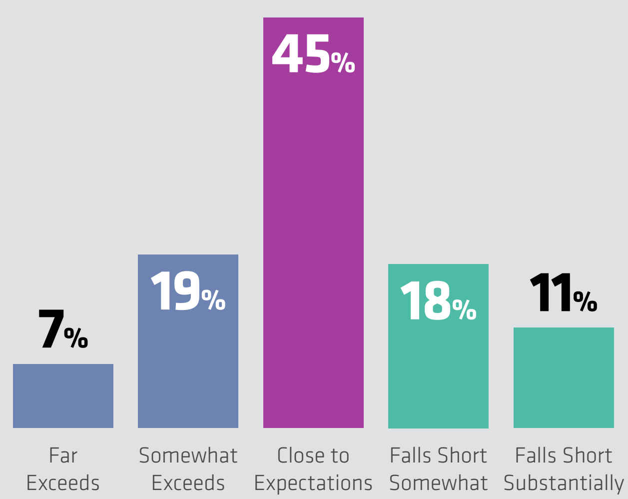
### RETIREE SNAPSHOT

| | |
|---|---|
| MEDIAN AGE: | 67 |
| MEDIAN INCOME: | $59,000 |
| FULLY RETIRED (NOT WORKING) | 93% |
| RECEIVE A PENSION | 61% |
| AVERAGE EXPECTED RETIREMENT AGE | 65 |
| AVERAGE ACTUAL RETIREMENT AGE | 62 |
| USE A FINANCIAL ADVISOR | 45% |

### WHERE’S THE INCOME COMING FROM?

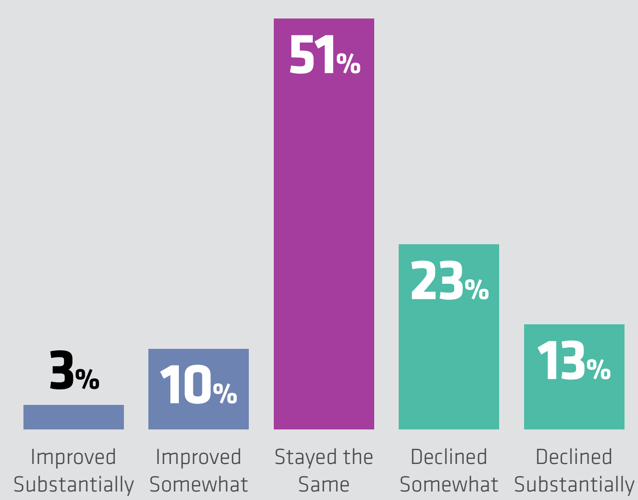
The median income for our retired respondents is roughly $60,000. More than 60% of them receive a pension, and it’s likely that most or all of them are currently receiving Social Security as well. In describing their current investment portfolio, more than half (53%)

**RETIREMENT LIFESTYLE SATISFACTION VS. EXPECTATIONS**




Source: AB Research, 2018

**SINCE RETIRING, HAS YOUR STANDARD OF LIVING...**



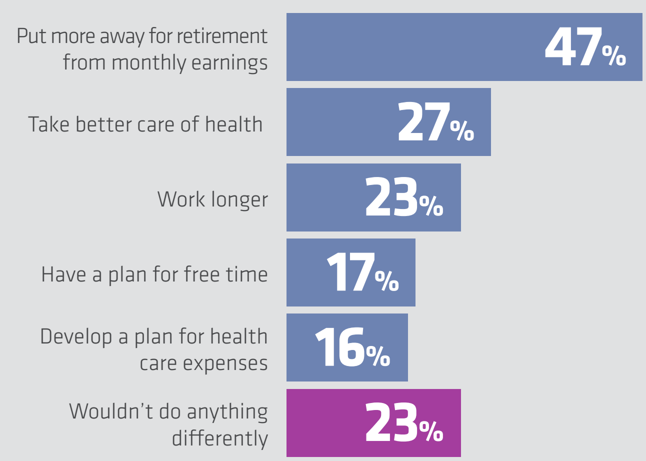

Source: AB Research, 2018

Retirees' top words of wisdom? Save more from your monthly earnings.

say it's a balance between growth and preservation, or a tilt toward moderate growth. Only 11% solidly favor preservation, and 20% aren't sure how to describe it. When asked how much of their current spending comes from their workplace retirement savings plans, three-fourths of our retirees say it's 25% or less—and many of them say they currently don't access those savings at all.

There could be a variety of reasons for such low usage of plan savings: Participants could be keeping the withdrawal amounts to a level that's in line with their longevity expectations. They might also be delaying the use of these funds until age 70½, when the IRS requires the start of minimum withdrawals from tax-deferred retirement accounts. Regardless of when or to what extent retirees are accessing their workplace savings, a strong majority seem to be reasonably satisfied (or better) with their retirement realities.

**"IF YOU COULD PREPARE FOR RETIREMENT ALL OVER AGAIN, WHICH OF THE FOLLOWING ACTIONS WOULD YOU TAKE THAT YOU DIDN'T TAKE BEFORE?"**




Source: AB Research, 2018

### FOR QUITE A FEW, RETIREMENT'S NOT SO BAD AFTER ALL...

In fact, over 70% of our surveyed retirees say their current lifestyle is either in line with or better than their expectations. And this upbeat assessment remained relatively consistent across several different questions. When we ask retirees if their standard of living has gone up, down or stayed the same, nearly two-thirds (64%) say it has at least stayed the same if not improved. Just over half say that since retiring, their standard of living has remained the same as it was before retirement, and another 13% say it has improved.

How do retirees feel about their personal finances in retirement? Nearly three-fourths of them have a satisfactory opinion of their finances. Half say that after paying their bills each month, there's still enough left over for things like restaurants and leisure activities. An additional 23% say they're very comfortable and have enough money to do just about all the things they enjoy.

### ...BUT TOO MANY ARE STILL NOT DOING WELL

Before we paint too rosy a picture, it's interesting to note that the percentage of participants feeling upbeat about retirement is similar to the percentage of those saying they're receiving a pension. That pensioned proportion of the retired population will likely decline at least a bit with each passing year.

One-third of retirees report dissatisfaction with their life or finances in retirement, a number that is equally likely to increase with each year. We're seeing an increased crunch on finances for retirees in many ways, including a striking rise in personal bankruptcies for older Americans.[2] So it certainly isn't time for American workers or the retirement industry to sit back and relax. There is an increasing need to help workers save wisely, early and continuously. But perhaps our survey's mostly upbeat portrait of retirees might act as a bit of a confidence booster—an additional incentive to save beyond the more ubiquitous dire warnings.

### WHAT WOULD YOU DO DIFFERENTLY?

Interestingly, nearly one-fourth of our retirees say that if they could prepare for retirement all over again, they wouldn't do anything differently. But among the rest, there were many things they might have done better. First and foremost, they'd have increased their retirement plan contributions. Second, but equally important they view health as a key retirement challenge—whether it's taking better care of their health or developing a better plan for healthcare expenses.

Some retirees noted they would have developed a spending plan (15%), learned more about personal finances (15%) and waited longer before taking Social Security payments. Only 4% said they would have retired earlier.

**2** Tara Siegel Bernard "'Too Little Too Late': Bankruptcy Booms Among Older Americans," *The New York Times*, August 5, 2018.

# WORKING THROUGH RETIREMENT SAVINGS ISSUES

When it comes to the big reasons for participating in a company's retirement plan, we're seeing some indications that might be noteworthy.

Every year, we ask respondents what their primary savings goals are for the money in their workplace retirement savings plan. Out of a dozen answers, they can choose up to three. So, it would seem relatively obvious that the top answer would be, "to provide income for retirement." And yes, it is.

However, this year far fewer participants included this response among their top picks than in previous years. In 2015, 71% of respondents chose this as one of their answers. Last year, 65% did so. This year? Only 56%.

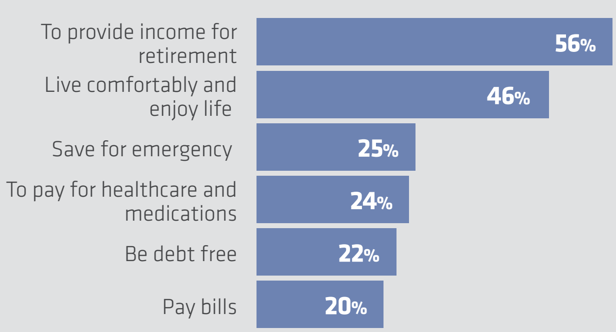
Two other answers jumped up significantly on the list of top priorities for the savings goals in their workplace retirement plan. Live comfortably and enjoy life rose from 34% in 2015 to 46% this year. Paying for healthcare and medications climbed from 12% in 2015 to 24% now— nearly the same priority level as saving for an emergency.

### THROWING IN THE TOWEL...

The increased concern over healthcare issues likely reflects the increasing overall costs of workplace healthcare benefits, so that's understandable. But the jump in living comfortably is troublesome, because it indicates a greater inclination to use that money prior to retiring and possibly incurring penalties for early withdrawals.

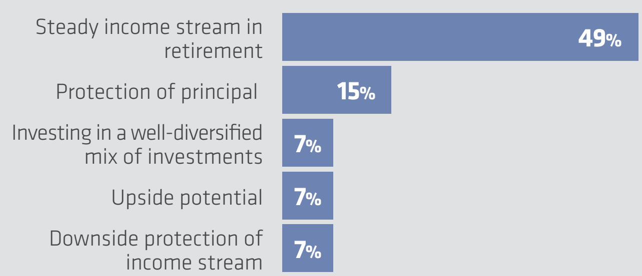
It also reinforces the possibility that the increased consumer confidence and retirement confidence we're seeing this year is diminishing the importance and need to save steadily and prudently. Another explanation that's even less encouraging is that more workers are simply giving up on trying to save for retirement at all.

**PRIMARY SAVINGS GOALS FROM MONEY SAVED INSIDE A RETIREMENT SAVINGS PLAN**




Source: AB Research, 2018

**WHAT DO PARTICIPANTS WANT IN THEIR DC PLANS?**




Source: AB Research, 2018

### ...OR LOOKING FOR SOMETHING MORE?

In part, the less-than-dutiful approach toward retirement saving in participants' DC plans may reflect a disconnect between what they want and what they get from their DC plan. The most important investment characteristic they want from their DC plan savings? A steady income stream in retirement.

Out of nine possible answers, retirement income certainty far outstripped the other qualities—such as principal protection, upside potential, downside protection, diversified investment mix, no-fee/penalty withdrawals or name-brand managers. Even principal protection, the second-place choice, is rated far behind a steady retirement income.

To date, only a handful of very large DC plans offer a lifetime income solution. It may be time to expand that.

### FACTORS OF EXPERIENCE, DECISION AND ASSISTANCE

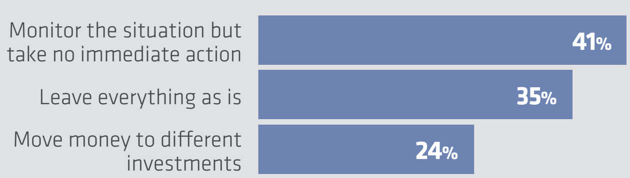
Even as workers seem less engaged with saving for retirement, they express a more positive relationship with investing—even since last year. Those who feel experienced or very experienced in making investment decisions climbed from 25% in 2017 to 36% this year. And when combined with those who feel even somewhat experienced, that percentage jumps from 53% to 67%, respectively.

Over one-fourth of respondents (27%) say their employer automatically enrolled them in the plan, and most of them would have definitely enrolled in any case (57%), while another 30% probably would have done so. Over one-third (38%) make their own investment decisions without consulting anyone. Another 30% say they make decisions after consulting with a financial advisor. Interestingly, across all age groups and financial circumstances, workers overwhelmingly discuss their retirement savings decisions with their spouses and partners (84%). That percentage increases as education levels increase, or for those who have an investment strategy or contribute at least 7% of their salary to retirement.

### INVESTING, ETHICS INCLUDED

The number of institutional investors who incorporate environmental, social and corporate governance (ESG) factors into the investment decision-making process has doubled in the past five years.[3] So we asked our survey's plan participants for their viewpoint, and 90% felt it's important or very important that investment options in their company's DC plan mesh with their core ethical values. Interestingly, about half say they volunteer time and almost 80% donate money to charities. Would they actively choose to invest in ESG funds if they were available? Nearly three-fourths (71%) say that investment choice would be very likely or somewhat likely. ESG is still a relatively new frontier for plan sponsors, but there are a variety of methods investment managers can and do use to incorporate these considerations in their funds—while still maintaining reasonable fees and competitive performance.

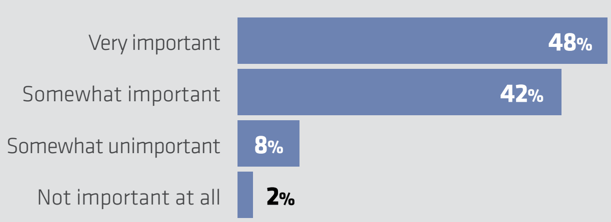
**IN A SUBSTANTIAL MARKET DOWNTURN, WHAT ARE YOU MOST LIKELY TO DO?**




Source: AB Research, 2018

**IMPORTANCE OF ESG**

"How important that investment options in your company's plan adhere to your core ethical values?"




Source: AB Research, 2018

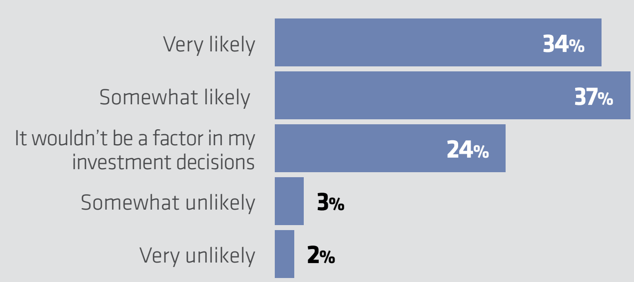
### "FOR MORE INFORMATION"

Roughly one-third of respondents say they use some form of online advice or guidance. Many of these robo-advice users (64%) are very satisfied and another 30% are at least somewhat satisfied with this service. And of those respondents who don't use a robo-advice service, more than one-third of them would be likely to use it.

Are participants comfortable with all things tech? About three-fourths say they monitor their retirement plan investments online. And half our respondents agree that financial transactions by computer are safe and secure, while 40% say their primary source of information about their DC plan is from the retirement plan website. Even so, more respondents (42%) still say their printed quarterly account statements are the primary go-to information source.

What about sudden market swings? About half (47%) say that volatility—up or down—makes them want to become more conservative investors. Yet when asked what they would most likely do in the event of a *substantial* market downturn, almost half say they'd wait and watch, and another one-third would leave everything as is. Still, nearly one-fourth of participants say they'd move money to different investments.

**WOULD YOU INVEST IN ESG FUNDS IN YOUR RETIREMENT PLAN?**




Source: AB Research, 2018

3 Callan Institute, *2018 ESG Survey.*

# MORE SEASONED INVESTORS? MORE INFORMED INVESTORS?

We're seeing some signs that workers might be improving their relationship with investing. More likely, they're just complacent about a good economy and a very long bull market. Also, there's a difference between "relationship" and "understanding."

Retirement confidence is up strongly in this survey, and so is the percentage of plan participants who feel experienced or very experienced when it comes to investing. It's 36% this year, compared to 25% in 2017. And if we also include those who feel somewhat experienced, the totals are 67% this year, compared to 53% last year. However, plan participants' general level of financial literacy is deteriorating.

In this year's survey, we again included a series of eight simple questions about investing. Not only did many of our respondents not fare well, but they did worse on almost every question than in our 2015 survey.

You can take the quiz yourself. On this page, we show the questions and the percentages of respondents who answered correctly (in boxes). The correct answers can be found on the inside back cover.

1. **Suppose you had $100 in a savings account** and the interest rate was 2% per year. After five years, how much do you think you would have in the account if you left the money to grow?

   **77%** CORRECT

   a. More than $102
   b. Exactly $102
   c. Less than $102
   d. Don't know

This was the only question for which more respondents answered correctly than those in 2015. For the most part, our employed workers did well, with the best scores turned in by the older age bracket (65–75 scored 91%). The worst was the youngest age bracket (18–24 scored 61%).

2. **Imagine that the interest rate** on your savings account was 1% per year and inflation was 2% per year. After one year, would you be able to buy more than, exactly the same as, or less than today with the money in this account?

   **52%** CORRECT

   a. Buy more than
   b. Exactly the same as
   c. Less than today with the money in this account
   d. Don't know

Already, the number of correct responses among this year's respondents is declining—a lot. But once again, "older is wiser" seems to be holding true, as more than 74% of those in the two older age brackets got the right answer. Overall, the number of correct answers is down from 64% from when we first started asking this question in 2015.

3. **If interest rates rise**, what will typically happen to bond prices?

   **30%** CORRECT

   a. They will rise
   b. They will fall
   c. They will stay the same
   d. There is no relationship between bond prices and interest rates
   e. Don't know

Respondents in the oldest age bracket did marginally better here—41% got it right. Unfortunately, more than one-fourth of our respondents chose "Don't know." This question seems chronically the hardest on the quiz.

4. **Do you think that the following** statement is true or false: "Buying a single company stock usually provides a safer return than a stock mutual fund?"

   **50%** CORRECT

   a. True
   b. False
   c. Don't know

The percentage of correct responses is certainly better than it was for the previous question, but the number of those answering "Don't know" is a hefty 30%—and among 18–24-year-olds, 43% chose this answer.

5. **Which of the following statements** describes the main function of the stock market?

   **44%** CORRECT

   a. It helps to predict stock earnings
   b. It results in an increase in the price of stocks
   c. It brings people who want to buy stocks together with those who want to sell stocks
   d. None of the above
   e. Don't know

Less than half of respondents got this one right—mainly the two oldest age categories. The two youngest age groups (18–24 and 25–34) not only had far lower percentages for the correct answer they also had more inaccurate answers, as opposed to other groups who (if not correct) had more "Don't know" responses. Later in this research, we'll explore the tendency of younger workers to be more likely to "know" inaccurate information—and how it bolsters a false, eager confidence.

# Higher financial literacy goes hand in hand with better retirement savings habits

6. **Considering a long time period** (for example, 10 or 20 years), which asset normally gives the highest return?

**47%** CORRECT

   a. Savings accounts
   b. Bonds
   c. Stocks
   d. Don't know

The "older and wiser" trend continued here. Of those aged 55–64 and 65–75, 61% and 62% got the correct answer, respectively. And the trend of "young, eager but inaccurate" also continued. That's a pity, because America's looming retirement problem can't be fixed by waiting for everyone to grow wiser just by growing older. Plan sponsors, investment providers and government agencies need to harness the eagerness of younger generations while they're young.

7. **Normally, which asset displays** the highest fluctuations over time?

**64%** CORRECT

   a. Savings accounts
   b. Bonds
   c. Stocks
   d. Don't know

The majority of the three oldest age groups answered this one correctly. However, roughly 40% of the youngest age bracket chose inaccurately. The issue when so many younger workers choose the wrong answer: misinformation is a more difficult obstacle to investment and retirement education than no information at all.

8. **When an investor** spreads his money among different assets, does the risk of losing money:

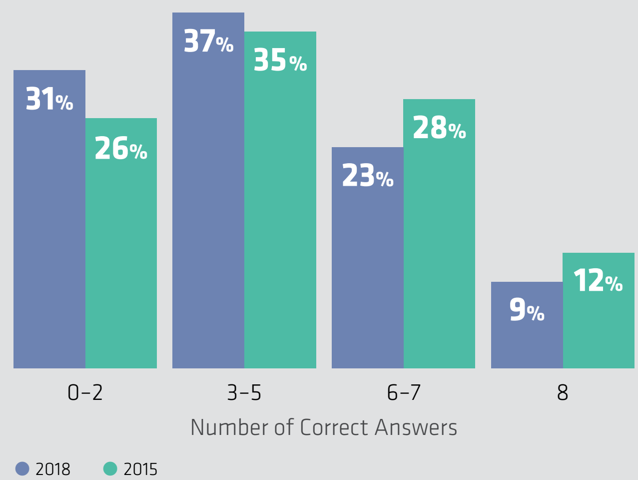
**49%** CORRECT

   a. Increase
   b. Decrease
   c. Stay the same
   d. Don't know

Just under half our respondents answered this correctly, even though it's based on a bedrock principle of sound, long-term investing. It's a concept that has been pounded home in DC educational materials for decades. Clearly, there's a disconnect between providing retirement savings education and getting participants to use it—or understand it if they do use it.

**TOO MANY WORKERS DON'T UNDERSTAND THE BASICS**

% of Respondents 2018 vs. 2015




Source: AB Research, 2015, 2018

Among our respondents, only 9% got all eight questions right—our "Whiz Kids" among all age brackets. Another 23% qualify as well-versed, getting six or seven correct answers. In the middle of the pack, more than one-third answered three to five questions correctly, while almost one-third remain "In the Dark," with two or fewer correct answers.

Financial literary is more than just academic. In many cases, our survey results show that greater financial literacy goes hand in hand with higher engagement, higher contribution rates and higher confidence. We'll refer to these levels of financial literacy when we explore new ways to categorize and understand employees, in order to help them build better retirement outcomes.

# TARGET-DATE FUNDS:
# A QUICK FIX FOR FAILED FINANCIAL LITERACY

DC plans offer freedom of choice. But that often turns into freedom to fail. Target-date funds can help. They may also be an ideal launch pad for supplying the key ingredient on participants' wish list: guaranteed retirement income.

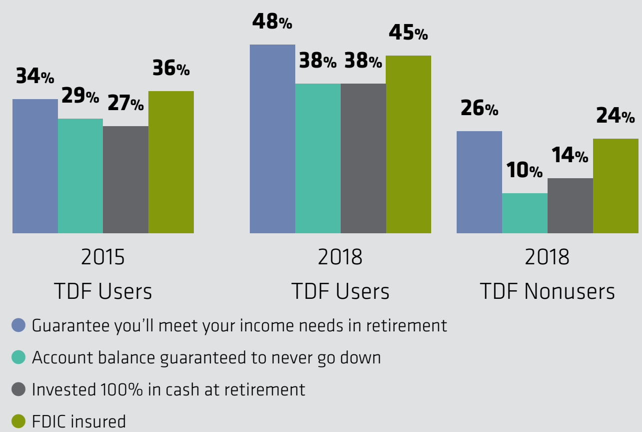
As of year-end 2017, more than 85% of plans use a target-date fund as their default for nonparticipant-directed monies, generally in line with prior years. Among nongovernment plans, most DC plans have a qualified default investment alternative (QDIA) as the default investment fund (98.8%).[4]

Target-date fund users most frequently say these funds are easy to understand (33%). They also like that the funds keep them appropriately invested to and through retirement (31%) and that the underlying investments in their target-date fund amount to better choices than what they might have selected on their own. In fourth place among the 10 possible answers, respondents like that a professional money manager invests the assets according to the participant's retirement time frame (26%).

Of those who are not aware if target-date funds are offered in their plan, an overwhelming 70% said they would invest in them if they were offered. Respondents who don't invest in target-date funds often say they don't know enough about them (55%). But another 25% say target-date funds take away the control they want, and 24% think they can do a better job at building their wealth.

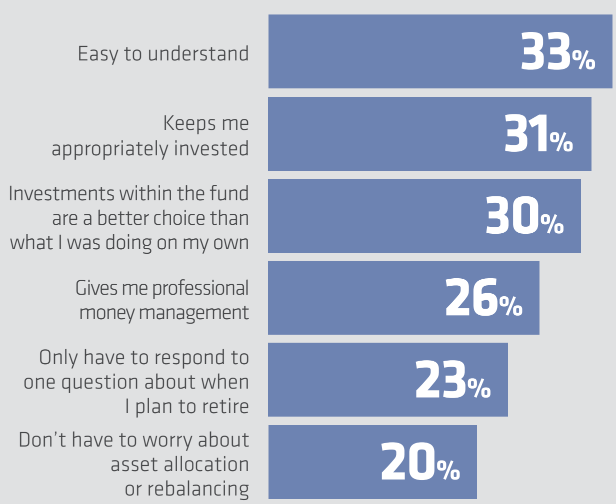
**MISPERCEPTIONS RISING AMONG TARGET-DATE USERS**

% of Respondents Answering Incorrectly (Who Know Whether or Not They Use Target-Date Funds)




Source: AB Research 2015, 2018

**TARGET-DATE FUND INVESTORS SAY THE REASONS THEY DECIDED TO INVEST IN THE FUND WAS:**




Source: AB Research, 2018

While many target-date fund nonusers say they don't know enough, users often know even less. And both groups apparently understand less now than respondents in our 2015 survey.

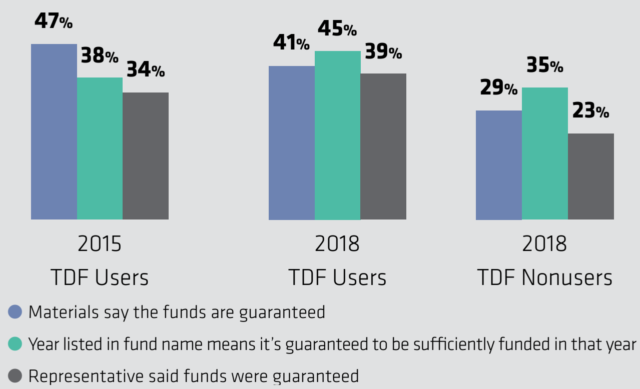
### SORRY, WRONG ANSWER

We posed five questions to respondents who knew whether or not they invested in target-date funds. The only question on which target-date fund users scored higher than nonusers was that target-date funds become more conservative as you get closer to retirement (71% of users versus 56% of nonusers). But fewer target-date fund users today got the right answer than in the 2015 survey: 71% this year versus 73% in 2015. And the 2015 result was already down from the 80% that answered correctly when we first asked the question in 2014.

In the other four questions, target-date fund users are now giving wrong answers more frequently than in our 2015 survey—and more frequently than the 2018 nonusers. More target-date fund users now wrongly believe that target-date funds guarantee you'll meet your income needs in retirement, that your account balance is guaranteed to never go down, that the fund is invested completely in cash at retirement and that target-date funds are FDIC insured.

**4** Callan Institute, 2018 *Defined Contribution Trends*

**WHY DO YOU THINK TARGET-DATE FUNDS ARE GUARANTEED?**
% of Respondents Who Believe Target-Date Funds Are Guaranteed




Source: AB Research 2015, 2018

## WHERE'S THE CONFUSION? IN THE MATERIALS? IN THE DATE?

Overall among respondents who believe target-date funds are guaranteed, 39% say the year listed in the fund name tells them their accounts are guaranteed to be sufficiently funded in that year. Nearly as many (36%) think the materials they received about the funds say they're guaranteed. And another 32% tell us that the representative who presented to their company told them the funds were guaranteed.

Despite what participants know or don't know about target-date funds, when asked how they'd feel if their employer automatically invested their contributions into a target-date fund, an overwhelming 85% react favorably. More than half (52%) say they'd like it or, at least wouldn't object; another 33% say they would keep some money in the fund and move some into other investments.

## GUARANTEED-INCOME TARGET-DATE FUNDS APPEAL BROADLY AMONG WORKERS

But what boosts the interest and engagement of all employees in our survey? It's the potential to invest in a target-date fund that actually does guarantee a stream of income for life.

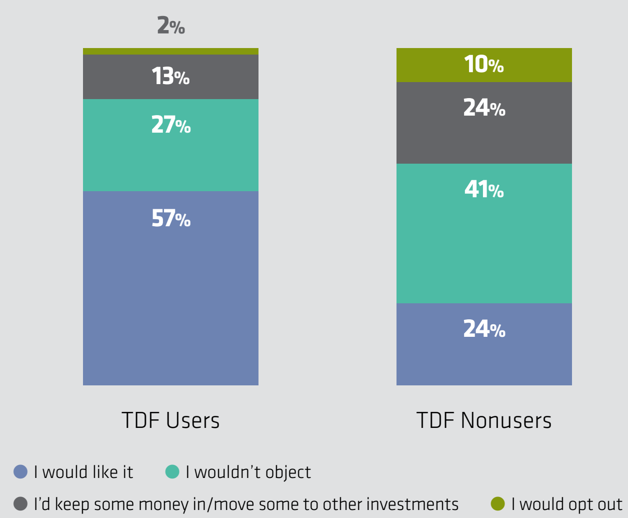
First, we asked how appealing respondents would find such a fund. Among all plan participants, 73% say it's either appealing or very appealing (37% and 36%, respectively). While 87% of current target-date fund users find it appealing or extremely appealing, even 67% of nonusers agree on that point.

Beyond the appeal, we asked our respondents how likely they would be to invest in such a fund. A resounding 89% say they're at least somewhat likely to invest in a guaranteed-income target-date fund. One issue that might make them hesitate is portability. Of those likely to invest in this concept, 42% would invest only if it were portable to their next 401(k) plan and 40% say they would invest only if it were portable to an IRA.

But to generate successful participation levels in this type of option within a DC plan, plan sponsors would need to make it the plan's QDIA, used in conjunction with automatic enrollment. So we asked our respondents what they would do if their employer automatically enrolled them in a target-date fund with a guaranteed income stream in retirement. The results are overwhelmingly positive.

94% of all employees would keep some or all of their contributions in a target-date fund that guaranteed an income stream for life. Only 6% say they would opt out of this type of fund if the employer automatically invested them in it.

**HOW WOULD YOU FEEL IF YOUR EMPLOYER AUTOMATICALLY INVESTED YOUR CONTRIBUTIONS INTO A TARGET-DATE FUND WITH A GUARANTEED INCOME FEATURE?**
% of TDF Users and Nonusers




Numbers may not sum due to rounding.
Source: AB Research, 2018

# INVESTOR PERSONAS: ATTITUDE BEFORE AGE!

Whether it's Gen X, Millennials or baby boomers, you can't lump an entire generation into one tidy little bucket of retirement savings knowledge and engagement. Nor should you. Targeted outreach is necessary, and understanding investor personas may help.

### WHO'S WHO AMONG PARTICIPANTS

It's one thing to rely heavily and primarily on age as the key factor in determining a glide path for a company's target-date solution. It's quite another thing to connect with individual participants in a one-size-fits-all (or one-age-fits-all) way. At all ages, many workers find it overwhelming to save for retirement. Investment education and communications help some participants, but typically not the ones who need it most.

Grouping participants based on common financial attitudes and interests may help us understand them—and help them save for retirement more effectively. We find a striking connection between high engagement and higher deferral rates, higher confidence and better retirement savings.

**WE'VE IDENTIFIED THREE DISTINCT INVESTOR PERSONAS:**

- **CAPABLE, CONFIDENT INVESTORS** feel knowledge-able about investing and do well on our financial literacy test.
- **EAGER, YOUNG, UNAWARE PARTICIPANTS** have high enthusiasm and high confidence but very low scores on our investing quiz.
- **CONSERVATIVE, CAUTIOUS SAVERS** have low confidence and low investing acumen, but they're diligent savers and actually know more than they may realize.

### ENGAGED WITH RETIREMENT PLANNING—NOT JUST "CONNECTED"

One barometer of high engagement may be participation in plan seminars or education sessions, along with how frequently participants check or make changes to their account. Eagers would top that list. But if high engagement equates with better retirement savings results, then Capables take the lead. And while Conservatives are responsibly focused on the goal of retirement income, they're the least engaged on any set of criteria. They're cautious, lack confidence and tend to feel they don't have the time to devote to investment issues.

**WHAT MAKES YOU TICK?**
**HOW AB DERIVED THE THREE PARTICIPANT PERSONAS**

We developed a series of 14 statements that were directly or indirectly related to finances and investing. Respondents could choose from a range of five answers how strongly they agree or not with each statement (strongly agree, agree, somewhat agree, somewhat disagree, disagree completely). The 14 statements are:

+ I enjoy planning and thinking about financial matters
+ I don't really follow any kind of financial plan
+ I am eager to learn more about investing so I can do a better job with my investments
+ I am more of a saver than an investor
+ I am more of a spender than a saver
+ I am interested in simplifying my finances
+ I am a long-term investor
+ I am confident I will have saved enough money to retire when I want and in a comfortable lifestyle
+ I am knowledgeable about investing and money matters
+ I am confident in my ability to make good financial and investing decisions
+ In the past, I have made some really good investments
+ I would rather make a transaction by computer than with a person
+ I am not very comfortable with computers
+ Doing financial transactions by computer is safe and secure

By analyzing the range of answers to these 14 statements (the formal term is "hierarchical segmentation analysis"), we found three relatively equally weighted clusters of participant attitudes, which we used to define our personas.

| THREE INVESTOR PERSONAS | CAPABLE<br>CONFIDENT INVESTOR | EAGER<br>YOUNG, UNAWARE | CONSERVATIVE<br>CAUTIOUS SAVER |
|---|---|---|---|
| **Demographics** | | | |
| Median age | 45 | 36 | 45 |
| Married | 63% | 60% | 53% |
| Median household income | $89,000 | $83,000 | $72,000 |
| Total DC assets | $93,000 | $71,000 | $44,000 |
| Very confident retirement outlook | 53% | 51% | 31% |
| Median assets outside DC | $71,000 | $74,000 | $31,000 |
| Graduate degree | 21% | 32% | 21% |
| Female | 47% | 52% | 70% |
| Financial literacy: Whiz Kids* | 15% | 4% | 6% |
| Financial literacy: In the Dark* | 20% | 50% | 22% |
| **Attitudes Toward Retirement (% of each persona group)** | | | |
| Use a financial advisor | 47% | 48% | 30% |
| Top DC savings goal: retirement income | 63% | 45% | 60% |
| Confident investments will generate lifetime income | 61% | 52% | 36% |
| Change investment mix frequently (daily, monthly or quarterly) | 50% | 58% | 31% |
| Monitor retirement plan investments online | 80% | 76% | 64% |
| Have a desire to pick own mix of individual funds | 57% | 57% | 35% |
| Comfortable making asset-allocation decisions | 61% | 54% | 36% |
| Very experienced/experienced with making investment decisions | 40% | 46% | 18% |
| Very confident to confident of comfortable retirement | 53% | 51% | 31% |
| Have a specific strategy to retirement goals | 82% | 69% | 60% |
| In a market downturn, likely to move money to different investments | 16% | 36% | 19% |

***** Whiz Kids answered all eight financial literacy questions correctly; In the Dark respondents answered zero to two questions correctly.
Source: AB Research, 2018

## TAKE OUR INVESTOR PERSONALITY QUIZ AT WWW.ABGLOBAL.COM/GO/PARTICIPANTSURVEY

# CAPABLE, EAGER, CONSERVATIVE: LEARNING CURVES

If plan sponsors and providers approach participants by targeting the strengths and weaknesses of their personas, it may be possible to increase the knowledge of Eager participants and the confidence of the Conservative ones—and ultimately boost retirement savings for all personas.

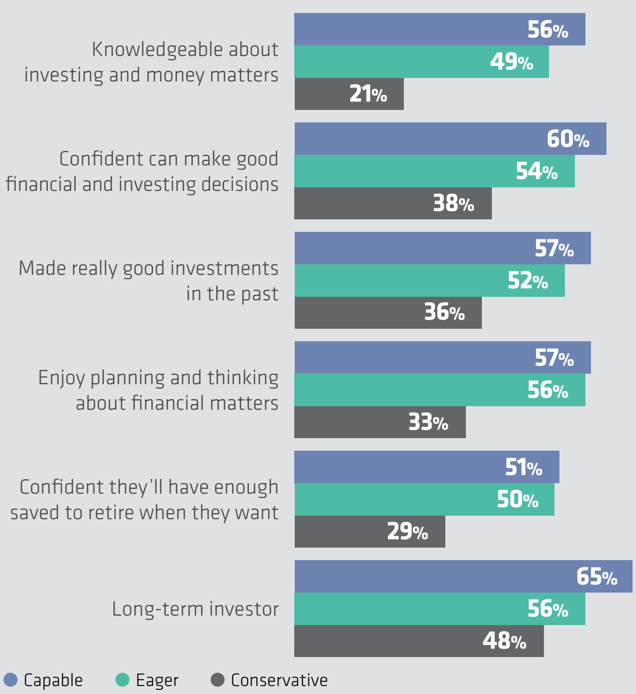
### PROFILE NUANCES

The displays on this page and the next show some key categories and the prominent skews for each of the three personas. Furthermore, the survey results had some very interesting pieces of nuanced information that can provide additional food for thought.

Yes, age is one of those categories where there's an illuminating difference: while all three groups have a substantial number of respondents aged 35–54, Eagers have almost double the percentage of respondents aged 25–34 than the other two groups. Conservative investors are slightly more likely than the others to be single (never married, not living with a significant other). Capables are slightly more likely to be married and slightly less likely to be divorced.

**CAPABLE INVESTORS—KNOWLEDGE OF THE FINANCIAL MARKETS, WITH DISCIPLINE TO INVEST WISELY**

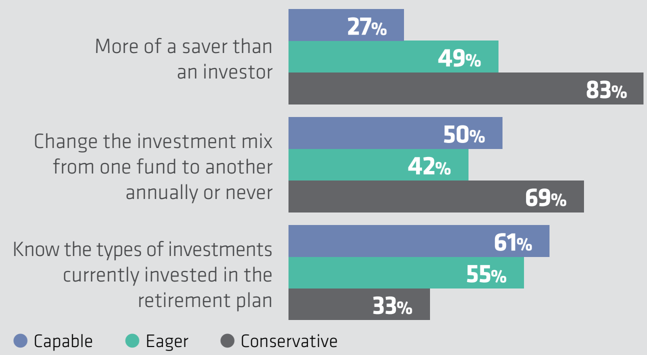
% of Each Persona Group




Source: AB Research, 2018

**CONSERVATIVE SAVERS—CAUTIOUS...TO A FAULT?**

% of Each Persona Group




Source: AB Research, 2018

**Assets and Outliers.** Conservative investors are much less likely to still have money in a previous employer's retirement savings plan. Eagers, interestingly, are nearly four times as likely to have more than $1 million in their retirement savings than the other two groups. They're are also five times more likely than other groups to have $1 million or more in savings *outside* their retirement plans. But this skew is largely due to a minority of Eagers who are very high earners. That's evident by looking at the median, or typical level, of retirement plan savings. On that criterion, Capable investors are highest ($93,000, compared to $71,000 for Eagers and $44,000 for Conservatives).

**Advice and Consent.** Nearly half of Capables and Eagers use a professional licensed financial advisor, but less than one-third of Conservatives do. Eagers are most likely to say they make their own decisions without consulting anyone else, and Capables are nearly twice as likely as Eagers to use their financial advisors as a sounding board. Trust is an issue for Conservatives, in that they have a higher tendency to consult with friends, family and coworkers than the other two groups. And Conservatives are more likely to let their employer automatically make investment elections for them than the others.

> I hear and I forget. I see and I remember. I do and I understand.
> —Confucius

**Investing Nuts and Bolts.** While the winning investment characteristic that respondents want is a steady income stream in retirement, Conservatives are the group that wants this most, and they are the ones who gave the lowest importance to an investment's upside potential. Curiously, Eagers voice more interest in name-brand investment managers than the other two. Conservatives score lowest in each of the confidence/ability measures connected with selecting and monitoring their retirement plan investments. Capables take the prize in feeling comfortable deciding how much to invest in each fund. And when it comes to feeling confident that their investments will generate an income stream that will last throughout retirement, the response is significantly different for each—with 61% of Capables agreeing, but with only 52% of Eagers and 36% of Conservatives doing so.

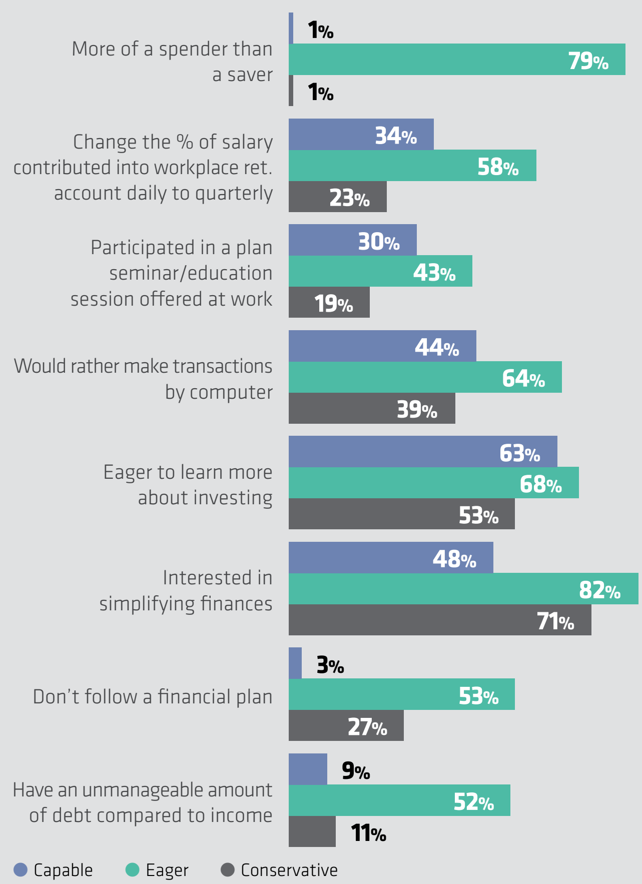
**Steady Does It.** Capables don't react to market volatility the way Conservatives and Eagers do. Surprisingly, Eagers are the ones most likely to become more conservative investors from swings (either up or down) in the stock market. But that may, in part, relate to the fact that Eagers are also more likely than the other two groups to claim being aggressive growth investors. Even so, in a substantial market downturn, Eagers are twice as likely to move money to different investments. And perhaps the oddest disconnect for any of the personas is that while Eagers are strikingly more likely to say they are "very experienced" making investment decisions, they also have a severely high percentage of woefully low scores on the financial literacy quiz.

**Different Takes on Target-Date Funds.** Another odd disconnect is with Eagers and their relationship to target-date funds. They're the only group in which the majority invests in target-date funds. More than the other groups, Eagers like the fact that they have to respond to only one question ("When do you plan on retiring?") when deciding to invest in a target-date fund. But they're also the least informed about the what, why, when and how of target-date funds—43% of Eagers gave a wrong answer for what the target date in the fund name means. Not only did more Conservatives answer that correctly, but they were, at least, more likely to say they didn't know than to give a wrong answer.

Far more Eagers incorrectly believe that target-date funds guarantee they'll meet their income needs in retirement, and Eagers are twice as likely as the other personas to think that target-date funds guarantee their account balance won't ever go down. They're also twice as likely to assume that target-date funds are invested 100% in cash at retirement and are FDIC insured, like bank accounts.

**EAGERS ARE MORE CONNECTED AND ENGAGED**

% of Each Persona Group




Source: AB Research, 2018

For respondents who don't invest in target-date funds, both Eagers and Conservatives primarily say it's because they don't know enough about those funds. Capables, on the other hand, stood apart from the other two groups in being more likely to say that they prefer to be in control of their investment strategy or that they think they can do a better job building wealth than a target-date fund.

# CONFIDENCE TODAY, EMPOWERMENT AND KNOWLEDGE FOR TOMORROW

More Americans are upbeat in their retirement confidence now than they have been in a decade. Retirement providers can leverage that confidence to help build better retirement saving futures.

### LIFE LESSONS WORTH LISTENING TO

"If you could prepare for retirement all over again, what would you do that you didn't do before?"

It's worth noting what the retirees in our survey overwhelmingly put at the top of the list: "I would put more away for retirement from monthly earnings." In a nutshell, that's it. And yes, we all probably know that's important. But not enough American workers know *how* to do it.

Automatic enrollment helps more workers begin their journey to retirement readiness, but it can't correct the behavioral phenomenon of inertia—in this case, as it applies to participants increasing their contributions over time. While many DC plans have adopted automatic enrollment in conjunction with a QDIA, fewer plans include automatic escalation of savings rates. We believe that should change, and our research shows that automatic escalation may be the most important factor in building longer-lasting retirement savings—other than a guaranteed retirement income stream.

### KNOWLEDGE IS POWER

Workers also need to become more engaged with their retirement-savings efforts. The path to that improvement is clear. Our survey shows that greater financial literacy produces greater engagement, greater responsibility, greater confidence and greater retirement preparedness.

Financial literacy is typically accompanied by:

+ higher household income
+ higher DC plan balances
+ a greater likelihood to be saving for retirement

Financial literacy doesn't dramatically rise with education or job title, so it's something that can be achieved generally. Those with higher financial literacy:

+ find diversifying investments attractive
+ more accurately understand target-date funds (and are more likely to invest 100% in them)
+ look for investments with upside potential more than ones with downside protection
+ have higher deferral rates
+ are more concerned about long-term retirement spending concerns, such as inflation, outliving savings and using a judicious withdrawal rate for retirement spending needs

### IMPROVE KNOWLEDGE AND CONFIDENCE WITH TARGETED COMMUNICATIONS

Each of our three investor personas has distinct advantages and hurdles. Plan sponsors and providers can leverage those distinctions to increase engagement, which can ultimately lead to greater knowledge and better use of a company's DC plan.

**CAPABLE, CONFIDENT INVESTORS** prize their independence and feel they can do a better investing job.

Their biggest hurdle: they may not truly comprehend the potential pain of taking too much risk.

**Suggested action:**

+ Improve their engagement by delivering targeted articles on the risk/reward hazards of specific investments and investing issues (such as liquidity scarcity and crowded trades).

**EAGER, YOUNG, UNAWARE PARTICIPANTS** have time and interest on their side.

Their biggest hurdle: they need to make the most of those "assets" to invest well.

**Suggested actions:**

+ Explain the startling long-term, cumulative difference that results from higher contribution rates early on. This may resonate with them.
+ Give them comparative graphics showing the potential growth advantages of long-term investing in equities versus the drag of too much safety (including bonds and money-market funds) in the early decades of retirement saving.
+ Make the most of social media to connect with Eagers!

**CONSERVATIVE, CAUTIOUS SAVERS** need to grasp the potential of high-return investments.

Their biggest hurdle: they need help increasing their comfort level with investing.

**Suggested actions:**

+ Help them see that time can be on their side, too.
+ Show them the damaging risk of a savings shortfall from an overly safe approach to investing—they may gain confidence in embracing greater growth potential.

Financial literacy is more than academic. Greater financial knowledge correlates with greater engagement, greater confidence, better retirement plan decisions and better potential retirement outcomes. Correct answers are in bold face type.

**1.** Suppose you had $100 in a savings account and the interest rate was 2% per year. After five years, how much do you think you would have in the account if you left the money to grow?

77% CORRECT

a. **More than $102**
b. Exactly $102
c. Less than $102
d. Don't know

**2.** Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After one year, would you be able to buy more than, exactly the same as, or less than today with the money in this account?

52% CORRECT

a. Buy more than
b. Exactly the same as
c. **Less than today with the money in this account**
d. Don't know

**3.** If interest rates rise, what will typically happen to bond prices?

30% CORRECT

a. They will rise
b. **They will fall**
c. They will stay the same
d. There is no relationship between bond prices and interest rates
e. Don't know

**4.** Do you think that the following statement is true or false: "Buying a single company stock usually provides a safer return than a stock mutual fund?"

50% CORRECT

a. True
b. **False**
c. Don't know

**5.** Which of the following statements describes the main function of the stock market?

44% CORRECT

a. It helps to predict stock earnings
b. It results in an increase in the price of stocks
c. **It brings people who want to buy stocks together with those who want to sell stocks**
d. None of the above
e. Don't know

**6.** Considering a long time period (for example,10 or 20 years), which asset normally gives the highest return?

47% CORRECT

a. Savings accounts
b. Bonds
c. **Stocks**
d. Don't know

**7.** Normally, which asset displays the highest fluctuations over time?

64% CORRECT

a. Savings accounts
b. Bonds
c. **Stocks**
d. Don't know

**8.** When an investor spreads his money among different assets, does the risk of losing money:

49% CORRECT

a. Increase
b. **Decrease**
c. Stay the same
d. Don't know

# START WITH AB

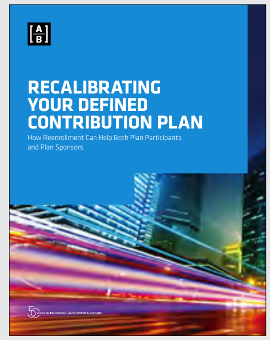
At AB, we're working to define the future of Defined Contribution, striving to keep clients ahead with visionary research and progressive innovation in investment solutions. Our insight stems from four decades of experience in designing asset-allocation strategies and managing portfolios for individuals and institutions globally.

### OTHER IMPORTANT DEFINED CONTRIBUTION RESEARCH FROM AB


Designing the Future of Target-Date Funds—A New Blueprint for Improving Retirement Outcomes


What's Old Is New Again—Collective Investment Trusts Reduce DC Plan Costs


Inside the Minds of Plan Sponsors— Moving to the Future of Defined Contribution Plans




Recalibrating Your Defined Contribution Plan—How Reenrollment Can Help Both Plan Participants and Plan Sponsors


Plan Sponsors Speak With Action—The Shift From Recordkeeper Proprietary Target-Date Funds to Nonproprietary Solutions

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Investing in a target-date fund does not guarantee sufficient income in retirement.



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