Scoring the Progress of Retirement Savers

APRIL 2018

EMPOWER INSTITUTE

Scoring the Progress of Retirement Savers

A WHITE PAPER

What we'll cover

1. Economics, gender and generation
2. Workplace savings and future-focused plan design drive better results
3. Advice matters
4. Conclusions

The white paper, "Scoring the Progress of Retirement Savers," includes survey results from more than 4,000 American workers aged 18 to 65. Based on individual responses, it estimates the percentage of working income that American households are on track to replace in retirement. We believe this measure (monthly income, while in retirement) reflects the purpose of retirement plans and offers a true measure of retirement preparation.

The estimated monthly income replacement percentage includes projected Social Security benefits (if available), defined benefit and defined contribution assets, personal savings, home equity and business ownership.

INTRODUCTION

Habits of success generate retirement security

When it comes to achieving retirement goals, what are some working Americans and their employers doing right? Finding answers to this question has never been more urgent, as many people will count on this income for 30 years or more, as life expectancies increase. In this white paper, we identify specific employee actions—"habits of success"—that correlate with significantly higher projected lifetime income when working years end. Moreover, employers can foster these behaviors through various plan features, tools and access to professional advice.

In Empower's seventh study of how financially prepared Americans are for retirement, we find continuing improvement in many factors affecting lifetime income replacement percentages.

The median projected income replacement among participants in our study was 64%. In other words, Americans are on track to replace 64% of their current income in retirement.

But when we look at the impact of specific behaviors, we see a wide gap between those who plan and those who do not; between those who save and those who do not; and between those who contribute at higher vs. lower rates. And, in our study, we explore the plan attributes that drive these actions and help people create results. Given the evolving political discussion concerning taxes, this year's study also introduced some new questions to explore how important tax benefits are to people in their retirement savings decisions. We were not surprised by the general result: The tax benefit is important. But analysis of whose savings are most at risk should tax laws change yielded an unexpected finding—as you'll see in the pages ahead.

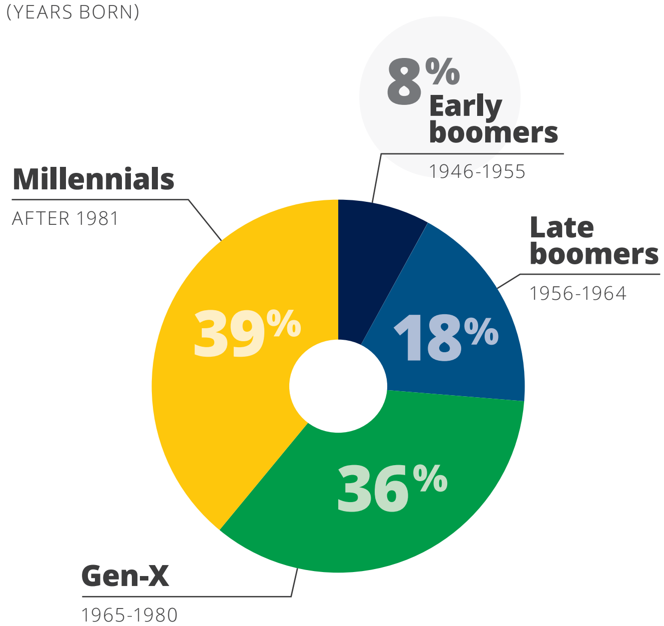
In this report, we examine both general trends and how these trends differ for various segments of the population. Within each, we find opportunities for plan sponsors and advisors to influence the future of retirement. Through the data, we can begin to answer the big questions:

1. Who is on track to create income adequacy, and why?
2. What are the habits of those most successful that might serve as leading indicators?
3. Who is not on track, and what factors will make the greatest difference?
4. How do we help employees meet their retirement goals?

STUDY COMPOSITION

Generations

(YEARS BORN)



Key demographics

GENDER	
MALE	51%
FEMALE	49%
EDUCATION	
HIGH SCHOOL OR LESS	37%
SOME COLLEGE	30%
4-YEAR COLLEGE	22%
GRADUATE SCHOOL	12%
FINANCIAL	
HAVE/HAD TRADITIONAL ADVISOR	21%
MEDIAN HHI (IN THOUSANDS)	$73
MEDIAN INVESTABLE ASSETS (IN THOUSANDS)	$53
MEDIAN PROJECTED INCOME REPLACEMENT	**64%**

Median retirement progress score 64

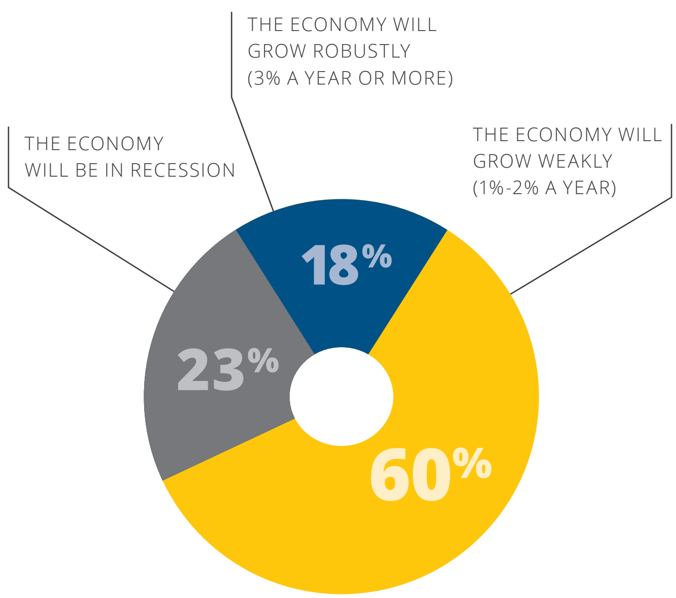
1

Economics, gender and generation

What's new: Optimism. This year's study responses showed strongly positive economic growth expectations: 78% expect the economy to grow in the next year, with almost a quarter of these respondents predicting robust growth (3% per year or more). This is among the most positive outcomes we have seen since the study began in 2011.

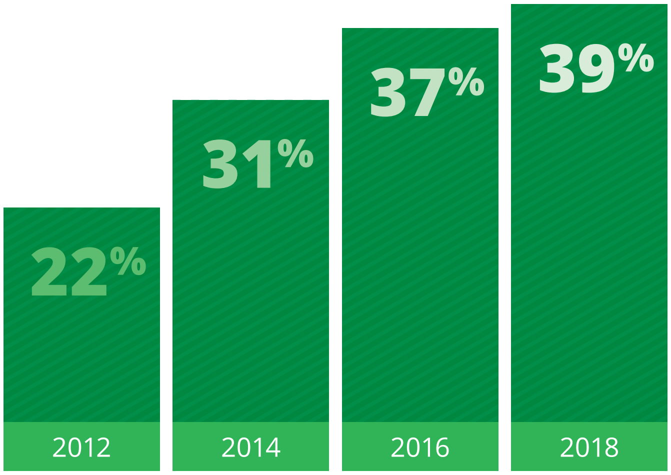
That same optimism is present in responses concerning job security. Only 27% of respondents said they are concerned about job security—the lowest percentage since the survey began—while 39% said they are not concerned at all—the highest percentage.

CONFIDENCE IN THE ECONOMY



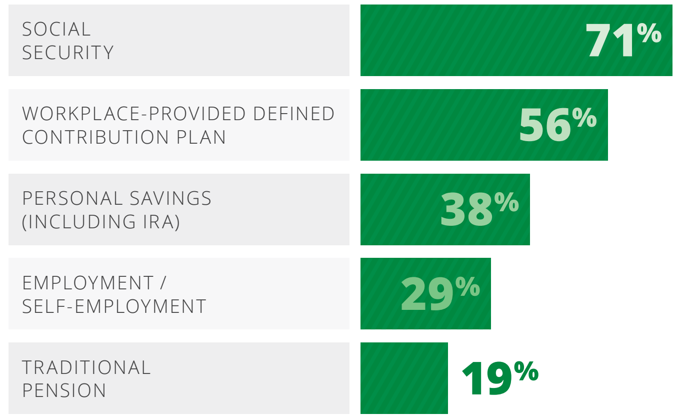
JOB SECURITY

Percent who reported being **"not concerned at all"** about job security.



EXPECTED INCOME SOURCES

"Which of the following sources do you expect to provide income to your household during the first five years of retirement?"



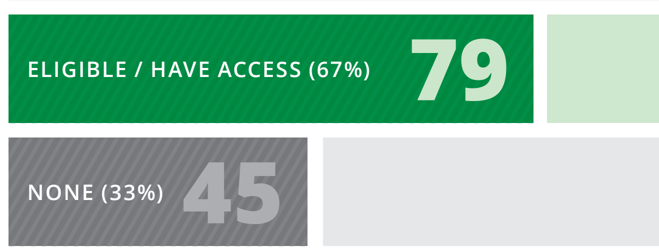
Gender and generations differ. The outlook changes when we examine responses by gender. Specifically, the percentage of women who expect robust growth is approximately half that of men, and the percentage of women who expect the economy to be in recession is higher.

We also find differences in the level of economic optimism when we compare generational attitudes. Baby boomers are the most optimistic group. Gen X participants show slightly more concern about job security (though the majority are not concerned), and millennial respondents are more cautious in their optimism concerning economic growth in the coming year, though the majority expect the economy to grow.

Looking to retirement: Over half of participants expect their company's defined contribution plan to provide retirement income, and those that do anticipate a significant portion of that income from their plan—second only to Social Security.

The impact of access to workplace savings: Given the importance of defined contributions to employees in preparing for the future, what is the current state of access to a plan? In our survey, two-thirds (67%) report that at least one earner has a plan available. This leaves about a third of the population without access to an employer-provided plan. In fact, access has changed very little in the past seven years.

RETIREMENT PROGRESS SCORE VS. PLAN ACCESS



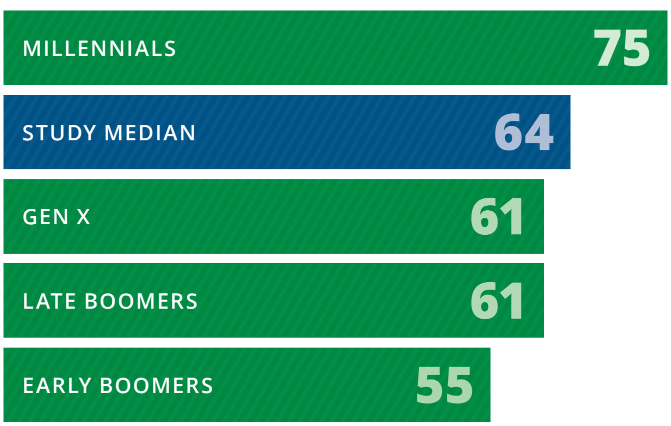
PERCENTAGE OF INCOME REPLACED

Results differ by gender and generation.

The impact of plan access on projected income replacement at retirement is significant. Participants who are eligible for a defined contribution plan and actively contributing have a median income replacement percentage of 79% compared to only 45% for those without access. Clearly, providing access to a tax-deferred retirement savings plan is one of the most important first steps any employer can take to put people on the path to future security.

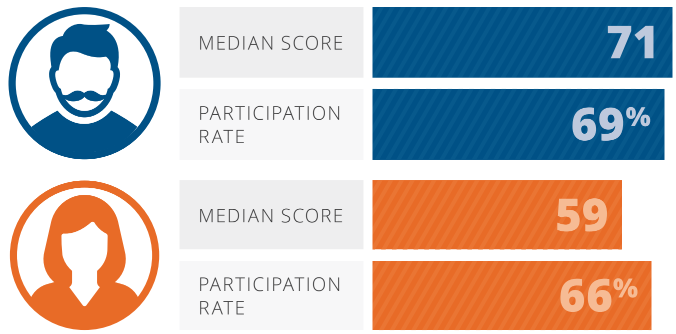
RETIREMENT PROGRESS SCORE BY GENERATION

Millennials benefit from full-career access to plans and products that boomers didn't have at their age.



As we delve into factors that correlate with higher income replacement, we find that those closest to retirement have the lowest projected replacement percentages while those furthest from retirement (millennials) have the highest. Note that millennials who are already saving are projected to continue saving right through to retirement age. This result is not surprising—and suggests the impact of saving early in one's career. The projected income replacement for the baby boomers, particularly the first wave of this generation, points to the need for targeted solutions for this group, which may include more personalized planning and distribution options that offer guaranteed income.

RETIREMENT PROGRESS SCORE BY GENDER



We also see differences in projected income at retirement based on gender, with women having significantly lower scores than men. Participation rates are somewhat higher among male respondents (69%) compared to women (66%). But average contribution rates are lower for women, and female respondents also had lower expectations of contributing over the coming year. We believe these differences point to a need for more targeted support for women in the workplace when it comes to retirement planning and saving.

Finally, our survey reveals important differences in projected income replacement based on industry. Not surprisingly, median scores are high in the financial services industry, which reflects both income levels and interest in financial matters. Employers in the industries with lower median scores—health care, social assistance, trade, transportation and utilities—will want to take a close look at the levers most likely to improve employees' retirement readiness, which we examine in the next section.

2

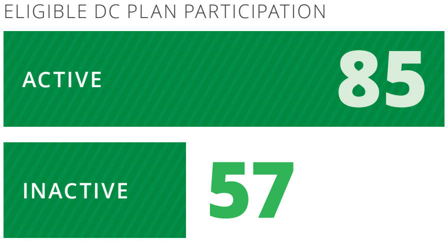
Workplace savings and future-focused plan design drive better results

Two foundational habits of success: Saving, and saving enough. Retirement income adequacy today begins with saving—and the difference between current savers vs. those who are eligible but not participating is significant. Current savers have a median income replacement percentage that is a full 25 percentage points above those who are eligible but not active in their plans.

The second major factor in generating a strong level of income replacement at retirement is how much a participant is contributing. Again, the fact that contribution rates make a difference is obvious, but the degree of impact may be surprising: Participants who contribute under 3% of pay have a median lifetime income replacement percentage of under 60%, while those who contribute 10% or more have

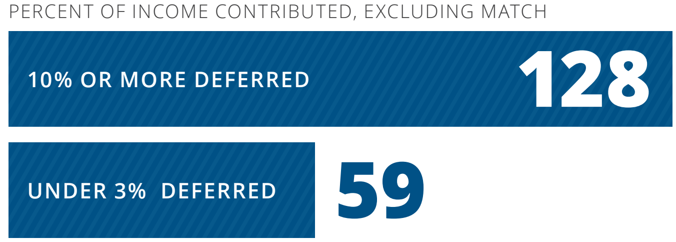
PARTICIPATION AND RETIREMENT PROGRESS SCORE

ELIGIBLE DC PLAN PARTICIPATION



DEFERRAL RATE AND RETIREMENT PROGRESS SCORE

PERCENT OF INCOME CONTRIBUTED, EXCLUDING MATCH



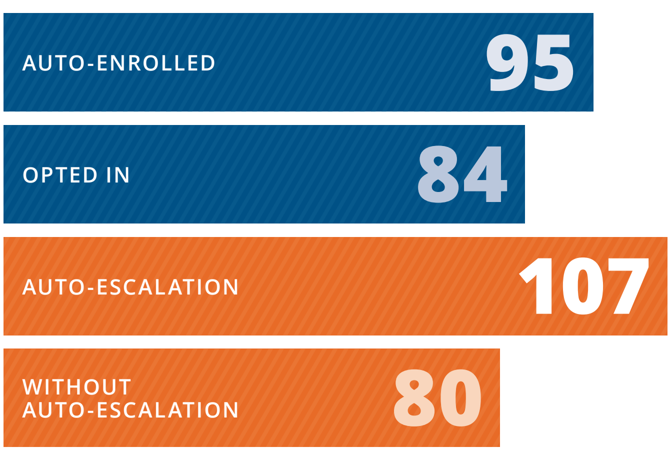
a median retirement income replacement of over 100%. Encouraging higher contribution rates is therefore essential to helping Americans achieve retirement income adequacy.

Plan sponsors can take several steps to help facilitate savings within a plan. The first is automatic enrollment. We find an 11-point difference in median income replacement percentages between participants who enrolled automatically versus those who opted into the plan. The difference may reflect an important benefit of auto-enrollment: Many participants begin saving earlier in their tenure, because enrollment begins as soon as they are eligible.

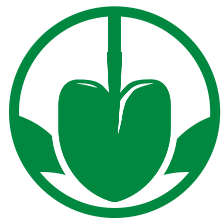
A second feature that correlates with higher median income replacement is auto-escalation. Our survey found that people who participate in a plan with this feature achieve a median retirement income replacement of 107%, a full 27 percentage points higher than participants in plans without it.

AUTO-ENROLLMENT AND AUTO-ESCALATION

RETIREMENT PROGRESS SCORE FOR 401(k) / 403(b) / 457 PLAN PARTICIPANTS



Match matters. An employer match also affects employees' saving behaviors—not only the fact of the match, but the degree to which employees know what the match level is. Traditionally, a matching feature has served two purposes: to help fund employees' retirement and encourage employees to save. In fact, of those who know their match in the plan, 73% (56% of total survey participants) set their contributions accordingly. The opportunity area lies in the group that doesn't know what their match level is. If these employees were more knowledgeable, they might well make different savings decisions to take full advantage of the match feature.



Knowledge and planning make a difference.

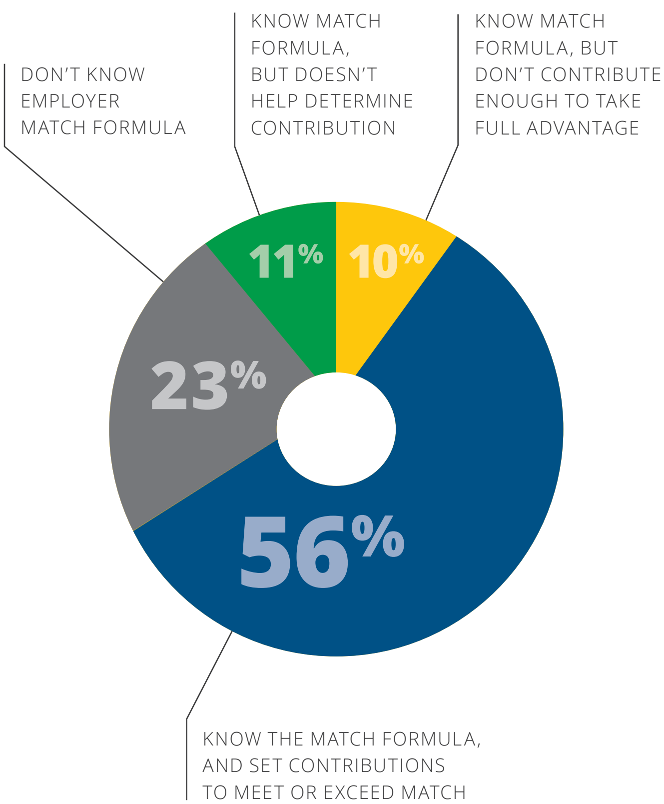
Among participants who have access to an employer-provided savings plan, confidence that they are making the most of the plan to build retirement income is at a four-year high at 79%. This response is a significant jump from the 70% confidence level expressed in 2016.

Further, among those who have a target retirement income (91% of survey participants), 57% are confident that they will be able to achieve that target income in retirement.

Does confidence matter? We find that participants who are confident in various aspects of their retirement planning have projected income replacement results well above the survey median. While the data only indicate correlation, not causality, the numbers suggest an opportunity area for employers. By offering planning support and tools that give employees a clear view of how much income they're on track to replace—and how to generate better results for themselves—plan sponsors can better enable employee action and confidence in the future.

Here again, we see significant differences by gender in confidence levels. Female respondents are less confident than their male counterparts in their retirement planning and in specific aspects of a plan, like future healthcare expenses. This finding underscores the need for more targeted support that aligns with the information and planning needs of women.

KNOWLEDGE OF EMPLOYER MATCH

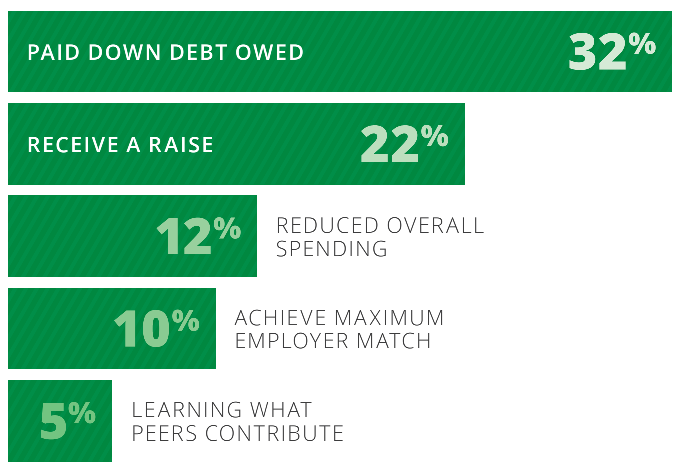


Employees value personalized help. In addition to looking at the impact on lifetime income replacement of various plan features, we also asked employees about their interest in more personalized support for retirement planning and decision-making through their plans. With managed accounts, for example, an employee can work with a financial specialist on goal-setting, savings and investing strategies, approaches to minimize taxes on withdrawals, and effective responses to changing economic conditions. We found the majority of employees—between 80% and 88%—find such features somewhat or very attractive. This points to another opportunity for employers: Offering these features is likely to enhance appreciation for the plan while increasing the number of employees who are on track to accomplish their retirement goals.

What inhibits participation? Given the criticality of plan participation to achieving the level of retirement income they need, we also explored what factors keep employees from participating when a plan is available—and what would have them begin or resume contributing. The greatest factor cited was paying down debt, followed by obtaining the full match—a point noted earlier on the relevance of the match to contribution decisions—and getting a raise.

REASONS TO BEGIN OR RESUME CONTRIBUTING

PERCENT WHO REPORTED BEING "CERTAIN OR VERY LIKELY" TO INCREASE CONTRIBUTION TO 401(K) OR OTHER DC PLAN(S) IF EACH OF THE FOLLOWING HAPPENED



These findings point to the need for broad-based financial planning for employees. Retirement saving decisions are made in the context of all the demands on an employee's paycheck. The more help we can offer employees in managing the totality, the more likely it is they'll be capable of creating the retirement they want and need.

The impact of tax treatment: Given the public debate regarding tax reform, we asked employees about the importance of the current tax treatment to their plan savings decisions.

Responses were very clear: Individuals strongly value the pre-tax treatment of their employer-provided defined contribution plan, and these benefits have a direct impact on contribution levels. At almost any level of current contribution, employees say they would contribute less if the tax benefit were not available—making the tax treatment of workplace savings a critical issue moving forward. In total, the responses suggest adjusting taxes on retirement savings contributions would reduce deferrals by nearly 20%.

The long-standing assumption about tax-favored savings is that those in higher tax brackets are more tax sensitive, and therefore value the tax benefits more. But our survey revealed that those at the lower end of the income spectrum are even more likely than their higher-income counterparts to change their savings decisions if tax benefits change. In fact, respondents earning less than $50,000 annually predicted a greater percentage drop in contributions (28%) compared to those earning $50,000 or more, should tax benefits alter.

Clearly, the value of tax benefits in retirement savings is a critical consideration in the country's policy decisions.

IMPACT OF REDUCED TAX DEDUCTION

Contrary to long-standing assumptions, tax law changes will affect savings decisions by lower income earning households the most.

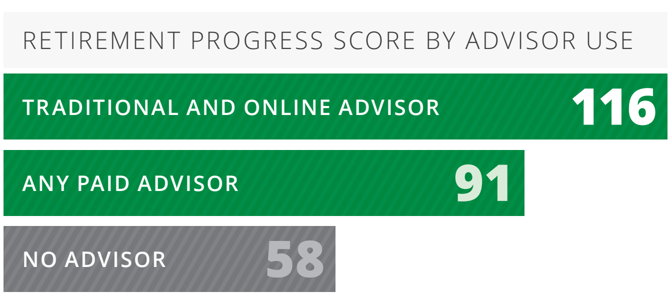
HOUSEHOLD INCOME **<$50K**	**-28%**
HOUSEHOLD INCOME **$50K-100K**	**-21%**
HOUSEHOLD INCOME **$100K-175K**	**-21%**
HOUSEHOLD INCOME **$175K+**	**-19%**

CHANGE IN PLAN CONTRIBUTIONS WITH REDUCED DEDUCTIBILITY

3

Advice Matters

The overall take-away on advice is simple: Financial advisors are making a difference. People want professional advice, and those who have an advisor are more likely to be on track to create adequate retirement income—by a wide margin.



Our survey looked at whether participants have a paid traditional advisor, a “robo-advisor,” or both. Regardless of the type, nearly 40% of paid advisors also advise on the retirement plan. The impact of this advice is significant: Those who have a paid advisor have a median retirement progress score of 91% compared to only 58% for those without an advisor.

The data indicate that one of the most important functions of a financial advisor is the creation of a formal financial plan. Those who have a formal plan have a median projected income replacement of 99%, while those without a plan are on track to achieve a median replacement level of only 58%.

What do people want in their advisor? The most important factor respondents cited was “maintaining confidentiality and privacy.” Given the explosion in data security breaches over the past decade and their impact on average consumers, this result makes sense. In a parallel question, respondents said that a breach in this area would be the most likely reason to fire an advisor.

4

Conclusions

Three categories of action are likely to have the most impact.

The overall trend is up: This year's survey reveals greater confidence in the economy, continuing improvements in median lifetime income replacement percentages, and stronger confidence among participants that they are using their defined contribution plan effectively to reach retirement goals. Even with these positive outcomes, we see a continuing and urgent opportunity to influence overall retirement security in the defined contribution space.

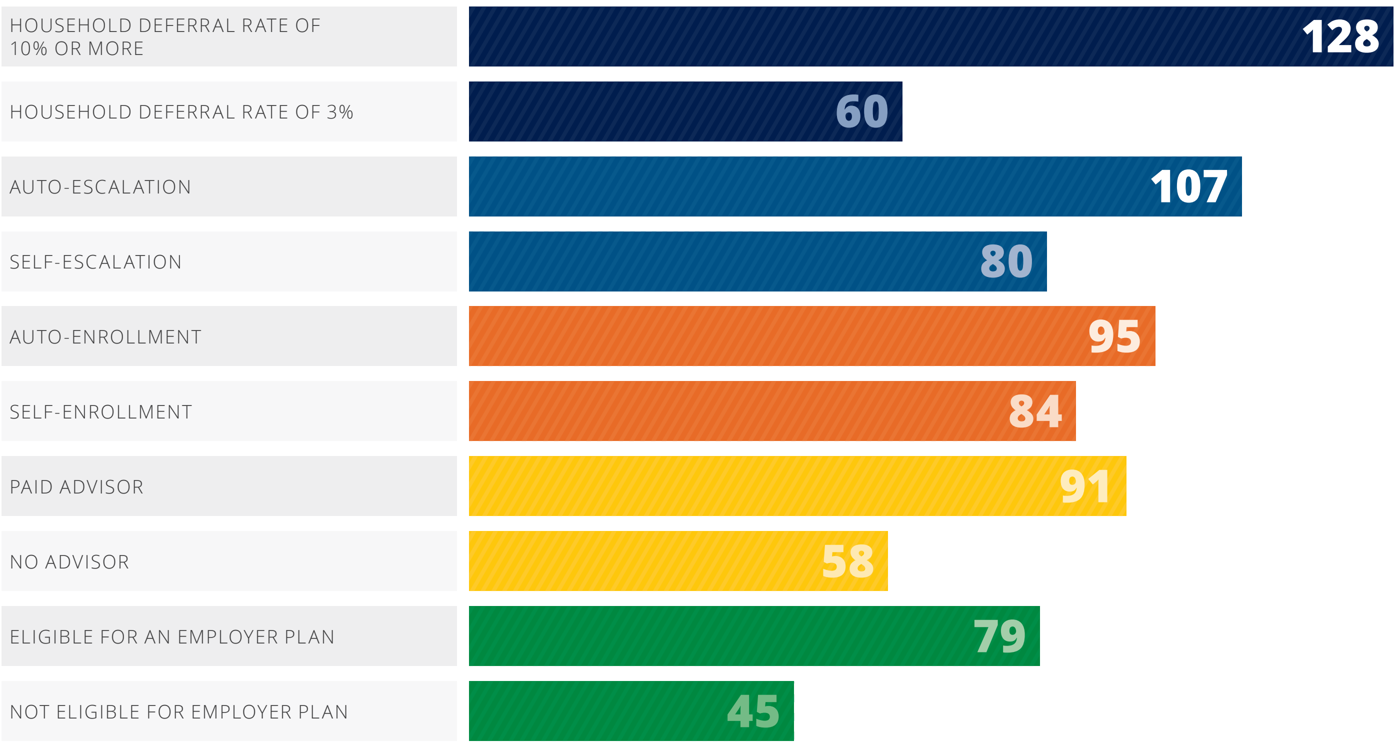
Automation: Features like auto-enrollment and auto-escalation drive higher retirement progress scores.

Education: The more employees know about specific financial needs in retirement, the more likely they are to take action to meet these needs. Employees who are confident in their understanding of various factors like healthcare costs and overall income requirements have a higher median lifetime income percentage than those who do not. Even educating employees on the plan's match may influence contribution levels.

Personalization: When we examine the results by gender and generation, we consistently see differences in confidence, utilization and results. We need to move from “one-size” planning and decision-making support to targeted help defined demographically, and from there to personalized support. Personalized help can be provided through plan options like managed accounts or facilitated access to individual financial experts.

Overall, the message about retirement income adequacy is clear. We’re getting better, but some are being left behind, and we know what specific actions employees, employers and financial advisors can take to put more Americans on the path to success.

KEY RETIREMENT PROGRESS SCORE RESULTS



Disclosures

The survey results are from a National Survey of 4,038 working adults (full-time, part-time, never retired) ages 18 to 65, conducted in conjunction with NMG Consulting. Respondents answered an online survey between December 18, 2017 through January 21, 2018.

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IMPORTANT: The projections, or other information generated by this survey regarding the likelihood of various investment outcomes, are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. The results may vary with each use and over time.

The retirement progress score represents an estimate of the percentage of current income that an individual might need to replace from savings in order to fund retirement expenses. This income estimate is based on the individual's amount of current savings as well as future contributions to savings (as provided by participants in the survey) and includes investments in retirement plans, IRAs, taxable accounts, variable annuities, cash value of life insurance and income from defined benefit pension plans. It also includes future wage growth from a participant's present age to the retirement age of 65 (1% greater than the Consumer Price Index for Urban Wage Earners and Clerical Workers [CPI-W]) as well an estimate for future Social Security benefits.

The calculations also take into account mortality rates for a variety of commonly diagnosed health conditions, including high blood pressure, high cholesterol, type 2 diabetes, cancer of any type and cardiovascular disease of any type apart from high blood pressure. In addition, the model also takes into account the consistent use of tobacco on a household basis.

The retirement progress score estimate is derived from the present-value discounting of the future cash flows associated with an individual's retirement savings and expenses. It incorporates the uncertainty around investment returns (consistent with historical return volatility) as well as the mortality uncertainty that creates a retirement horizon of indeterminate length. Specifically, the retirement progress score procedure begins with the selection of a present-value discount rate based on the individual's current retirement asset allocation (stocks, bonds and cash).

A rate is determined from historical returns such that 90% of the empirical observations of the returns associated with the asset allocation are greater than the selected discount rate. This rate is then used for all discounting of the survival probability-weighted cash flows to derive a present value of a retirement plan.

Alternative spending levels in retirement are examined in conjunction with the discounting process until the present value of cash flows is exactly zero. The spending level that generates a zero retirement plan present value (i.e., an income level that is consistent with a 90% confidence in funding retirement) is the income estimate selected as the basis for the retirement progress score. Such an income level is considered to have a "sustainable" spending level and to be an appropriate benchmark for retirement planning. It is not a prediction, and results may be higher or lower based on actual market returns. Distributed by GWFS Equities, Inc.

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