5 forces shaping retirement in America

BlackRock

Foreword

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Major events of the past few years – including the pandemic, ongoing market volatility, and rising inflation – have left many Americans feeling stressed about their financial futures. Retirement confidence has plunged to levels not seen since the 2008 Global Financial Crisis,[1] as nearly half of savers report pandemic-era hardships have knocked them off course for retirement.[2]

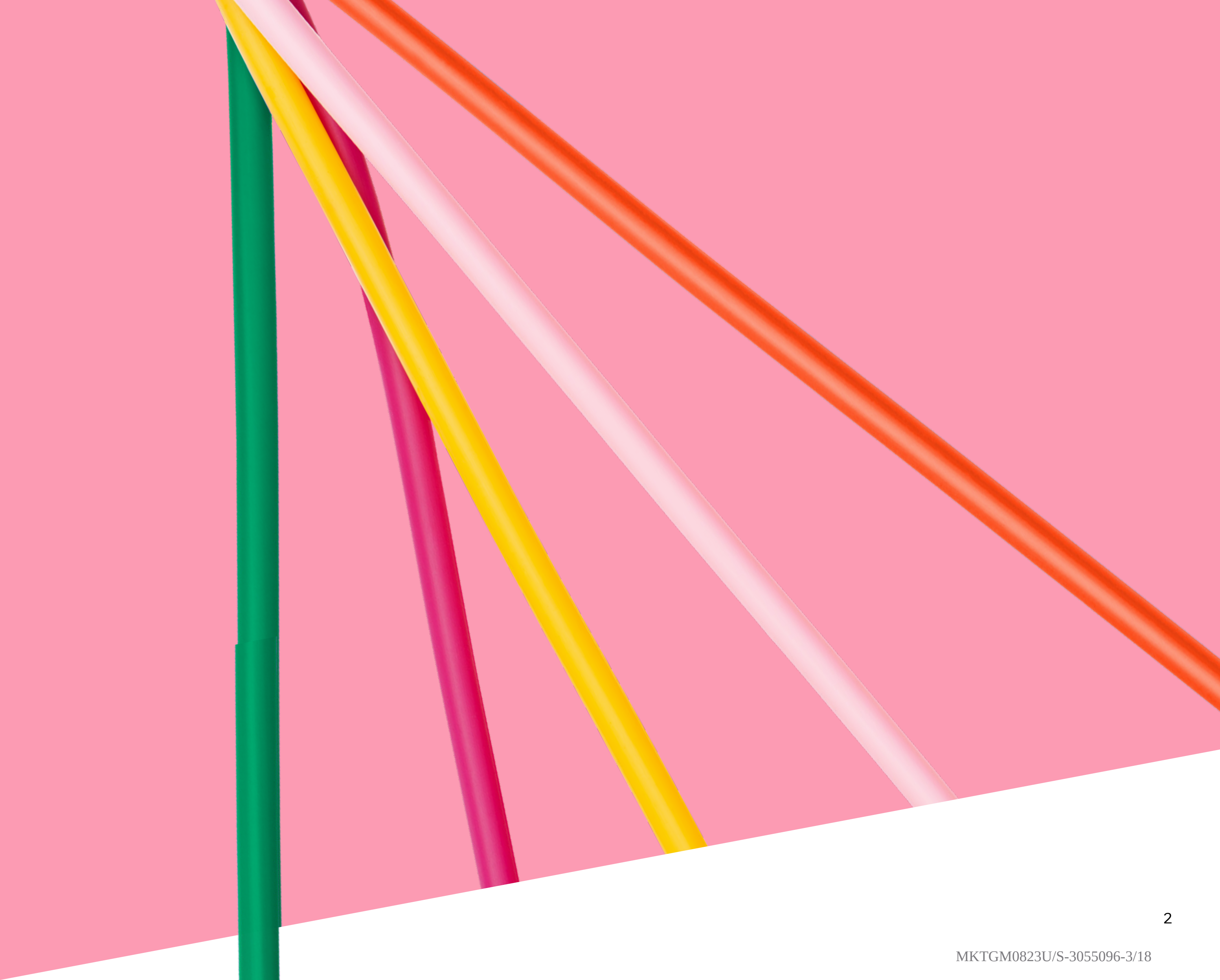
This challenging period magnifies the cracks in our retirement system. Half of private-sector workers lack access to a workplace retirement plan,[3] and nearly half of all adults aged 55 to 65 have no personal retirement savings.[4]

This report takes stock of where retirement in America stands today. In the pages that follow, we identify five major trends that are shaping retirement and point to areas where we can convert challenges into opportunity – so that more Americans can enjoy the secure retirement they deserve after a lifetime of hard work.

1 EBRI, Retirement Confidence Survey, 2023. **2** BlackRock, Read on Retirement, 2022. **3** AARP Public Policy Institute, Payroll Deduction Retirement Programs Build Economic Security, 2022. **4** U.S. Census Bureau, Survey of Income and Program Participation, 2022.

Five forces shaping retirement

Retirement outcomes are impacted by the markets, regulation, workplace offerings, health, and more. At the intersection of these factors, BlackRock sees five major forces that are threatening the ability to achieve a secure retirement in America, which we explore below. As BlackRock works to help provide more Americans with long-term financial security and strengthen the wider retirement system, we will be tracking these forces closely.



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1 Americans are living longer...

...but with constraints.

In the 20th century, the average American lifespan grew by about 30 years[5] – an unprecedented increase that changed the equation around how to fund longer retirements. Importantly, these extra years are not evenly distributed. Life expectancy differs by gender, with women living longer.[6] And it differs by race[6] and income levels – with Black Americans and low-income Americans well below the average.[7]

Further complicating matters, "health spans" have struggled to keep pace with rising lifespans. While life expectancy in the U.S. hovers around 79 years, healthy life expectancy may be as little as 66 years.[8] That's a 13-year gap that adds up to more time spent in declining health, increased healthcare costs, and less spending predictability.

FIGURE 1

U.S. life expectancy, average age by race and gender[6]

Source: CDC, Vital Statistics Rapid Release, 2022.

5 AgeWave analysis, leveraging U.S. Census Bureau data and United Nations, World Population Prospects, 2023. **6** CDC, Vital Statistics Rapid Release, 2022. **7** Congressional Research Service, The Growing Gap in Life Expectancy by Income: Recent Evidence and Implications for the Social Security Retirement Age, 2021. **8** World Health Organization, 2019. BlackRock analysis. **9** MassMutual, How Much Will I Really Need for Healthcare in Retirement? 2023. **10** Alzheimer's Association, 2023 Alzheimer's Disease Facts and Figures, 2023.

On average, a retired couple today may need over $300,000 to cover healthcare costs during retirement.[9] And that doesn't include the potential cost of cognitive conditions, which are on the rise. By 2050, the number of Americans with Alzheimer's is expected to double to 12.7 million,[10] bringing with it significant financial, social, and emotional costs.

It's not just that Americans are living longer. The tools once available to them have changed, too. As defined contribution (DC) plans displaced defined benefit (DB) plans, Americans lost a form of guaranteed income at a time when life expectancy was on the rise. (More on this in the next section.)

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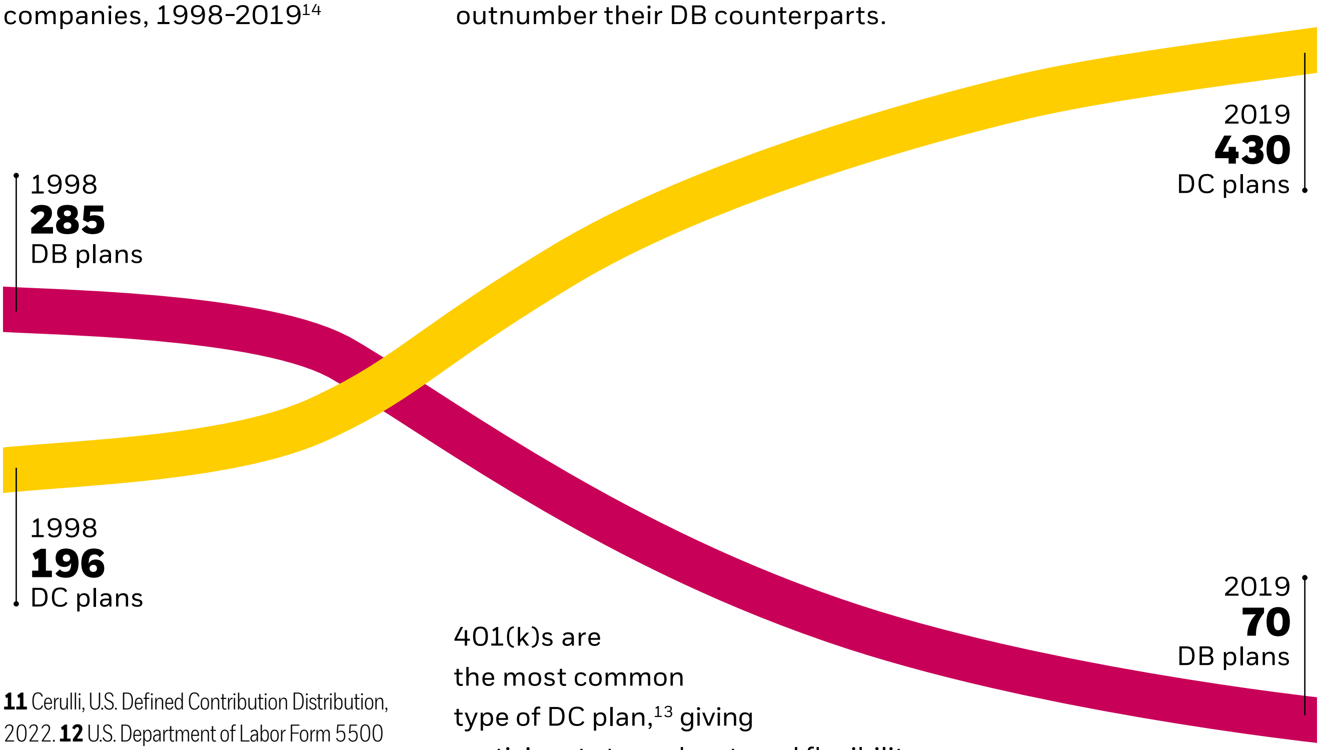
2 The first "DC retiree" generation is here

We've reached a threshold moment for American retirees. The first generation of retirees who no longer saved through a traditional pension, those born in the 1960s, is now beginning to retire in force.[11]

In the past, DB plans, thus named for the benefit they provided in the form of employer-funded income in retirement, were the standard workplace retirement plan.[12] Over time, however, the number of companies offering DB plans has declined dramatically. Today, DC plans – arrangements where the employee contributes a portion of their paycheck to a retirement account – vastly outnumber their DB counterparts.

FIGURE 2

DC eclipses DB: The rise of DC plans among Fortune 500 companies, 1998-2019[14]



401(k)s are the most common type of DC plan,[13] giving participants tax-advantaged flexibility in how much they want to save and how those savings are invested. But these plans present challenges, too – namely by placing greater responsibility on savers who may be ill-equipped to make their own investment decisions. This is why we've seen the rise of "auto-features" in DC plans over the past 20 years.

11 Cerulli, U.S. Defined Contribution Distribution, 2022. **12** U.S. Department of Labor Form 5500 Summaries Through 1999. EBRI Estimates 2000-2018 (using Bureau of Labor Statistics, Population Survey and U.S. Department of Labor Data). **13** Boston College Center for Retirement Research, "Can the Drawdown Patterns of Earlier Cohorts Help Predict Boomers' Behavior?" 2021. **14** Willis Towers Watson, 2020.

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Workers are

20x

more likely to save for retirement if their contributions are automatic.[16]

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The rise of the autos

Auto-enrollment and auto-escalation are two plan design features that have helped increase participation and savings rates in workplace plans. In fact, they've really helped: participation rates triple when new hires are auto-enrolled.[15] Further, workers are 20 times more likely to save for retirement if their contributions are automatic.[16] "Autos" have been especially powerful for low-to-moderate income workers – doubling participation rates for individuals earning less than $30,000 a year.[17]

Effective in 2025, a new provision included in SECURE 2.0 will require new 401(k) or 403(b) plans for employers with more than 10 employees to auto-enroll participants at the minimum initial rate of 3% of compensation.[18] Unless the employee elects otherwise, that rate must be increased by 1% per year until it reaches at least 10% but no more than 15%. This new provision aims to help boost savings beyond the 3% rate – a common default rate, but one experts say is too low to build adequate savings.

Importantly, this provision doesn't go into effect until 2025, giving the industry time to adapt and support plan sponsors' evolving needs around the new requirements. While we expect these changes will have a powerful impact on employees' long-term financial security, we should also acknowledge the additional effort required of employers to implement these changes.

Of course, the greatest distinction between DB and DC plans is the lack of guaranteed retirement income with the latter. Many Americans who rely on DC plans are now finding themselves without the benefit of guaranteed income other than Social Security – which often isn't sufficient to cover essential spending in retirement.[19]

In a world of increasing longevity, where retirement can range from years to decades, solving for a consistent, reliable stream of income is paramount. Fortunately, there are opportunities to bring the best of DB to DC.

15 Auto-enrollment yields a participation rate of 91% versus 28% for plans requiring voluntary enrollment. Vanguard, Automatic Enrollment: The Power of the Default, 2021. **16** AARP, "State Programs, Federal Incentives Spur Rise in 401(k)s," 2023. **17** PAi Retirement Team, Benefits of Automatic Enrollment in a Retirement Plan. **18** Note that small businesses with 10 or fewer employees are exempt from this requirement, as are new businesses, church plans, and governmental plans. **19** Social Security is not designed to be a sole source of income in retirement. The Social Security Administration says that, on average, Social Security will replace about 40% of annual pre-retirement earnings. Social Security Administration, Retirement Ready Fact Sheet for Workers Ages 61-69, 2023.

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3 Making retirement plans work...

...in retirement

In a DC plan, saving – accumulating and investing assets over the course of one's career – is only half the equation. Yet, it's where the industry and employers have historically focused most of their energy.

A sometimes-exception is the target date fund – a strategy that considers the end-goal of retirement. These age-based funds automatically adjust asset allocations over the course of a DC participant's career. Several studies confirm that this do-it-for-me approach is associated with good outcomes for investors.[20] Morningstar has gone so far as to call target date funds "the best development for investors since the index fund."[21] Fittingly, they've become the most common default option in DC plans.[22]

20 Morningstar, Mind the Gap, 2022. **21** Morningstar, "Are Target Date Funds Good Investments?" 2022. **22** Cerulli, U.S. Defined Contribution Distribution, 2022.

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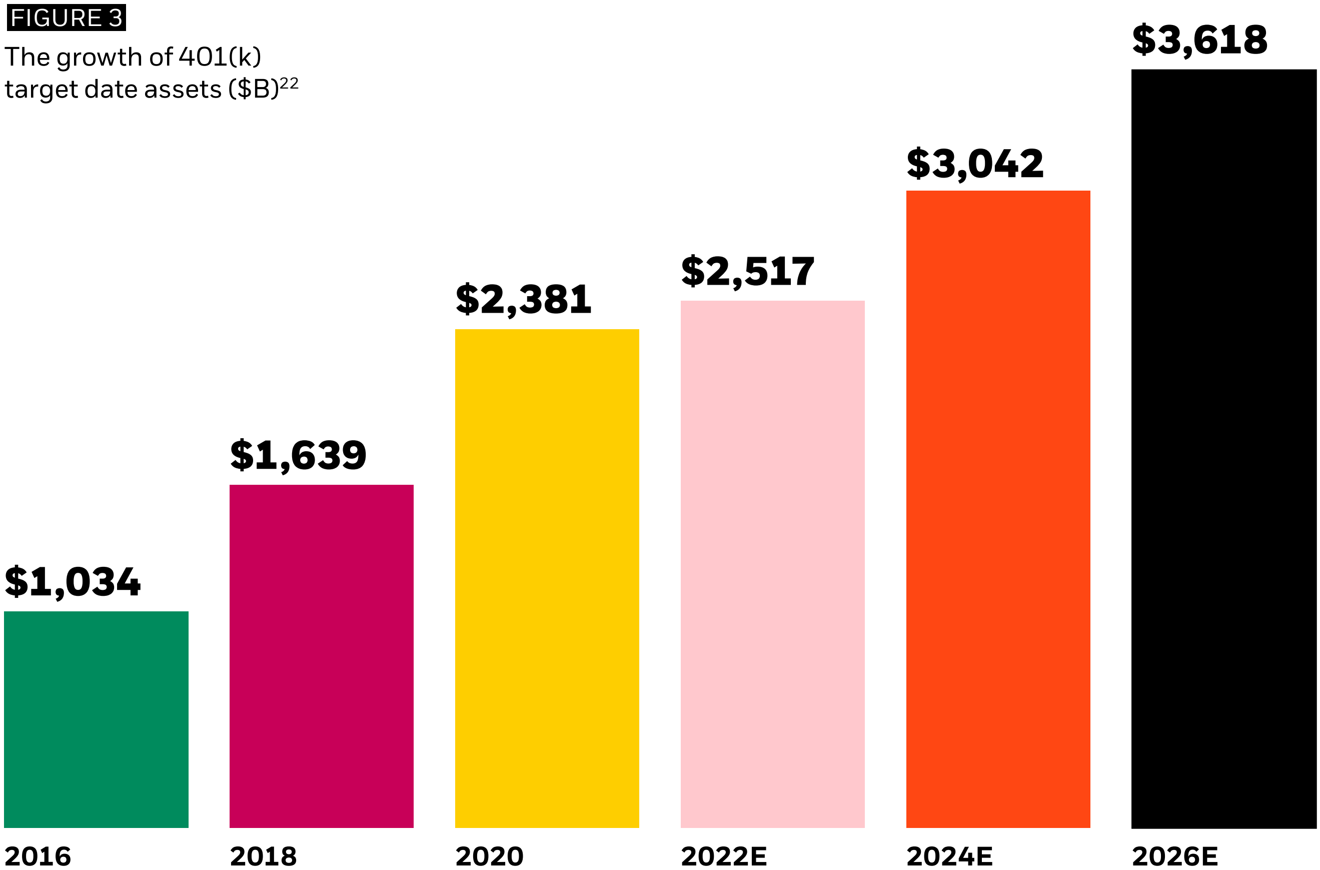
FIGURE 3

The growth of 401(k) target date assets ($B)[22]



Source: Cerulli U.S. Defined Contribution Report, 2022.

But not all target date funds are created equal. Aside from differences in fees or asset allocation, different asset managers hold different investment philosophies. For instance, we feel strongly that target date funds should be designed with the goal of providing consistent consumption throughout retirement. People should be able to maintain their pre-retirement lifestyle — and their investments should enable them to do so.

And this is what people want. The top three things workplace savers want to know are: what their nest egg will be, how much they can spend each year in retirement, and how long their savings will last. At the same time, people fear outliving their savings. Only 21% of workers are very confident they will have enough money to last through retirement.[23]

It's a rational fear. Today's retirees are contending with increasing longevity and inflation risks while traditional forms of secure income (DB plans and Social Security benefits) are dwindling.[24] Even if retirees have a sizeable nest egg at retirement, there's not a lot of guidance about how to spend – but not overspend.

22 Cerulli, U.S. Defined Contribution Distribution, 2022. **23** BlackRock, Read on Retirement, 2022. **24** Or, possibly dwindling – in the case of Social Security.

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98%

of plan sponsors feel responsible to help their participants generate and/or manage their income in retirement.[25]

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Income is... incoming

While the spectrum of lifetime income solutions continues to grow, there are two broad categories: non-guaranteed income options and guaranteed income options. Non-guaranteed income options include systematic withdrawals, payout funds, managed decumulation strategies, "collective" schemes, and tontines (for those outside of the U.S.). Guaranteed income options, on the other hand, have traditionally been limited to annuities and annuity windows.

While 90% of employers and savers are interested in investment options that provide guaranteed income,[25] adoption of annuities has lagged. It's an irony that's well-documented and has paved the way for a new solution category that builds on the benefits that traditional annuities bring to the table, while accounting for participant preference and behavior.

BlackRock is developing a lifetime income solution that embeds annuities issued by selected insurers into a target date strategy. These embedded annuities provide eligible participants the option to purchase individual retirement annuities, from the selected insurers, that provide a guaranteed stream of income for life. This annuity purchase option is designed to provide a stable source of income for retirement.

Joint research conducted with the Bipartisan Policy Center brings this theory to life. For an average worker aged 65, we found that adding a guaranteed lifetime income product, combined with a more aggressive asset allocation, generates nearly 30% more annual spending ability from one's retirement savings (excluding Social Security) and reduces downside risk by 33% when compared to a standard retirement portfolio of 60% fixed income and 40% equities.[26]

When combined with Social Security optimization strategies, the effects are even more pronounced. For the same average worker, we found that delaying Social Security claiming from age 65 to age 67 generates an additional average annual spending increase of 16% and further reduces downside risk by 15%.[26]

25 BlackRock, Read on Retirement, 2022.
26 Bipartisan Policy Center and BlackRock, Paving the Way to Optimized Retirement Income, 2023.

This is where we see the greatest opportunity to innovate. Lifetime income solutions could provide greater long-term financial security and make retirement plans work, in retirement. Of course, these types of enhancements are only relevant for those who can participate in a workplace plan – which are far from universal, as we explore in the next section.

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BlackRock is developing a lifetime income solution that embeds annuities issued by selected insurers into a target date strategy.

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4 Access is powerful…

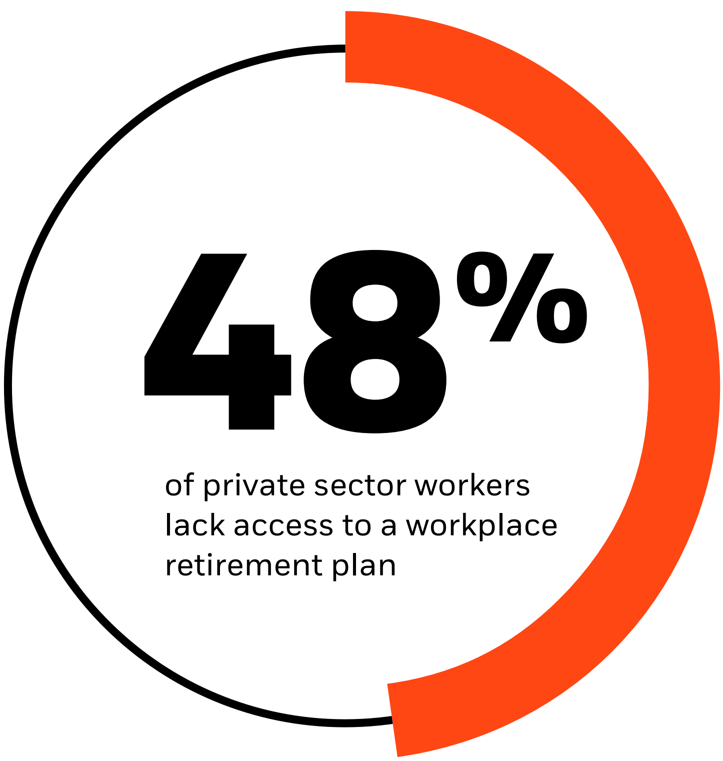
…when offered

Americans' retirement preparedness greatly depends on the tools available to them. And the data is clear that having access to a workplace retirement plan is key: Americans are 15 times more likely to save for retirement if they can do so at work.[27]

However, there's no requirement for companies to offer a DB or DC plan. Those that don't tend to be small- and medium-sized businesses that are deterred by plan set-up costs and administrative burdens. The result is that 57 million Americans still lack access to a workplace-sponsored retirement plan.[28]

FIGURE 4

Almost half of private sector workers lack access to a workplace plan[29]



78%
of workers at companies with less than 10 employees

33%
of workers at companies with more than 1,000 employees

Source: AARP Public Policy Institute, 2022.

27 AARP, "State Programs, Federal Incentives Spur Rise in 401(k)s," 2023. **28** AARP Public Policy Institute, Payroll Deduction Retirement Programs Build Economic Security, 2022.**29** Applies to workers that complete at least 500 hours of service per year. The prior provision, granting eligibility to those with one year of service with over 1,000 hours, still applies also.

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30 Statista, "Number Of Freelancers In The United States From 2017 to 2028," 2023.
31 Applies to workers that complete at least 500 hours of service per year. The prior provision, granting eligibility to those with one year of service with over 1,000 hours, still applies also.

As the proportion of small business, gig, and freelance workers continues to rise,[30] the access issue isn't going away. Encouragingly, certain provisions in SECURE 2.0 will help to expand access, particularly among smaller businesses. The legislation reduces the threshold determining long-term part-time employee plan eligibility from three years to two,[31] and revises tax credits for small employers to start plans.

9

state governments are sponsoring retirement plans of their own.

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All eyes on access

Technology is making it easier and more affordable for employers to offer retirement plans. From taking the guesswork out of plan set-up to integrating with payroll systems and handling compliance testing, innovative digital platforms are emerging to reduce employers' administrative burdens — a major reason many smaller employers opt not to offer a plan today.

At BlackRock, we're encouraged by the impact this new technology could have. That's why we joined efforts with Human Interest, a leader in 401(k) software, to help support their mission to increase retirement plan access to small- and medium-sized businesses.

We're equally encouraged by the progress that's being made at the state level. Across the country, state governments are sponsoring retirement plans of their own, which businesses (that meet certain criteria) are required to offer. So far, nine states have enacted such programs, and several others are in deliberations. These publicly sponsored programs are usually cost-effective and require minimal fiduciary responsibilities on the part of employers.

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5 Gaps in retirement outcomes persist

We know social factors – such as gender, race, socio-economic status, and family structure – impact retirement outcomes. There are several measures of this, from access and participation rates to savings balances. On average, middle-quintile white American households have seven times the retirement savings of their Black counterparts and five times the savings of Latinx ones.[32] Perhaps surprisingly, the gender gap is less pronounced: Women average only 75% of their male counterparts' retirement wealth.[33] Still, these gaps are significant and important.

Correspondingly, we see these disparities play out in elderly poverty rates. Even with Social Security – which serves as a great equalizer (see Fig. 5) – the elderly poverty rate of Black and Latinx Americans is more than double that of white Americans.

32 Center for Retirement Research at Boston College, "Social Security is a Great Equalizer," 2020.
33 Willis Towers Watson, Global Gender Wealth Equity Report, 2022.

FIGURE 5

2020 poverty rates among Americans age 65+[33]

	Excluding Social Security	Including Social Security
White	35.8%	6.8%
Black	48.0%	17.1%
Latinx	45.4%	16.6%
Women	41.1%	10.1%
Men	33.8%	7.6%
Total age 65+	**37.8%**	**9.0%**

Source: Social Security Lifts More Americans Above Poverty Than Any Other Program, Center on Budget and Policy Priorities, 2020.

While the numbers speak for themselves, the causes are many and complicated. An important factor that should not be overlooked, however, is occupational access. Women and people of color disproportionately work in low-paying positions in sectors such as healthcare, construction work, and food services where they are far less likely to be offered employer-sponsored retirement savings plans.[34]

33 Center on Budget and Policy Priorities, "Social Security Lifts More Americans Above Poverty Than Any Other Program," 2020. **34** AARP, "Studies Spotlight Racial, Ethnic Gaps in Retirement Savings," 2022.

Women and the "triple whammy"

On average, women retire with 30% less money than men.[35] This is because of three significant, overlapping issues:

Black women lose over **$950,000** in lifetime earnings, costing them about **$3.8M** in potential retirement savings.[42]

The pay gap

In the U.S., women average just $0.84 on the dollar.[36] This means less money to cover immediate spending needs, shorter-term savings, and longer-term investing. Even still, we find that women participate in 401(k) plans at equal rates as men. And, more impressively, they contribute as much – if not more – than men do.[37] Still, it's hard to overcome the effects of the pay gap, especially as investing compounds over time.

The caregiver's curse

Even in 2023, women are a disproportionate share of the unpaid workforce – which very often involves caregiving for children and elderly family members.[38] For many, this time out of the workforce is unpaid, meaning they cannot make contributions to their 401(k) plans, even if they wanted to and could afford to do so.

The longevity quandary

As mentioned above, women tend to outlive men by about five years.[39] Based on an EBRI analysis of retirement spending, we estimate that means the average woman would need an additional $120,000 to fund those extra years.[40] Additionally, while the average retirement age for men is around 65, women tend to retire earlier at 62.[41] This means that, while women make less and often experience interruptions in their saving journey, their retirement nest eggs need to last longer.

It's also worth noting the intersectionality challenge – the gender wage gap is even more significant for women of color. Black women lose over $950,000 in lifetime earnings, costing them about $3.8 million in potential retirement savings.[42] And Latina women lose $1.2 million in lifetime earnings, costing them up to $4.5 million in retirement.[42]

35 AARP, "Helping Women Retire Securely," 2023. **36** Department of Labor, "5 Fast Facts: The Gender Wage Gap," 2023. **37** BlackRock, 2023. **38** Pew Research Center, The Enduring Grip of The Gender Pay Gap, 2023. **39** CDC, Vital Statistics Rapid Release, 2022. **40** EBRI, 2022 Spending in Retirement Survey: Understanding the Pandemic's Impact, 2022. **41** Center for Retirement Research at Boston College, 2021. **42** CNBC, "The Gender Wage Gap Could Cost Women Millions When They Retire," 2022.

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> The Saver's Match program goes into effect in 2027.

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Working together to bridge the gaps

To be sure, the industry has significant work to do when it comes to building a more equitable and inclusive retirement system. Still, we're encouraged by emerging, cross-industry efforts to understand who retirement plans are – and are not – working for and ways to bridge those gaps. A timely example is the Collaborative for Equitable Retirement Savings (CFERS) from Aspen, DCIIA,[43] and Morningstar, which is creating a database to analyze how participants use retirement plans based on various demographics, like race, gender, and income.

In addition, certain aspects of SECURE 2.0 aim to increase participation in workplace plans and boost overall savings. Alongside the aforementioned provision on auto features (see page 5), a separate provision requires the government to deposit a matching contribution directly into low- and middle-income Americans' retirement accounts, rather than having it go against a tax liability as it does currently, making it easier for people to save. Called the Saver's Match, this program goes into effect in 2027.

43 The Defined Contribution Institutional Investment Association.

Moving on to bigger and better trends

On their own, each of these five forces – longevity, the rise of DC plans, the need for lifetime income, access, and plan inequities – suggests preparing for retirement may only get more difficult for Americans. But when they're all put together, it's clear that ecosystem-wide action is needed.

The good news is that progress is being made to steer the industry toward bigger, better trends.

On the access front, the industry is working to narrow the 57-million-person gap through a combination of meaningful legislative changes and new, tech-enabled platforms, designed to reach smaller businesses.

For those with access, the focus is to build on what's working – whether it's expanding the reach of auto-features to increase plan participation or enhancing investment options to provide for guaranteed lifetime income.

Across the board, the industry is evolving to meet the needs and preferences of more and more Americans.

While there is still much work to be done, at BlackRock, we remain as committed as ever to doing our part. Because we believe that a secure, dignified retirement should be within reach for all Americans.

Investing involves risk, including possible loss of principal.

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