



Retire that thinking: Uncovering better strategies for retirement readiness

As the COVID-19 pandemic presents new challenges to retirement planning, investing and spending, millions of Americans are facing critical choices about their financial futures – providing plan sponsors, employers and investors with an opportunity to reimagine the tools and resources used to achieve financially secure retirement nest eggs.

Capital Group's latest Wisdom of Experience survey of 1,200 retail investors has found many Americans tend to underestimate the amount of funds they'll need for a successful retirement, neglect to plan for successful retirement spending, and lack the confidence, knowledge and skills to make their retirement dreams a reality.

- **Perception versus reality – mind the gap:** The study found that while more than a quarter of investors consider savings of less than \$100K as "real money," 43% of investors overall say their retirement goals exceed \$1M. Nearly 7 in 10 investors (68%) are confident they will reach their retirement goals, despite this perception gap.
- **Retirement spending – check please:** Nearly 9 in 10 investors (87%) favor creating a regular "retirement paycheck" to manage spending during their retirement years. However, more than a quarter of investors (28%) have not yet thought about how they plan to spend their money when they retire, including nearly a third of Gen Xers (32%), and surprisingly, nearly a quarter of baby boomers (24%), who are much closer to retirement. Anticipated expenses post-retirement also vary across age and gender. For instance, more than a quarter of millennials (30%) expect to pay for a child's or grandchild's education during retirement, while fewer than 1 in 10 baby boomers (7%) anticipate doing so.

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- **401(k) confidence – be prepared:** More than 8 in 10 investors (83%) are confident that investing in their employer 401(k) or other retirement savings accounts will help them build a nest egg, but less than one-third (30%) know what investment options their retirement plans contain. One-third of women report feeling unprepared when selecting investment options in their workplace retirement plans.
- **Education toolbox – help wanted:** Overall, the study highlights certain gaps in investor confidence, knowledge and skills required to achieve dependable, long-term financial security. It points to opportunities for employers to do a better job of educating their employees and provide them with the information they need to help them make the best decisions for their retirement nest eggs.

Part I: Perception versus reality

As investors think ahead to their retirement years, several key questions are helpful to consider: How much do I need to have saved and how confident am I about getting there? What expense do I anticipate, and how will I finance my lifestyle in retirement?

The survey found that nearly 7 in 10 investors (68%) are confident they will reach their retirement goals by the time they leave the workforce. Men appear to be more confident than women in their ability to save, with 32% of men reporting high confidence in reaching their retirement goals compared to 18% of women. Meanwhile, 39% of women reported feeling only somewhat confident about reaching their goals.

The survey also found that millennials are more likely than other age groups – and significantly more likely than Gen Xers – to be confident in reaching their goals, with 74% of millennials confident they'll achieve their retirement goal. Gen Xers, on the other hand, have the least confidence in their retirement prospects, with 37% not confident they will reach their retirement goals.

What is “real money”?

Despite investors' overall confidence in their abilities to reach their retirement goals, the survey found wide disparity across investors in terms of what they consider “real money” in their retirement accounts, versus the amount they'd like to have saved when they retire.

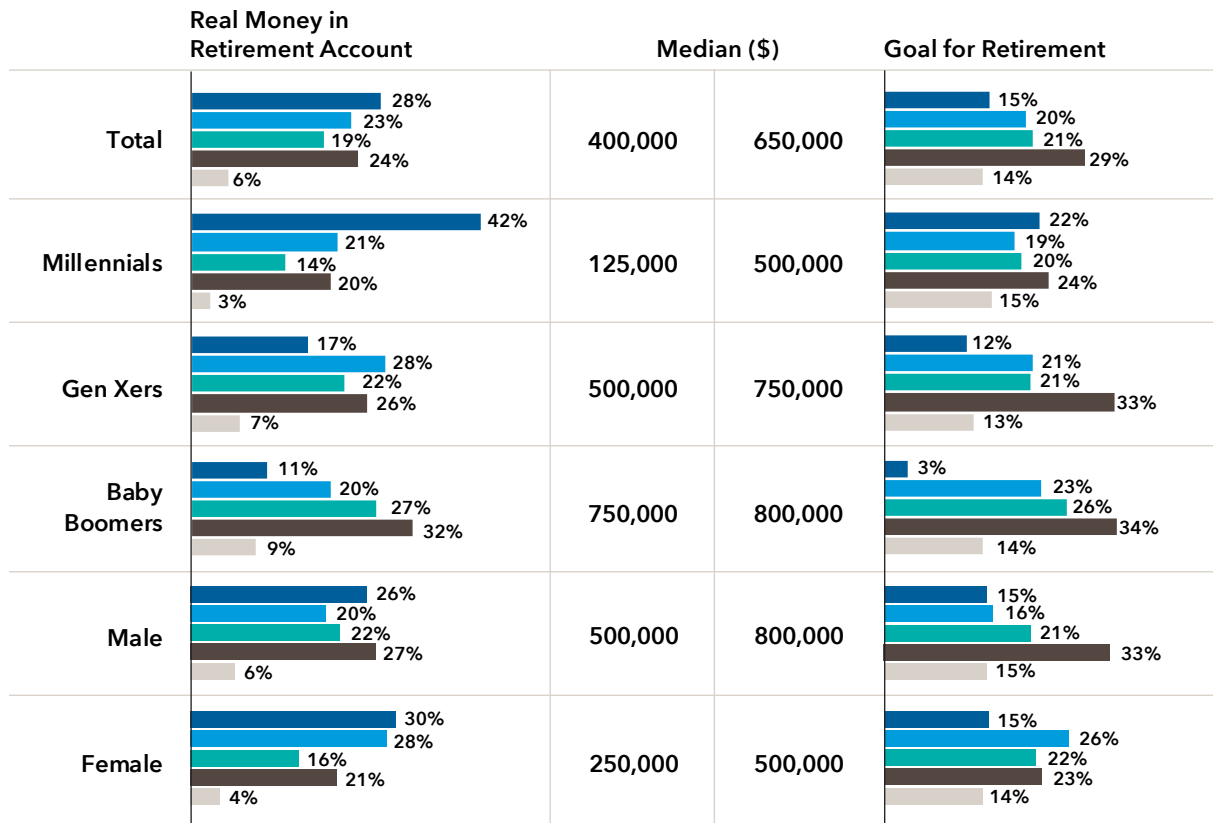
When investors were asked to envision the amount of money in a retirement savings account that would begin to feel like real money that could make a difference in their lives, the results show that nearly a third of baby boomers (32%) think a figure between \$1M and \$2.5M would begin to feel like real money. Contrast this with 42% of millennials who say that a number less than \$100K would feel like real money – perhaps because they are earlier in their careers and have more years to grow their investments. More worrying is the difference between women and men. Almost 1 in 3 women (30%) consider funds under \$100K as real money, significantly less than the \$500K median amount cited by almost as many men (28%).

When asked how much money they'd like to have saved by the time they retire, 43% of investors said they'd like to have more than \$1M saved, including 48% of baby boomers and 46% of Gen Xers. However, 41% of millennials think a figure less than \$500K will be enough to retire on. Once again, women's targets were considerably lower than men's, with more than a quarter of women (26%) setting their overall retirement savings goal to be somewhere between \$100K and \$500K, compared to one-third of men (33%) who estimate they'll need to have between \$1M and \$2.5M saved by the time they retire.

Real money versus goal for retirement

- What amount of money would feel like "real money" in your retirement savings account?
- What is your goal in terms of how much money you would like to have in your retirement savings account at retirement?

■ Under \$100,000 ■ \$100,000 to <\$500,000 ■ \$500,000 to <\$1,000,000 ■ \$1,000,000 to <\$2,500,000 ■ \$2,500,000+



Percentages may not add up to 100 due to rounding.

Part II: Retirement spending

As people think about their future retirement years, they must also consider how they will finance their lifestyles, pay their bills and stay on budget. A powerful finding of Capital Group's research is the broad appeal of creating a regular monthly retirement paycheck using investments and savings accumulated during one's working years.

Nearly 9 out of 10 survey respondents (87%) say creating a monthly retirement paycheck is an appealing option for them – and that holds true for men and women across every generation, including baby boomers, Gen Xers and millennials. Also, 88% believe that continuing to invest in and grow their nest egg after retirement will be important for funding their retirement years.

Retirement paycheck wins out over flexible withdrawals as the choice for most investors

Capital Group asked people to choose between two hypothetical options for managing their retirement finances: a monthly retirement paycheck that is based on their investments and savings OR the flexibility to withdraw as much or as little money as they prefer based on their needs. Overall, a majority of survey respondents (63%) prefer a regular monthly paycheck, compared to 30% who prefer flexible withdrawals as needed. However, compared to women, men favor the predictability of the monthly paycheck option (66% to 60%), as do millennials (70%), compared to Gen Xers (60%) and baby boomers (54%).

Other options that provide predictability or flexibility are also appealing

- Three-quarters of those surveyed (75%) like the idea of purchasing an annuity that provides guaranteed lifetime income for themselves and their families, with Gen Xers (78%) and millennials (80%) showing a stronger preference than baby boomers (61%).
- Nearly two-thirds of Americans (63%) are attracted to the flexibility of continuing to work part time during their retirement years to supplement their income. In particular, 68% of millennials find the option of working past retirement appealing, compared to 57% of Gen Xers.
- To fund their retirement, 60% of survey respondents find selling their home to be an attractive option, although this option appeals much more strongly to millennials than baby boomers (69% to 44%, respectively).
- Overall, women report a lower likelihood of taking non-investment approaches to funding their retirement – such as selling their houses, working part time or relying on Social Security – while men are more likely to consider these options. For example, 69% of men view Social Security as a valued steady source of income in retirement, compared to 57% of women. Men are also 10% more likely than women to consider selling their homes (65% to 55%, respectively).

How appealing would each of these options be to you for funding your retirement?

■ Total ■ Male ■ Female

	Not at all appealing			Not too appealing			Somewhat appealing			Very appealing		
Use investments and savings to create a monthly "retirement paycheck" I pay myself	2%	1%	2%	12%	10%	13%	55%	53%	57%	32%	35%	28%
Purchase an annuity that guarantees fixed or variable lifetime income for me and my family	8%	9%	6%	17%	18%	17%	54%	50%	58%	21%	24%	19%
Continue to invest and grow my nest egg while taking regular distributions to fund my needs	2%	2%	3%	10%	9%	10%	56%	55%	58%	32%	34%	29%
Sell my house for financial gain and move to a place where I can afford to live comfortably	16%	13%	19%	24%	22%	27%	40%	42%	38%	20%	23%	16%
Continue to work part time in my retirement years to supplement my income	13%	13%	13%	24%	21%	28%	43%	43%	44%	20%	23%	16%
Rely on Social Security for retirement income, supplemented by other savings	10%	9%	12%	27%	22%	32%	44%	46%	43%	19%	23%	14%

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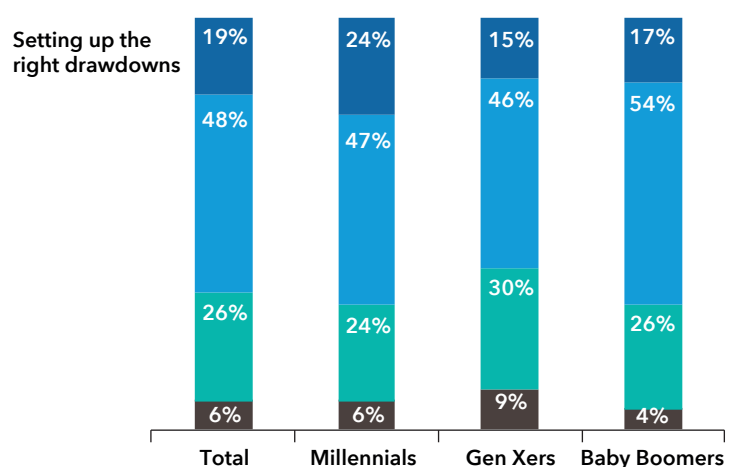
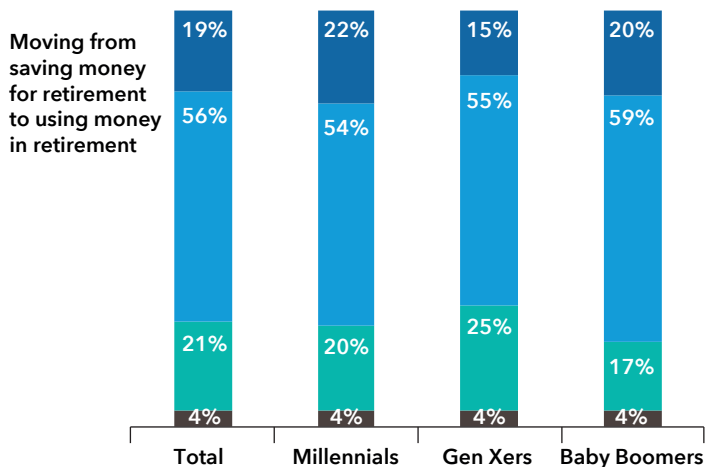
Fewer than 1 in 5 investors is highly confident about the financial transition from work to retirement

Creating a retirement paycheck out of accumulated investments and savings is a complex exercise for those transitioning from work to retirement. Many will need advice and planning to help anticipate spending needs in retirement. These include planning for the costs of health care, rolling over 401(k) accounts, setting up distributions from retirement investments, and allocating portfolios to continue growing their nest eggs while reducing the risk of volatility and losses.

Despite investors' overall confidence in their abilities to reach their retirement goals, fewer than 1 in 5 surveyed (19%) are very confident they understand the specific steps required to move from saving money for retirement, to spending money in retirement. In addition, only 19% of respondents are very confident they know how to set up the right drawdowns from their savings and investments, which is critical for ensuring they don't run out of money during a retirement that could last several decades.

Moving from saving money to using money in retirement

■ Very confident ■ Somewhat confident ■ Not too confident ■ Not at all confident



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Expenses

While investor preference for the predictability of a retirement paycheck is clear, more than a quarter of investors (28%) have failed to consider what they'll do with their money after they retire – including a third of Gen Xers (32%), and surprisingly, a quarter (24%) of baby boomers who are much closer to retirement.

When asked about the types of expenses investors anticipate during retirement, investors are most likely to expect to incur medical expenses over other types of expenses. However, women are significantly more likely, with 64% saying they expect medical costs to be a major expense they'll incur during retirement, compared to 55% of men. Conversely, men are more likely to expect to incur charitable giving expenses, compared to women (22% versus 15%).

While millennials are less likely to expect to incur medical expenses, they are significantly more likely to plan to purchase a new home and incur charitable giving expenses. And nearly a third of them (30%) expect to pay for a child's or grandchild's education, compared to only 7% of baby boomers.

Part III: 401(k) confidence

For many investors today, building a nest egg starts with an employer-sponsored retirement plan. The survey finds the majority of investors (83%) are confident that investing a portion of their paycheck into their employer 401(k) or other retirement savings account will help them build a nest egg for the life they envision in retirement. Although all age groups show similar confidence, millennials are most likely to be very confident in their retirement savings accounts as the key to their nest egg (46%), compared to 36% of Gen Xers and 38% of baby boomers. Notably, men are more likely to be confident in their retirement savings accounts than women (88% versus 78%). Overall, 3 out of 4 respondents (76%) say they felt prepared when selecting investment options from their employer's retirement plan.

However, only a third (32%) of all investors report knowing exactly what investments their retirement plans contain, with women significantly less likely to know (23%) compared to men (39%). One-third of women (33%) also say they feel unprepared when it comes to selecting the investment options in their workplace retirement plan, with 1 in 10 (13%) saying they feel totally unprepared for making decisions about their plan, compared to only 4% of men who say they feel unprepared.

Part IV: Education toolbox

For plan sponsors who take a "one size fits all" approach to retirement plan communications, the survey showed that some conventional thinking needs to be retired. When asked what types of tools and information investors wish their employers would provide to help navigate their retirement plans, responses varied across employee profiles:

- Fewer than half of investors (46%) reported receiving written materials or tools from their employer, whether initially during enrollment into a sponsored plan, or on an ongoing basis after enrollment. This finding should be especially concerning for employers, with 35% of investors saying they utilize their employer plan administrator most for advice on how to invest for retirement, compared to, for example, 29% who use a financial advisor outside of work.
- When asked what types of tools and information investors wish their employers would provide, both women and millennials said more personalized advice on what to invest in topped the list (37% and 42%, respectively). Millennials are also interested in simplified plan menus and better fund descriptions to help them make better investment decisions. On the other hand, more than a third of Gen Xers (34%) want clearer explanations of the plan's investment options, and regular updates about plan changes (33%), in addition to personalized advice on what investment(s) to choose (33%).

Conclusion: From building a nest egg to building a retirement paycheck

More Americans can build a bigger nest egg and build toward a bigger retirement paycheck for more years of retirement. The research highlights the need for better workplace investor education and advice to help people make the best decisions in three critical areas:

- 1. Investors need help setting realistic retirement savings goals,** anticipating expenses during retirement, and navigating their employer-based 401(k) investment options and other retirement plans to make their financial goals a reality.
- 2. Investors want to feel empowered to create their own retirement paycheck.** Advice and planning are needed to help investors make decisions about managing their money in order to meet their expenses and generate more income over more years of retirement.
- 3. Investors are seeking personalized advice and simplified menus** from their workplace retirement plans to help them make better decisions, increase their lifetime savings and build a bigger nest egg.

How the survey was conducted

The survey was conducted by Escalent, a human behavior and analytics firm, December 3-9, 2020. The research consists of an online quantitative survey of 1,215 American adults – 405 millennials (ages 21-39), 409 Generation Xers (ages 40-54) and 401 baby boomers (ages 55-73) – of varying income levels who have investment assets and some responsibility for making investment decisions for their household. The overall sample reflects national representation on key demographic measures according to the U.S. Census Bureau.

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