INVESTOR INSIGHTS SERIES

Retirement reality check

A generational look at defined contribution plan participation

A majority of American workers believe they will be comfortable in retirement – even if they have to be careful with their spending. But a deeper look at the attitudes and behaviors that can determine retirement security reveals this may be an overly optimistic outlook for many. Bringing investor perceptions back in line with reality may begin with the simple act of reevaluating the assumptions behind their retirement savings plans.

Overall, our recent survey of 1,000 workers with access to a company-sponsored defined contribution plan finds that individuals are underestimating when they can stop working, as well as how much they will need to fund their retirement – a combination that could make living comfortably a real challenge when they stop working.

While workers will need to put their goals under a more realistic lens and adopt stronger savings behaviors, leading more Americans to a secure retirement will require close coordination between individuals, employers, policy makers and asset managers.

1 in 3 American workers either believe they will struggle financially in retirement or don't think they'll ever be able to retire.

Workers with advisors have saved on average 12% more for retirement than those without.

75% of participants believe it is important to make the world a better place while growing their personal assets.

Millennials
AGE 23–38

Pluses

Millennials started saving at 25

They'll benefit from more years of compounding

They have a good head start on saving

At $80K they've saved 9.7%

Minuses

They may underestimate how much they'll need $822,789

Target retirement age of 61

19%

Need to save 19% more per year than if they retired at 67

The bottom line

Nearly half are cautiously optimistic that they'll be comfortable in retirement, though they'll have to be careful with their spending. Even though they have many decades to go, only 24% of Millennials think they'll have enough saved to lead the life they desire in retirement.

Gen X
AGE 39–54

Pluses

40% actively manage their plan investments

Gen X is most likely to take advantage of auto-escalation

It could help them get closer to making the maximum contribution

Minuses

At $980,466 they underestimate how much they'll need to retire

Only 30% over age 50 take advantage of catch-up contributions

Those who don't miss the chance to increase savings by **$6,000 annually**

The bottom line

As the realities of retirement get closer for Generation X, less than one in five (18%) say they'll have enough saved for retirement to lead the life they desire. 23% say they'll struggle financially and another 23% have thrown in the towel and don't think they'll ever be able to retire.

Baby Boomers
AGE 55–73

Pluses

At 8.5%, they have a high contribution rate

Boomers have a more realistic estimated savings goal

$1M

Minuses

They'll need to save an average of $142,000+ per year to reach their goal

1 in 4 have already taken a withdrawal from their plan

The bottom line

Nearly half (48%) of Baby Boomers say they'll be comfortable in retirement if they watch their spending. That said, 22% say they'll struggle financially in retirement, and 10% say they'll never be able to retire.

Each can play a significant role in addressing critical issues in retirement planning:

- **Setting realistic financial goals and plans:** Individuals need to reexamine their retirement assumptions, but other players should help by providing tools for a more effective evaluation of goals and progress.
- **Providing access to retirement savings:** Even four decades after the introduction of the 401(k), 35% of private sector workers 22 and older still don't have access to an employer-sponsored retirement savings plan (Pew Charitable Trust 2016).
- **Delivering education and advice:** Not every individual is ready to take on the responsibility of retirement planning, but with a better understanding of their choices and insight on how they fit into their financial plan, many workers may feel better equipped to meet this vital goal.
- **Offering incentives:** Getting individuals to act today so they can ensure a more secure future is not an easy sell. Matching contributions and tax breaks are proven savings incentives, but there are more levers available to help drive higher participation and contribution rates.

Even four decades after the introduction of the 401(k), 35% of private sector workers 22 and older still don't have access to an employer-sponsored retirement savings plan.

One workforce. Three generations of workers.

Today's US workforce is composed of radically different generations: Baby Boomers have been a dominant part of the workforce for 40 years, but large numbers are finding themselves in the transition from accumulating assets to turning savings into income. Generation X is entering prime earning years, but many find themselves sandwiched between caring for elderly parents and raising and educating children – all while struggling to manage the high levels of personal debt.

Millennials are in early career stages and many are taking the initial steps to establish retirement savings, but high housing costs and the weight of student loan debt limit how much many can save.

No generation gets everything right on retirement

Millennials (age 23–38) have begun developing good habits early, such as starting to save in their retirement plan at age 25, on average. They've even managed to put away close to 10% of their estimated retirement needs in just a few short years. But the math takes a turn for the worse when they reveal an average retirement goal of only $822,789 and is compounded by the belief that they will retire by age 61, on average. Underestimating both factors may mean a generation, with the potential to live to age 100, could run out of money early on in a retirement that could last 30 to 40 years.

Compare this to Baby Boomers (age 55–73). Unlike younger workers, they think it will take savings of over $1 million to retire. And they also realize late in their careers that they'll have to work at least two years past the standard Social Security age of 67. While they are looking more realistic on these two critical considerations, many miss on the other side of the equation. They need seven-figure savings to fund retirement, but a few short years out from retirement age, they've only saved 30% of their goal. To catch up, the average Baby Boomer needs to save $142,357 annually until age 69.

Stuck somewhere in the middle is Generation X (age 39–54) who not only have a lower retirement funding estimate of $980,466, but also believe they will retire three years early at age 64. Unfortunately, their current savings are not in line with these assumptions. Currently, they have accumulated an average of just $166,328 in retirement savings. The leading edge of this generation has a little over 20 years until retirement, leaving plenty of time to potentially catch up, but many struggle to make the numbers work. What keeps them from saving? Generation X workers report that the biggest deterrent to plan participation is "I have too much debt to pay."

ABOUT THE SURVEY

The Natixis Investment Managers Survey of US Defined Contribution Plan Participants was conducted by CoreData Research in January and February 2019. The survey included 1,000 US workers, 700 being plan participants and 300 being non-participants.

TOTAL SURVEY RESPONDENTS: 1,000 US WORKERS

480 ADVISED	520 NON-ADVISED

503 MILLENNIALS	249 GENERATION X	248 BABY BOOMERS
AGE 23–38	AGE 39–54	AGE 55–73

For individuals to ensure a higher level of retirement security, it is likely that many will have to take a step back, adjust basic assumptions, and recalculate what it will really take to succeed. As they make this their homework, employers, policy makers and asset managers need to take action and help improve the odds that workers can successfully reach their retirement goals.

Access: the first step to security

With defined benefit plans like company pensions becoming a thing of the past, and the near constant debate on the ability of Social Security to fund benefits for a rapidly growing number of retirees, it's no wonder that 85% of US respondents in our 2018 Investor survey say it is increasingly their personal responsibility to fund their retirement. The pressure to deliver on their end of the bargain is so great that workers express counterintuitive views about just what will help them get there.

In a political climate that rejects government regulation, three-quarters of workers believe employers should be mandated to provide workplace retirement savings plans. Beyond employers, workers see the need for policy makers to step up with a solution. More than half (53%) of individuals believe the need is so great they go so far as to say that it's the government's responsibility to provide universal access to retirement savings plans.

Beyond making plans available, workers also see a need for funding mandates. Two-thirds (68%) believe employers should be required to provide matching contributions in their workplace savings plans. It's not surprising for individuals to want employer matches to be mandatory, but it is surprising to see that 54% also believe personal retirement plan contributions should be mandatory as well.

Short of government mandates, a wide majority of workers think there is a simpler solution for increasing participation: Three-quarters of those surveyed say they would be more inclined to invest in a company-sponsored retirement plan if they could enroll on the first day of employment.

The logic of this sentiment is clear, as the first day at a new company often includes time filling out tax forms, selecting healthcare plans, setting up direct deposit instructions, and other paperwork tasks. Adding retirement plan enrollment to the mix could allow new employees to complete their benefits selection in one sitting, while they are in a state of mind to take advantage of the full package of what's offered by their new employer.

Rethinking benefits in a 21st century workplace

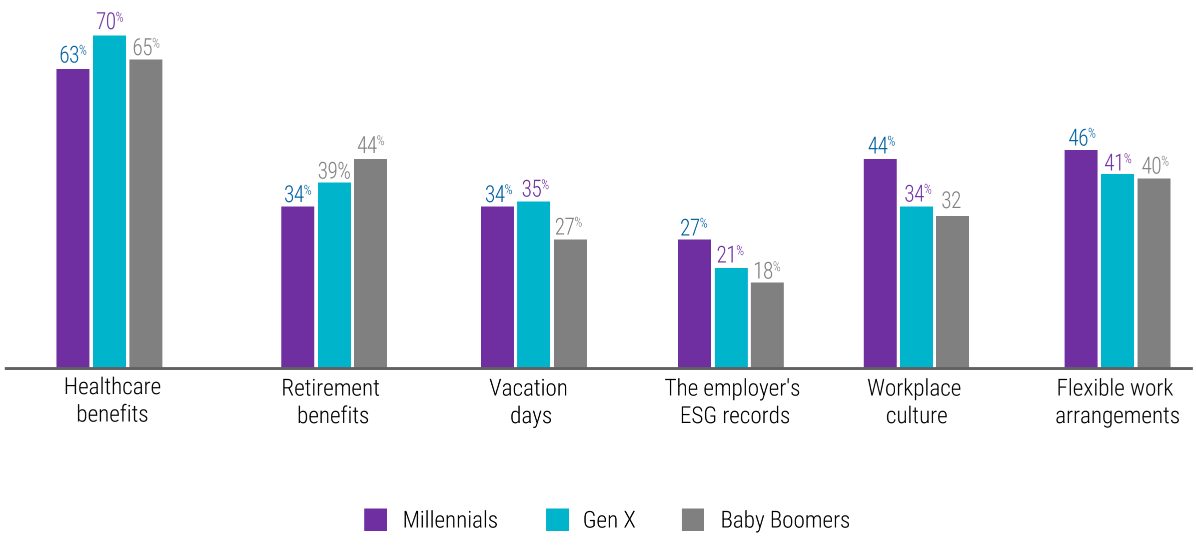
Employers may find that making their retirement plan available on day one could also help to differentiate their organization when recruiting new employees. Beyond salary and compensation, retirement benefits rank high on the list of factors individuals weigh when sizing up a prospective employer.

Understanding these dynamics is especially critical for companies looking to attract Millennials. Health plans (63%) still sit at the top of their list, but Millennials are more likely to look at flexible working arrangements (46%), and workplace culture (44%) before retirement plans and vacation days (34% each). They are also more likely to consider the ESG record of a prospective employer (27%), compared to other age groups. Even though retirement may seem to be a lower priority for Millennials, access to these benefits still matters with 76% of Millennials saying they would be more inclined to save if they could invest in a company sponsored retirement plan on day 1 of employment.

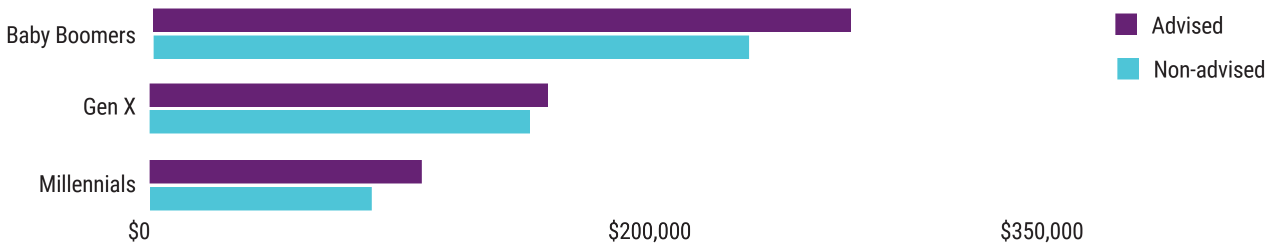
Education and advice

Providing access to plans is a solid first step, but workers will need to know why and how participation can help them achieve retirement security. For many individuals, a defined contribution plan may not only be their first exposure to investing, but it may also be their first exposure to the rigors of long-term financial planning. This makes education a critical factor in maximizing plan participation.

What matters most to employees when they change jobs?
Generational differences are clear when looking outside of the standard benefits packages



For most participants, advice makes a big difference in their savings



Sample sized: Millennials (238 advised / 265 non-advised); Gen X (118 advised / 131 non-advised); Baby Boomers (124 advised / 124 non-advised)

Add to the uncertainties of investing the complexities of contribution limits, participation requirements and tax considerations, and it's no wonder that six in ten plan participants say they need more education from their employer on their workplace retirement savings plan. They also need help with investing.

Take, for example, what plan participants thought after experiencing high levels of market volatility in the final quarter of 2018. The CBOE Volatility Index® (VIX, or the Fear Index) doubled from a mere 12% on October 1 to 25.42% on December 31, the highest monthly ending level since August 2015. When asked in January and February 2019 how they felt about market volatility, 41% of participants overall – and half of Millennials (45%) – said they wish they better understood how volatility affects their investments.

On top of that, three in ten said volatility made them realize that there were more risks to passive investing than they previously thought – a figure that is made even more significant by the fact that only 22% of those surveyed said they have selected index funds in their plan.

Learning from the Boomers

With more than 10,000 Baby Boomers reaching retirement every day, the age wave that shaped the second half of the 20th century is providing valuable lessons on retirement saving in the 21st century.

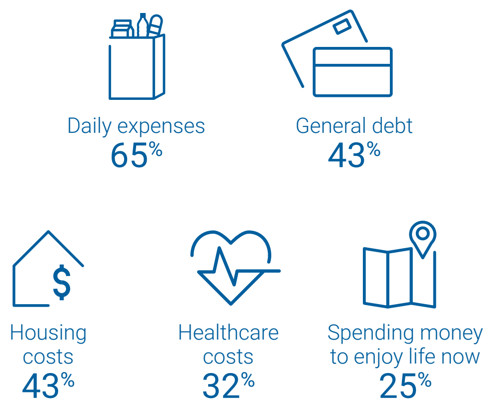
Based on a sample group that has saved less than one-third of the $1 million they estimate will be needed for retirement, their sentiment is a powerful reminder of just how costly mistakes can be.

Top Baby Boomer Regrets about Retirement Security

1. I should have started sooner
2. I contributed too little to my plan
3. I wish I had received more information about saving for retirement

Along with investor education, professional advice is another critical consideration for plan participants as they look to navigate the details of their plan and the investment decisions for their assets. Just under one-half of survey respondents say they rely on professional advice about saving and investing for retirement.

What keeps plan participants from saving more?

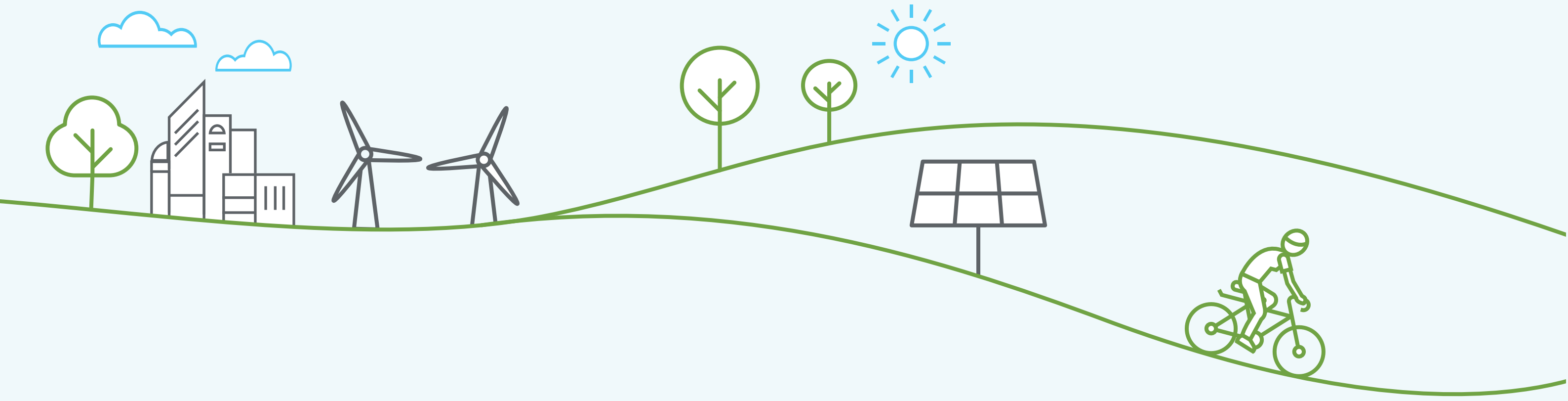


Professional advice can make a significant difference in the pursuit of retirement security. For example, Millennials with advisors have saved $89,724 between workplace and personal savings. This adds up to a 28% head start on those without advisors. The same advantage holds for Baby Boomers. Advised participants in this age group have saved more than $333,085 compared to the $286,671 saved by those without the benefit of advice. The exception is Generation X, where advised participants have saved only 3% more than non-advised.

Advised participants also report that they contribute a higher percentage of their salary to a workplace retirement plan (5.8% vs. 5.6% for Millennials, 7.9% vs. 7% for Generation X, and most significantly 9.9% vs. just 7.6% for Baby Boomers). An increased savings percentage gives advised participants a clear advantage over those not working with an advisor.

Barriers to saving

Regardless of generation, a majority of participants are not saving enough. Most say cost of living and the reality of personal debt holds them back. When asked what keeps them from saving more, plan participants note daily expenses, general debt and housing costs as their top obstacles.



5 Key Things You Need to Know About ESG in Retirement

Adding ESG investment options can be a major incentive to boost plan participation.

1 **Both personal values and financial opportunity matter to participants.**

The majority of participants want the best of both worlds. They want to make the world a better place – and grow their personal assets. They also see substantial growth opportunities in ESG investments.

2 **Participants are actively following ESG issues.**

Plan participants are paying attention. Many workers say they're watching the ESG records of the companies they invest in.

3 **They're asking for ESG investments.**

It's not just speculation that participants are interested in ESG investments. When asked, six in ten say they'd like to see more socially responsible investments in their plan offering.

4 **But, to date, not many plan sponsors are on board.**

Despite the demonstrated interest, only 13% of participants not currently invested in ESG-focused funds say their company's retirement plan offers ESG investment options. This represents a big opportunity for plan sponsors to impact both participation and contribution rates.

5 **Adding ESG options may help boost retirement security.**

Helping plan participants make a personal connection to their investments could be an important step toward fulfilling the goal of retirement security.

One key difference between generations is the pressure that the rising cost of secondary education has had on Millennials. With private nonprofit four-year college prices escalating by 95.6% between 1988 and 2019 (in 2018 dollars),[1] this group of workers are left with hefty bills. 28% of Millennials surveyed say the cost of their educational loans is keeping them from saving more, and 30% say it's the reason they opt out of plan participation altogether. And despite an average age of 45, 15% of Generation X participants say the cost of their educational loans holds them back – a figure just 6% lower than those who list education funding for their children as an obstacle to saving.

Financial issues are not the only roadblock to achieving retirement security. Sometimes the features – or lack thereof – of a workplace retirement plan can hinder participation. In fact, 34% of workers forgo plan participation because there is no company match, or the match is too small. Baby Boomers (46%) are most likely to opt out on this issue.

Incentives

Given the obstacles that individuals face as they pursue retirement security, incentives can play an important role in getting workers on track. Financial incentives and simplified participation are both important, proven incentives. Beyond that, investment selection can be a key factor in influencing participation and increasing employee contributions.

Participants see making a more personal connection to their portfolio as a savings incentive. For three-quarters of US workers, this means ensuring that their investments are aligned to their personal values. In fact, demand for this type of investment is so strong that 61% of workers said they would be more likely to contribute, or increase contributions, to their workplace retirement savings plan if they knew their investments were doing social good. This is especially important among Millennials, where two-thirds of workers say making this connection would incentivize them to start saving or increase their plan savings.

1 Tuition and Fees and Room and Board Over Time. College Board. Accessed March 7, 2019. https://trends.collegeboard.org/college-pricing/figures-tables/tuition-fees-room-and-board-over-time

75% of participants believe it is important to make the world a better place while growing their personal assets, but they also see a strong financial reason for investing this way. Almost the same number (74%) see a profit motive, saying they believe that companies that provide clean water and clean energy present significant growth opportunities.

61% of workers said they would be more likely to contribute, or increase contributions, to their workplace retirement savings plan if they knew their investments were doing social good.

This is where Environmental, Social and Governance (ESG) funds could fill an important role, but only 13% of of those not currently invested in ESG-focused funds say their company's retirement plan currently offers ESG investment options. Given that 62% of workers overall say they are concerned about the ESG records of the companies they invest in, failing to offer these investments could amount to a significant oversight for plan sponsors who are concerned with both participation and contribution rates. In fact, six in ten simply say that they would like to see more socially responsible investments in their plan offering.

Along with investment selection, financial incentives and simplified participation give plan sponsors a wide array of levers at their disposal in the effort to grow plan participation and increase employee contributions.

Financial incentives have been the go-to tool for driving employee participation for decades – and for good reason. Long presented as "free money," 56% say the employer match is the reason they participate in their company's plan. Additionally, 57% say that an increased match would incentivize them to save even more into the plan.

Beyond the match, tax incentives are a critical consideration. More than one-third (36%) of participants report that tax deferral is an important part of their enrollment decision. Increased deferral limits could help boost savings, as another 43% say that if the tax incentive were greater, they would look to increase the amount they save into their workplace retirement plan. Another 24% say they could be motivated to save more by increasing the contribution limits.

Outside of the financial argument, the decision to participate often comes down to giving workers an easier way to save for retirement. Half of workers say they participate simply for the convenience of automatic payroll withdrawal, and 36% say this approach to saving is easier than doing it themselves. 23% cite auto-enrollment as their reason for participation.

Moving toward a more secure retirement

Workers in the US are clearly concerned about retirement security, and many are working to build savings to sustain themselves through the decades of life after work. But they can only do so much on their own. It will take a concentrated effort across the retirement ecosystem to bring them closer to success, and individuals, employers, policy makers and asset managers have the power to improve the odds:

- Individuals: The reality check shows that not only do individuals need to consider savings and contribution rates, but they need to refine assumptions about how much money is needed and how long it will have to last.
- Employers: May want to start with a closer look at plan design to ensure participants have the incentives to enroll and save and reconsider how investment selection can impact employee engagement.
- Policy makers: Individuals are increasingly concerned that they will need to assume greater responsibility for retirement funding, and policy makers should consider steps that better enable their success. Do people have access to plans and advice on how to invest? Are current savings limits realistic about how much people will need to save?
- Asset managers: Should look to innovate and provide investments that connect with participants, and help them maximize the savings opportunity.

The good news is that on top of it all workers believe they will be secure in retirement – even if they have to tighten their spending. If the stakeholders in retirement security deliver on their side of the equation, it is more likely that workers will realize this vision in the years after work.

PROGRAM OVERVIEW

About the Natixis Center for Investor Insight

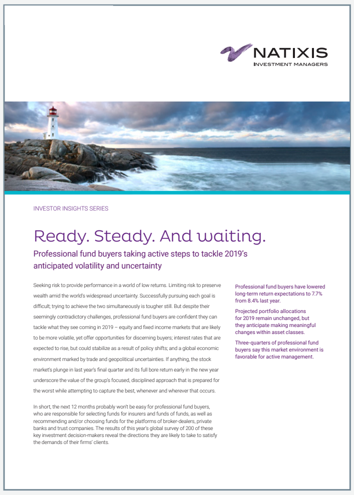
Investing can be complicated: Event risk is greater and more frequent. Volatility is persistent despite market gains. And investment products are more complex. These factors and others weigh on the psyche of investors and shape their attitudes and perceptions, which ultimately influence their investment decisions. The Center for Investor Insight conducts research with investors around the globe to gain an understanding of their feelings about risk, their attitudes toward the markets and their perceptions of investing.

Research agenda

Our annual research program offers insights into the perceptions and motivations of individuals, institutions and financial professionals around the globe and looks at financial, economic and public policy factors that shape retirement globally with:

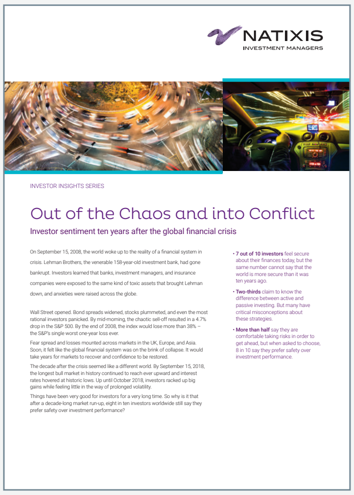
- Global Survey of Individual Investors – reaches out to 9,100 investors in 25 countries.
- Global Survey of Financial Professionals – reaches out to 2,775 professionals in 16 countries.
- Global Survey of Institutional Investors – reaches out to 500 institutional investors in 28 countries.
- Natixis Global Retirement Index – provides insight into the environment for retirees globally based on 18 economic, regulatory and health factors.

The end result is a comprehensive look into the minds of investors – and the challenges they face as they pursue long-term investment goals.



Ready. Steady. And waiting.

Professional fund buyers taking active steps to tackle 2019's anticipated volatility and uncertainty



Out of the Chaos and into Conflict

Investor sentiment ten years after the global financial crisis

Rise against the machines

Financial professionals focus on human dynamics in response to growing digital competition

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