Voya Perspectives

Help pre-retirees cross the retirement finish line

How the next generation of automatic plan features can help individuals save, invest and draw down retirement plan assets

Produced by Voya's Thought Leadership Council
June 2020

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As we have seen throughout history, market volatility can cause distress, especially for those approaching retirement

During the coronavirus pandemic, we were once again reminded that extreme market volatility has an amplified effect on a specific demographic—pre-retirees. Under these circumstances, those nearing retirement become especially fearful of losing their retirement savings. This often causes individuals to consider making changes to their investment allocations without considering the long-term view. During the coronavirus pandemic, 64% of Americans age 50+ felt unsure about their finances due to the volatile economic environment.[1] Therefore, it is critical for participants to have the option of receiving personalized, professional help that helps them to make informed choices, defend against the risk of loss and protect their financial resources.

In this paper, we'll explore the hurdles that near-retirees face and share an emerging solution—dual QDIA—the automatic enrollment into a managed account as a qualified default investment alternative service for participants who are approaching retirement.

The current reality of retirement savings

We find that most workers feel daunted by the saving, investing and drawdown decisions they need to make as they prepare for retirement. And, as they approach retirement, the stakes get higher. After the age of 50, participants may need specialized and personalized assistance that provides them the knowledge and confidence they need to work toward their goal of having the means to retire.

Compounding the complexity, today fewer workers have access to traditional pension plans, so the balance of the traditional three-legged stool (pension, Social Security and savings) has shifted, resulting in a greater reliance on defined contribution (DC) plans. Unlike traditional pension plans, DC plans place the responsibility of saving, investing and withdrawal strategies on participants—who often feel overwhelmed by these challenges. Exacerbating the challenges related to this retirement landscape, 10,000 baby boomers are turning 65 every day and people are living longer after they retire.[2]

By 2050, it is expected there will be 3.7 million centenarians across the globe.[3]

[1] Results from an Ipsos Survey conducted from May 29-June 1, 2020 among 1,007 adults aged 18+, with additional question content that is specific to Voya Financial. The data is weighted to be representative of the general adult US population age 18+ according to the most recent census data. The precision of Ipsos online polls are calculated using a creditability interval with a poll of 1,000 accurate to +/- 3.5 percentage points. For more information on the Ipsos use of credibility intervals, please visit the Ipsos website (www.Ipsos.com).
[2] Census.gov, By 2030, all baby boomers will be age 65 or older, December 2019.
[3] Pew research, World's centenarian population projected to grow eightfold by 2050, 2016.

The changing landscape has made preparing for retirement more complex for pre-retirees:

Fewer have pension benefits since many organizations have terminated their defined benefit plans. Only 30% of households have access to a DB plan.[4]

Many are relying on Social Security, with 38% of Baby Boomers expecting Social Security to be their primary source of retirement income.[5]

Many are not properly allocated and maintain an inappropriate level of equity exposure risk even as they near retirement. While investor equity holdings drop when people turn 60, the percent allocated to equities continues to hover between the high-40s and mid-50s for the rest of their lives.[6] While an individual's savings rate is the primary success factor for younger accumulators, proper investment allocation becomes the primary success factor for near-retirees.

Most do not have a draw down strategy for income in retirement. Most retirees say they aim to maintain or increase their level of assets. Only 1 in 20 are strategically spending down their assets.[7]

Near-retirees value advice—92% of plan participants feel advice services are good for complex financial situations or goals.[8]

The Social Security Administration suggests that workers who can pay into Social Security expect it to replace about 40% of their income during retirement.[9] The percentage may be a bit higher for workers with lower lifetime incomes—and lower for those with higher incomes. Gallup recently released findings from its annual Social Security Survey. Thirty-three percent of retired workers say that Social Security acts as a "major source" of income with another 50% pointing to it as a “minor source” of income and 16% saying that it is “not a source” of income.[10]

[4] LIMRA Secure Retirement Institute, Fact Book on Retirement Income, 2019.
[5] LIMRA's “Institutional Retirement Reference Guide”, 2019.
[6] Employee Benefit Research Institute Issue Brief, No. 456, August 13, 2018.
[7] Employee Benefit Research Institute, Retirement Confidence Survey, April 2020.
[8] Voya “Value of an Advisor” study conducted through Voya's Online Consumer Community with 90 consumers (including: n=45 In-Plan; n=45 Out-of-plan) in June–July, 2018.
[9] Social Security Administration, 2019.
[10] Gallup, Social Security Survey, 2019.

Three keys to helping pre-retirees

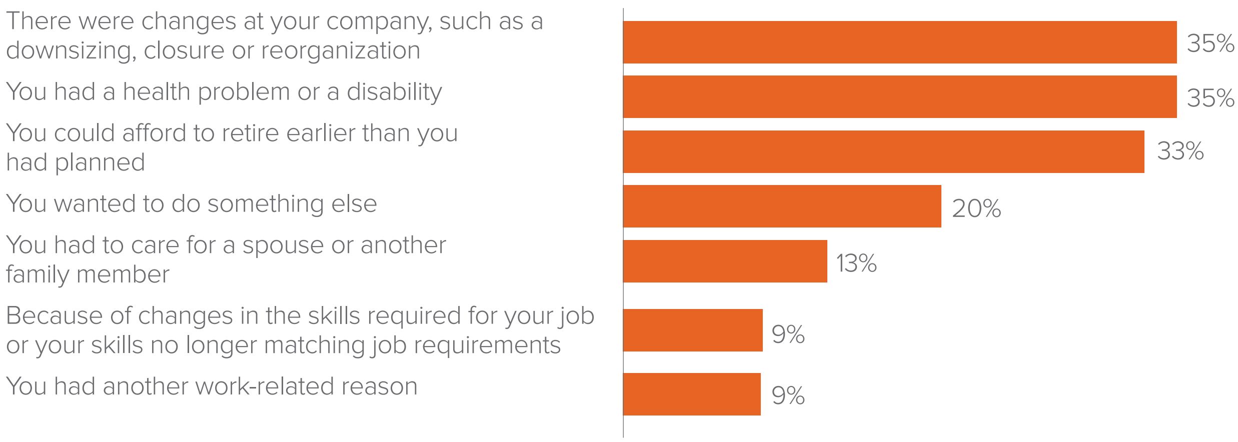
1 Understand their mindsets and expectations

According to research from Voya's Consumer Insights & Research team, pre-retirees have certain needs:[11]

- **Help getting started.** Pre-retirees don't know when to start thinking seriously about retirement—or even how to think about retirement. They want to feel confident in their decisions and next steps, but need guidance and advice to get there.
- **Trustworthy help managing what they need to do.** Decisions and actions can be filled with emotion and trepidation. Pre-retirees want clearly defined action steps that are not overwhelming. And, they want help from a source upon which they can trust and rely.
- **Clear and simple prescriptive guidance.** They want help completing tasks—quickly and easily—the first time they try. They want accessible and organized information so they don't feel lost and waste time.
- **A sense of control and confidence.** They want assurance about what needs to be done and how to make informed decisions so they can get and stay on the right track.

While most pre-retirees have these needs in common, they also share certain expectations that don't correspond with reality. For example, most pre-retirees imagine they will work until the age of 65 or later, when in fact 48% of current retirees actually retired earlier than planned.[7] This often leads to compromises in retirement lifestyle.

Did you retire earlier than you planned because ...
(asked of retirees who retired earlier than planned)[12]



[11] Voya "Transitioner Checklist Qualitative Exploration" study conducted through Voya's Online Consumer Community with 60 consumers ages 50-70 from August–September, 2018.

[12] EBRI Retirement Confidence Survey, 2019.

2 Understand their behaviors—good and not-so-good

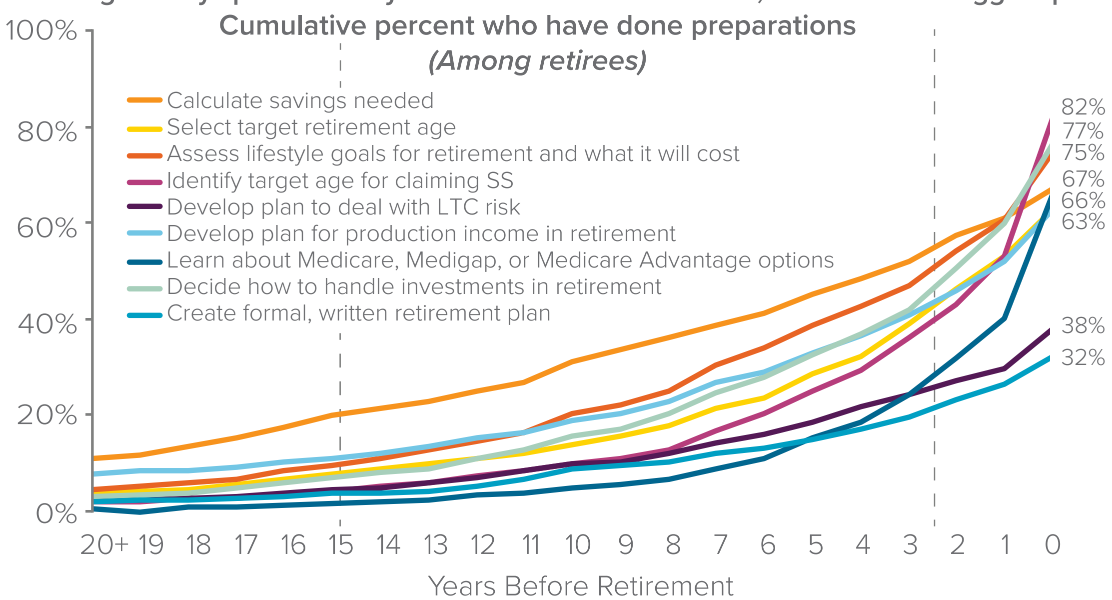
Research from Greenwald & Associates has shown that pre-retirees have several concerns about retirement that shape their behaviors:[13]

- Fear of running out of, or outliving, their money: 68%
- Unknown health care costs: 63%
- Market volatility: 54%
- Emotional changes of retiring: 43%
- Drawing down accumulated principal: 41%

Yet these concerns don't spur pre-retirees into action. While the 15 years before retirement are an opportunity for participants to ensure they are on track and course-correct as needed, many do not take advantage of the time. For example, only 36% have thought about how much money to withdraw from their retirement savings when they retire or have calculated how much money their household will likely need to cover healthcare expenses in retirement.[14]

Some pre-retirees begin to take more action about 10 years before they anticipate retiring, but it's not until about three years before retirement that the majority start preparing for retirement—often far too late to make the meaningful changes needed, particularly if they are impacted by an untimely market correction.[13]

Planning activity spikes in the year or two before retirement, but what else triggers planning?



Greenwald & Associates, Retiree Insights 2018, Consumer Survey, 2017.

[13] Greenwald & Associates, Retiree Insights 2018, Consumer Survey, 2017.
[14] EBRI Retirement Confidence Survey Report, 2020.

3 Understand their expectations of retirement income—and provide resources to help

Employees approach retirement with mixed emotions. According to the EBRI Retirement Confidence Survey, while 71% of workers are excited about retirement, 59% feel stressed about planning for retirement.[12] There are reasons for the stress they feel. Many employees don't know how to turn their retirement savings into income. And many anticipate working in retirement.

"The average U.S. DC plan participant reached retirement age (65) with savings of $280,000—an amount that will run out after only 9 years if drawn down at a rate that would provide them with 75% of pre-retirement salary."[15]

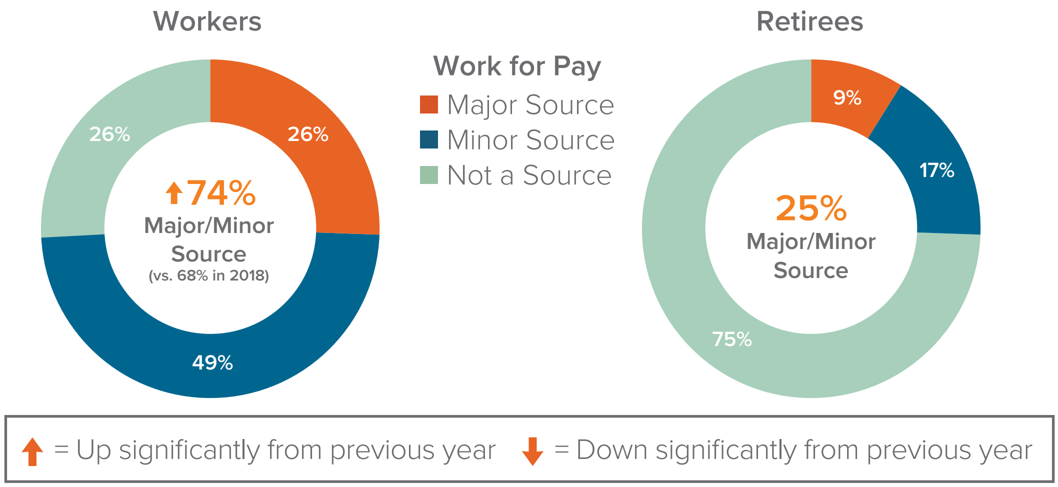
"... few pre-retirees can clearly express their retirement portfolio preferences, which means that majority of them don't know enough about retirement income strategies or products to form an opinion. The lack of knowledge creates confusion, and people aren't comfortable addressing the problem."[16]

Workers expect to depend heavily on income from their retirement plan. Eighty percent believe this will be a major or minor source of income in retirement.[13] Seventy-five percent also expect income to come from their personal savings or investments (Figure 23) and 70% expect income in retirement from an IRA (Figure 24).[12]

According to Voya's Consumer Insights & Research team, planning for retirement income is a source of major anxiety for consumers. As they live longer and are more active later in life than previous generations, their income needs to be more robust than in the past.[11]

In addition to relying on their retirement savings, 74% plan to work to supplement their income. However, that might not be a reasonable expectation—just 25% of retirees actually do work in retirement. This is not a recent disparity—this disconnect has been occurring for the past 20 years or more.[12]

To what extent do you expect each of the following to be a source of income in retirement?
Workers planning to retire n=888, Retirees n=1,000



BRI/Greenwald Retirement Confidence Survey 2019

These factors—not knowing how to turn their retirement savings into income, stress about planning for retirement and uncertainty in finding trustworthy and reliable help–all suggest the need to offer an in-plan solution that is easy for participants to access, engage with and take action on.

[15] State Street Global Advisors, Addressing Longevity Risk in Defined Contribution Plans with a Lifetime Income Solution, 2019.
[16] Investment News, How advisers can help pre-retirees, 2019.

Adopting a managed account service as part of a "dual QDIA" can help pre-retirees successfully cross the retirement finish line

The data above paints a picture of pre-retirees who are concerned about their retirement—and unsure of where to turn for help. Many experience inertia because of the increasing complexity as they near retirement. An emerging solution for this set of challenges is the development of a comprehensive engagement program for all pre-retirees in which:

- Each participant has the opportunity to complete a retirement readiness assessment focused on financial, emotional and practical needs
- There is an investment reset into a managed account service as a second QDIA
- Participants may work directly with a financial professional while there is still time to get them on track before retirement

What's an investment reset? Automatically investing all employees age 50+ into a managed account. This can be done once or periodically.

How managed accounts work

Managed accounts are professionally managed investment services that use the core plan investment menu and provide participants with individual investment advice and retirement income planning and payout strategies. Unlike target date funds, these accounts can be personalized to the individual participant's age, time horizon, risk profile, outside assets and overall financial situation. These products also provide the plan sponsor protection as the outside 3(38) investment manager assumes fiduciary responsibility for investment decisions and allocations.

But perhaps even more importantly, most managed account solutions offer advice and one-to-one discussions as well as education and outreach. This engagement is critical to successful retirement planning, increased savings and income planning. Additionally, professional asset management with an income objective strategy is designed to mitigate downside risk when pre-retirees and retirees can't afford a costly mistake.

Early engagement with pre-retirees and managed account programs can help people make proactive financial decisions

Engaging pre-retirees—while providing guidance, advice, planning tools and one-to-one assistance well before their retirement age—can help drive better outcomes. Many pre-retirees don't realize that budgeting and developing a written plan approximately 10-15 years before retirement can provide significant benefits in pursuing retirement goals. Voya's research shows that the majority of individuals without an advisor postpone the budgeting process until five years before retirement—and some wait until the same year they retire.[17] Financial professionals can provide guidance and tools such as a pre-retiree checklist so people are prepared for daily spending decisions, healthcare costs and other living expenses in advance of retirement. Voya's survey research suggests that individuals who are not receiving advice from a professional are not adequately preparing for the impact retirement will have on many aspects of their lifestyle.[17]

Managed accounts are designed to help:

- **Maximize savings** by taking full advantage of contribution limits and catch-up contributions
- **Allocate assets** appropriately for their time horizon—including protecting against significant losses that could derail or delay retirement
- **Evaluate** future retirement income needs to cover essential day-to-day costs, discretionary expenses and the significant health care expenses many retirees face
- **Create** a retirement income plan and payout strategy that considers all retirement resources, including Social Security, defined contribution plan, pension plan, etc.

Offering managed accounts within the retirement plan takes advantage of the employer's economies of scale and is generally less expensive than if an individual independently hired an investment professional and invested in retail funds outside of the plan.

[17] Power of Financial Advice, Voya Consumer Insights & Research, 2018.

The next generation of auto-features: the "dual QDIA" with reset for pre-retirees

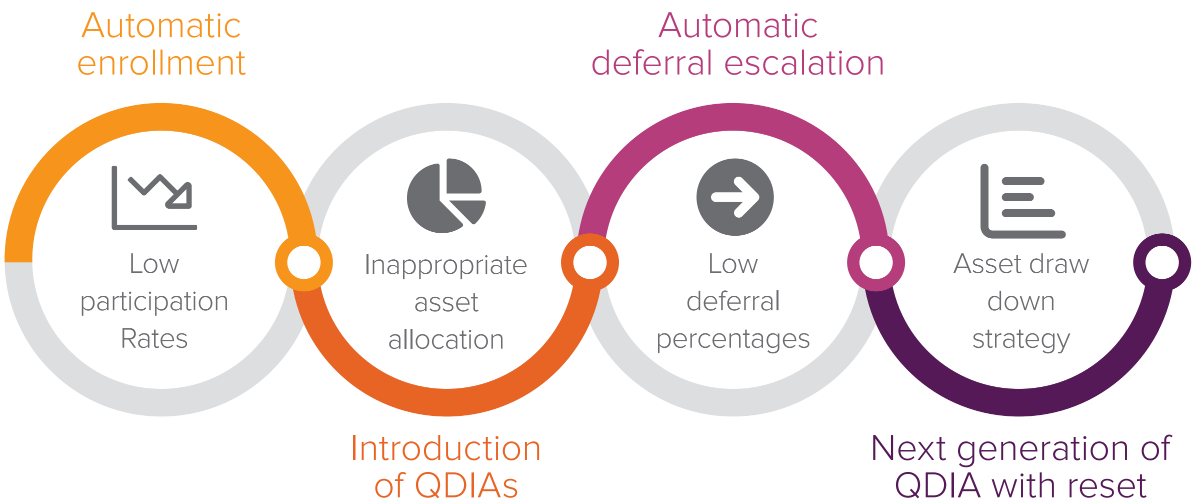
The success of "automatic features" in driving better outcomes in the accumulation phase is proven. Automatic enrollment started to gain visibility when McDonalds™ first started using it in their retirement plan, but really took off after passage of the Pension Protection Act in 2006, which provided plan sponsors fiduciary protection for certain safe harbor choices for automatic enrollment, automatic escalation and re-enrollment programs. Automatic features have been very successful in helping overcome employee inertia both getting participants into the plan and increasing their savings rates.

- 78.6% of Voya's large corporate market plans use automatic enrollment and 61.4% use automatic escalation[18]
- Plans with automatic enrollment have, on average, a 93% participation rate, 29 percentage points higher than plans that have not adopted automatic enrollment[18]

A Defined Contribution Institutional Investment Association (DCIIA) survey found that, in plans with automatic escalation, nearly a third of employees were contributing more than 10 percent, while in those without automatic escalation only a fifth of employees were contributing more than 10 percent.[19]

Following the passage of The Pension Protection Act, the Department of Labor issued rules protecting plan sponsors from participant investment losses by providing a safe harbor for QDIAs if certain criteria are met. These protections led to a significant increase in the number of plan sponsors including target date funds in their investment line-ups and adopting target date funds as their QDIA. These changes may have initially improved asset allocation among participants defaulted into target date funds. However, the misuse of these same target date funds gives some insight into the need for a more personalized asset allocation solution in certain cases, particularly for those nearing retirement. Only about half of workers say they understand target date funds, how they work and how to choose the right fund.[14] In fact, as many as 10 million target date fund users are not using these funds as designed and are instead combining them with other investments in an attempt to create a more personalized portfolio. The result is portfolios that are more aggressive than the average target date fund would be for a given target age, particularly among older users.[20]

[18] Voya internal data, May 2020.
[19] Plan Sponsor Survey: Implementation of Auto Features Continues to Rise as Plans Recognize Benefits, DCIAA Retirement Research Center, April 2020.
[20] Mixed Target Date Fund Investors: Is There a Method to the Madness? David Blanchett, Morningstar Research, August 2019.



As successful as the automatic features have been in improving the critical success factors within the accumulation phase, less attention has been paid to both the asset drawdown phase and developing automatic features for those transitioning to retirement. This is critical as pre-retirees need to consider additional complexities, such as how to incorporate all sources of household retirement income—for the participant and their spouse or partner—in developing a retirement income plan and payout strategy. It's in this phase (starting by around age 50) where mistakes are much more costly and harder to overcome.

Adopting a "dual QDIA" and shifting participants from target date funds to a managed account service around age 50 offers potential advantages to both plan sponsors and participants. The plan sponsor takes advantage of the QDIA safe harbor regulations, which include managed accounts, while providing their employees a higher touch and personalized approach to retirement planning. Employees receive personalized, professional advice on how much to save, how to invest and how to draw down their savings.

These services may include:

- A retirement readiness assessment: Determine how a participant is doing with their retirement savings, investing and planning, using tools that provide both a quantitative but also qualitative assessment.
- Social Security guidance: Advice on when to begin taking Social Security to get the most out of it.

> In 2019, over 13,500 Voya participants who received Social Security guidance found, on average, $116,136 in additional lifetime Social Security benefits.[21]

[21] Q4 2019 Financial Engines Sponsor Provider Report to Voya Retirement Advisors, 2019.

- Alignment of investments and drawdown objectives: Transitioning the investment asset allocation to a risk-appropriate mix of equities and fixed income that is designed to generate a sustainable income stream in retirement and take a defensive position against market declines.
- Income planning: Planning how a participant will draw down their savings to meet long-term objectives.
- Income payouts: Advice on how to draw down income. While a majority of consumers have a general familiarity with the benefits and disadvantages of different withdrawal options, many do not feel confident in knowing which option is right for them.[11]

Results matter

The ultimate objective is an important one—to increase the likelihood of improved retirement outcomes. According to Voya's Consumer Insights and Research team, individuals in professionally managed accounts—during the coronavirus pandemic—felt directionally more in control, optimistic and confident. And, these individuals are significantly more likely to stay the course during times of market volatility, with 94% reporting that "staying the course" is extremely important or important.[1] Not only do participants who are enrolled in managed accounts feel more prepared for turbulent times, they also have better results, as seen in an evaluation of participants in Voya's Large Market division plans. These results range across a wide-array of criteria including investments, savings rates, distributions and tracking towards a successful retirement.

Across investors of all ages:[22]

- 81% of all managed account members improved their investment diversification after enrolling in the service
- 51% of all managed account members increased their savings after enrolling in the service
- Participants who enrolled in managed accounts had a 31% lower distribution rate than other participants
- 29% of all managed account members significantly improved their retirement income forecast

Even more encouraging, the results are equally compelling when comparing managed account investors **over the age of 50** to target date fund investors in the same age group.

Managed account investors over the age of 50 in large plans Voya services had:

- A 41% higher savings rate, 8.8% vs. 6.2%[23]
- A 31% lower distribution rate, 4.5% vs. 6.5%[24]
- Up to 156 basis points higher personal investment performance, 21.92% (managed accounts) vs. 20.36% (target date funds)[25]
- A 55% smaller loss with an income objective during Q1-2020 versus the average target date fund results for participants of the same age, -3.8% vs -8.6%[26]
- A 180% higher likelihood of having sufficient income in retirement[27]

[22] Financial Engines Sponsor Provide Report, 2019.
[23] Voya Institutional Plan Services data, as of 6/30/2019, 2019.
[24] Voya Institutional Plan Services data Q1 & Q2, VRA professional management member full account withdrawals vs VIPS book of business full account withdrawals as a percent of total assets, 2019.
[25] Voya Institutional Plan Services data as of 12/31/2019, for participants ages 50-59 in plans offering Professional Management with Income+, 2019. Personal Investment Performance (PIP) is a measurement of the performance of a participant's entire account for the time they were invested in the plan during the cited period. PIP is calculated based on the performance of a participant's investments during that period, taking into account their activity among investments. This method of calculating performance is used by the financial services industry. Other methods of calculating a participant's PIP may yield different results. Data presented here consolidates participant level PIP data from the referenced population.
[26] Voya Institutional Plan Services data as of 3/31/2020, Data analysis of large market plans offering Professional Management with Income+, 2020.
[27] Financial Engines Stoplight Data as of 6/30/2019 for participants ages 62-67 who enrolled in Professional Management after age 50, 46% Green Retirement Income stoplight vs 26% Green Retirement Income stoplights for TDF Holders ages 62-67, 2020. The green light for retirement income is based on at least a 70% income replacement ratio throughout retirement.

Plan sponsors now have an option designed to potentially increase the likelihood of improved retirement outcomes for all participants by bundling these three features together:

- A service with a demonstrated potential to improve results, like managed accounts
- A comprehensive readiness tool that addresses financial, emotional and practical needs, like a Near-Retiree Checklist or workbook
- A plan design feature embraced by the industry as a best practice for engaging participants and potentially improving outcomes through auto features

Key takeaways

Employees approaching retirement need help as they transition from accumulation to asset protection and retirement income strategies. They require a holistic approach to:

- Address their emotional and practical—in addition to financial—needs
- Make sure they are saving enough—including taking advantage of catch-up contributions
- Confirm they are investing appropriately for their unique situation—including the financial picture of a spouse or partner
- Determine how best to generate a sustainable retirement income stream through optimizing Social Security claiming strategies, assessing when to begin pension payments and drawing down their collective assets as they enter retirement

While automatic enrollment, automatic deferral escalation and traditional QDIAs have gotten participants in the race, as their financial decisions get more complex and the stakes get higher, pre-retirees should consider personalized professional assistance to help get them over the finish line. Ensuring near-retirees have a strategy for creating, protecting and sustaining a sufficient income in retirement requires rethinking the concept of a single QDIA. Establishing a dual QDIA—one designed to address the needs of younger accumulators and one designed to address the needs of near retirees—and automatically enrolling pre-retirees into holistic advice and investment management should be considered part of the next generation of QDIAs and best practice plan design features.

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