Point of View

From the Retirement Security Research Center

A View From the Partners: Practical Takeaways on EBRI's Retiree Profile Research

Spending in retirement has been at the top of the agenda for the Employee Benefit Research Institute's Retirement Security Research Center and its sustaining Partners. In a new study, EBRI used data from its proprietary Spending in Retirement Survey[1] to divide respondents into distinct groups — or profiles — based on their self-reported financial status and spending behavior. The groups are Average Retirees, who make up 28 percent of total respondents; Comfortable Retirees (22 percent); Affluent Retirees (19 percent); Struggling Retirees (18 percent); and "Just-Getting-By" Retirees (12 percent).

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With a view to unearthing the practical implications of these retiree profiles, EBRI turned to the Retirement Security Research Center (RSRC) Partners for their views on key takeaways for employers, providers, and policymakers to consider in facilitating the most successful outcomes for each category of retiree. This *Point of View* first outlines the five retirement profiles and then summarizes Partners' views on the most compelling, practical implications.

The EBRI Study: Five Profiles in Retirement

The most salient characteristics used in identifying the retiree profiles from the survey were financial assets, income, debt, and homeownership. The profiles reflect standard of living in retirement, retirement satisfaction levels, and approaches to retirement spending of the cohorts.

Average Retirees: Average Retirees were likely to report modest levels of financial assets ($99,000 or less) and intermediate levels of income (between $40,000 and $100,000 annually). The majority within this group rely on defined benefit pension plan income along with Social Security for their retirement income. Six in ten Average Retirees seek to maintain or grow their financial assets in retirement. Nearly half had credit card debt, and almost as many also had a car loan. Average Retirees typically reported their standard of living in retirement as unchanged from what it was

[1] In September 2020, EBRI surveyed 2,000 retired households aged 62 to 75 years old and with less than $1 million in financial assets.

during their working years. They further rated their level of retirement satisfaction as 7.8 on a scale from 1 to 10 (with 10 being most satisfied).

Comfortable Retirees: Comfortable Retirees reported intermediate levels of income (similar to Average Retirees) but more in assets — between $99,000 and $320,000. They had easily manageable debt. They were more likely to say their retirement savings are sufficient or even above their needs and that they plan to grow, maintain, or spend only a small portion of their financial assets in retirement. They reported having a wide variety of sources of income. And on average, they believed their standard of living has not changed since their working years. Comfortable Retirees were the second most satisfied with their retirement life after the Affluent Retirees.

Affluent Retirees: Affluent Retirees were more likely to have high levels of financial assets ($320,000 or more) and annual income ($100,000 or more). They were mostly mortgage-free homeowners, with no debt. Affluent Retirees reported having access to more diverse sources of retirement income than the retirees from the other groups, with defined benefit pension plans and personal savings being the most commonly cited. They rarely reported having credit card and auto loan debt. The majority of Affluent Retirees reported that their standard of living hasn't changed or has improved since retirement. They were, on average, the most satisfied with their retirement life of all retiree groups.

Struggling Retirees: Struggling Retirees had low levels of financial assets (less than or equal to $99,000) and income (less than $40,000 annually). They were more likely than any other group to rent rather than own their homes. They were also most likely to have unmanageable debt, such as credit card and medical debt. On average, these retirees rated their health status the worst out of all groups. Struggling Retirees rely on Social Security to provide the bulk of their retirement income. They believed they have a reduced standard of living compared with when they were working and rated their retirement life satisfaction lowest of all, with an average score of 5.8 on the 1 to 10 scale.

"Just-Getting-By" Retirees: "Just-Getting-By" Retirees also had low levels of financial assets and income, similar to Struggling Retirees. However, unlike Struggling Retirees, just over half of them owned their houses free and clear. The majority reported no debt or easily manageable debt, and they were less likely than Struggling Retirees to have credit card or medical debt. While "Just-Getting-By" Retirees reported Social Security as a major source of income, they were still reasonably likely to believe that their standard of living is the same in retirement as when they were employed. Struggling Retirees gave their retirement life satisfaction score as 7.2 out of 10, on average.

Practical Takeaways From the RSRC Partners

RSRC Partners consist of asset managers, recordkeepers, insurance companies, banks, advisory firms, and other retirement providers. In evaluating the retiree profiles developed by EBRI, they found that the most salient drivers of retirement satisfaction and security appear to be guaranteed sources of income, low debt, a clear spend-down strategy, and employer-sponsored retirement help, including advisory services. Following are more detailed views of the RSRC Partners:

Guaranteed Income:

Because sources of income were such an important driver of retirement spending across these retiree profiles, the RSRC Partners focused on the role of pensions, Social Security, and other guaranteed income.

The RSRC started by noting that the retirement spending conversation will be very different when individuals rely on pension income vs. a 401(k) plan or Social Security. Specifically, retirees categorized as Affluent, Comfortable, or even Average were found to be more likely to have a guaranteed stream from pension plans compared with Struggling or "Just-Getting-By" Retirees — or potentially future retirees as well. Further, retirees across the board were generally loath to spend down their personal assets. Often, this preference to maintain the nest egg throughout retirement was associated with the uncertainties surrounding life and spending needs in retirement.

The group concluded that the absence of access to lifetime income through a defined benefit plan plays a critical role in retiree outcomes. RSRC Partners cited J.P. Morgan research that has similar findings: Higher spending satisfaction and confidence were associated with individuals with pension income. This suggests employers should think carefully about how they can help participants translate their pool of defined contribution (DC) money into a pension-like experience. However, the group noted, today most 401(k) or 403(b) plans are not built for decumulation. Plan sponsors, providers, and policymakers might consider:

- The concept of a retirement tier — or defined contribution plan investments specifically designed for retirees — has been a popular topic over the past few years. But most defined contribution plans still have only a couple of fixed-income options. One or two fixed-income options are unlikely to meet the diverse needs of retirees. Additional alternatives include target-date funds with a decumulation glidepath and retiree-focused managed accounts. Stable-value funds also may be part of the retirement tier. Plans without a viable retirement tier will struggle to retain participants in the DC plan postretirement.
- One way to replicate the "pension experience" is to embed institutionally priced, very low-commission annuities into the defined contribution plan in such a way that they are automated for retirees. This would allow some portion of retirement savings to be guaranteed without the need for retirees to do the complex modeling required to allocate savings toward annuities.
- Lifetime income illustrations can be used to reorient the way people think about their retirement savings. For example, such illustrations could show how a savings "floor" might be established as savings are drawn down. The illustration could show the impact of maintaining 25 percent of one's balance, for instance, throughout retirement as one draws down their savings. This could help retirees understand that spending in retirement is not an "all-or-nothing" proposition; it is possible to maintain a cushion and protection against late-in-life health care needs while still purchasing an annuity to have a guaranteed stream of income.

The Role of Debt:

The research showing so many older households struggling with burdensome debt was also explored by the RSRC. Specifically, the debt dimension appeared to be a key contributor to Struggling Retirees' lack of satisfaction, anxiety, and poor standard of living. The RSRC Partners noted that some of those households must have wished to work longer than they did to pay down their debt, but they were likely prevented from doing so due to their health or other issues that were out of their control. Plan sponsors, providers, and policymakers might consider:

- The importance of a more holistic view of retirement income security that includes debt management programs for preretirees and retirees alike. However, research from the Workplace Wellness Survey shows that workers may fail to take advantage of financial wellness tools made available to them. As such, it is important to integrate retirement and financial wellness tools to facilitate usage and increase awareness that these tools are available.
- Harnessing technology to tailor messaging, tools, and approaches for those with debt vs. those without: What will be valuable to the Struggling Retirees with debt is clearly going to be very different than what will resonate with "Just-Getting-By" Retirees who don't have the same levels of debt — even though in many other ways these cohorts are very similar. Thus, tailoring messaging, tools, and approaches is essential.
- Approaches to educating preretirees about the reality of working in retirement. The Retirement Confidence Survey shows that far more workers believe they will continue some sort of work for pay in retirement than what retirees actually report. Further, very few retirees in the Spending in Retirement Survey worked for pay in retirement. If indebted retirees are planning to supplement their retirement income with work for pay, this may be an unrealistic expectation.
- Facilitating a better understanding of the importance of a mortgage-free home in retirement. "Just-Getting-By" Retirees scored their retirement satisfaction considerably higher than Struggling Retirees, and a key difference between the two was that "Just-Getting-By" Retirees were far more likely to have paid off their home.

"Correct" Amount of Saving

RSRC Partners also focused on Affluent Retirees' reluctance to spend down their hard-earned nest egg. Often, this was associated with the desire to maintain the nest egg in case of unexpected needs later in retirement, such as assisted living expenses. This desire to maintain rather than spend down one's nest egg was evident with other cohorts as well. One RSRC Partner gave the example of her in-laws, who have enough retirement money to be comfortable but would rather eat ramen noodles than spend their assets. Plan sponsors, providers, and policymakers might consider:

- How to address the behavioral aspects of retirement spending. For example, the Spending in Retirement Survey and other research[2] show savings regret — or sticker shock — among retirees is common: People wish they'd saved more as they face potential retirement costs that they hadn't really considered previously, such as long-term care. Interestingly, this regret seems to dissipate over time for retirees. Help overcoming sticker shock could allow retirees to be more comfortable with spending down their assets.
- Ways to help preretirees understand the realities of life in retirement so that the prospect of retirement spending isn't so daunting. The Spending in Retirement Survey showed a distinct disconnect between how early retirees thought they would live their day-to-day life in retirement and how older retirees reported they had actually spent their time. The reality was that retirement activities, such as spending time with family, may not be as expensive as retirees think. Further, even the "Just-Getting-By" Retirees scored their retirement happiness fairly high — suggesting that even low levels of income may not impede a happy retirement, provided retirees have the security of homeownership and/or low debt levels.
- How to make the connection between health and wealth during the working years. Again, keep in mind the importance to retirees of varied sources of income: Health savings accounts can act as retirement vehicles, providing another potential income source to retirees.
- Means of creating "spending paychecks." Evidence from J.P. Morgan Chase research shows that people manage their cashflow out of money that's in their bank account. If regular income automatically flows from savings into a retirees' checking account, that can make spending easier and increase spending confidence.

The Retirement Tier and Advice

Although the Spending in Retirement Survey didn't ask individuals whether they had an advisor or not, it specifically screened out retirees with more than $1 million in assets. As such, respondents were inherently less likely to have a financial advisor than those with $1 million in assets or more. The RSRC Partners focused on how to make advice more scalable so that retirees with less assets have access to some level of financial assistance. They discussed how the retirement tier could be harnessed to include embedded guidance or advice that provides support in a lower-cost, more scalable way.

They noted that the traditional role of an advisor is not only one of guiding retirees' investments but also of reinforcing retirees' plans and helping them understand whether they're on track or not. In other words, there is an element of hand-holding that occurs when advisors are available to retirees.

As such, it will be valuable to explore how the retirement tier might replicate that hand-holding experience. For example, financial advisors often address how to navigate long-term-care needs. However, for those without an advisor, this area may not be addressed until well into retirement when it may be too late.

Conclusion

Faced with a rich set of data and analysis, the RSRC Partners were able to identify a plethora of ways in which employers, providers, and policymakers can address the unique needs of various retiree profiles. These solutions spanned investment, education, and advice, as well as financial wellbeing — and they took into account the fact that one size does not fit all when it comes to meeting the needs of individuals who are on different paths through their retirement journey. It is important to note that these paths may change as well. For example, given their limited financial resources, "Just-Getting-By" Retirees may effectively be Struggling Retirees in waiting: One major financial shock could cause them to no longer be just getting by in retirement. It is also worth pointing out that retirees' paths may be set well before they reach actual retirement age: Addressing debt levels well before individuals approach retirement is crucial, as those facing retirement with unmanageable debt may be left with very few options to improve their situation. Further, one must consider not just the financial but the behavioral aspects of retirement and how they factor into spending. Finally, it is critical to recognize that future retirees may face different challenges. The best-situated retirees — those who were Comfortable or Affluent — tended to have more guaranteed sources of retirement income, such as pension plans, than will those retiring after them.

EBRI and the RSRC will continue to explore the topic of helping retirees navigate a satisfying and secure retirement, including considering the role of race and ethnicity in retirement spending.

[2] Börsch-Supan, Axel H., Tabea Bucher-Koenen, Michael D. Hurd, and Susann Rohwedder. "Saving Regret." Working paper. National Bureau of Economic Research, 2018. http://www.nber.org/papers/w25238