The Goal Line:

The relationship between savings goals and retirement confidence

APRIL 2019

EMPOWER INSTITUTE

Main findings

Workplace retirement plan participants are justifiably confident in their ability to meet their retirement savings goals

1

Retirement-related goals were identified by employees as their most important financial goals.

2

Financial goals change as employees approach retirement.

3

Most respondents are confident they are on track for enough income in retirement.

4

This confidence is rooted in reality. Employees who are more confident in their ability to have enough income in retirement income are on track to do just that.

You've probably been hearing a lot about financial wellness lately. The term refers broadly to an individual's overall financial health — their financial goals, their ability to work toward those goals and whether they can address changes along the way. Achieving financial wellness can have a very real effect, even beyond a person's finances: Studies have shown that employee financial wellness is strongly associated with workplace productivity.[1]

To learn more about employees' financial wellness, Empower Retirement conducted a study among our own workplace plan participants that examined the following topics:

- Employees' top financial goals
- How those goals change as employees approach retirement
- Whether people are confident in their ability to meet their retirement savings goals

The results demonstrate that retirement is the top savings goal among employees. Perhaps more surprisingly, we found that employees are confident in their ability to meet that goal.

Retirement-related goals are most important

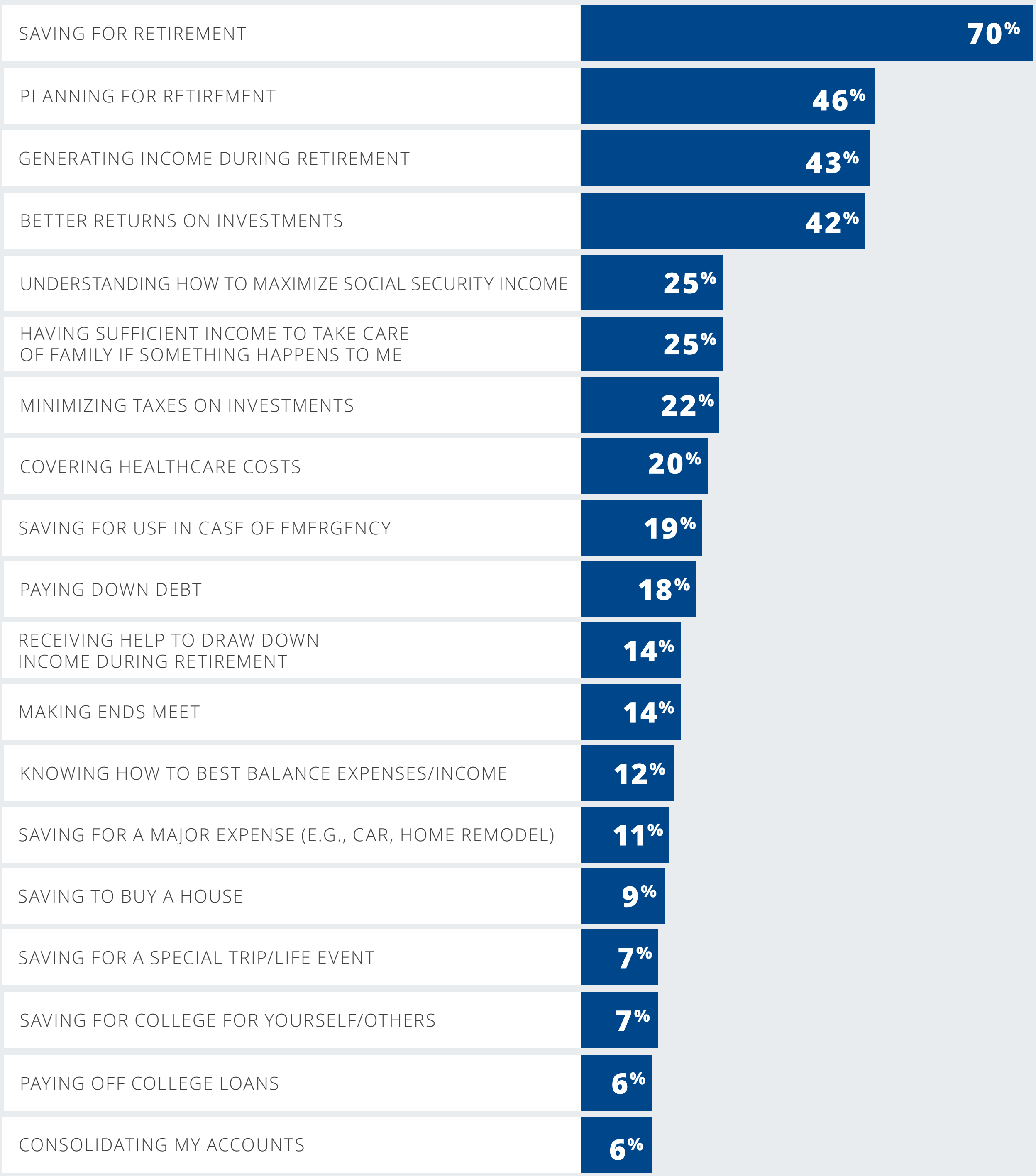
Retirement represents the biggest expense most people will ever face. So it's no surprise that retirement-related goals dominated the top answers employees gave when asked which financial goals or needs are most important to them. In fact, seven out of 10 respondents said that saving for retirement was their number one financial goal. Nearly half said preparing for retirement was very important to them, and 43% said generating income during retirement was among their top priorities.

That said, retirement wasn't respondents' only concern. Other top concerns included ways to achieve better investment returns (42%) and understanding how to get the most out of Social Security (25%).

1 PricewaterhouseCoopers, "Special report: Financial stress and the bottom line," September 2017.

Retirement tops respondents' financial goals

Most important financial goals/needs



Q. 36 Which of the following financial goals/needs are most important to you?
Base: Total answering (n=3565)

Respondents were far less focused on activities that might be associated with the day-to-day maintenance of financial plans, savings or debt. For example, only 18% said paying down debt was a top concern, and just 6% said paying off college loans was a priority. About one in 10 (11%) said saving for major expenses outside of retirement, such as a car or home remodel, was important.

Financial goals change as employees approach retirement

Saving for retirement represented the most important need among respondents of all ages. However, employees' focus, spending patterns and needs shift as they approach retirement. Generally, the closer employees get to retiring, the less focused they are on saving; instead, they prioritize generating income. Employees who are further away from retirement are more focused on day-to-day saving and spending.

Of respondents who were more than 10 years from retirement, 77% said they were focused on saving. At this point in their careers, only 47% of respondents said they were focusing on retirement preparations, and 37% were focusing on generating income in retirement.

A shift begins to occur as respondents pass the 10-year mark. Fewer respondents who are five to 10 years from retirement are focused on saving; the rate drops to 72%. However, more than half (52%) focus on preparing for retirement, and 47% are focused on generating retirement income. Those who are one to five years from retirement continue to report less of a focus on saving and an increased focus (51%) on generating retirement income.

Those less than a year from retirement report a drop in saving (55%), preparing (43%) and generating income (48%). While decreased interest in these topics might seem odd at this point, these results could stem from employees' confidence in their retirement plan and their ability to meet their goals.

Employee concerns over day-to-day savings and expenses also change over time. Among those who are 10 years or more from retirement, 31% say they're focused on having sufficient money to take care of their family should something happen to them compared with just 19% of retirees. This drop may also suggest that retirees are confident in their ability to cover the costs of this scenario.

Employees' shifting financial goals

Most important financial goals/needs by years from retirement

	Retired	<1 year from retirement	1-5 years from retirement	5-10 years from retirement	>10 years from retirement
SAVING FOR RETIREMENT	37%	**55%**	**67%**	**72%**	**77%**
PREPARING FOR RETIREMENT	26%	**43%**	**49%**	**52%**	**47%**
GENERATING INCOME DURING RETIREMENT	**49%**	**48%**	**51%**	**47%**	37%
BETTER RETURNS ON INVESTMENTS	33%	37%	40%	**48%**	**44%**
UNDERSTANDING HOW TO MAXIMIZE SOCIAL SECURITY INCOME	18%	**28%**	**30%**	**36%**	20%
HAVING SUFFICIENT INCOME TO TAKE CARE OF FAMILY IF SOMETHING HAPPENS TO ME	19%	20%	18%	21%	**31%**
MINIMIZING TAXES ON INVESTMENTS	21%	**28%**	**25%**	**25%**	19%
COVERING HEALTHCARE COSTS	15%	19%	**22%**	**24%**	18%
SAVING FOR USE IN CASE OF EMERGENCY	12%	12%	13%	15%	**26%**
PAYING DOWN DEBT	5%	8%	**12%**	**13%**	**25%**
RECEIVING HELP TO DRAW DOWN INCOME DURING RETIREMENT	**21%**	**26%**	**21%**	**18%**	9%
MAKING ENDS MEET	11%	10%	11%	**15%**	**16%**
KNOWING HOW TO BEST BALANCE EXPENSES/INCOME	8%	11%	10%	11%	**14%**

Q. 36 Which of the following financial goals/needs are most important to you?
Base: Total answering (n=3565)
Note: Bolded percentages are statistically significant.

Retirement goals in action

To understand how these shifts in priorities might play out for individual employees, consider the following hypothetical examples:

Sanjay
10 years or more from retirement

At age 49, Sanjay plans to work nearly 20 more years, finally retiring at age 67. Today, he's focused on building an emergency fund, paying off $4,000 in credit card debt and sending his two teenagers to college. While he is in his peak earning years, he must juggle his current expenses with his retirement savings goals.

Anita
1-5 years from retirement

Retirement is just around the corner for Anita, who plans to finish working in three years at age 66. Her daughter graduated from college a few years ago, so she's finished paying for tuition and has used the extra cash to make the last few payments on her mortgage. With these large savings goals out of the way, she is funding her retirement savings as much as she can. She is also deep into preparing for retirement, re-balancing her portfolio to meet her shifting income needs.

Martin
Retired

Now entering his seventh decade and a few years into retirement, Martin is no longer actively saving. Instead, he's focused exclusively on generating income and drawing down his accounts wisely. He and his wife downsized to a smaller home closer to downtown. Their income covers their monthly expenses as well as frequent travel to visit their children and grandchildren.

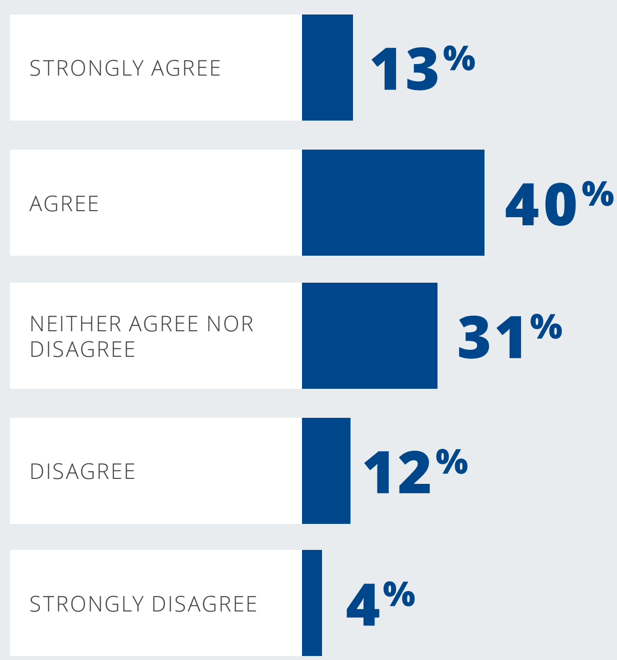
Most respondents are confident they are on track to meet their goals

Saving for retirement was the most important financial goal across all age groups. Yet this result appears to be based not in the possibility that employees had saved too little, but rather in their confidence in their ability to save.

More than half of respondents (53%) said they agreed or strongly agreed that they will have sufficient monthly retirement income. Only about a third (31%) were neutral about their confidence, and just 4% of respondents strongly disagreed they would have enough to live on each month when they retired.

It's important to keep in mind that respondents were drawn from Empower participants and not the general public. Internal factors, such as the influence of the Empower technology platform, could have a substantial impact on results. (See the Empower Institute paper "Success for Savers Through Design or Default" for ways to encourage employee savings.)

Employee agreement with the statement "I am confident that I will have sufficient monthly retirement income"



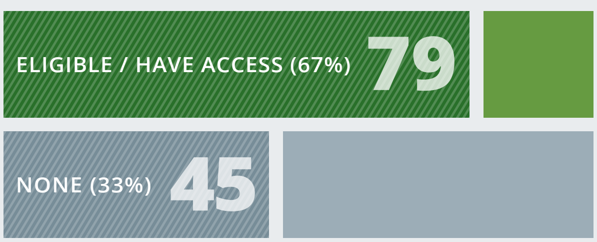
When participants log in to the Empower site, they immediately see their Lifetime Income Score℠ (LIS), which represents the percentage of their current income they are on track to replace in retirement. The LIS helps participants know where they stand when it comes to retirement readiness. The higher the average LIS, the more confident respondents are. Those who strongly agree they will have enough to retire have an average LIS of 74 compared with a score of 70 for those whose opinions are neutral and 62 for those who don't feel confident at all. The confidence of respondents is supported by the system-generated LIS.

Respondents' confidence is based in reality

These findings about participants' well-founded confidence in their retirement savings mirror the results from earlier Empower Institute research described in "Scoring the Progress of Retirement Savers."

The power of workplace retirement plans is clear. According to the earlier study, households that have access to workplace retirement plans are on track to replace 79% of their current income in retirement while those with no access to workplace plans stand to replace only 45% of their income.

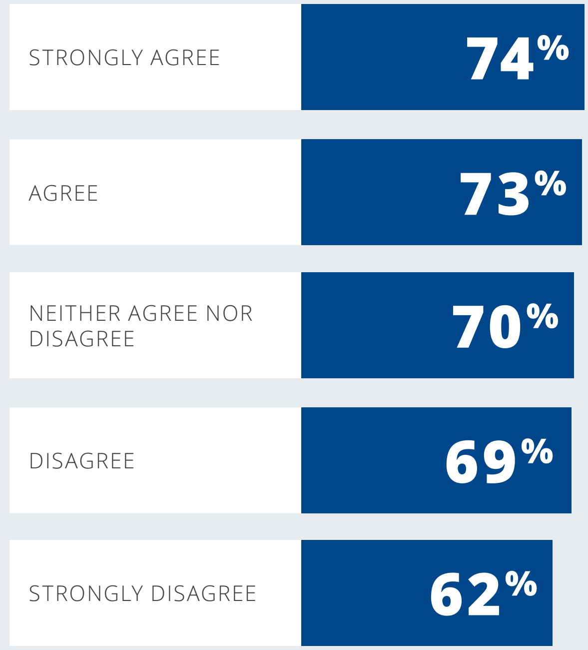
Retirement progress score vs. plan access



SOURCE: EMPOWER INSTITUTE, "SCORING THE PROGRESS OF RETIREMENT SAVERS," APRIL 2018.

To ensure employees make the most of their plans, employers should consider plan designs that address the distinct goals and needs of employees at different stages of their lives. For example, employers can support the savings goals of employees who are years from retirement with features such automatic enrollment and stretch matches. Consider leveraging the knowledge of a recordkeeper that can show employees where they stand when it comes to their retirement income preparation. Assessing employees' retirement confidence can be a good way to understand whether a particular plan design is working, as well as how it could be modified to encourage employees to save more.

Average Lifetime Income Score by retirement confidence



Source: Empower Retirement participant research, March 2019. Survey of 4,500 random employees contributing to the Empower Retirement defined contribution plan.

RO826643-0419 ERMKT-BRO-26013-1904

EMPOWER
INSTITUTE