

WELLS
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2018 Wells Fargo Retirement Study



Executive summary

Nothing is more human than the wish for a long, satisfying life. More people than ever have a chance to achieve that aspiration, thanks to advances in longevity. But for their extra years to be satisfying, people need to be able to support themselves financially. That means they need more than just financial resources. They need the ability to create, adapt, and execute effective financial plans. Such planning could prove to be the key to experiencing the satisfaction and joy that we all hope will accompany longer lives.

Employees with specific attitudes and behaviors around planning—what we've termed a **planning mindset**—appear financially healthier and better prepared for long lives.



Twice as likely to say their financial life is thriving



less likely to have high levels of financial stress



Three times more household retirement savings than people without a planning mindset

Our 2018 Retirement Survey revealed the following insights:

- 85% of Millennials and Gen Xers think retirement will be a positive new chapter.
- *But* nearly 40% of employees and retirees think living past age 85 would present financial hardship.
- A planning mindset, as opposed to simply a financial plan, may help people adapt to life changes—for example, when health issues force an earlier-than-expected retirement.
- The retirement community may be able to use the planning mindset concept to understand employees' needs and the most effective ways to help them move from education to action.
- Employers may want to focus attention on Gen X employees, who face strains on their finances and may have been overshadowed by Millennials and Baby Boomers.



Needed on the journey: A GPS for retirement

The desire for a long, fulfilling life is a fundamental goal for all of us. That ideal—which we sum up with the phrase *Long Live You*—is increasingly within reach, as growing numbers of people live into their 80s, 90s, and beyond. Yet as the journey through the elder years has lengthened, it has become more complex and, in some ways, more challenging. The traditional, static road map through retirement, built on older assumptions about longevity, pension income, and Social Security, may no longer suffice for many employees.

The 2018 Wells Fargo Retirement Survey finds that employees hold great optimism about their ability to lead fulfilling lives in retirement, with large majorities of employees of all ages saying that they believe retirement will be a positive new chapter. Yet, many people lack clarity about how to pay for those treasured additional years. For them, financial uncertainty casts a shadow across the road to the future. Simply put, many people worry about their ability to maintain financial well-being.

If we can address the underlying causes of those worries, we may be able to help people realize the joy that should accompany a longer life. Employers already provide a powerful retirement engine in the form of the 401(k). Our research finds that supporting a planning mindset among employees may help them develop not just a road map through retirement but a GPS that can adapt to changing conditions and keep them heading where they want to go.



of Millennials and Gen X workers believe retirement will be a positive new chapter



of retirees say retirement has been a positive new chapter

The planning mindset: Hands on the wheel

Retirement is a long journey, and planning for it is a big job. Planning has become more challenging, as longer life expectancies have extended the retirement journey and employees with declining access to pensions have become responsible for providing more of the fuel.

Some employees have embraced this challenge. Our survey found that employees who gave positive responses to a set of questions related to planning have considerably stronger financial well-being and are better prepared for and more optimistic about the future. These responses illustrate the power of a *planning mindset*.

Employees who answered planning mindset questions affirmatively are more likely than other employees to take charge of their retirement goals, to be proactive, to make good decisions, and they generally have a brighter forecast for their financial lives.

- 2x more likely to say their financial life is thriving
- 42% less likely to have high levels of financial stress
- 3x more household retirement savings than people without a planning mindset

Defining the planning mindset

People with a planning mindset identify both near-term and longer-term goals and take action to achieve them. Our research measured the planning mindset based on positive responses to four key statements:

- I am able to work diligently toward a long-term goal.
- I prefer saving for retirement now to ensure I have a better life in retirement.
- It makes me feel better to have my finances planned out for the next one to two years.
- In the past six months, I have set and achieved a goal or set of goals to support my financial life.

In the other lane is a large group of employees and retirees who are stressed by money in general and by retirement planning in particular.

- 32% of employees and 22% of retirees are overwhelmed or paralyzed by their financial situation
- 35% are unsure how much they've personally saved

Those feelings were much more common among people without a planning mindset—those who didn't agree with most or all of the statements in the purple box.

The last finding—that nearly 4 in 10 survey participants say living to 85 would cause financial hardship—impedes the goal represented by the *Long Live You* ideal. This is especially true considering 42% of survey participants say they expect to live to 85 or beyond. While many employees expect longevity, a sizable portion of them dread it rather than celebrate it.

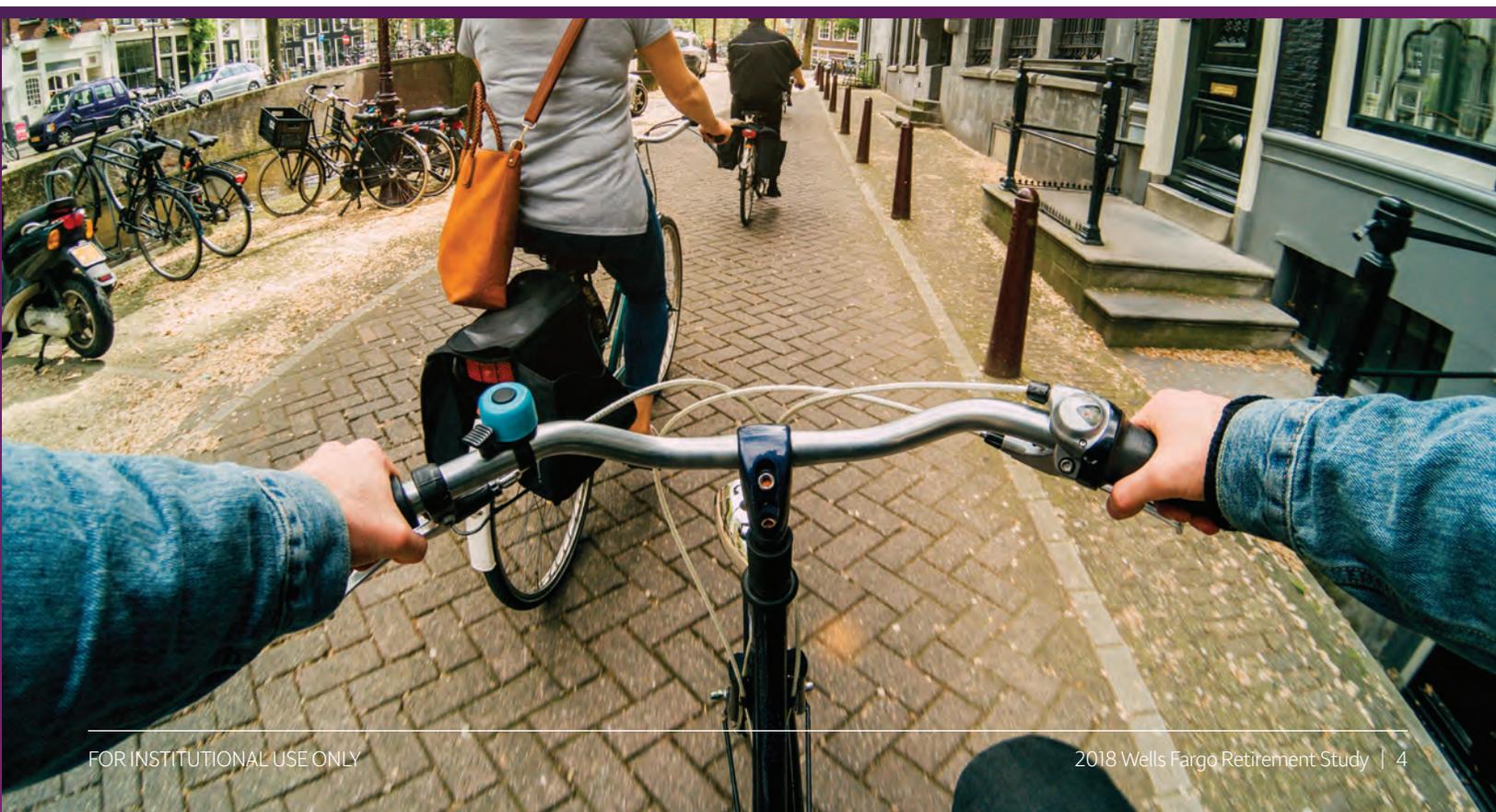
The planning mindset may prove to be a valuable lens for viewing participants. It could help plan sponsors, providers, and consultants determine how we can better help employees make retirement a positive chapter while making the journey to and through it less stressful. We can start by developing a better understanding of where participants stand on the planning mindset spectrum, the ways in which plan sponsors and providers can help them grow their planning acumen, and the tools they need to move from education to action.

7 out of 10

are concerned about running out of money



say living to 85 would be a financial hardship



The 401(k): A retirement engine

Our survey found that people value and trust their 401(k).

92%

feel more secure about retirement because they have access to a 401(k)

61%

of 401(k) contributors say they're saving enough for retirement

38%

of non-contributors say they're saving enough for retirement

Many factors affect an individual's pursuit of the *Long Live You* ideal, including earning power, health, career progress, and financial obligations. The good news is that many employees already have a powerful engine to pursue asset growth. A 401(k) plan encourages consistent contributions and offers diverse investments. Using it can help support a healthy retirement portfolio. The power of the 401(k) has increased dramatically in recent decades with the advent of automatic features and diversified default investments.

That trust has become critical as the 401(k) plan has moved from a supplemental investment tool to a central vehicle for growing retirement assets. In our research, members of younger generations were much more likely to say that a 401(k) and/or IRA will be the primary source of retirement funding.

Boomers	25%
Gen Xers	39%
Millennials	46%

Although improvements to the 401(k) over the years have helped employees immensely, access to a powerful saving and investing tool alone may not be enough to realize *Long Live You*. Many employees need targeted help putting their retirement savings plan and other tools to use effectively. They might need assistance balancing retirement preparation with burdensome student loan debt, children's college costs, the need to care for aging parents, new expenses due to changes in their family, or numerous other challenges. Any one of these experiences—let alone a combination of them—can cause detours, delays, or breakdowns on an employee's journey to and through retirement.

The continual evolution of the 401(k) makes it easy to envision a future in which this engine for retirement becomes even more robust. Strong 401(k) plans may offer solutions that help address longevity and income needs while prompting employees to plan continually for the journey through retirement, not just to it. Now it's time for employers and providers to build the tools that can illuminate the road ahead, with the goal of improving the journey for everyone.

Planning the journey: Change the goal from surviving to thriving

When planning for retirement, as when using GPS, you start by entering the destination you want to reach. We think many employees plug in a goal of *survive* when they could aim to *thrive*: to experience the joy of a long, well-lived life with financial well-being throughout. With support for planning mindset behaviors, the retirement community may be able to help employees expand the scope of what's possible.

Sound planning is more important than ever, in part because far fewer retirees will have defined benefit income. Just 25% of Millennials, 35% of Gen Xers, and 43% of Boomers say they have access to a pension, according to our survey. Social Security, Medicare, and Medicaid benefits may be reduced, while longer life spans increase the risk that people could outlive their assets.

To thrive, employees need more than education. They need action. And they need more than a plan. They need a planning mindset to adapt to unexpected developments.

During the journey to and through retirement, life events can undermine the best-laid plans and demand course-correction. For example, nearly 6 in 10 retirees in our survey retired earlier than they had intended.

The Employee Benefit Research Institute has found that health issues are the most frequent cause of earlier-than-expected retirement.¹ These types of unforeseen events can have a profound impact on an individual's income needs and ability to meet them. For example, earlier-than-expected retirement may help explain why two-thirds of retirees took Social Security as soon as they could, even though delaying until as late as age 70 results in a higher monthly payout.

Employees' map through retirement must adjust to accommodate these kinds of developments. Based on responses to our survey, employees may expect to work longer than they ultimately will be able to and may need to course-correct.

Actual retirement ages vs. employees' expectations



Retirees: How old were you when you retired?

- 66% Younger than 65
- 27% 65 or older
- 7% Not yet retired



Employees: At what age do you expect to retire?

- 43% Younger than 65
- 20% 65 or older
- 37% Undecided



Did you retire when planned?

- 58% Earlier than planned
- 35% Exactly when planned
- 7% Later than planned

1. Lisa Greenwald, Craig Copeland, and Jack VanDerhei, "The 2017 Retirement Confidence Survey: Many Workers Lack Confidence and Feel Stressed About Retirement Preparations," EBRI Issue Brief, no. 431 (March 21, 2017).



Roadside assistance: How the retirement community can help

The retirement industry has long aimed to empower employees as they build toward the future. Typically, we've done so by focusing on education and encouragement. This approach may work for people who already have a planning mindset. The rest of the population may benefit from more strategic, targeted help.

We can help in part by helping to smooth the speed bumps and potholes that impede progress. Tools that simplify and automate the planning process may help in this effort:

- Auto-enrolling current and new employees
- Defaulting employees to a higher deferral rate, then encouraging them to auto-escalate their contributions
- Structuring employer matching contributions to encourage higher deferral rates
- Implementing solutions that guarantee income and help employees draw down their assets wisely

These approaches can address behavioral obstacles ranging from inertia or simple procrastination to more nuanced issues like magical thinking—the idea that somehow everything will work out. Automation and simplification don't render a planning mindset unnecessary, but they may help ensure that employees who haven't yet developed one won't fall too far behind. These tools also may make it easier for employees to make the transition from education to action, helping build momentum and confidence as employees see their balances grow.

Employers also may be able to support making *Long Live You* a reality for employees by determining where employees fall on the planning mindset continuum and then using strategic, targeted interventions to help them develop planning mindset characteristics and behaviors. For example, employees who don't yet have a planning mindset may need help anticipating and preparing for the life events that may present obstacles on their journey. These include health problems, college debt, family responsibilities, and career challenges. They'll benefit from tools and solutions that help them define their potential needs in the years to come.

As a first step, employers might use the concept of a planning mindset as a lens to understand their employees and the ways they experience their retirement journey. A survey that assesses the extent to which employees have a planning mindset can help employers identify who among their participant base appears to be taking ownership of their retirement goals, who needs more support, where they need that support, and the forms it might take. It may aim to identify:

- What are employees thinking, feeling, and doing at each stage of the journey?
- What motivates them to move to the next stage?
- What are the obstacles to moving ahead?
- What can be done to overcome the obstacles?

With this information, employers can work toward helping employees develop planning mindset characteristics and behaviors and reinforce those they already display.

Many employees are likely to welcome this kind of help from their employer.

73%
of Millennials
say they want more help
with retirement choices
from their employer

63%
of Gen Xers
say they want more help
with retirement choices
from their employer

86%
of employees
want a 401(k) statement with
retirement income estimates

Gen X employees need help, and they know it.



of workers say they have a detailed financial plan (a lower percentage than other generations)



say they're saving enough for retirement



of Gen Xers say they want more help from employers with their retirement choices

Generation X: Needing roadside assistance the most

The retirement community has focused much of its attention in recent years on Boomers and Millennials. Members of Generation X—people with birth years between the mid-1960s and the early 1980s—have been somewhat overlooked, despite the fact that they experience some of the highest levels of financial stress. In fact, more than half say they are struggling or suffering in their financial lives.

These employees are sandwiched in every way. They are stuck between the two largest generations in U.S. history. They are too young for most to have had access to pensions but too old for today's automatic plan features to have helped them contribute and invest early in their careers. They face the pressures of funding their kids' college education and caring for (and sometimes financially supporting) aging parents.

Meanwhile, Gen X employees are nearing the critical preretirement phase when earnings are peaking and years to retirement are diminishing. They have time to improve their ability to achieve *Long Live You*, but it will take the right approach to planning and the right tools.

Consider focusing on this generation. The Gen X employees in our survey said their top three financial priorities are to save for retirement, pay down debt, and build emergency savings. Work to understand the particular challenges the Gen X members in your plan struggle with and the tools and interventions that could help them plan to overcome those roadblocks.



Recalculating the journey through retirement

The journey to *Long Live You* is a fluid experience that evolves over time. No two paths are exactly alike, and they rarely reflect the route that was originally mapped.

Employees who have a planning mindset are likely to make the most of the resources at their disposal to build a more secure, fulfilling retirement. Others will need help getting started or sticking with a plan, and they may benefit most from practical tools that simplify and automate retirement planning.

Understanding employees' challenges and opportunities can help employers continue to improve the retirement planning experience, supporting financial wellness for their workforce overall.

Action steps

The following steps can help your plan support the *Long Live You* goal for your participants.

1. Consider whether your plan design positions employees for success. Review whether you've joined your peers in implementing the building blocks of modern 401(k) plans:

- Auto-enrollment of current and new employees
- Default contribution rates of 6% or higher
- Auto-escalation
- Employer match structured to encourage high deferral rates
- Solutions that guarantee income and help retired employees draw down assets

2. Help participants cultivate a planning mindset.

- Ask your participants whether they agree with the planning mindset statements:
 - I am able to work diligently toward a long-term goal.
 - I prefer saving for retirement now to ensure I have a better life in retirement.
 - It makes me feel better to have my finances planned out for the next one to two years.
 - In the past six months, I have set and achieved a goal or set of goals to support my financial life.
- Use participants' responses to gauge where they stand with respect to the planning mindset.

Let's answer the call

Help make *Long Live You* a reality for employees.

Solving seemingly unsolvable problems is critical to helping employees make retirement the positive new chapter they envision. At Wells Fargo Institutional Retirement and Trust, we're conducting research to understand the needs of employees and employers and to develop solutions that seek to deliver improved outcomes for all. Together we can answer the call and help improve the journey and the outcomes for your employees.

Contact your Institutional Retirement and Trust representative to continue the conversation and get the support and insights you need.

About the survey

On behalf of Wells Fargo, The Harris Poll conducted 3,563 online interviews of 2,560 working Americans 21 or older and 1,003 retired Americans, surveying attitudes and behaviors around planning, saving, and investing for retirement. The survey was conducted from August 6–20, 2018. Working Americans are age 21 or older and working full time (or at least 20 hours if they are working part time) or are self-employed. Retired Americans self-identified as retired regardless of age. Both working and retired Americans are the primary or joint financial decision-maker for their household. Data was weighted as needed to represent the population of those meeting the qualification criteria. Figures for education, age, gender, race, ethnicity, region, household income, investable assets, marital status, employment, number of adults in the household, and propensity to be online were weighted where necessary to bring them in line with their actual proportions in the population.

All investing involves risk, including the possible loss of principal. There can be no assurance that any investment strategy will be successful. Investments fluctuate with changes in market and economic conditions and in different environments due to numerous factors, some of which may be unpredictable. Each asset class has its own risk and return characteristics.

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