AllianceBernstein®

Inside the Minds of Plan Participants

The Future Comes into Focus

There's never a shortage of woes to clash with our best intentions to save for retirement. But inflation's abrupt rise in recent years has put a starker focus on retirement planning for many American workers.

About AB's Defined Contribution Research

The Defined Contribution (DC) team at AllianceBernstein (AB) has conducted surveys of employees since 2005 and 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, consultants and anyone concerned with retirement. We believe it will help them understand how to lead plan participants to better savings outcomes and more comfortable, confident retirements. We conducted our latest web-based plan-participant survey in 2023. It contains information from a national sample of 1,004 full-time workers with a current or past DC account between the ages of 21 and 75. We also surveyed an additional 208 retired workers (55–75 years old) who had previously worked full time and participated in a workplace savings plan.

Research Sample

52 Worker Median Age | **69** Retiree Median Age

54% Male

46% Female

$87,500 Median Household Income

$75,000 Median Retiree Household Income

$75,000 Median Household DC Savings

59% Married

22% Single

10% Divorced

4% Widowed

5% Live with Domestic Partner

71% 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 a target-date fund does not guarantee sufficient income in retirement.

How our survey explained an additional target-date 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

Over the past four decades, defined contribution (DC) plans have grown up. They have become an integral part of many American households' financial lives—accompanying all the celebrations as well as the setbacks that seem to occur all too frequently nowadays. Recent times have been no exception. Notably, the global COVID-19 pandemic brought the world to a near standstill, bringing distinctly difficult challenges to many workers and their economic well-being.

Our latest participant survey chronicles the attitudes, resilience and adjustments of American workers through these latest turbulent times of COVID-19, climate change, political anxiety and economic challenges. Yet despite these daunting obstacles, our survey respondents seem to have held steadier through the storms than we might have expected.

Certainly, challenges continue to accompany America's journey toward retirement readiness. Our survey offers some telling insights about what participants are doing well, where they are falling short and what they want from their DC plans in the future.

Retirement Confidence Holds Steady

Considering the economic, political and health shocks of the past several years, participants' general retirement confidence has managed to hold up well. But there are lots of issues beneath the surface.

Inflation's Rude Intrusion and Other Concerns

The shocking impact of inflation on workers' daily lives has joined the list of difficulties that most participants already face in saving for retirement.

Making Good Choices

Few workers get paid to pay attention to their personal finances. Plenty of participants say they follow a do-it-yourself approach to investing, but the devil—and the doubts—are in the details.

Retirees: The Future in Action Today

Our retired respondents seem to be doing better than the media or the financial industry expected. Of course, there are things they wished they'd done better, and they have good advice to share with younger generations.

Tomorrow's Retirees: Ready or Not…

The next wave of retirees doesn't feel confident, but they're actually doing just as well as any other generation. What all generations have in common: a fear of inflation and a desire for secure lifetime income—on their terms.

Making Financial Decisions: Ignorance Is Not Bliss

On average, participants don't have adequate financial literacy. But there is no "average" participant. Plan sponsors can get a better picture of what different types of participants know and don't know—and what they need to get on track for retirement.

Target-Date Funds: Leading Participants from Guesswork to Guarantees

Too many participants misunderstand target-date funds (TDFs), and not enough invest in them, according to our survey. That's a pity, because TDFs can "autocorrect" a lot of do-it-yourself investing errors. And now, they can provide a lifetime income stream that meets participant requirements.

Retirement Confidence Holds Steady

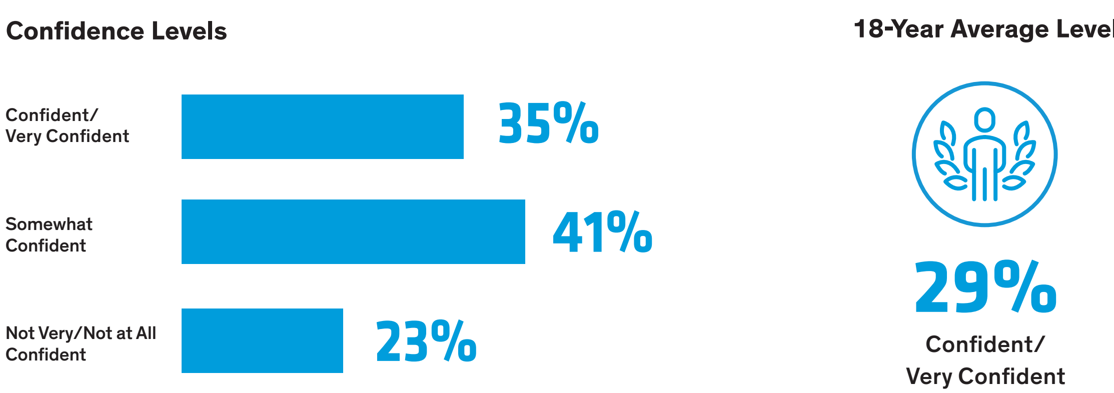
Confidence about future retirement finances has never been stellar. But worker confidence hasn't tanked, despite too-hot inflation.

The last several years have been a roller coaster of extraordinary economic, health and political woes that hit many workers hard in the US and around the globe. That's what makes our participants' responses about retirement confidence seem all the more surprising (*Display 1*).

Across the board, the responses mirror exactly what respondents told us two years ago during the depths of the COVID pandemic. In the latest survey, 35% say they are confident or very confident, which is sharply lower than the 47% high point reached in 2018. But it's worth noting that the last time confidence managed to top 40% was in 2007—just before the global financial crisis.

So, this year's 35% that feel pretty confident looks…pretty good. That's notable, considering the swift and strong rise of inflation—something that hadn't truly been problematic for more than 30 years. The confidence level also registers higher than the 29% average level over the 18 years we've canvassed respondents. And typically, the most often cited response over that time has been the ambivalent "somewhat confident."

DISPLAY 1: HOW CONFIDENT ARE YOU THAT YOU WILL HAVE A COMFORTABLE RETIREMENT?



As Mick Jagger Sang, "Time Is on My Side. Yes It Is!" (Is It?)

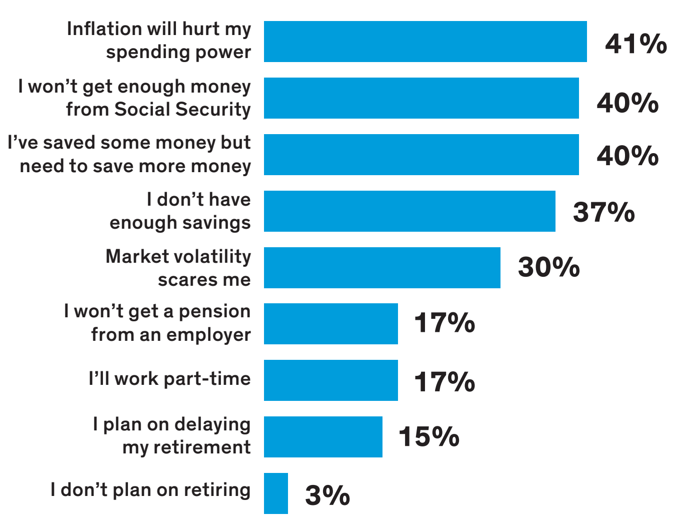
Age plays a distinctive role in our respondents' perceptions of retirement confidence. Interestingly, the most confident are those under age 35. Perhaps they feel time is on their side, but it more likely reflects less knowledge of retirement investing and an indifference to something that seems so unrelated to their present lives. The least confident cohort? Those closest to retirement (aged 55–64).

We asked the confident/very confident 35% of current participants why they have an upbeat outlook, and their responses run quite close to our 2021 survey. Nearly half (47%) say they'll get a pension from an employer; that may seem high, but it's only 16% of the total respondents currently working. There were slight, but interesting, signs of improved confidence in other responses from this confident/very confident group. More of them feel that they'll get enough from Social Security and that they have enough savings already. Another vote of confidence: fewer say they don't plan on retiring. But counterbalancing that, more of our confident/very confident respondents say that they're planning on delaying retirement and will work part-time.

Most Participants Feel Concern, Not Confidence

Worries about inflation take top priority for the roughly two-thirds of respondents who fall short on confidence (somewhat confident, not very confident and not at all confident). Inflation also rose dramatically, to 41% from 27% in our last survey. The current survey also saw a noticeable drop in respondents who haven't thought about retirement (from 7% to 3%). Perhaps the abrupt reappearance of inflation has brought retirement planning out of the vague future and connected it more closely with the very tangible financial concerns of today (*Display 2*).

DISPLAY 2: KEY REASONS FOR YOUR LACK OF RETIREMENT CONFIDENCE? (SELECT ALL THAT APPLY)



Part of the general lack of robust confidence lies in the gap between what participants have saved and how much they say they'll need for a comfortable retirement. The average household savings of our respondents is nearly $500,000. That amount may be strongly skewed upward by some respondents with extensive savings, because the median (midpoint response) is only $175,000.

When participants were asked how much they'll need for a comfortable retirement, the average amount again skews upward strongly—nearly $1.8 million, a major leap away from that average $500,000 savings. The difference between the median $750,000 response for a comfortable retirement and the current savings median of $175,000 is even more pronounced.

We wondered if these discrepancies between reality and goals might have prompted workers to seek professional financial assistance, but only 39% of respondents report using a financial advisor. Will they work with one in the future? Maybe. But slightly more than half say either they won't or they're not sure. Interestingly, more retirees say they currently use a financial advisor. But not many more—just 45%.

Despite concerns and slim savings so far, almost three-fourths of current workers say they have a strategy for reaching their retirement goals. For 28%, that constitutes a carefully made strategy. For another 45%, the "strategy" remains vague. But vague seems better than the 27% who say they have no strategy at all.

Having a strategy, whether specific or vague, seems to relate directly to our respondents' sense of whether they're on track toward their retirement savings goals. When participants were asked if they'll have the amount they need to retire, 26% say they're definitely on track. Another 51% think they'll get there, even though they're not entirely certain.

Whether workers are confident or not of their savings efforts, almost all of them continue to voice strong concerns about the future of their living costs and access to the social safety net. A whopping 95% want access to Medicare/Medicaid, want to contain their housing costs and don't want higher taxes. Close behind this result, 91% of workers want Social Security to always be there.

But the concerns of the present have increased many workers' doubts about their retirement futures.

Inflation's Rude Intrusion and Other Concerns

Inflation was seemingly sleeping for more than 30 years. But it roared awake about three years ago, gaining a solid grip on the way workers view their retirement readiness.

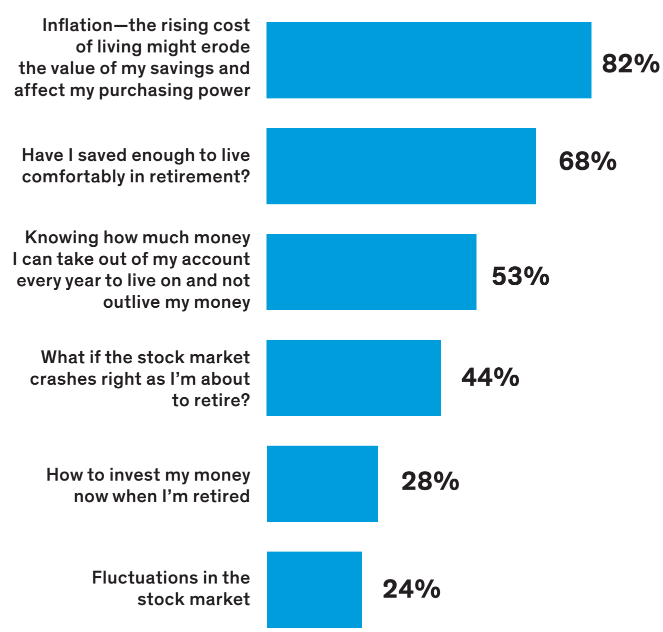
For almost anyone under the age of 50, the recent bout of stubbornly high inflation seems shocking. And it's unlikely to recede from our thinking or planning anytime soon. In fact, top-of-mind concern over inflation forced many workers to take difficult financial measures (*Display 3*).

Display 3

How has inflation and the current economy impacted your finances in the past year?	Percent of Respondents
Cut back on discretionary spending	52%
Use my general savings	21%
Save less or stop saving for retirement	19%
Use more credit card debt	19%
Work more hours/take on gig work	18%
Use my emergency savings	14%

Altogether, those financial adjustments to daily living have brought the present and future together uncomfortably. Many workers now realize that inflation isn't just an afterthought but a necessary calculation as they try to save and plan for retirement (*Display 4*). Inflation's ability to erode savings once again topped a list of retirement concerns, jumping a staggering 17 percentage points from our last survey (from 65% to 82%).

DISPLAY 4: WHAT ARE YOUR TOP THREE BIGGEST CONCERNS ABOUT RETIREMENT FROM A FINANCIAL PERSPECTIVE?

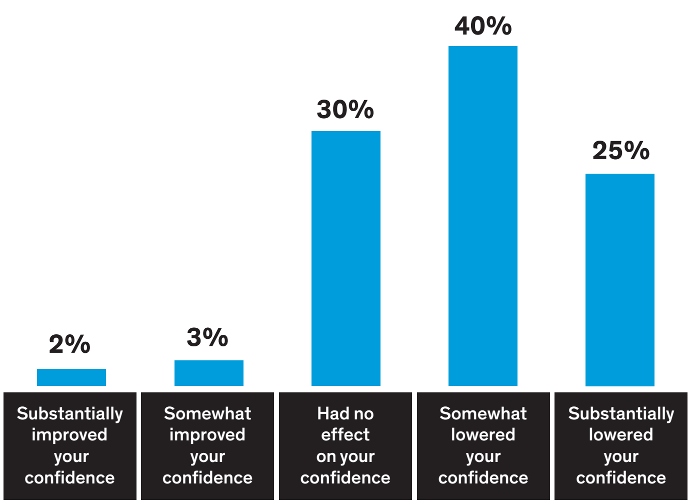


Most of the other possible answers garnered results that were similar to or lower than, our last survey. Interestingly, the other answer that rose significantly this time around was how to invest their money while retired, a response that jumped from 19% to 28%. Again, more participants are connecting the dots between inflation, which in previous surveys seemed a bit of an illusion, and the reality of making one's savings last throughout retirement.

Sadly, a majority (59%) of workers now say they may need to retire later than they hoped. In a follow-up question, we asked them why. Most noted the usual reasons: not saving enough, high cost-of-living expenses, healthcare costs and outliving their retirement savings. But one answer surprised us: 16% say that they really enjoy their job!

Inflation isn't the only anxiety of the moment. Geopolitical crises at home and abroad have dampened American workers' retirement confidence (*Display 5*). Nearly two-thirds of our respondents (65%) say today's political environment has lowered their confidence in reaching their retirement goals. Hardly anyone says the political environment has improved their confidence—only 5%.

DISPLAY 5: HOW HAS TODAY'S POLITICAL ENVIRONMENT AFFECTED YOUR CONFIDENCE IN BEING ABLE TO REACH YOUR RETIREMENT GOALS? HAS IT:



That unnerving political environment certainly hasn't helped allay worries about investing. While one-fourth (26%) of our respondents feel their retirement savings strategy can weather bad markets, three-fourths see major market volatility as another clear and present danger to their retirement goals.

Despite the laundry list of concerns dominating workers' journeys toward retirement, the majority still report feeling pretty good about their overall financial life (*Display 6*). Nearly two-thirds feel they're doing well or very well (63%). Another one-third are getting by despite challenges, but only 5% report struggling significantly with finances today.

DISPLAY 6: WHEN THINKING ABOUT YOUR FINANCIAL LIFE OVERALL, HOW WOULD YOU DESCRIBE IT?

11% I'm doing very well and thriving

52% I am doing well with the normal financial challenges

32% I am making ends meet but it's a challenge

5% I am barely getting by, often not making ends meet

Making Good Choices

Saving for retirement doesn't happen in a vacuum. Workers struggle daily with the financial, personal and professional present. Do they have time to focus on the future?

Weighty Considerations

Most DC plan participants didn't get a college degree in economics and financial statistics. Instead, their work journeys usually included lots of on-the-job training for specific tasks. Few workers get paid to pay attention to their own finances—whether today's or tomorrow's—so they wind up facing myriad decisions and tasks to save for retirement. On first view, structuring a retirement savings plan comes with too many instructions and too much advice—hardly a do-it-yourself task.

We asked our survey respondents several questions about what's important in retirement saving and how they make decisions. First, we asked them to rank various components they want in their retirement savings portfolio (*Display 7*). Unsurprisingly, providing steady income in retirement takes the top spot by a wide margin. Surprisingly, that feature doesn't exist in most DC plans. The financial industry currently has some solutions of varying utility and appeal for workers. AB's lifetime income solution has been in use by some institutional-size plans for the past decade.[1]

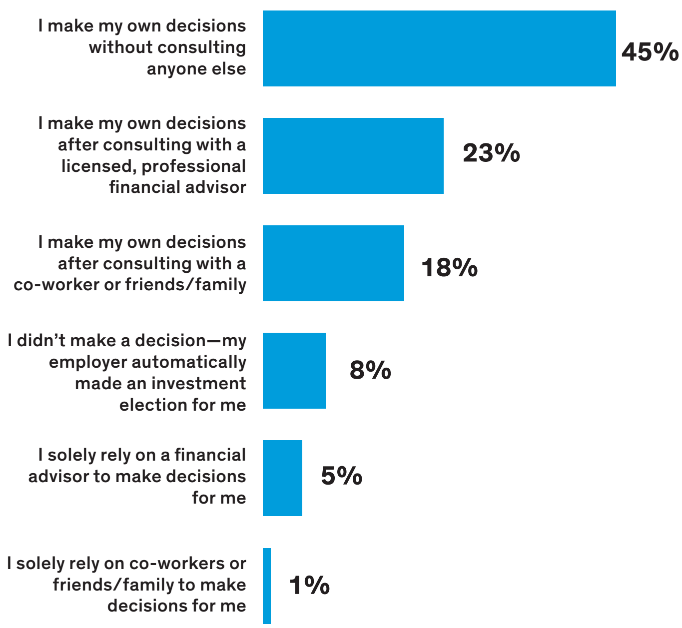
Display 7

When thinking about investment options available for saving and for funding retirement, what features and benefits listed below are most and least important to you?	Weight in the Investment Decision
Have my retirement savings be able to provide a steady income stream in retirement	31.5%
Protection of principal—if the market goes down, my money is protected	21.0%
The ability for my investments to grow in value as markets rise	20.0%
Be able to invest in a well-diversified mix of investments	12.0%
Have investment professionals automatically adjust my investments to become more conservative over time as I approach retirement	11.0%
Have my investments managed by investment managers whose names I recognize	4.5%

1 For a complete analysis of lifetime income solutions, see "Leveling the Retirement Income Playing Field: A Comprehensive Framework for Evaluating Diverse Lifetime Income Solutions," AllianceBernstein, 2023.

Our survey respondents also highly favor protection of principal in down markets and—almost equally—investment growth in rising markets. Using marquee investment managers isn't very important. When deciding on portfolio strategies, nearly half of participants (45%) want sole responsibility (*Display 8*). Another 23% say they make their own decisions, but after consulting with a financial advisor.

DISPLAY 8: WHICH OF THE FOLLOWING STATEMENTS BEST DESCRIBES HOW YOU MAKE DECISIONS RELATED TO THE INVESTMENT OPTIONS AVAILABLE UNDER YOUR CURRENT EMPLOYER'S RETIREMENT PLAN? (SELECT ONE)



The Devil's in the Details

On the investment side, we asked our survey respondents how they chose the specific options from their company's retirement plan. Many (35%) take the do-it-yourself approach, investing in several options within the plan. Nearly one-third (29%) invest in a fund with a mix of different investments, such as a target-date fund (TDF). Some use TDFs in conjunction with other specific investment options (14%), and others simply follow the route of automatic enrollment (14%).

While many respondents say they're hands-on, the tactical reality of decision-making gets a bit fuzzy. On average, participants feel relatively good about selecting their investment options and how much to invest in each. They still feel pretty good about their ability to keep an eye on their investments and make changes as they get closer to retirement. But they're less confident about whether those choices will produce an income stream for life and the best way to withdraw those savings in retirement.

Participants of all ages find it more challenging to stick to an investment strategy during volatile markets. Almost half (48%) say that swings in the stock market—up or down—make them want to be more conservative. Another 16% say they don't know, but only about one-third (36%) say they have the stomach to stick with their allocation.

We probed the issue of market volatility a bit further, asking respondents what they'd do in a substantial market downturn. The majority (51%) say they'll monitor the situation but take no immediate action. Another 30% say they'll leave everything as is, and only 19% feel the urge to move their money to different investments. At least for now, most participants may feel skittish about volatility, but they're not nervously reacting.

Interestingly, fewer older respondents who are currently working say they'll move their money: 16% of those aged 55–64, and only 7% of those aged 65–75. Perhaps these participants invest in a TDF or have already taken a strategic allocation approach to lower market risk in an age-appropriate way. But in an age-inappropriate way, a remarkable 30% of those under age 35 say they'll move their money. It's likely that inexperience holds far greater sway in their decision-making than the logic of time.

What About My Future?

But time provokes other pressures on younger cohorts: investing for a distant future strongly includes investing in a viable planet. Overall, DC plan participants—especially the next generation of workforce leaders—pay attention to the health of the world and make sure their investments match their ethical concerns.

Plan sponsors correctly ascertain participants' interest in environmental, social and corporate governance (ESG) considerations. Two-thirds of plan sponsors we've surveyed tell us their participants want more investment choices with a responsible investing tilt. Two-thirds also see ESG integration as a fiduciary duty, although 42% grapple with the many fund variations on the theme of ESG. Even so, 74% of plan sponsors say they currently include some form of responsible investing options on their menu.

When we asked participants about having investment options in their company's plan that adhere to their core ethical values, a resounding 84% say that's somewhat or very important (*Display 9*). But underneath that top-line statistic, 90% of younger workers answer this way versus 84% of older workers. And almost half (49%) of younger workers specifically say it's very important, versus a far lower 38% of older workers. Among workers who don't care, only 1% of younger workers say that.

The age divide grew when we asked how likely participants would be to invest in ESG funds if performance and fees were comparable to similar offerings in the plan. Overall, 59% say very or somewhat likely, 31% say it wouldn't factor into their investment decisions, and 10% feel it would be somewhat or very unlikely to impact their selection. When we break this down by our two age groups, 78% of younger participants say it's very/somewhat likely they'd invest in ESG funds, while 55% of older participants feel that way.

In other words, the next wave of employees is putting employers on notice that they definitely want their investment dollars deployed in favor of an ethical, more responsible future.

Display 9

How important is it to have DC plan investment options that adhere to your core ethical values?	Total	Aged 18–34	Aged 35–75
Very/somewhat important	84%	90%	84%
Very important	40%	49%	38%
Somewhat important	45%	41%	46%
Somewhat unimportant	10%	5%	11%
Not important at all	6%	1%	7%

Numbers may not sum due to rounding

Retirees: The Future in Action Today

The last of the Boomers turn 60 this year. There are lessons to be learned from our retired respondents—and some status checks that are more hopeful than you might expect.

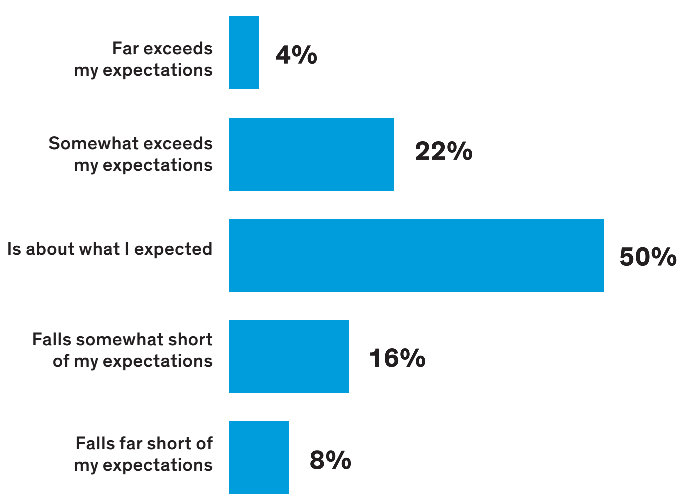
For decades, Boomers have been the focus of fretting by the media over the good, bad and ugly of retirement planning. We all hear the dire warnings of how unprepared Americans are for retirement, but is that the dominant reality for former plan participants who are now in retirement?

We asked 208 retirees about their attitudes and financial realities. Most of our respondents were between the ages of 65 and 75, but roughly 20% were younger: 55–64 years old.

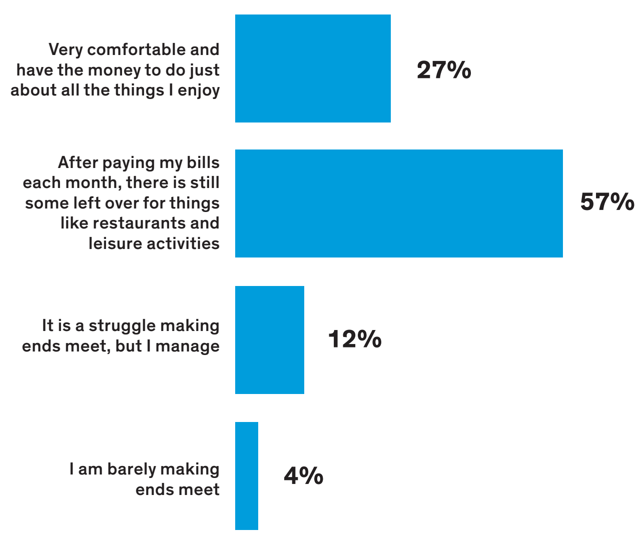
Altogether, a solid 76% say their quality of life in retirement either is about what they expected or exceeds expectations (*Display 10*). While "about what I expected" may sound ho-hum, it may also be interpreted as the targeted result of prudent planning. That satisfaction percentage closely matches the 80% positive satisfaction in our previous survey. While the 4-percentage-point drop isn't significant, the top category ("far exceeds") dropped notably from its previous 10%. Inflation's resurgence would be one likely culprit.

We also asked retirees specifically about their personal finances after their working years (*Display 11*). Again, the vast majority say they're doing just fine.

DISPLAY 10: RELATIVE TO YOUR EXPECTATIONS, HOW SATISFIED ARE YOU WITH YOUR RETIREMENT LIFESTYLE TODAY?



DISPLAY 11: WHICH STATEMENT BELOW BEST DESCRIBES HOW YOU FEEL ABOUT YOUR PERSONAL FINANCES IN RETIREMENT?

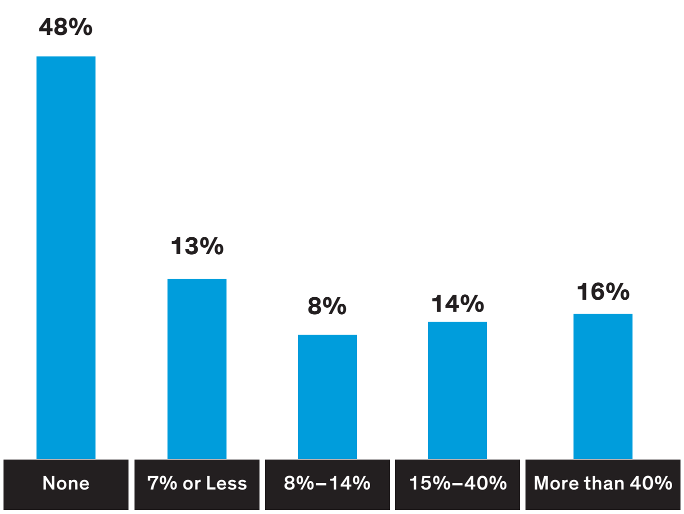


As a follow-up, we asked about their standard of living since they stopped working full-time. Once again, a high majority (73%) say their standard of living has improved substantially (3%), improved somewhat (10%) or stayed about the same (60%).

These overwhelmingly positive responses are even more surprising, given that half (50%) of these retirees have an annual income (from all sources, including pensions and Social Security) of less than $50,000. Another 39% estimate their annual retirement income is between $50,000 and $100,000. Only 11% have higher annual incomes. Perhaps the quality of retirement life isn't so much quantitative financially as it is qualitative emotionally and intellectually. Or it may be that a large portion of retirement contentment depends on income sources that are guaranteed to last as long as they live. To this point, 58% of our retirees say they or their partner has a pension.

Although America's Social Security provides lower benefits than systems in many other developed nations, it still plays a significant part in the total package. That role is stronger for lower-wage earners, covering a significant percentage of their annual income—roughly half their prior earnings. For higher-wage earners, this replacement percentage is about 30%.[2] There's another factor in Social Security's benefits that fosters contentment, especially with today's inflation concerns: it adjusts benefits with a cost-of-living increase annually.

DISPLAY 12: HOW MUCH OF YOUR ANNUAL SPENDING COMES FROM YOUR DC PLAN ASSETS?



Interestingly, roughly half of retirees say they don't access their workplace retirement savings at all—regardless of what type of accounts now hold those assets (*Display 12*).

When we looked at the segment of younger retirees (aged 55–64), the percentage not taking withdrawals is much higher, at 69%. But it still seems curious that 42% of older retirees have yet to start withdrawing any DC assets. That may reflect their ability to hold off until required minimum distributions start.[3] Another possible reason, as mentioned earlier, is the presence of a pension. Additionally, participants may face limited plan withdrawal methods—whether it be systematic withdrawals or lump-sum distributions—that make them unsure about what to do.

But here's a possible red flag for future generations of retirees. When we asked about pensions, 60% of retirees over 65 say they have one, but only 47% of younger retirees do; that's a big gap. And it widens when we look at the number of current participants who say they'll receive a pension. Even among the one-third of respondents who feel confident or very confident, less than half say they'll get a pension. That means workers will have to take up the slack by saving more.

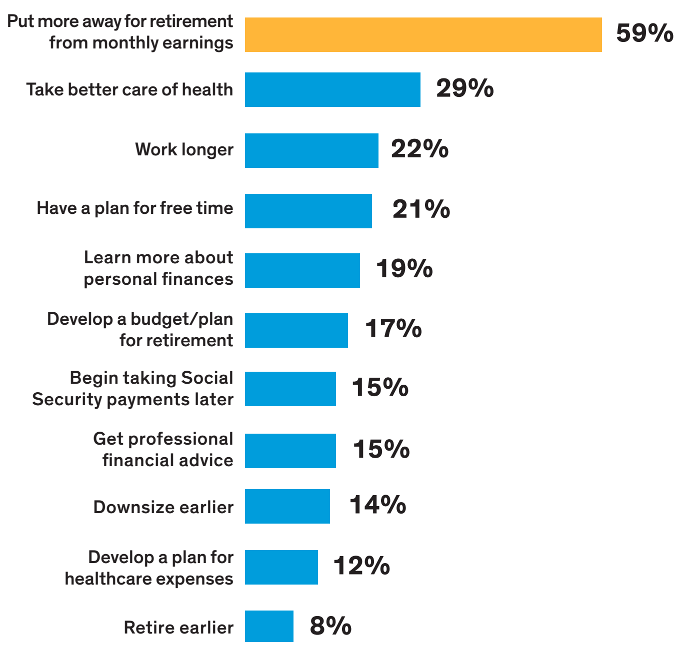
"Perhaps the quality of retirement life isn't so much quantitative financially as it is qualitative emotionally and intellectually.

2 "Policy Basics: Top Ten Facts about Social Security," Center on Budget and Policy Priorities, April 17, 2023.
3 Currently, if you were born in 1959 or earlier, you must start taking required minimum distributions (RMDs) at age 73. For those born in 1960 or later, you must start taking RMDs at age 75.

Passing Down Words of Wisdom

Saving more happens to be the top item retirees would change if they could prepare for retirement all over again (*Display 13*). That piece of advice may be sinking in with current participants, since 56% of respondents contribute 7% or more of their annual pay, with an extraordinary 42% contributing more than 10%. This likely shows the value of catch-up contributions, since roughly half of current participants over the age of 50 contribute 10% or more.

DISPLAY 13: IF YOU COULD PREPARE FOR RETIREMENT ALL OVER AGAIN, WHICH OF THE FOLLOWING ACTIONS WOULD YOU TAKE THAT YOU DIDN'T TAKE BEFORE? (SELECT ALL THAT APPLY)



Living the Life

Sure, there are many things retirees would do differently if they had the chance, but we all have a bit more wisdom in hindsight. Living in the moment, on the other hand, can instill both anxiety and enthusiasm.

We asked retirees already taking withdrawals from their retirement accounts if they were comfortable doing that. Two-thirds (66%) agree, though only half say they feel happy to be spending some of those balances after saving for so long. As to watching their savings balances going down, 60% say they have mixed feelings or worse.

Much of our retirees' queasiness circles around the question of whether they'll have enough to last their entire lifetimes. Inflation registered as the biggest concern by far: 87% put it in their top three concerns. But two other issues were noted by more than half of respondents: whether they saved enough to live comfortably (56%) and how much they could withdraw each year without outliving their money (52%). All these answers indicate the continued search for guaranteed lifetime income.

We asked our retirees one last question: If you could plan for retirement all over again and your employer gave you the option to select an investment strategy that turned your savings into a guaranteed monthly check in retirement, would you have chosen it? A solid 65% say yes, while 30% say they aren't sure. Only 5% say no.

"It may be that a large portion of retirement contentment depends on income sources that are guaranteed to last as long as they live.

Tomorrow's Retirees: Ready or Not...

The least confident age group (55–64) stands on the threshold of retirement. But in many ways, they're doing no better or worse than any others.

Is It Time to Retire?

Most DC plan participants have a notion of when they expect to retire. Most automatic-planning tools will use 65 as the magic age number, but the typical real number is 62. That's what our current retirees report, and it's a warning sign for those nearing retirement: don't wait to save.

We looked at the responses of our current participants who are 55 or older and still working to see how ready (or not) they are. Overall, 69% say they're doing well or very well with their financial lives. That's a bit better than the 62% among all participants. Those 55+ participants are a little less "pie in the sky" about a reasonable annual withdrawal rate in retirement: while roughly one-third feel they could withdraw 7% or more each year in retirement, that's a lot less than the nearly half of all current participants who think they can withdraw that alarming amount above 7%.

Most of our 55+ participants (76%) report they have an investment strategy, which mirrors the general survey response. And of those 55+ with a strategy, 79% are relatively positive they're on track to achieve their financial goals. Again, this closely matches the positive response (77%) from all working respondents with a strategy.

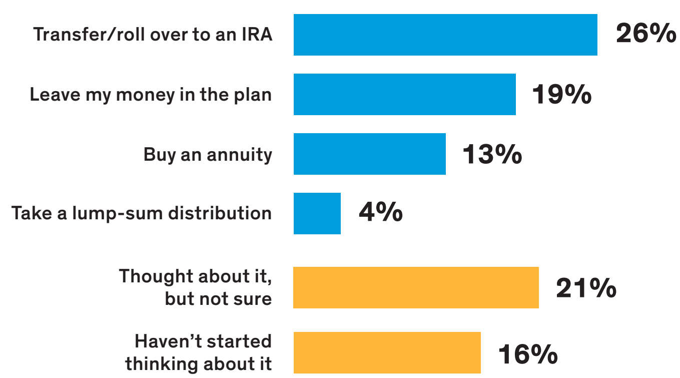
When the Time Comes, How Will You Retire?

We asked our 55+ respondents what they intend to do with their DC plan assets when they retire (*Display 14*). Too many older participants (37%) say they haven't thought about what they'll do with their DC plan assets or just haven't decided yet. Fortunately, 45% say they know they'll either move their assets into an IRA or keep them in the plan. It's also fortunate that very few (4%) will take a cash distribution all at once. That action not only triggers a stiff tax on savings but can lead to a rapid depletion of all that cash burning a hole in their pockets—possibly leaving them destitute later on.

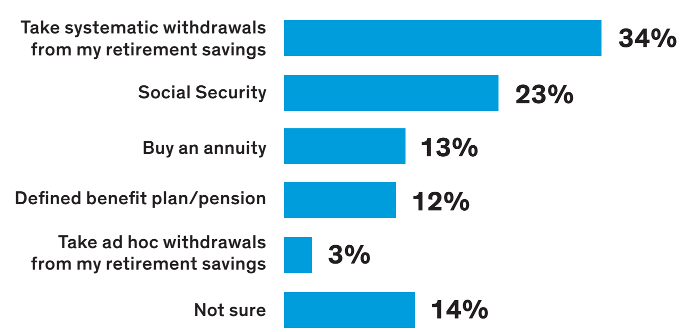
Hesitations About Guaranteed-Income Products

While we saw some reassuring responses about participants' intentions for their retirement assets, one seemingly prudent choice doesn't fare too well. Only 13% say they'll buy an annuity—putting this choice low on the list of planned ways to have income in retirement (*Display 15*).

DISPLAY 14: WHEN YOU RETIRE, WHAT DO YOU PLAN TO DO WITH THE MONEY IN YOUR EMPLOYER'S RETIREMENT PLAN ACCOUNT?



DISPLAY 15: WHAT'S YOUR PLAN RIGHT NOW TO HAVE INCOME IN RETIREMENT? (SELECT ONE)



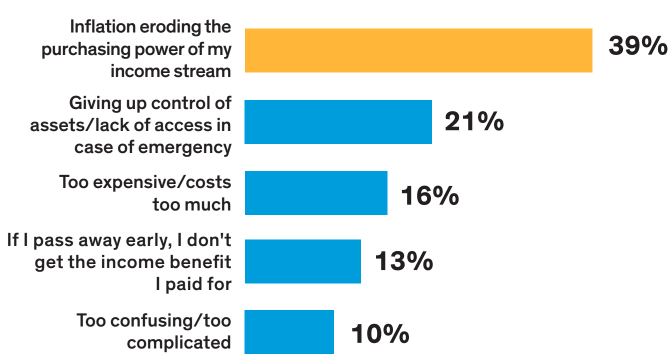
That reluctance to buy annuities seems rather curious. After all, obtaining a steady stream of income for life is the single most important issue among all respondents in our surveys over the past 20 years. It's also the top desire on almost any other retirement survey's financial wish list.

We dug deeper into concerns and attitudes about annuities. We asked all our respondents what makes them nervous about guaranteed retirement income products (*Display 16*), and the specter of inflation once again loomed among their concerns. Participants balk at the necessity of signing over all their assets in exchange for guaranteed monthly income. And the income stream for a standard annuity is a fixed dollar amount set at the time of purchase—and losing value to inflation every year after that.

Furthermore, participants feel uncomfortable about not having access to those assets in case of emergency. And if they die early, they not only don't get the full income benefit they paid for, but they won't have any assets to pass on to beneficiaries.

Another sticking point with many participants is the wording financial companies use when talking about vehicles that offer a steady income stream for life in retirement. Our respondents don't react well to "protected," "secured" or "reliable" income. Even "lifetime" or "retirement" income gets middling scores. "Guaranteed income" and "income for life" are most favored.

DISPLAY 16: WHAT MAKES YOU MOST NERVOUS ABOUT BUYING A RETIREMENT INCOME PRODUCT THAT PROVIDES A GUARANTEED MONTHLY CHECK? (SELECT ONE)



Guaranteed Income, but with Fewer Strings Attached

In another question, we avoided any mention of "buying" or "product" and instead posed a choice:

- Would you rather have $50,000 in guaranteed annual income, but your money wouldn't grow with the stock market and you would not have access to the principal of your account?
- Or would you rather have $40,000 in guaranteed annual income, but your money could grow with the stock market and you would be able to access the money in your account?

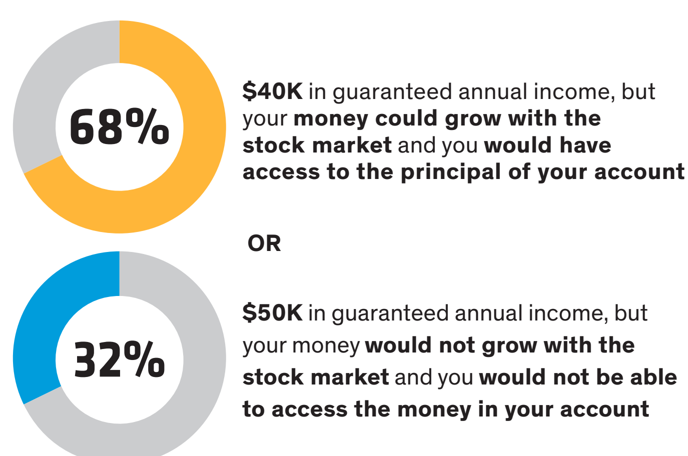
Two-thirds (68%) of our respondents choose the lower initial amount that lets them keep control of assets with potential growth through market appreciation (*Display 17*). Interestingly, the youngest age group (18–24) is the most likely to take the higher initial amount without any potential appreciation or asset control (44% versus an average 32% across all ages).

Perhaps that choice reflects the immediate financial pressures of student-loan debt or a lack of experiential knowledge that typically takes far more time to accrue. Our oldest respondents seem to corroborate that notion: 73% of those 55 and older want the lower initial amount with asset control and access to market growth.

Clearly, a sizable majority of participants have no intention of giving up control of assets. These respondents not only want continued access in case of emergencies, but they want the opportunity to see those assets grow with market growth. Do they want to make all the determinations and decisions connected with managing their retirement savings? That's a different matter altogether.

DISPLAY 17: PLAN PARTICIPANTS SAY CONTROL AND FLEXIBILITY ARE CRITICAL WHEN THINKING ABOUT A RETIREMENT INCOME SOLUTION

Would you rather have...



Making Financial Decisions: Ignorance Is Not Bliss

Few workers have even the basic understanding of finances needed to get through 20 or 30 years without a paycheck.

Very few financial decisions are easy. Just ask anyone who's read through mortgage-loan papers or even the lengthy details of a credit card agreement. Yet, workers across America face constant pressures to balance their current obligations, past debts and future finances in retirement. Investing wisely is easier said than done.

Basic Questions, Questionable Answers

Financial retirement readiness? Most jobs don't demand any familiarity with personal finance, let alone knowledge of investing. Yet DC plan participants get hit with investing decisions their first day on the job. Plan sponsors can help improve their workers' retirement readiness by getting a clearer picture of who needs the most help.

We asked our survey respondents a series of six rather basic financial questions to ascertain their knowledge level. Most of the questions are simple. But through the years, only a tiny sliver of our respondents gets all of them right. This year was no different (*Display 18*).

Display 18: Scores on Our Financial Literacy Quiz

Number of Correct Answers	% of Respondents
6 (perfect score)	13%
5	23%
4	25%
3	18%
2	12%
1	6%
0 (total fail)	2%

For example, the simplest question asked: If you have $100 in a savings account with 2% annual interest for 5 years, would you then have more than $102, less than $102 or exactly $102? Fortunately, 83% of our respondents got it right, but 17% didn't. And that was the easy question. The toughest question had to do with the effect of interest rates on bond prices—a question that has a lot of pertinence today. Only about one-third (37%) got that one right. Interestingly, a much greater 49% of workers 65 and older nailed it.

We dug deeper and found interesting demographic discrepancies—even in the answer to that simplest question about a savings account. Within the 83% who got it right, only 67% of the youngest workers (18–24) did. And women scored lower than men (75% versus 88%). On all six questions, the percentage of women answering correctly was lower—often significantly lower. For example, when asked if buying a single-company stock usually provides a safer return than a stock mutual fund, only 56% of women got it right, versus 73% of men.

Almost as consistently, our respondents younger than 35 scored notably lower than the other age groups. However, there was one strange exception in which younger respondents did remarkably better: a straightforward question about the compounding of interest over time. Only 40% of our respondents got it right, but 51% of those under 35 did! Perhaps the shock of just how much gets piled onto long-held debt on credit cards or student-loan obligations gives this issue its "need-to-know" immediacy.

What Kind of Investor Are You?

Most DC plan surveys typically provide "average" snapshots of plan participants. But in reality, there's no such average person. Our financial literacy quiz tells us a bit about different levels of financial acumen, but we also include a short questionnaire to flesh out several investor personas—Capable, Eager and Conservative (*page 15*). These three subsets can help DC plan sponsors move from an "average" perspective to a plan design and communication approach with a manageable level of granularity.

Since 2015, this persona quiz has indicated an interesting progression in participants' awareness of financial retirement readiness. Eagers formed the largest of the three groups in 2015, but by 2021 the financial/employment shocks of COVID pushed some of them to adopt more Conservative attitudes toward retirement saving. But the Capable persona has seen the most growth since 2015, including a significant increase over the last several years. One reason for this may be the real-time example of stocks' long-term gains despite short-term volatility—even through the down markets of 2022. Or perhaps more participants looked to equities' growth potential to combat inflation, which erodes future spending power.

Take the Test!

To find out what investing persona you are and how AB derived the three participant personas, go to: Take the Quiz

Insights to Deliver Effective, Targeted Help

We've found several notable factors that tend to be more or less pronounced among the three personas. For example, Capable investors really are serious about investing. They've done their homework, and it shows in their financial literacy. Conservative investors have little appetite for risk and not much confidence. The middle ground of Eager investors contains an eclectic mix of participants who show great investing enthusiasm but little acumen.

Here are distinctive characteristics of each group:

Capable Investors

- They did much better on the financial literacy quiz, far outpacing the other personas by knowing the relationship between interest rates and bond prices as well as the benefits of stock diversification.
- More than one-third have total savings of $250,000 or more—notably outstripping the other groups—and they're much less likely to say they might need to retire later than planned.
- The vast majority say they're long-term investors: nearly half contribute 10% or more to their DC plan, with three-fourths saying they're doing well or very well with their financial life.

Eager Investors

- Many are under the age of 35, and far fewer are over 55. Their financial acumen falls much lower than the other groups, and nearly half say they don't really follow any kind of financial plan.
- They claim a high degree of confidence in reaching a comfortable retirement, but they're the least likely to feel they're doing well financially. That's why they're willing to learn. Half of them say they currently work with a financial advisor or will in the future, while another 40% are open to the possibility.
- One-third say they often need to borrow to make ends meet each month. Three-quarters agree that they are spenders, not savers. Almost no one in the other two personas say that.

Getting inside the minds of different types of participants:

CAPABLE, Confident Investors

Feel knowledgeable about investing and did well on our financial literacy quiz

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 are diligent savers and actually know more than they may realize

Conservative Investors

- Women comprise more than half of this group, which also skews older: 41% are 55 or above. Less than one in five think their savings will last a lifetime, and three-fourths say they'll need to retire later.
- These cautious savers have little confidence and lots of pessimism about the future. For example, they're the least likely to view artificial intelligence as a positive. As opposed to both Capables and Eagers, very few Conservatives feel that they made some really good investments in the past. That "investor regret" may have scarred their confidence early on.
- They downgrade their overall happiness with life, yet they describe their financial life as going well or very well—almost as upbeat in aggregate as Capables.

Broadly speaking, there's room for improved retirement-investing knowledge across all three personas. Capable investors have figured out the basic tenets of long-term retirement investing, but there's still a notable chunk who aren't savvy and could use some help. The other two personas definitely need help with financial understanding, confidence, planning and investment strategy. Perhaps the best starting point for that help is target-date funds.

Most DC plan surveys typically provide "average" snapshots of plan participants. But in reality, there's no such average person. These three subsets can help DC plan sponsors move from an "average" perspective to a plan design and communication approach with a manageable level of granularity.

Target-Date Funds: Leading Participants from Guesswork to Guarantees

Too many workers have only a foggy notion of their financial future and how to get there. "Do it for me" features should be a top priority for DC plans of every size.

Default Disconnect?

According to recent industry estimates, nearly 90% of 401(k) plans offer target-date funds (TDFs).[4] That sounds great, but it masks a big problem: mediocre usage of TDFs by plan participants. Among our latest survey's respondents, 40% say they invest in TDFs while 45% say they don't. The other 15% don't know if they do or don't. Adoption of TDFs has gotten better, but only incrementally; our previous survey posted usage at 36%.

Part of the problem lies with the positioning of TDFs on a DC plan investment platform. The TDF suite may be on the menu, but not the default. Or it may be the default, but the plan doesn't fully implement automatic enrollment. One way to boost usage would be to initiate a plan re-enrollment. This would re-enroll all current employees into the DC plan with the TDF as the default, and it would automatically enroll any new hires into this default. Of course, workers would always be able to opt out, but re-enrollment typically garners high retention percentages.

The financial industry has seen TDF usage rising among younger workers, which is likely due to DC plans increasingly adopting automatic enrollment into their default TDF suite. Our survey agrees with that finding: 45% of respondents under 35 invest in TDFs, significantly higher than the 33% of participants over 55.

What Investor Personas Reveal About TDF Usage

Our research aligns with the industry consensus that age is the single most important factor in glide-path effectiveness. But that's about investments; communications are about people. And many plan sponsors get frustrated with seeking more effective traction between DC plan benefits and workers.

Our participant survey finds that roughly one-third of respondents make their own investment decisions. That hasn't changed much over the nearly 20 years we've been canvassing DC plan participants. They may like the do-it-yourself approach, but that doesn't stop them from using TDFs.

Interestingly, among Capable investors, 44% do invest in TDFs; the overall participant percentage is only 40%. Among Capables who aren't aware that TDFs are available in their current plans, three-fourths say they would use it if their employer offered it. They recognize the built-in practicalities of TDFs, such as effective diversification, thoughtful glide-path design and professional management—all of which align with their better understanding of investment principles.

So, Eager and Conservative investors could most benefit from TDF usage. Eagers could also greatly benefit from a better understanding of TDF basics (*Display 19, page 18*).

4 "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2019," Investment Company Institute, *ICI Research Perspective*, May 2022, vol. 28, no. 4.

Display 19

TDF Usage and (Mis)Perceptions Among Persona Types	Capables	Eagers	Conservatives
Invest in TDFs	44%	48%	28%
Wrongly believe TDFs are guaranteed to meet retirement income needs	22%	37%	14%
Know that TDFs get more conservative as you get closer to retirement	77%	57%	56%
Wrongly believe TDF account balance is guaranteed to never go down	11%	25%	12%
Wrongly believe TDFs are invested 100% in cash at retirement	19%	27%	11%
Wrongly believe TDFs are FDIC insured, like bank accounts	24%	40%	22%
Believe that at retirement, TDFs have an appropriate mix of stocks and bonds	69%	56%	46%

While Capables display a solid understanding of TDFs, Conservatives appear better informed on some aspects—particularly about TDFs not being guaranteed to meet retirement income needs. Even so, Conservatives shy away from TDFs. That probably reflects their highly risk-averse stance and a likely aversion to stock investing in any form. They also skew older as a group, and many may have settled on being cautious before TDFs were broadly used.

Eagers, who show the highest percentage of TDF usage, have the least accurate conception of these funds. More than one-third say TDFs guarantee you'll meet your income needs in retirement, and a whopping 40% say TDFs are FDIC insured—a percentage that's nearly twice as bad as either of the other persona groups.

Among all respondents who think TDFs are guaranteed, we most frequently heard two things:

- The year listed in the fund's name tells them their account is guaranteed to be sufficiently funded in that year.
- The materials they received about the funds say they are guaranteed.

To the contrary, any marketing materials for TDFs must clearly state on the cover or opening page that these funds are not FDIC insured, may lose value and are not bank guaranteed. Sadly, that doesn't seem to have made much of a difference.

For Conservative investors, it's a short step from cautious and risk averse to pessimism and risk avoidance. They understand that TDFs aren't guaranteed, but they're also acutely aware of the pernicious effect of inflation. Give them targeted communications about the full range of growth assets and their long-term track records. Underscore how the gradually conservative shift of a TDF's glide path provides sensible participation in growth markets such as stocks without taking on excessive risk. And help them view their investing in the larger context of time rather than solely risk.

After all, investing time (and inflation's time) continues throughout two or three decades of retirement. Without some risk, there's little or no reward. And over time, too much safety becomes the very risk Conservatives fear the most: inflation risk.

Even with targeted communications to different personas, participants may need more than what a typical TDF provides. For nearly two decades, our survey respondents have said the most important feature they want from their retirement savings is a steady income stream in retirement.

Combine TDF Saving While Working and Guaranteed Income When Retired

Across the board, DC plan participants want guaranteed income, but they want to retain control of their hard-earned savings, with potential to benefit from growth in up markets and protection from down markets. Our surveys indicate that most participants resist standard lifetime income vehicles because they come with too many strings attached, and cutting some or all of those strings can be costly.

But the financial industry has created new approaches to lifetime income that could satisfy participants' wish lists and work seamlessly to and through retirement. We asked our respondents who invest in TDFs about such a solution, giving them a clear, detailed description:

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 TDF would offer you:

- An income stream that will last as long as you live ($500 per month for life for every $100,000 you invested).
- 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 ofyour money out of your account at any time without incurring withdrawal fees.

Our respondents were enthusiastic about this enhanced TDF (*Display 20*), with 70% of TDF investors finding it appealing or extremely appealing. This favorable response skyrockets among Eagers, 85% of whom find it appealing or extremely appealing. And nearly two-thirds of our Capables and Conservatives agree.

Display 20:

TDF Investors Who Find Lifetime Income TDF Appealing	All TDF Investors	Capables	Eagers	Conservatives
Extremely appealing	29%	16%	49%	33%
Appealing	41%	48%	36%	30%
Somewhat appealing	22%	25%	13%	27%
Not very appealing	7%	9%	2%	10%
Not appealing at all	1%	2%	0%	0%

But does participant appeal translate into actual investing interest? Yes (*Display 21*). Overall, 68% of TDF investors are likely or very likely to invest, with Eagers again leading the pack at 84%. We asked one further question of respondents who say they're even somewhat likely to invest in this product: How would you react to your employer automatically investing your contributions into such a fund? Only 2% would opt out. A solid 79% would like this automatic route—or at least wouldn't object to it. And 20% say they'd keep some assets in this TDF and probably move some money into other investment options.

Display 21:

How likely are you to invest in this type of TDF with a guaranteed income feature if it were available within your employer's retirement plan?)	All TDF Investors	Capables	Eagers	Conservatives
Very likely	34%	25%	47%	36%
Likely	34%	38%	37%	20%
Somewhat likely	23%	26%	10%	33%
Not at all likely	5%	7%	2%	5%
Don't know	4%	4%	3%	5%

May not sum to 100% due to rounding

Altogether, plan participants want their DC plans to provide a route to guaranteed lifetime income that meets their requirements:

- Continued control over assets
- Access to asset growth
- Downside protection
- The right to take part or all of their account out at any time without penalties

DC plan sponsors now have products available in their plans that fulfill those requirements.

Summary: Better Retirement Confidence, Better Productivity, Better Loyalty

Employees who worry about their lack of retirement readiness can have far-reaching effects on workforce management.

Making Retirement Plans About Retirement

Workers may know what they want financially for retirement, but most don't know how to attain their goals. They aren't savvy investors, let alone experts at saving effectively for retirement.

That's a big problem for management, because almost 60% of surveyed workers say that the prospect of preparing for retirement makes them stressed.[5] That anxiety can lead to lower productivity and can cause more older workers to feel financially unable to retire when they want. That creates a roadblock to advancement within the ranks of younger talent, who then leave for better opportunities elsewhere.

Adding an in-plan, guaranteed lifetime income qualified default investment alternative (QDIA) can help reduce stress on employees, increase their productivity, give them the financial confidence to retire when they want to, and make a company more competitive in recruiting and retaining top talent.

A guaranteed lifetime income QDIA also makes effective use of all the automatic, "do it for me" tools. It can increase plan participation rates while giving more participants a sensible long-term investment strategy. Clearly, the majority of plan participants need all the investing help they can get. And no matter which investor persona, participants tell us such a retirement solution is what they want.

5 "2022 Retirement Confidence Survey," Employee Benefit Research Institute and Greenwald & Associates.

DCI-519809-2024-03-28
DCI–8123–0324
alliancebernstein.com