Look Around the Corners

A new perspective for tomorrow’s retirees
Today’s retirement savers need to do more than just look down the road.

The nature of retirement is evolving. Today’s retirement savers need to do more than just look down the road. They need to look around the corners — to prepare for uncertainties and avoid making costly mistakes.

Focusing on the things we can control today can help make a big difference in retirement outcomes. It can also make workers and retirees feel more confident and even happier along the way.

As pension plan coverage continues to decline, individuals have more responsibility for their retirement outcomes. They also have fewer options and less flexibility to adjust to changing circumstances. This year’s retirement study focuses on a few key factors that influence retirement outcomes, giving employers and advisors insights to help workers and retirees with retirement decisions.

Projecting the path for retirement

Individual experience varies, but our research highlights some general findings when it comes to retirement:

- **Having a planning mindset gives workers an edge for retirement planning.**
- **Social Security and Medicare are big retirement cornerstones for most people.**
- **Most people retire earlier or later than planned, often for reasons beyond their control.**
- **Income stability increases the odds of meeting retirement goals.**
- **The changing nature of work is adding opportunities and impacting outlooks.**

Allspring’s mission is to help people navigate the future and make smarter financial decisions so they have less pressure to maintain or change their lifestyle in retirement — especially when unforeseen events occur.
Looking around corners means anticipating uncertainties, from the known unknowns (the amount of Social Security benefits, for example) to unknown unknowns (such as the effects of a pandemic). Awareness helps increase the probability of meeting goals, whatever the future brings.

We conducted this research during the second half of 2021 to better understand the retirement outlook for workers and retirees. Insights from the research can guide efforts by employers and financial advisors to help workers prepare for retirement and to help retirees maintain their lifestyle. Compared with previous years’ research, today’s workers and retirees are even more divided in their outlook:

“I’ll be more alert about keeping a financial safety barrier.

Continuing to work but less.

Decided to retire earlier.

Never going to be able to retire.

I’m more interested in moving to a semi-rural area with lower-cost housing.

I had to cash out retirement to pay bills.

I realized I won’t be bored in retirement.
Reflecting on the current state

Even with a long-term view to retirement, the difficulties and uncertainties of the past year were enough to shake the most committed savers. Overall, most workers feel satisfied with their financial life, but many are struggling. Today’s workers have the added challenge of facing retirement with less income stability than older generations who have relied on pensions and Social Security benefits.

Will they have the resources to prevail?

“I am satisfied with my financial life”

63% Workers
69% Retirees

“I am so behind. I don’t know how to get my retirement savings back on track”

38% Workers

“I have an unmanageable amount of debt”

26% Workers

Younger generations started saving for retirement earlier:

25 years Millennials
37 years Boomers

77% of workers think their nest egg will not last more than 20 years or they don’t know how long

Only 31% of retirees are very confident that their nest egg will last all of their retirement, while 38% don’t know how long it will last.

36% of retirees do not believe they saved enough for retirement; 19% could not pay for a financial emergency of $1K without borrowing from friends and family.
The planning mindset helps visualize retirement

In our 2018 retirement study, we identified the planning mindset based on the individual’s likelihood to plan for their financial future (in the near term and in the longer term), which helps strengthen their financial future. Having a financial plan and sticking to it can make a big difference in achieving a successful retirement and in feeling more confident along the way. We’ve seen this consistently in the results of all four studies.

Workers with the Planning Mindset across generations continue to be more prepared for retirement and for unexpected financial emergencies along the way.

- “I feel in control of my financial life.”
  — 94% planning mindset vs. 64% no planning mindset
- “I’m saving (have saved) enough for retirement.”
  — 85% planning mindset vs. 47% no planning mindset
- “I’ve been saving more since the start of the pandemic.”
  — 79% planning mindset vs. 51% no planning mindset
- “I make plans for my finances in case something unexpected happens or plans need to change.”
  — 94% planning mindset vs. 65% no planning mindset
- “I feel overwhelmed/paralyzed in my current financial life.”
  — 11% planning mindset vs. 40% no planning mindset

Four parts of the planning mindset

| In the past six months, I have set and achieved a goal or set of goals to support my financial life. |
| I am able to work diligently toward a long-term goal. |
| It makes me feel better to have my finances planned out in the next 1–2 years. |
| I prefer saving for retirement now to ensure I have a better life in retirement. |
The outlook on Social Security and Medicare

Misconceptions abound when it comes to these two important cornerstones of retirement. Many workers don’t know WHAT they’ll need to do to start their Social Security benefits, WHEN they’ll begin to receive benefits, HOW much they’ll receive, and WHETHER it will be adjusted for inflation.

“I expect Social Security to be my primary income source in retirement.”

41% Boomers
21% Gen X
15% Millennials
14% Gen Z

“I am concerned Social Security will not be sufficient to cover my retirement expenses.”

76% Workers

“I am worried that Social Security won’t be available to me when I need it.”

49% Boomers
57% Workers
69% Retirees

“I believe the eligibility age will increase before I retire.”
— Three-in-four Gen Z, Millennials, and Gen X

“I know how to optimize Social Security benefits.”

57% Workers
69% Retirees
And even though most workers will eventually depend on Medicare, most do not fully understand the program. Determining how much to save for health care is challenging. Health care expenses are also something that individuals have little control over.

“Health care costs are one of the most important parts of retirement planning.”

Workers would retire earlier if health care coverage was not dependent on employment

61% of workers believe they understand how Medicare works

yet 51% need help understanding how it works, what it covers, and what to do

#1 most common unexpected financial surprise for retirees: Health care expenses
Timing is everything (almost)

The decisions of when to retire and when to start taking Social Security benefits can have tremendous impact on whether an individual’s retirement income meets their needs.

Yet half of today’s retirees report that they retired earlier than expected, cutting short the typically highest-earning and highest-saving years. Deferring retirement, on the other hand, helps by lowering the total amount of retirement savings required and by increasing the amount available. Most people should have a contingency plan — some may end up working longer than expected while others may have to stop working for reasons beyond their control.

- 40% retired when they planned; 51% earlier; 9% later
- Top main reasons for retiring early: health issues and employer decisions
- Average age for retiring early: 59
- Millennials’ expected retirement age: 61
- “I plan to take (or have taken) Social Security benefits as early as possible, even if it means getting less money” — 44% workers, 56% retirees

Delaying the retirement start date may increase retirement income while meaningfully reducing the risk of running out of money in retirement. This 62-year-old-woman could retire today, with $500,000 in 401(k) savings and Social Security benefits starting at 65. If she retires at 62 and she withdraws money from her 401(k) each year to replace just 66% of her pre-retirement income, she still has a 35% risk of running out of savings. If, instead, she works only four more years and retires at 66, she may boost her income replacement in retirement to 75%, in addition to reducing her risk of running out of money in retirement to 8%.

Source: Allspring. For illustrative purposes only.
Searching for income stability

The rising costs of retirement are magnifying the risks around uncertainty. Stability of retirement income can help weather volatile and low-return environments in the stock and bond markets. It can help guard against financial mistakes driven by overconfidence or inertia and the harm of financial stress. But fewer workers have pensions to count on for income stability, and all workers face the possibility of reduced Social Security benefits. Tomorrow’s retirees also have greater longevity risk — the risk of living longer than expected and potentially beyond their retirement savings. Employers and financial advisors can help by offering investment solutions and guidance that improves income stability.

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<th>83%</th>
<th>73%</th>
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<td>retirees with a pension</td>
<td>retirees without a pension</td>
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“I feel very or somewhat confident my retirement savings will last through retirement.”

“I am not very or not at all confident my retirement savings will last.”

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Retirees without a pension expect

69% of retirement income to come from Social Security

“I expect my retirement nest egg will last at least 20 years.”

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<th>72%</th>
<th>48%</th>
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<td>retirees without a pension</td>
<td>retirees with a pension</td>
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“I have no idea what I’d do if Social Security is not there when I need it.”

Those with a pension expect 37% of retirement income to come from Social Security.

37%
The larger the stock market correction, and/or the closer it is to the start of retirement, the higher the risk of running out of money in retirement. If the same 62-year-old woman retires in three years at age 65 with 75% pre-retirement income replacement, what are the odds that a stock market correction derails her retirement plans? All else being equal, a stock market drawdown of 15% immediately after her retirement could increase her risk of outliving her savings to around 30%. Even 12 years later, a 15% stock market drawdown could increase her risk to roughly 25%.

Source: Allspring. For illustrative purposes only.
Work 2.0 adds new opportunities and perspective

The changing workforce is also changing outlooks on employment and retirement. Current retirees and older Boomers are the first groups to enter retirement with fewer pensions, adding pressure to their savings efforts and dependence on Social Security. Younger generations are growing up with even fewer employer-based retirement resources and a greater need to start planning for retirement as early as possible. Fortunately, the gig economy also provides more options for transitioning from the workforce, making post-retirement work more commonplace and removing the old stigma.

3-in-10 workers would rather quit their job than go back to the office again, especially younger workers and those living in an urban area

28% of workers have relocated or plan to relocate in the next 24 months

Top reasons for relocating:

- Lower cost of living: 36%
- A different lifestyle: 35%
- Lower housing costs: 34%
- A better place to raise children: 32%

Adding some post-retirement part-time work for the first few years of retirement helps lower the risk of running out of money. Instead of suffering a stock market correction, our 62-year-old retiree decides to supplement her retirement income with part-time work. With 75% income replacement, she reduces her risk of running out of funds by roughly one-third. This benefit of part-time work decreases as the retiree's age increases.

Source: Allspring. For illustrative purposes only.
Elevating retirement

Being aware of and focusing on the things we can control can help to achieve a successful retirement and feel more confident along the way. It allows workers and retirees to look around the corners, to expect the unexpected.

Our retirement research helps identify areas where retirement stakeholders can stretch for better outcomes:

- Where employers and financial advisors can nudge employees toward better retirement decisions
- How employees can do more to optimize their own saving and planning around cornerstones like Social Security and Medicare
- Why workforce changes matter in seeing the big retirement picture

Allspring is committed to empowering employers and workers in their pursuit of a better retirement while continuing to experience work for a higher purpose.

“Deciding how to transition to retirement and adding income stability are key to achieving retirement goals. That’s why we are so focused on researching issues and solutions for retirement, including innovative products with the flexibility to address a broad range of situations and goals. The ways in which retirement has evolved have shone a light on the need for better retirement income options, including guaranteed and non-guaranteed retirement income solutions. Allspring brings together retirement experts and product innovators to offer tools and resources that can help people make decisions about retirement — aiming for less stress and better outcomes.”

NATHANIEL MILES
+ Head of Retirement for Allspring
About the survey

On behalf of Allspring Global Investments, The Harris Poll conducted a survey between July 21 and August 4, 2021 among 3,402 adults who reside in the U.S. and are primary or joint household financial decision-makers. The survey analyzed attitudes and behaviors around planning their finances, saving, and investing for retirement. The sample consisted of 2,304 working Americans age 18–75 and 1,098 retired Americans. Of the working respondents, 804 were in the planning mindset and 1,500 were in the non-planning mindset. Broken down by age, the working demographic included 384 Gen Z (ages 18–24), 717 Millennial (ages 25–40), 663 Gen X (ages 41–56), and 511 Boomer (57–75) survey respondents. Data are weighted where necessary by age, gender, race/ethnicity, region, education, income, marital status, employment, household size, and propensity to be online to bring them into line with their actual proportions in the population.
Plan sponsors, advisors, and consultants:

Ask your Allspring contact about a call or meeting to learn more about our retirement study and key DC trends for 2022. Or visit allspringglobal.com.