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INVESTOR PERSPECTIVES ON RETIREMENT PLANNING

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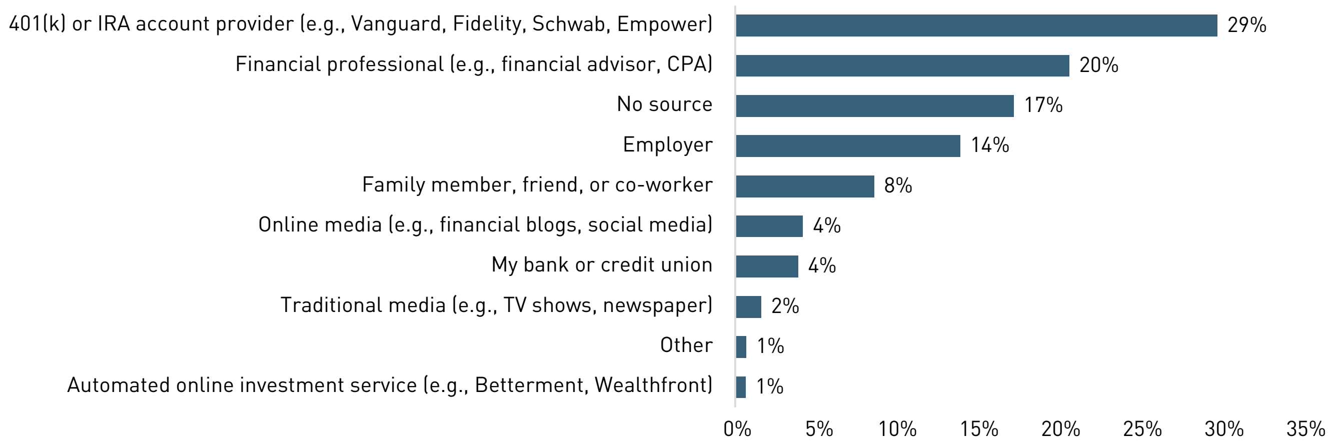
In this edition of *Investments & Wealth Research,* Cerulli Associates examines key trends shaping the way investors and advisors approach retirement. Rising healthcare costs and outliving their savings are of concern to retirees, and active workers display uncertainty regarding the future of Social Security and whether they are saving enough for retirement. With these worries as primary catalysts, investors' interest in having a written financial plan reached a new high in 2021. Fortunately, new solutions are coming to market that broaden the availability of income-producing options for retirees and topical conversation starters for young, technology-savvy investors. Although these solutions are helpful, investors continue to emphasize that providing quality service and thoughtful advice remains the key to success for advisors.

FIGURE 1

ACTIVE WORKERS' PRIMARY SOURCE OF RETIREMENT ADVICE, 2021



Analyst Note: Responses only include active workers. "Other" responses include "my own research."

Source: Cerulli Associates

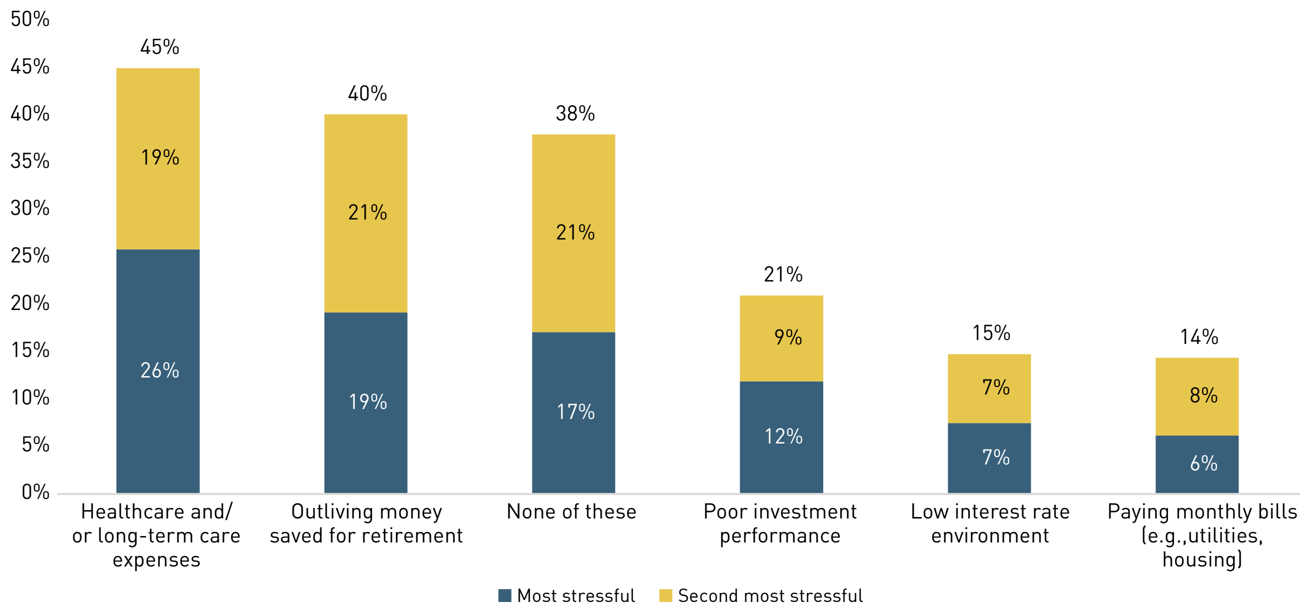
FIGURE 1 HIGHLIGHTS: Retirement investors most frequently cite their 401(k) or individual retirement account (IRA) provider (29 percent) as their primary source of retirement advice and rarely identify a digital advisor (e.g., Betterment, Wealthfront) as their primary source of advice.

KEY IMPLICATIONS: Almost half of active workers report relying on informal sources of information for their retirement advice or report having no source at all. To capitalize on this, most defined contribution recordkeepers now offer wealth management programs to democratize access to professional financial advice. These employees represent a meaningful opportunity for advisors as the need for advice becomes even more pronounced for younger and less-affluent investors who are more likely to turn to an employer or trusted personal relationship than older peers.* Just one-fifth (20 percent) of workers report that they rely on financial advisors as their main source for advice.

** Datapoint not shown in figure 1.*

FIGURE 2

RETIREES: TOP SOURCES OF STRESS, 2021



Analyst Note: Respondents were asked to select the top-two factors that cause the most financial stress. "Other" responses include "paying down mortgage principal." Figure totals may not sum evenly due to rounding.

Source: Cerulli Associates

FIGURE 2 HIGHLIGHTS: Retirees are most concerned about healthcare expenses (45 percent) and running out of retirement savings (40 percent).

KEY IMPLICATIONS: Not having enough saved for retirement is a common concern among active workers, but as investors enter their retirement years, healthcare expenses become a more pressing financial concern. Healthcare costs during retirement, particularly those related to long-term care, can be substantial, underscoring the importance of planning and saving for future healthcare costs years in advance. "Healthcare costs are the great X factor during the last 10 years of one's life," said one financial advisor. "I don't think people realize just how expensive healthcare is when you get to retirement."

FIGURE 3

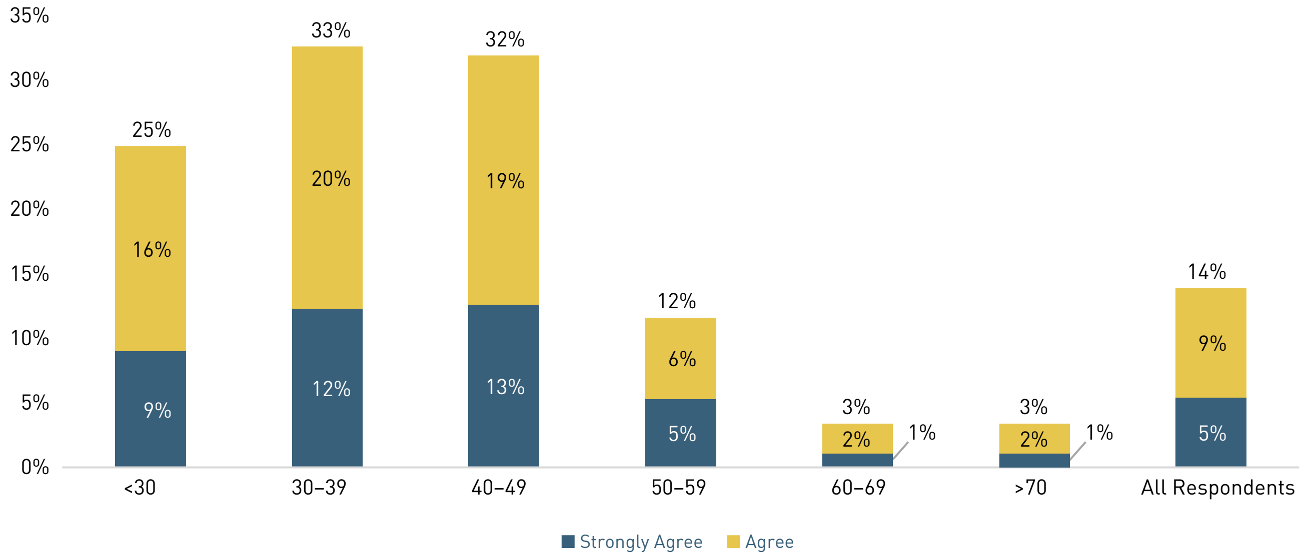
HOUSEHOLDS THAT PLAN TO SWITCH PROVIDERS BY AGE, Q2 2021

FIGURE 3 HIGHLIGHTS: As of Q2 2021, 14 percent of investors indicated an interest in seeking a new provider "very soon," up from 12 percent in 2020.

KEY IMPLICATIONS: Investors are most likely to switch advice providers in their 30s and 40s. At this point in their lives, the value of advice often becomes more apparent as issues such as the need to plan for funding retirement or children's educations becomes more apparent and self-serve options may no longer be enough. This is not surprising given that the top financial concern for active workers is not having enough saved for retirement.* Although many advisors would prefer to take on clients after they have accumulated significant assets and have retirement in sight, the reality is that it is much easier to win clients just as they are entering their peak earning years.

** Datapoint not shown in figure 3.*

FIGURE 3: HOUSEHOLDS THAT PLAN TO SWITCH PROVIDERS BY AGE, Q2 2021



Analyst Note: Responses represent retail investors with $250,000 or more in investable assets. Figure totals may not sum evenly due to rounding.

Sources: Phoenix Marketing International, Cerulli Associates

TABLE 1

RETIREES' CURRENT PRIMARY SOURCE OF INCOME, 2021

TABLE 1 HIGHLIGHTS: Social Security (51 percent) is the most common primary source of income for retirees, followed by defined benefit (DB) pension income (22 percent).

KEY IMPLICATIONS: Reliance on Social Security is most notable among retirees with less than $100,000 in investable assets, of whom nearly two-thirds (64 percent) identify Social Security as their primary source of income in retirement.* Retirees' dependence on Social Security underscores the importance of making sound decisions around when to claim benefits. Some retirement-income solutions, such as Income Discovery, generate Social Security claim recommendations based on the financial circumstances of the investor, and other retirement-planning solutions offer more generalized guidance on when to claim Social Security. Advisors can enhance their value proposition to potential and current clients by offering guidance on when to claim Social Security and education surrounding other sources of retirement income.

Source	All Retirees
Social Security	51%
Defined benefit plan	22%
My spouse's income	8%
Personal retirement accounts (e.g., 401(k) or IRA savings)	8%
Personal non-retirement accounts (e.g., bank or brokerage account)	5%
Annuity income	4%
Other	2%
Real estate investments	1%
Inheritance or support from another family member	1%

Analyst Note: This question was only asked of retirees. "Other" includes "mix of retirement and non-retirement accounts," "combination of Social Security and pension," and "certificates of deposit."

Source: Cerulli Associates

** Datapoint not shown in table 1.*

TABLE 2

401(K) PARTICIPANTS: ANTICIPATED PRIMARY SOURCE OF RETIREMENT INCOME, 2021

Source	All Working 401(k) Participants
Personal retirement accounts (e.g., 401(k) or IRA savings)	47%
Social Security	22%
Personal non-retirement accounts (e.g., bank savings or brokerage account)	9%
Defined benefit plan	9%
I don't know	8%
Real estate investments	2%
Annuity income (I plan on purchasing an annuity)	2%
Other	1%
Inheritance or support from family members	1%

Analyst Note: This question was only asked of active 401(k) participants. Respondents were asked, "What do you believe will be your primary source of income in retirement?" "Other" includes short-term contract jobs, inheritance, and business income.

Source: Cerulli Associates

TABLE 2 HIGHLIGHTS: Nearly half (47 percent) of 401(k) participants expect personal retirement accounts to be their primary source of retirement income.

KEY IMPLICATIONS: Participants' expected sources of retirement income notably vary by age range. Active participants in their 60s and 70s anticipate Social Security will be their primary income source in retirement, followed, distantly, by DB plans.* Conversely, those younger than age 40 expect to rely heavily on their personal savings in retirement accounts and non-retirement accounts (e.g., brokerage account).* Younger investors largely expect to be responsible for funding their own retirements because fewer employers offer DB plans and younger investors are skeptical about the future of Social Security. This makes receiving guidance around formulating and sticking to a retirement plan particularly important for this segment and provides an opening for advisors to deliver value.

** Datapoint not shown in table 2.*

TABLE 3

HOUSEHOLDS THAT FIND IT IMPORTANT TO HAVE A WRITTEN FINANCIAL PLAN, 2016–Q2 2021

	All Investors					
It is important to have a written financial plan	2016	2017	2018	2019	2020	Q2 2021
Agree	47%	48%	43%	48%	51%	55%
Neutral	31%	29%	33%	31%	29%	26%
Disagree	23%	23%	23%	21%	20%	19%

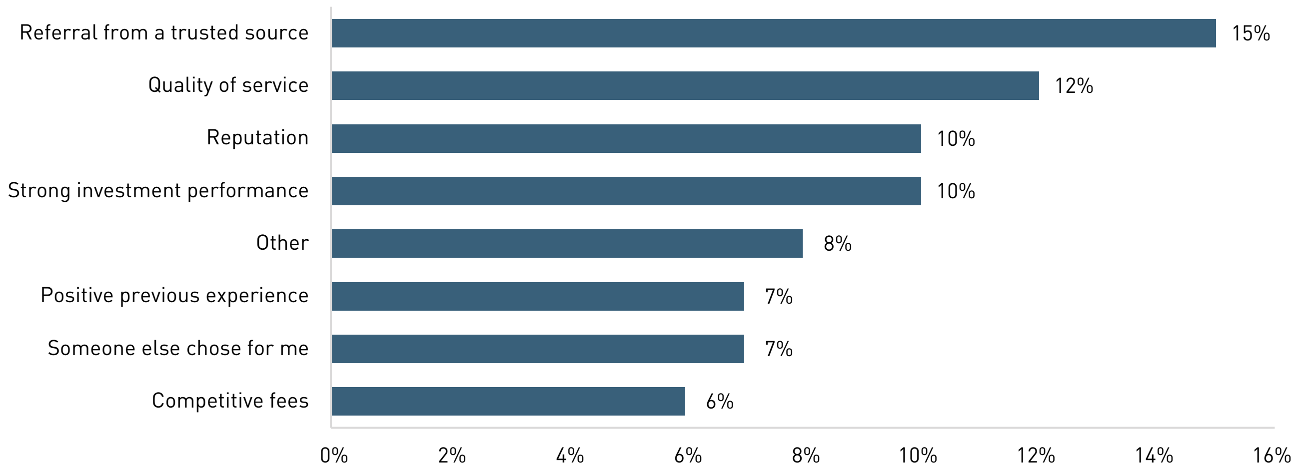
Sources: Phoenix Marketing International, Cerulli Associates

TABLE 3 HIGHLIGHTS: Investors' stated interest in having a written financial plan reached a new high in 2021 at 55 percent of respondents.

KEY IMPLICATIONS: Investors increasingly are willing to say that having a written financial plan is important. This is likely due to investors' increased introspection during the past year and a resolve to prepare for life's uncertainties before they must confront them. Providers should not take this to mean that investors don't appreciate the move to construct financial plans digitally with an eye toward efficiency and flexibility. Rather, sitting down with clients to discuss their goals and concerns in order to map out a clear long-term strategy remains a key expectation within a financial advice relationship.

FIGURE 4

REASONS FOR BEGINNING RELATIONSHIP WITH PRIMARY PROVIDER, Q2 2021



Sources: Phoenix Marketing International, Cerulli Associates

FIGURE 4 HIGHLIGHTS: Personal referrals (15 percent) remain the most cited reason for choosing a primary financial advice provider firm. This jumps to one out of four advisor-directed investors.

KEY IMPLICATIONS: Although personal referrals remain the most popular reason for beginning a primary provider relationship, especially among those in more advisor-reliant relationships, service quality is a key motivator among those with fewer investable assets. For this largely self-directed group, their first exposure to investment management may come from online brokerages or bank deposit channels where the ability to get help on sometimes basic money management questions is the dominant factor in the advice relationship. Word of mouth and a strong reputation can help with more involved relationships, but ensuring that customers from all asset tiers are properly served provides an important building block early on in a client's financial journey, especially when they have yet to accumulate significant assets.

TABLE 4

INVESTOR RESEARCH ACTIVITY BY ADVICE ORIENTATION, Q2 2021

TABLE 4 HIGHLIGHTS: Overall, 57 percent of investors conduct their own research to validate the professional advice they receive, only 4 points removed from those that do their own research prior to their meetings.

I conduct my own research to confirm the advice given to me by my advisor	All Investors
Strongly agree	20%
Agree	37%
Neither disagree nor agree	21%
Disagree	14%
Strongly disagree	7%

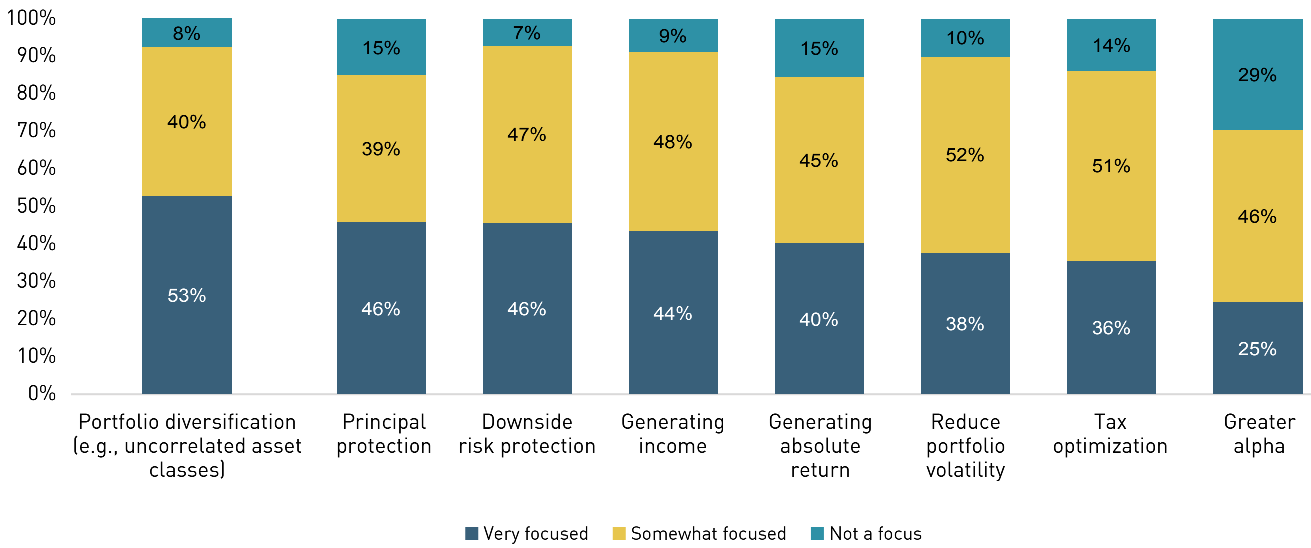
Analyst Note: Investors were asked whether they agreed with the statement, "I conduct my own research to confirm the advice given to me by my advisor."

Sources: Phoenix Marketing International, Cerulli Associates

KEY IMPLICATIONS: Although investors place high levels of trust in their advisors and overwhelmingly believe they are getting the quality of advice they need, investors still will likely do some back-end fact checking to confirm the advice of their advisors. With a bounty of financial news sites and brokerage apps providing a steady stream of data to parse, a trust-but-verify approach can be reasonably expected, especially for newer investors. This can become an advantage for advisors, although they should be aware of where clients receive their news and information. This can help advisors be ready to answer any questions those clients may have about financial recommendations made, and dispel any false or misleading information clients may encounter.

FIGURE 5

FINANCIAL ADVISORS' FOCUS ON ACHIEVING PORTFOLIO OBJECTIVES OVER THE NEXT 12 MONTHS, 2021



Source: Cerulli Associates

FIGURE 5 HIGHLIGHTS: Advisors are most frequently focused on portfolio diversification, downside risk protection, generating income, and reducing portfolio volatility.

KEY IMPLICATIONS: Although their ranking order has shifted year over year, diversification and risk management remain the top portfolio objectives for advisors. Over the nearly two years of the pandemic, advisors have worked to ensure that portfolios can weather bouts of economic uncertainty and keep clients focused on their long-term goals. A mounting concern for many advisors, however, has been the challenge of generating retirement income in a persistently low-rate environment. This has led to an increased focus by asset managers on the development of new income-oriented solutions, and Cerulli Associates expects this trend to continue as advisors work to meet the needs of baby boomers entering retirement.

TABLE 5

FINANCIAL ADVISORS: INVESTMENT TYPES USED TO GENERATE INCOME, 2021

TABLE 5 HIGHLIGHTS: Most (85 percent) of financial advisors rely on dividend-paying equities and higher-quality taxable fixed income as investment strategies to help their clients generate income.

KEY IMPLICATIONS: Advisors are using a variety of investment strategies to help generate income for clients—most notably, dividend-paying equities and taxable fixed income. Model providers have grasped the importance of generating income as an objective and have created outcome-oriented models focused on this goal.

Investment Strategy	Advisors
Dividend-paying securities	85%
Taxable fixed income (excluding high-yield)	85%
Municipal fixed income	75%
High-yield fixed income	74%
Insurance products	71%
Real estate investment trusts	67%
Foreign bond	43%
Options strategies	40%
Infrastructure	37%

Analyst Note: "Insurance products" include variable annuities, fixed annuities, variable life insurance, and long-term care insurance.

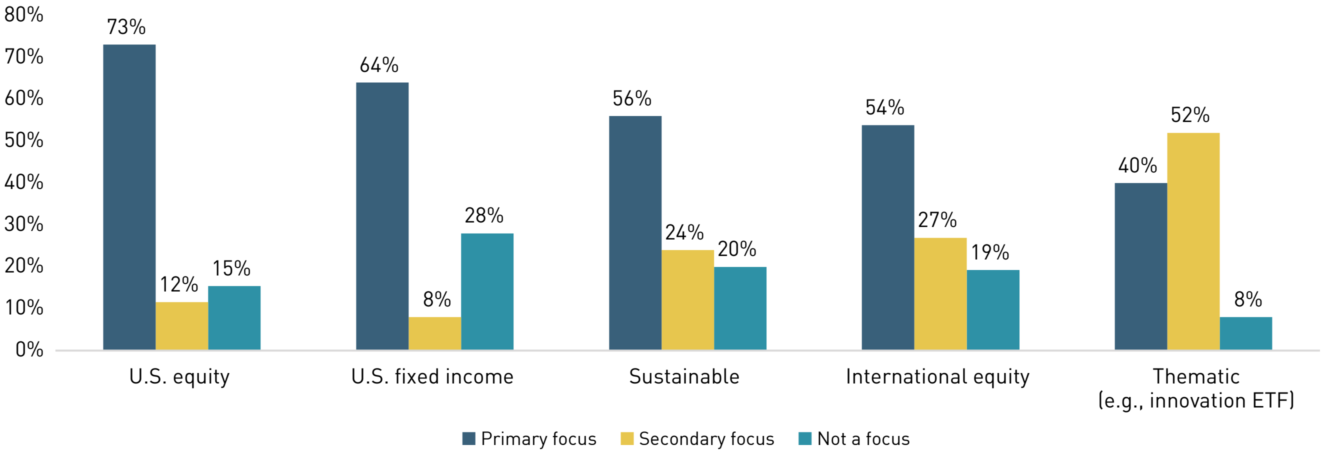
Source: Cerulli Associates

A Q2 2021 survey of model providers reveals that 65 percent of firms currently offer outcome-oriented models, and of those 93 percent are offering models focused on generating income.* This takes product selection off advisors' plates, allowing them to focus more on their clients, and leverages the model provider's portfolio construction expertise to combine income-producing strategies across asset classes. Right now, model portfolio providers are primarily using exchange-traded funds (ETFs) and mutual funds as building blocks for their income model portfolios.

** Datapoint not shown in table 5.*

FIGURE 6

ETF ISSUERS' TOP FOCUSES FOR NEW ETFs BY ASSET CLASS/STRATEGY, 2021



Analyst Note: Other responses (not shown) include strategic based products being a secondary focus.

Source: Cerulli Associates

FIGURE 6 HIGHLIGHTS: ETF issuers' product development focus remains on U.S. equity products and U.S. fixed income (73 percent and 64 percent rate them as a primary focus, respectively).

KEY IMPLICATIONS: With U.S. Securities and Exchange Commission Rule 6c-11 (the ETF rule) providing a quicker path to market for active ETFs, it's sensible that ETF issuers currently are focused on developing active equity and fixed income ETFs. Increasingly, fixed income ETFs will be a part of retirees' portfolios as more products come to market. These strategies can tap into the largest market opportunities by assets, but Cerulli Associates notes that a significant portion is placing importance on thematic as well as environmental, social, and governance (ESG) and socially responsible investing (SRI) products. They also play well to the ETF vehicle's clientele, which trends toward younger investors who can use such products to initiate ETF investment product use before expanding to a broader range of products. As such, advisors would be wise to learn about these offerings and be prepared to discuss them with younger investors.

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