

By Default or by Design?

The retirement
landscape is ready
for a change

2025 RETIREMENT STUDY

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PLAN PARTICIPANTS HAVE BENEFITED from default features like automation and target date funds. But nearly 20 years after the Pension Protection Act, defined contribution (DC) plans remain a work in progress.

Meanwhile, pension coverage is declining and Social Security concerns are rising. Our latest survey shows fewer retirees and near-retirees feel secure about retirement—especially women, near-retirees, and younger retirees.

FACING THE FUTURE



DECLINING OPTIMISM

Fewer retirees and near-retirees

feel secure about retirement than in 2023.

2023

NOW

-8%

NEAR-
RETIRES
65-69 YEARS

-15%

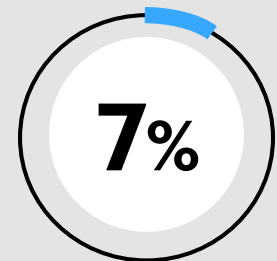
RETIRES
65-69 YEARS



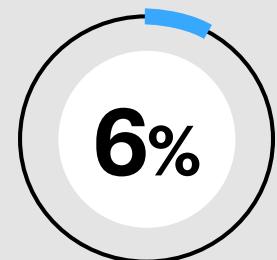
2025 RETIREMENT STUDY FINDINGS

TAKING WITHDRAWALS

Spending expectations may be unrealistic—especially for those planning to spend down all their savings.



RETIRES' EXPECTED ANNUAL
WITHDRAWAL RATE



NEAR-RETIRES' EXPECTED
ANNUAL WITHDRAWAL RATE

No two retirees or near-retirees are alike, but this year's survey reveals some commonalities. We explore four in this report:

1 Our differences make the difference—
diverse needs call for tailored investment options.

2 It's not what you make, it's what you keep—
near-retirees need to plan for taxes.

3 Social Security is still the top income source—
but near-retirees failed on the basics.

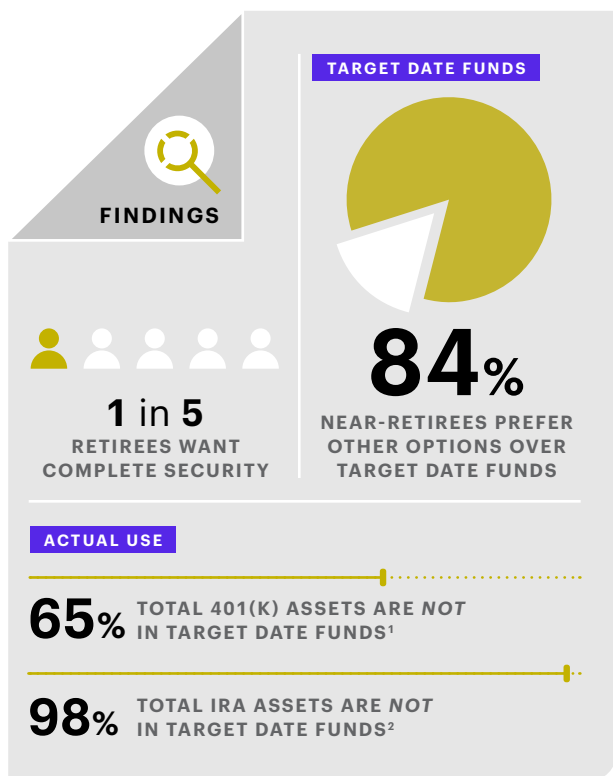
4 Artificial intelligence may help serve plan
participants and investors—*with discretion.*

Fortunately, we also see solutions.

BY DESIGN

With more intentional and outcome-oriented offerings, plan sponsors, advisors, and asset managers can create a better experience for workers as they save and invest, and for retirees as they withdraw income—**by design instead of by default.**

1 Our differences make the difference



PLAN SPONSORS, CONSULTANTS, AND ADVISORS HAVE AN UPHILL BATTLE—retirees and near-retirees need their savings to work harder, but they don’t always know how to make that happen.

Target date funds nudge people in the right direction, especially for younger investors. But near-retirees and retirees need choice and guidance to make sure their asset allocation has the right risks.

A fundamental principal of target date funds is that the level of risk is mostly determined by age. They don’t consider other unique life circumstances or other retirement savings. A target date fund can be a good default solution for younger workers, as their early stage of savings and investing makes them more alike than not. The needs of near-retirees and retirees are much more diverse, calling for more tailored risk exposures.

Relative to their younger selves, retirees and near-retirees have vastly different circumstances, and those differences matter a lot. In fact, around mid-career is when many individuals start to seek greater optionality. Yet, the average DC plan offers only one bond strategy for every three equity strategies. More income options are needed, including core active bond strategies to capture market inefficiencies across sectors and securities.



Rollovers or rollbacks?

For plan sponsors looking to retain retiree assets and reduce plan costs, improving core menu options can help stem rollovers. Some leading plan sponsors are actively encouraging participants to “roll back” their DC savings after leaving for a new job. Better investment solutions that suit retirees’ income needs and risk/reward profile can help.

BY DESIGN

The core investment menu should accommodate a broad spectrum of needs—with target date options at one end and equity income and tactical bond options at the other. Retirees and near-retirees often prefer to assemble an asset allocation that suits their needs. Guidance can help them do this even more effectively.

2 It's not what you make, it's what you keep

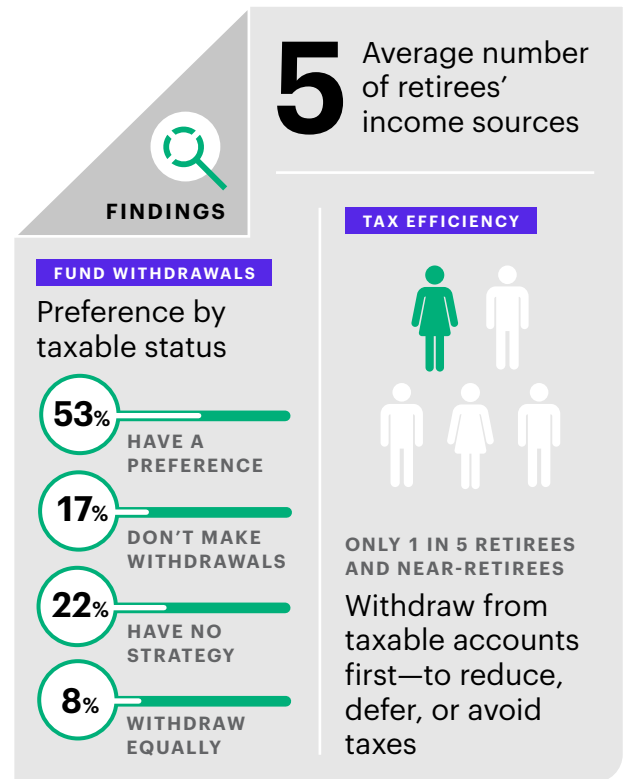
AUTOMATION MAKES IT EASIER AND MORE EFFICIENT to manage most aspects of life—except for minimizing taxes in retirement. When savings are held across tax-exempt, tax-deferred, and taxable accounts, near-retirees have to decide how they'll withdraw income. It's especially complicated as workers become retirees and need to shift their mindset from being a W-2 worker to essentially being self-employed. Most people don't have the resources for these decisions and may even be unaware of the consequences.

Investment returns are important, but after-tax income matters more. Increasing use of tax-loss harvesting shows investors want solutions to minimize taxes. But few retirees and near-retirees know how to tax-efficiently plan for retirement. Advisors and plan sponsors who offer seamless access to education and guidance will have the advantage.

Even those with a plan to withdraw from taxable accounts first have a variety of reasons for doing so. Many base the decision on which account has the most assets or the lowest return potential or is the easiest to withdraw from. Others are following guidance from their advisor.

BY DESIGN

A tax-efficient withdrawal strategy can have a major impact on retirement outcomes. Investments in separately managed accounts, direct indexing strategies, and exchange-traded funds have grown rapidly, in part because of tax efficiency. **On the following two pages,** we compare three retirement income scenarios to illustrate the importance of moving beyond default approaches and customize a plan that fits the individual's circumstances.



HOW RESPONDENTS PRIORITIZE THEIR FUND WITHDRAWALS

"I plan to use tax-deferred accounts next to last. Of course, at age 73 I will have to start taking withdrawals from some of the accounts. We have 6 deferred tax accounts."

"I have much better returns on my IRA and do not want to mess with it ... except the required amount each year."

"I pay no income taxes in retirement, so I choose the balances I have the most in."

CASE STUDY

Tax efficiency matters for all retirees

Asset location can be as important as asset allocation. By keeping lower-tax-exposure investments in taxable accounts and higher-tax-exposure assets in tax-deferred and tax-exempt accounts, retirees are better able to control their taxable income in retirement.

Three scenarios below show how optimizing Social Security benefits plus spending strategy and tax efficiency can help retirees keep more of what they earn.* That includes a new deduction introduced under the One Big Beautiful Bill Act, which created a unique opportunity for seniors who otherwise might not consider Roth conversions, providing a \$6,000 deduction for qualifying seniors.

	Bill and Carole BOTH AGE 67 WITH LIMITED SAVINGS	Scott and Lauri BOTH AGE 68 WITH MODERATE SAVINGS	Sean and Stephanie BOTH AGE 63 WITH SUBSTANTIAL SAVINGS
Taxable investment account	\$60K	\$180K	\$700K
Traditional IRA	\$180K	\$330K	\$1,200K
Roth IRA	\$60K	\$90K	\$300K
Social Security annual benefits	\$48K	\$73K (delayed)	\$98K (delayed)
Other income sources	–	–	\$90K
Annual spending	\$55K	\$80K	\$200K
Year 1 shortfall (spending minus income)**	\$7K	\$80K	\$110K

*This example is for illustrative purposes only. Data is hypothetical only. Any forecast, projection, or target is indicative only.

**Year 1 shortfall calculated as annual spending minus other income sources and Social Security benefits (unless delayed). Shortfall is funded from the taxable investment account, traditional IRA, and Roth IRA, as detailed on page 7.

“Asset location is just as important as asset allocation. Keeping highly taxed assets in tax-exempt and tax-deferred accounts can help retirees minimize tax burdens.”

HOLLY SWAN

Head of Wealth Solutions

Bill and Carole

With **limited savings**, they should consider claiming Social Security now, funding the \$7,000 shortfall from their taxable investment account. Since their taxable investment account is invested predominantly in tax-preferred U.S. Treasuries, Social Security is their only taxable income—no tax would be due and the bulk of their deductions are wasted. This opens an opportunity to convert a portion of their traditional IRA to a Roth IRA with no tax cost. This strategy leverages the temporary senior deduction (available for four years) and flattens future tax burdens by shifting funds to a tax-free Roth environment.

Scott and Lauri

Moderate savings allow them to delay Social Security, drawing funds from their taxable account that is mostly invested in equities and tax-preferred U.S. Treasuries. Taxable funds generated from this account are largely qualified dividend income and long-term capital gains, which can be timed and offset with losses. Unless they withdraw from their IRAs, they'll have no other taxable funds until they take Social Security distributions. Prior to taking Social Security—and while they're eligible for the senior deduction—they should consider IRA to Roth conversions to take advantage of the full deduction, leveraging the temporary deduction and flattening future tax burdens.

Sean and Stephanie

Significant savings and other income (from rental property, with taxes partially offset by depreciation) combined with a family history of longevity suggest delaying Social Security, drawing additional funds from their taxable account and IRAs. Because their taxable assets are a mix of equities and tax-preferred U.S. Treasuries, funds generated from this account are mostly tax-exempt, qualified dividend income, and long-term capital gains. Because their taxable income is relatively easy to manage, they may opt for a small Roth conversion before age 65. Their opportunity for tax-efficient Roth conversions expands in two years if they become eligible for the senior deduction (subject to income limitations).

Tax-efficient withdrawal plans can greatly affect retirement outcomes. Blindly defaulting into drawing taxable funds first can lead to higher taxes and lower after-tax income in later years. Many taxpayers will benefit from taking a mix of taxable, tax-deferred, and tax-exempt distributions to flatten their income tax burden over time. Individuals should customize the withdrawal plan to minimize taxes and optimize income. This is an area where advisors can have a big impact.

3 Social Security is still the top income source



RETIREES STILL DEPEND ON SOCIAL SECURITY—it represents nearly 40% of income for retirees in our survey. So why are near-retirees uninformed on basic but important aspects of these benefits?

Most near-retirees are unaware that delaying Social Security benefits from age 62 to 70 increases monthly benefits by nearly 80%—for example, from \$2,200 monthly at 62 to \$4,000 monthly at 70. The good news is that education works.

Helping near-retirees and retirees make better Social Security decisions may be the most cost-effective way to improve retirement outcomes—without changing investment options or increasing DC plan costs.

HOW RESPONDENTS DECIDED WHEN TO START COLLECTING SOCIAL SECURITY

“Started collecting as soon as possible in case the rules change or benefits are reduced.”

.....

“Just don’t want the government keeping my money.”

.....

“My father always said, ‘get the cash.’”

BY DESIGN

Educating near-retirees and retirees on basic Social Security concepts empowers them to move beyond making decisions by default. Providing information and adding behavioral nudges in the right direction may be the easiest way to improve retirement outcomes.

4 Artificial intelligence may help serve plan participants and investors

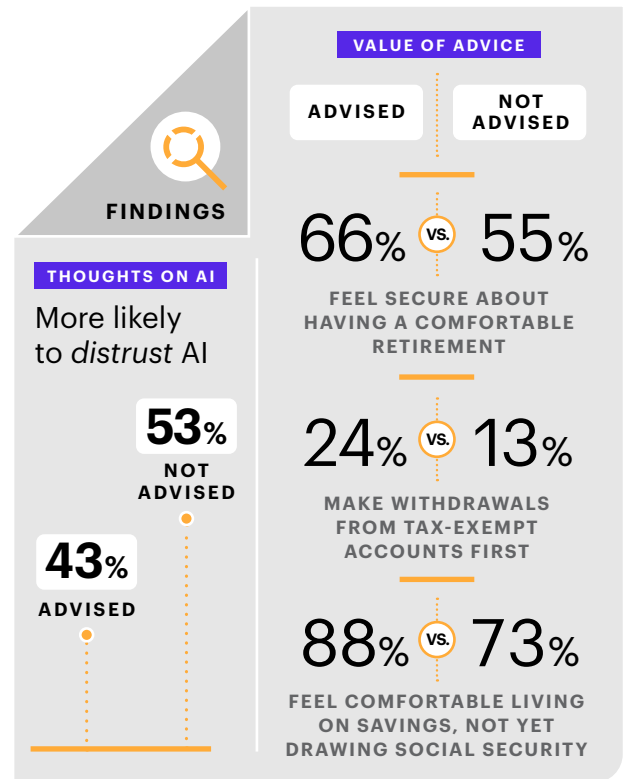
THIS YEAR'S SURVEY SHOWS THAT advised retirees and near-retirees tend to be wealthier, healthier, and more educated. They demonstrate greater confidence in their financial future and more strategic control over their retirement planning.

To help close the gap, advisors and plan sponsors can target education and resources toward workers without an advisor to help them understand their needs, minimize taxes, optimize Social Security, and improve retirement outcomes overall.

Automation can help, and artificial intelligence (AI) could be an invaluable resource to tailor asset allocation and withdrawal plans cost effectively. But beware: Many retirees and near-retirees are skeptical of AI. Used with discretion, and alongside human judgment, AI can be a valuable tool for offering personalized advice.

BY DESIGN

AI may take personalization far beyond what DC experts are thinking about today, incorporating a total asset/liability picture, career trajectory, health data, and more for a customized experience—like a personalized CFO. That could improve how advisors and plan sponsors reach investors and participants—so long as the AI component is designed to augment their role and not become the default.



Adding AI to the retirement toolbox

AI is rapidly changing our financial lives and our work lives. Allspring is leveraging internal expertise and tapping industry experts to help plan sponsors and advisors spot the opportunities that AI offers and navigate the challenges.

Better outcomes—by design

Retirement has been transformed dramatically—from the safety net introduced with Social Security in 1935 to today’s dynamic solutions that empower workers to save and retirees to thrive.

Our latest survey uncovers a critical insight: Simplifying retirement plans often overlooks how individuals differ. We believe a better response is to understand the diverse needs among workers, near-retirees, and retirees and to design solutions to help meet retirement goals.

In the same way, Allspring continues to challenge the status quo of retirement and shed light on issues that make a difference in actual outcomes. We’re partnering with advisors, consultants, and plan sponsors to help modernize the retirement experience for workers and retirees.

Let’s shape the future of retirement together. Connect with your Allspring contact or visit allspringglobal.com for more retirement insights.

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About the survey

On behalf of Allspring Global Investments, Escalent conducted a survey between April 25 and May 16, 2025, among 1,515 adults who were primary or joint household financial decision-makers and U.S. residents. The survey analyzed attitudes and behaviors around planning their finances, saving, and investing for retirement. The sample consisted of 726 near-retirees (average age 61) and 789 retirees (average age 71) with at least \$200,000 in household investible assets. Data are weighted where necessary by assets, age, gender, race/ethnicity, and region to bring them into line with their actual proportions in the population.



For further information

We're committed to thoughtful investing, purposeful planning, and the desire to deliver outcomes that expand above and beyond financial gains.

Click or scan the QR code to check out Allspring's insights:



1. Source: Cerulli US Defined Contribution Distribution, 2024
2. Source: Cerulli US Retirement Markets, 2024

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Asset allocation does not ensure or guarantee better performance and cannot eliminate the risk of investment losses.

The target date represents the year in which investors may likely begin withdrawing assets. The funds gradually seek to reduce market risk as the target date approaches and after it arrives by decreasing equity exposure and increasing fixed-income exposure. The principal value is not guaranteed at any time, including at the target date.

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