



RETIREMENT SERVICES

ADP RETIREE STUDY:

Retirement realities



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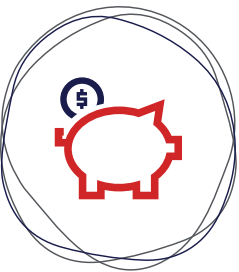
Understand the retirement saving, investing, and expense management behaviors of individuals retired from full-time employment between the ages of 55 and 75.



Introduction

RETIREMENT IS A HAPPY AND EXCITING TIME FOR RETIREES, but are they financially prepared for the future they want or will their savings fall short? According to a survey of individuals retired from full-time employment, concerns about the future and financial security have followed many of them into their retirement years. A significant percentage say they underestimated their retirement expenses and worry they will outlive their savings. According to the survey findings:

- Savings from a 401(k) at a former employer provides half or more of income for many retirees in the survey, 41 percent however, saved \$100,000 or less in their plan.
- The majority of retirees currently collect Social Security, and typically started as soon as they were eligible, and 1 in 3 counts on this money to meet their monthly expenses.
- A significant percentage say they underestimated their retirement expenses and regret that they didn't save more or start saving at a younger age.
- Retirees' biggest worries about the future include concern for their health and running out of money.
- Just 1 in 3 had assistance from a financial advisor on their retirement planning.



Personal finances

Employer retirement plans are a significant source of income

Employer-sponsored retirement plans are a critical vehicle for helping individuals prepare for a secure financial future. A significant amount of retirees' current income — half or more of their retirement savings — is from a previous workplace retirement account, according to 41 percent of those surveyed. Unfortunately, the majority (80%) saved under \$500,000 in their 401(k), including 40.8 percent with \$100,000 or less. Men have more in their 401(k) — 17 percent have \$750,000 or more compared to just 8.8 percent of women with savings at the same level. Women are also more likely to have saved less than \$50,000 in their workplace account.

The majority begin Social Security upon eligibility

Social Security funds quite a bit of retirees' expenses — almost 70 percent rely on benefits to cover at least half of their monthly expenses, including over a third that say it's critical to helping them meet their expenses. It is also more likely for women (48.7%) to rely on Social Security as a primary income source more than men (28.2%).

Although waiting to start Social Security benefits can boost retirement income, only 17.3 percent waited to reach full retirement age to qualify for the maximum payment amount. In total, 89 percent of survey respondents receive Social Security benefits. Most (52.2%) started as soon as they were eligible or when they retired (28%). Men (21.9%) wait for the maximum payment more often than women (12.8%). Retirees ages 61 to 65 are the least likely to have started Social Security benefits (59.6%) compared to the 90 percent or more of retirees ages 56 to 60 and 66 and beyond that currently receive benefits.



BIGGEST CHALLENGES IN PLANNING FOR RETIREMENT

Before retiring, those surveyed found it difficult to navigate certain aspects of retirement planning. Top challenges were identified as:

41.3%

Determining how much to save

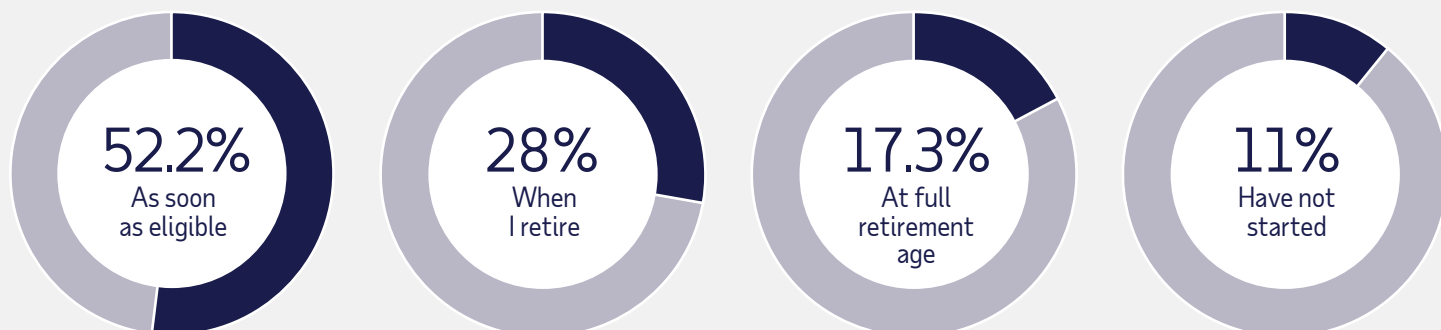
39%

Projecting future expenses

19.6%

Replacing their salary while retired

COLLECTING SOCIAL SECURITY BENEFITS



* In this situation, percentages on chart do not add up to 100%. This is due to respondents having the ability to choose more than one answer.



Living in retirement

One in five respondents are concerned their savings won't be enough to sustain a comfortable retirement lifestyle over the long-term, but most (79.8%) think their savings will be enough. Forty-three percent estimated their retirement needs themselves, and just 1 in 3 received help from an advisor or financial planner to calculate their retirement savings needs. Despite challenges, retirees generally feel positive about their future.

Just 8.6 percent sold their primary residence to reduce expenses in retirement — while 72 percent stayed in their primary residence with no plans to sell in the future. Almost 5 percent sold their primary residence to fund retirement.

Sixty percent believed they would work part-time in retirement, but 88 percent of retirees are not currently working.

Retirees stay up to date on government regulations that may affect their retirement by doing their own research on the web (37.3%) or from their financial advisor (24.2%). Some also join organizations like AARP (8.6%) or get information from their former employer (8%).



Workplace retirement plans are a major source of retirement income for over **40%** of retirees.





Perspectives on workplace retirement plans

Forty-five percent of retirees credit their savings habits for keeping them on track for reaching their retirement goal. However, nearly the same amount (40%) say they feel underprepared and regret that they didn't save more or start saving at a younger age.

Employer matching contributions would have made a significant difference in improving retirement savings, according to 29 percent of surveyed retirees. Education on post-retirement topics (16.2%) and investment advice to guide decisions (12.6%) are other plan features retirees feel would have had an impact on their savings.

When employed, most of those surveyed made catch up contributions to their 401(k). Fifty-eight percent took advantage of this added savings opportunity once they were eligible, and the majority were aware of the feature (70.2%). After leaving their employer, 54.1 percent rolled their assets into an IRA and 22.2 percent left their money in the plan.

Financial concerns in retirement

Retirees say they are very capable of managing their finances throughout their retirement. More than 3 out of 4 survey respondents are confident (57.7%) to very confident (19%) in their ability to manage their savings and make withdrawals as needed. When it comes to funding the retirement they want, a significant number — 40 percent — are not confident or sure their savings will last their lifetime. Ensuring a set amount of income for their lifetime is more important (68.7%) than maintaining wealth (31.3%) to retirees.

Healthcare costs (40.5%) and daily living expenses (37.1%) were cited as the biggest threats to financial well-being. Retirees are most worried about their health (43.7%) and outliving their retirement savings (18%). Other worries are more general — 14 percent are concerned that they don't have specific plans for retirement, and another 13.8 percent worry about living a different lifestyle than they are living today.

Over a quarter of retirees underestimated their retirement expenses (28.1%), while over half say they estimated accurately. Spending on necessities averages \$2,900 per month, with the majority (62%) spending between \$1,500 and \$5,000. Over half of respondents review expenses and adjust their spending monthly (35.1%) or weekly (15%).

Travel and entertainment such as restaurants, concerts and streaming content spends are lower than expected for 76.6 percent and over half are paying \$250 to \$1,000 per month on these expenses. Those spending more say it's because they have more time (69.2%).

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Conclusion

WHAT CAN BE LEARNED FROM RETIREES' EXPERIENCES, AND HOW CAN EMPLOYERS ENHANCE THEIR WORKERS' FUTURE RETIREMENT OUTCOMES? Here are four retirement plan features that can make a positive impact on future retirees' financial security:

- **Personalized employee education programs** powered by data and technology can help workers more accurately estimate their future needs and predict their retirement readiness.
- **Employer matching contributions** add up, and can incent workers to join the plan and save to the full matching contribution amount. Employer contributions are also a valued benefit that can attract and retain workers.
- **Post-retirement educational content** such as Social Security strategies, post-retirement investing and how to create an income stream during retirement can help workers make more informed decisions and impact their retirement lifestyle.



- **Access to financial advisor services** can help employees develop a custom savings strategy that considers current needs, future goals and a plan to reach them. Advisors can also help workers optimize the opportunities available to them, such as joining the plan, maximizing matching contributions, making catch up contributions, boosting Social Security benefits, and setting appropriate expectations about retirement expenses.

Methodology

The research for this white paper was conducted on behalf of ADP Retirement Services by Retirement Insights, LLC. An online survey collected the data from a national sample of 500 individuals retired from full-time employment between the ages of 55 and 75. Demographic data such as household income, gender, race, ethnicity, and geography was considered. The research was completed in July 2022.



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