

# **2018 Global Retirement Reality Report US Snapshot**

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# Rising to the Challenge

## The Expectations and Reality of Retirement

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When it comes to retirement, Americans are refreshingly optimistic — though there is room for enhanced financial fitness, with a little help from their employers.

The relative optimism of Americans with respect to their retirement may be a result of their familiarity with the defined contribution (DC) system. Having gained traction in the 1980s, the DC savings construct is well-established in the United States. While most individuals report using multiple sources of income to fund their retirement, such as Social Security and defined benefit (DB) plans, our survey found that over half (53%) of the US respondents expect DC savings will play a significant role in funding their retirement.

However, DC familiarity and dependence only paint a partial picture. Two critical issues cloud the horizon: 1) most people participating in DC plans aren't saving enough and 2) plans are not available to everyone. In fact, only about half of US employees have access to an employer-sponsored retirement plan. Because all survey respondents participate in a DC or private savings plan, this means that our survey is capturing the viewpoints of a population that is better paid and has more retirement savings options available to them than the general workforce.

In this report, we'll examine both the sanguine view of this population and the savings shortfall — and recommend actionable tips on how employers can provide support.

## Survey Methodology

During the first quarter of 2018<sup>1</sup>, State Street conducted an online survey, in conjunction with YouGov, across eight countries representing a range of retirement systems.

We interviewed 9,451 people at every stage of the retirement saving journey, from those new to the workforce to those later in retirement, to better understand the milestones and inflection points across the whole savings journey. All respondents participate(d) at some level in a DC or private savings plan.

### Sample Groups

<b>WP:</b> Working Population	Working and not planning to retire in the next 5 years
<b>AR:</b> Approaching Retirement	Working and planning to retire in the next 5 years
<b>RR:</b> Recently Retired	Retired within the last 5 years
<b>LR:</b> Later in Retirement	Retired more than 5 years ago

<b>Australia</b>		<b>Germany</b>		<b>Ireland</b>	
WP	400	WP	423	WP	400
AR	400	AR	398	AR	148
RR	228	RR	152	RR	54
LR	195	LR	54	LR	-2
Total	1,223	Total	1,027	Total	602

<b>Italy</b>		<b>Netherlands</b>		<b>Sweden</b>	
WP	420	WP	410	WP	542
AR	300	AR	250	AR	149
RR	263	RR	164	RR	233
LR	154	LR	203	LR	251
Total	1,137	Total	1,027	Total	1,175

<b>UK</b>		<b>US</b>	
WP	415	WP	419
AR	384	AR	407
RR	403	RR	415
LR	401	LR	416
Total	1,603	Total	1,657

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# Key Findings from the US

## Finding 1 Americans See Themselves in the DC Driver's Seat

Americans embrace the view that they themselves, rather than the state or their employer, are responsible for making sure they have adequate income in retirement. More than 86% of working Americans see themselves as responsible for ensuring an adequately funded retirement — the highest of all countries surveyed. They also have a realistic idea of what level of income they are likely to require in retirement. In fact, pre-retirees' expected income replacement ratio (65% of income) closely mirrors actual ratios cited by retirees (64% of income).

Given the tenure and centrality of the DC system, it's not surprising that a high proportion of Americans expect DC savings to be their primary source of income in retirement. Only in Australia does DC play an even larger role in retirement income. Further reflecting this sense of responsibility, over 92% of respondents in all age groups assign a high level of importance to being financially prepared for retirement, more than in any other country.

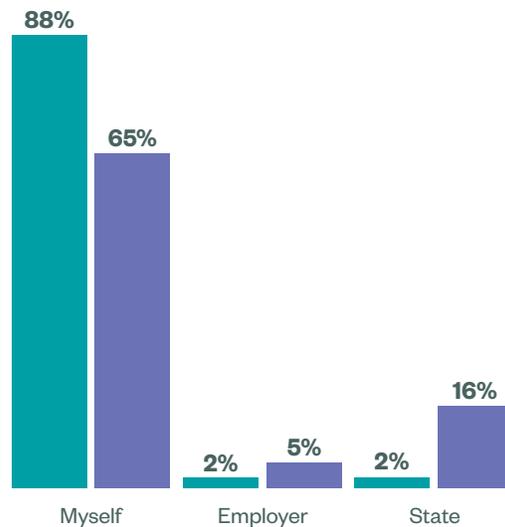
So it makes sense that Americans are actively engaged in DC planning.

### Who is Most Responsible for Making Sure that You Have Adequate Income in Retirement?

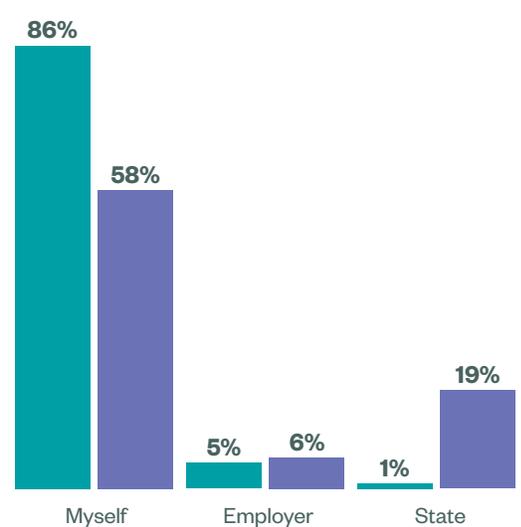
Please rank the following in order of high to low responsibility.

■ US  
■ Global ex US (Avg.)

#### Working Population (WP/AR Avg.)



#### Retired Population (RR/LR Avg.)



## Finding 2 They Understand What's "Under the Hood"

Americans report the greatest level of investment awareness of the savers we surveyed. What's more, American retirees appear to be sincerely satisfied with the control they exercise over their DC plans; nearly 60% report that they are extremely happy with the options they chose in funding their retirement while 80% saw themselves as having significant choice in selecting how they would use their retirement savings. These insights suggest an important connection between awareness, choice, and satisfaction.

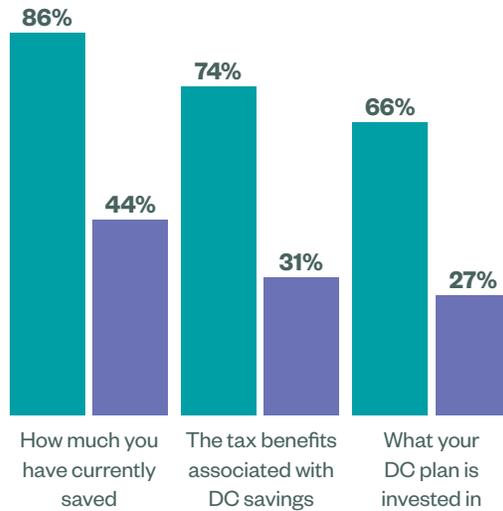
Of the retirees who reported not being satisfied with their choice of solution for funding their retirement, 60% said they would have preferred a spending solution that offered more security. We'll take a closer look at retirement income solutions, both respondents' preference and employers' roles, later in this report.

### How Aware Are You of...?

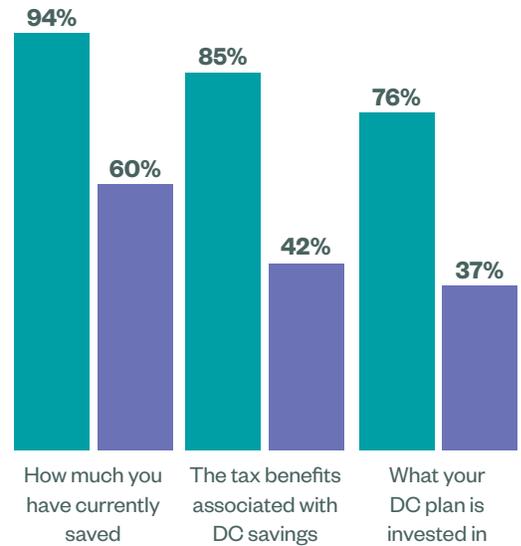
■ US  
■ Global ex US (Avg.)

Respondents were asked to rate their level of awareness based on a 3-point scale ranging from Not Aware, Somewhat Aware, to Aware. Percentages represent the concentration of 'Aware' responses.

### Working Population Reporting to be Aware of Plan Details



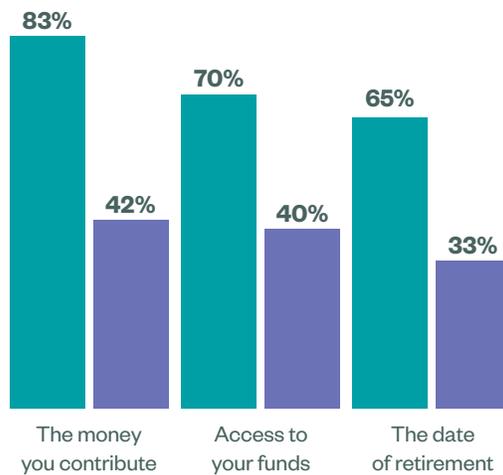
### Approaching Retirement Reporting to be Aware of Plan Details



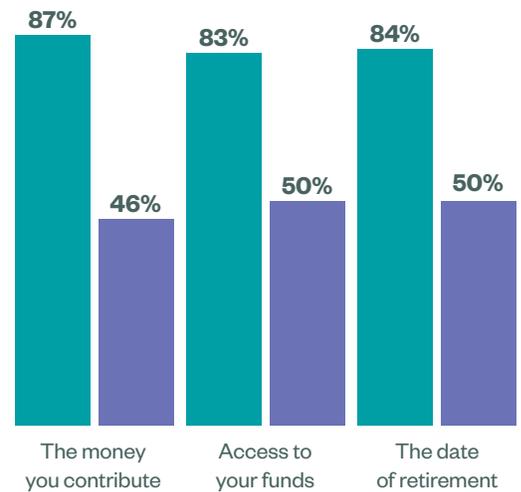
### How Much Choice Have You Had When Deciding...?

■ US  
■ Global ex US (Avg.)

### Working Population



### Approaching Retirement



### Finding 3

## A Savings Shortfall Persists

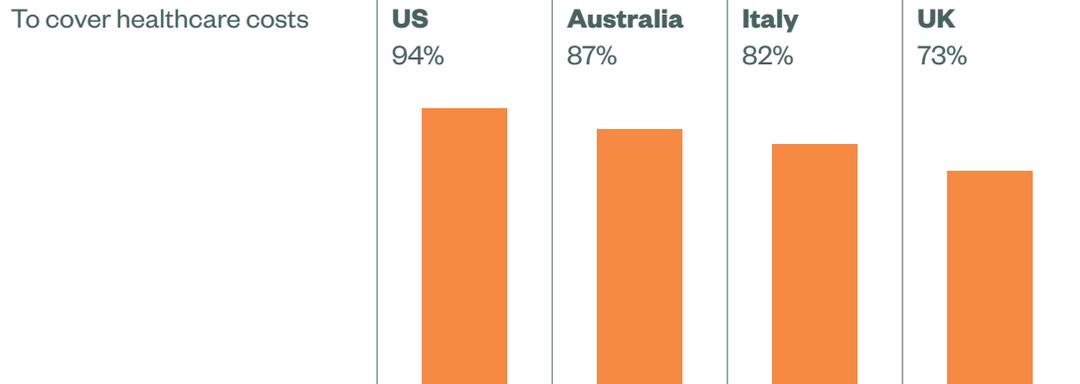
Despite Americans' optimism and awareness surrounding retirement issues, many still have savings shortfalls. Approximately 1 in 4 actively working respondents is concerned about not saving enough. Indeed, less than half of US workers surveyed reported saving 10% or more in a retirement plan.

Respondents recognize the savings gap and are taking a number of pragmatic approaches to bridging it, including:

- 60% or more of workers approaching retirement who expect to have a retirement shortfall plan to bridge this by working part-time in retirement.
- 40% of workers approaching retirement expect to retire later.
- Savings levels tend to increase as people near retirement — likely since they have both more disposable income and a greater sense of urgency.

Savings shortfalls don't only relate to how money is saved, but also how it is spent in retirement. In the US, higher out-of-pocket healthcare costs can quickly devour savings, as echoed by a recent Consumer Bankruptcy Project study focusing on people 65 to 74 years of age.<sup>3</sup> Over half of the Americans surveyed cite healthcare as a top retirement spending priority, particularly in the later years of life:

### Why Will You Need More Money Later [in retirement]?



Base sizes too low to show Netherlands, Ireland, Germany and Sweden

As the costs and complexity of retirement increase, Americans are trying to take the right steps to anticipate areas of significant spending. Increasingly, they are also looking to their employers to offer advice and solutions.

## Finding 4 Employees Look to Employers as a Retirement Resource, But are Often Disappointed

Given that DC plans in the US are employer-sponsored, it's natural that Americans would look to their plan for help preparing for retirement. Nearly half of workers expect help from their employers. Yet Americans often report having a subpar experience when seeking help. In fact, only 1% of retirees say their employer offered useful advice. There is a clear gap here between employee expectations and what employers are currently providing. This is also an opportunity for employers to provide employees with a valuable service.

### What Do You Expect From Your Employer Regarding Retirement Readiness Support?

US  
Global ex US (Avg.)

### Working Population (WP/AR Avg.)



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Beyond advice, Americans have an appetite for employer-sponsored solutions to the very real challenge of creating an income stream in retirement. In fact, 75% of American workers say they would value a retirement income solution provided by their employer, ideally one that combines flexibility and security features:

- 28% workers prioritize flexibility
- 20% workers value security
- 40% workers value a combination

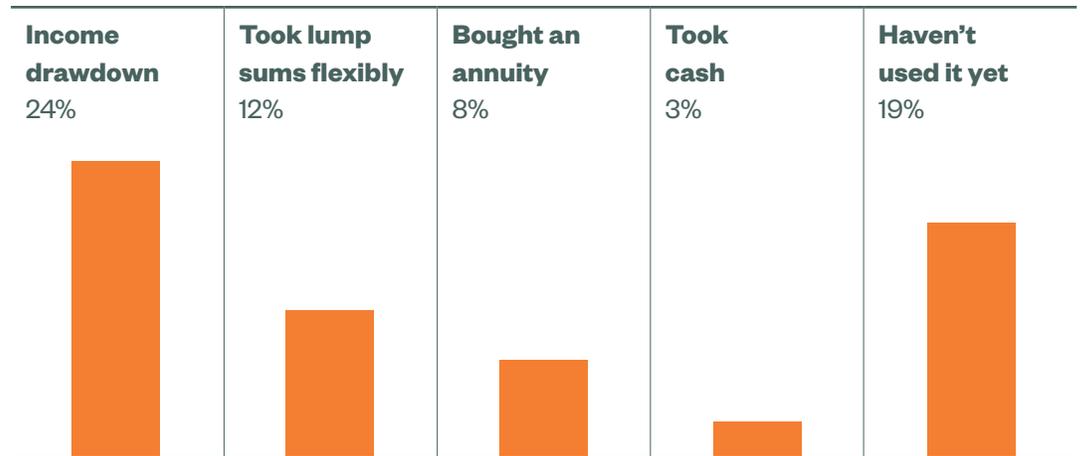
As employers build solutions, they can look to how retirees actually use their DC assets:

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### How Are You Currently Using Your DC Savings?

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#### Retired Population (RR/LR Avg.)



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## What Can Employers Learn From Participants?

While American workers have relatively high levels of retirement confidence compared to their global counterparts and they also embrace the personal responsibility for preparing for retirement, their actions don't always lead to full retirement readiness. Employers have an opportunity to help them bridge the gap, as workers look to their employers to provide both useful advice and effective solutions.

Three actionable steps for employers that follow the saving life of a participant are:

1. Develop ongoing and relevant communications to help employees understand their degree of retirement readiness and motivate them to stay engaged.
2. Give participants additional access to advice, either through human or robo advisor channels.
3. Offer retirement income solutions to enhance employees' confidence (addressing the issue of security raised in Finding 2) and support more financially secure retirement outcomes.

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## Conclusion

The DC system is well-established in America and workers have embraced their personal responsibility for retirement saving. People recognize that it is important to be financially prepared for retirement and are aware of their level of savings and their investment options. However, the comparatively optimistic picture painted in this report is not fully representative, as about half of the working population does not have access to an employer-sponsored retirement plan and is likely to be much less well prepared. Even those who do have a plan still risk a savings shortfall due to insufficient savings rates.

Given the central role US employers have played for decades as plan sponsors, it is not surprising that their employees increasingly look to them for advice on navigating retirement readiness and workforce transitions.

There is an opportunity for employers to gain a competitive advantage by offering benefits that help employees achieve a higher degree of retirement readiness and provide predictable income solutions in retirement. By offering solutions for the saving and spending phases of retirement, employers have the opportunity to stand out as benefits leaders, while also equipping their mature employees with the confidence to embrace their next act.

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<sup>1</sup> Survey data fielded between 8 February and 3 April 2018.

<sup>2</sup> A significant sample of respondents in later retirement could not be formed for Ireland.

<sup>3</sup> New York Times, "Too Little, Too Late: Bankruptcy Booms Among Older Americans," August 5, 2018

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