



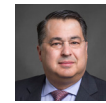
# Financial Wellness in Retirement

Employers can help plan participants navigate retirement planning, while also supporting retirees as they face new financial decisions.

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## KEY INSIGHTS

- Discussions of financial wellness have often focused on retirement planning; however, financial wellness also matters in retirement.
- Retirees may still need guidance in making the right financial choices as they pivot from a saving to a spending mindset.
- Retirees are more confident about their finances in retirement than preretirees.



**Joshua Dietch**  
*Vice President, Retirement  
Thought Leadership*

Financial wellness is often defined as the sum of behaviors related to money: spending, saving, investing, borrowing, and planning. In many ways, it is how people manage their finances as they work to accumulate enough wealth to retire with financial security.

Financial wellness is often discussed in the context of preparing for retirement. But what about those who already have retired? Doesn't financial wellness have meaning for them too? Our recent analysis of retirees' spending highlighted how many retirees may become financially vulnerable when their income in retirement fails to meet nondiscretionary expenses (e.g., food, shelter, transportation, clothing, etc.).

This concern over spending versus income comes as retirees face new decisions related to turning assets into income, claiming Social Security and Medicare benefits, estate planning, budgeting, health care costs, and more. And, if they roll over to an IRA, they often face these challenges without the assistance they could previously access from their employer-sponsored 401(k) plan.

### Understanding Retirees' Financial Wellness

Recognizing that the need for financial wellness does not end when an employee retires, T. Rowe Price wanted to better understand the overall financial wellness of retirees. To do this, we used our 6th annual Retirement Savings and Spending Study<sup>1</sup> and compared data from workers saving for retirement

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<sup>1</sup> The Retirement Savings and Spending Study was conducted online June 5–24, 2020; 3,420 participants who are currently contributing to a 401(k) plan or are eligible to contribute and have a balance of \$1,000 responded. The survey also included 1,007 retirees who have retired with a Rollover IRA or left-in-plan balance.

in 401(k) plans and workers who had already retired. Specifically, we wanted to know how the profile of financial wellness changes as preretirees become retirees and what, if any, distinctions can be drawn between those who continue to work in retirement and those who do not.

For people currently saving for retirement, financial wellness is primarily based on examining how today’s behaviors may affect their ability to achieve longer-term financial goals, especially future retirement. For retirees, however, retirement is now upon them and what was once unknown is now known. But the state of being in retirement presents its own new set of financial decisions and challenges.

The good news is that we find that for many retirees, retirement is better than they might have assumed. In fact, 80% of retirees surveyed agreed they are enjoying their retirement years more than their working years. Only 15% reported that their retirement has turned out worse than expected.

The finding is not surprising: We have observed that preretirees are comparatively pessimistic about their

future in retirement versus retirees who are experiencing it. Moreover, this trend is consistent with what we have seen in previous Retirement Savings and Spending studies over the past three years, even accounting for the coronavirus pandemic.

We also find that the basic drivers of financial wellness among retirees are similar to the drivers found among those who are still working (e.g., education, low levels of debt, etc.). The one key difference is income. Among workers, savings was correlated with higher degrees of financial wellness. However, in retirement the primary driver flips to income. This shift is not unexpected because in retirement, income is derived from savings. However, it highlights the challenge that many savers face when they must suddenly pivot from saving to spending.

Our study results suggest that whatever anxieties preretirees had while saving for retirement are eased once retirement arrives. As Fig. 1 below shows, the financial realities of those we surveyed prove to be much less daunting than they may have believed while they were working.

## Retirees Are More Confident About Their Finances

(Fig. 1) How retirees feel about their ability to achieve financial goals.

Preretiree and Retiree Sentiment	Working Baby Boomers (ages 56–74)	Retirees
	Answered Yes	
<b>Positive Statements</b>		
I will have enough money to pay for health care	39%	61%
I will live as well as or better than when I was working	38%	47%
I will be able to withstand a major financial shock like a major house repair or major medical bill	32%	53%
I will be able to leave money to family members or charities	23%	46%
<b>Negative Statements</b>		
I will have to reduce my standard of living	27%	20%
I will run out of money	10%	6%

Source: T. Rowe Price 2020 Retirement Savings and Spending Study.

## The Role of Work in Retirement

People retire for many reasons. Some equate it with a milestone or a planned retirement date. Some unexpectedly lose their job or are simply no longer enjoying work. Health or family reasons may also play a role. Though we all may aspire to retire on our own terms, not everyone gets to make that choice. In our research we found that 55% of the retirees we surveyed cited either negative or involuntary factors (e.g., job loss, health concerns, etc.) as the reasons they retired.

On the other hand, many people “retire” but choose to continue working to some degree. In fact, 27% of the retirees we surveyed were either working or looking for work. Common reasons for working include the sense of meaning and fulfillment (49%), liking the mental stimulation it provides (41%), or needing the social engagement (35%), among others.

However, despite many positive aspects of working in retirement, more than half (55%) of respondents are working or seeking employment out of financial need for various reasons. Over the past three years, the percentage of retirees in our study who retire with mortgage debt rose from 30% (2018) to 38% (2020). Moreover, the amount of their mortgage debt has risen from \$128,000 (2018) to \$185,000 (2020). From a demographic perspective, we also find that women are more likely to need to work, particularly if they are single.

The simple truth is that retirees with insufficient savings, regardless of the reasons why, have limited options for creating additional income other than continuing to work. A lack of savings can cause retirees to struggle with all aspects of basic financial wellness—day-to-day financial behaviors, such as maintaining budgets, and achieving financial goals, such as paying down debts, etc. As a result, these retirees

are often faced with unfortunate choices, like reducing their standard of living in retirement or continuing to work as long as they are physically able.

Some retirees will financially struggle in retirement just as they did while working, but with the right assistance and behavioral shift, retirement can be a time to pursue new interests and personal growth as preretirement financial uncertainty fades into greater financial confidence.

## People Need Advice in Retirement Too

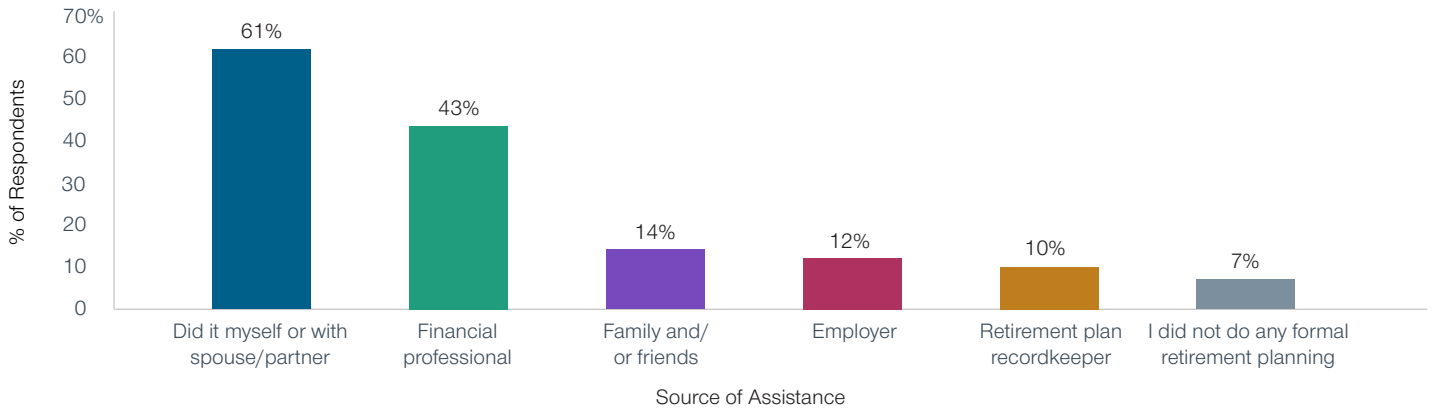
Those who have saved in 401(k) plans throughout their working years may have had access to guidance and financial wellness tools made available through employers, financial professionals, and recordkeepers. The very nature of regulatory governance of 401(k) plans ensures that availability of these services is not contingent on income or wealth. However—and importantly—these services are largely focused on helping workers build wealth, not spend it. A further challenge for both preretirees and retirees is that as their needs are changing (e.g., the need to convert assets into income, claim Social Security and Medicare benefits, estate planning, etc.) and the availability of some of these services often goes away when they stop working.

While some retirees transitioned from the fiduciary environment of their employer-sponsored plan to receiving assistance with retirement planning from a financial professional, many did not. In fact, only 43% of retirees reported receiving advice from a financial professional, and most (61%) reported having done their retirement planning on their own or with their spouse. This is concerning, as key decisions such as claiming Medicare and Social Security benefits can have a significant effect on one’s finances over the course of retirement.

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## Most Retirees Are Self-Reliant When Planning for Retirement

(Fig. 2) Sources of retirement planning assistance that retirees received. (Respondents could choose more than one.)



Source: T. Rowe Price 2020 Retirement Savings and Spending Study.

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Although less than half of retirees are receiving assistance with retirement planning, the need still exists. Moreover, both older preretirees (i.e., baby boomers who are still working) and retirees receive other kinds of assistance, such as help with their investments.

Among baby boomers who are still working, almost half (46%) claimed they receive help with their investments. This figure rises to almost 60% among retirees that have been retired at least 11 years. Thus, using investment advice as a proxy, one can infer that, in general, the need for advice not only continues in retirement but, in fact, increases.

### Opportunities to Do Better

Retirement is not new; people have been doing it for years. However, our study shows that retirement is a behavioral challenge, not just a math problem. One way we can define this challenge and opportunity is through the lens of financial wellness. Accordingly, given that the elements required to improve financial wellness vary from person to person, the

prescription is probably not a single new product. Rather, it is finding the right combination of products and services to help retirees balance short- and long-term objectives and achieve beneficial outcomes.

In this context, we can declare that financial wellness does not end at retirement. Rather, it just takes on a new form. Employers, financial professionals, and recordkeepers must pursue avenues that meet retirees where they are and help and support them as they transition from a lifetime of saving to spending their wealth in retirement.

There are multiple ways in which retirees' needs can be met—be it through plan design, the use of personalized communication and messaging, development of digital tools or through simplifying processes and removing behavioral friction from transactions. Accordingly, there are guideposts that can instruct both employers and financial professionals as they partner with recordkeepers to create solutions that meet the needs of retirees.

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## These guideposts include four key considerations for employers:



### **Employer preferences.**

Employers should think about what role they want to play in helping both employees and former employees plan for retirement and live well in retirement. This will allow them to consider what plan designs, investments, and communications strategies can help drive desired outcomes.



### **Understanding that one size does not fit all.**

Retirees' needs are unique. No single product or capability is likely to meet the needs of all. Some retirees may seek to draw down their wealth while others may seek to preserve it. Some may prefer guaranteed income while others may not. Accordingly, personal preferences are essential considerations when designing how products and services come together to meet the needs of retirees.



### **Deciding how to help workers prepare for retirement.**

If employers want to assist workers as they transition into retirement, they should consider a range of advice and planning services that many retirees will need, such as strategies to claim Social Security and Medicare benefits.

However, this may not always require the immediate addition of multiple new features or services. In some cases, useful investments and solutions may already exist within the plan and can be repackaged or enhanced to better communicate their utility for retirees.



### **Offering preretirement counseling and education for late-career workers.**

Employers can help prepare those near retirement by providing information on Social Security, Medicare, and other topics these workers will need to navigate on their own. Remind them of key dates and deadlines.

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## **FINAL THOUGHTS:**

Financial wellness takes on different forms at different life stages. During one's working years, saving for retirement is always present, and keeping appropriate balance between more pressing, near-term needs and long-term goals defines the challenge for most. This all changes in retirement, but the basic premise around financial wellness remains constant.

Employers, financial professionals, and recordkeepers can all play a role in ensuring individuals' financial wellness continues, not just up to retirement, but through the retirement years.

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