American Century Investments®

Through the Rearview Mirror: A Retrospective as Pre-Retirees Express Regret; Offer Words of Wisdom to Younger Workers and Employers

HIGHLIGHTS OF A NATIONAL SURVEY AMONG PLAN PARTICIPANTS APPROACHING RETIREMENT

American Century Investments sponsored a national study in 2013 of pre-retirees to understand how they viewed their lifetime efforts to save and how their employers supported those efforts. Full-time employed plan participants between 55 and 65 were surveyed around their experiences.

Key Findings

- Pre-retirees have serious regrets about their efforts to prepare for retirement, and their feelings about how much they didn't save are the strongest.
- Redefining affordability is critical as people need help making better spending choices to find ways to save.
- Plan sponsor decisions around design features and available services are influential and can help people save successfully.

With the spotlight on the decisions of the now-retiring Baby Boomers and the buying habits of the completely connected Millenials, pre-retirees' experiences and opinions are often overlooked. This group of Americans is at an important juncture in which their actions – or inactions – of the past may significantly affect their futures. To learn more about this group's perspectives, American Century Investments® sponsored a study among workers between 55 and 65 to understand how these individuals view their lifetime efforts to prepare for retirement and to gauge their perceptions of how well their employer supported those efforts.

It turns out that pre-retirees express serious regrets about what they could have – and should have – done earlier in their careers. From saving more, learning more and paying more attention to everyday expenses, pre-retirees also offer advice for younger co-workers about charting a better path for their financial future. Furthermore, with retirement looming within the next 10 years, these individuals don't have the benefit of time to work for them. As a result, they're somewhat introspective about their saving behavior earlier in their working lives.

Expressing Regret

82% **AGREE**

"I wish I could talk to the younger me and tell myself to save more than I did."

Women and less wealthy individuals or those with lower incomes are more likely to express regret about their actions earlier in their lives.

76% **AGREE**

"When I was young, I underestimated how much I should be saving for retirement."

More than eight out of 10 acknowledged that they did not save enough for retirement during the first 10 years of their working lives.

57% **AGREE**

"Not saving enough was one of the biggest mistakes I made in life."

Consistent Barriers to Saving Early

Pre-retirees call out not earning enough as the primary reason they did not save earlier with procrastination and a focus on spending for an enjoyable lifestyle also being noted as barriers. Nearly 40 percent of pre-retirees said they started saving in their thirties, but more than one-quarter didn't start saving until age 40. A majority admitted they could have started saving earlier than they actually did. More than eight out of 10 acknowledged that they did not save enough for retirement during the first 10 years of their working lives.

In terms of their saving habits today, the average pre-retiree reports saving 16 percent of their income, perhaps in an effort to make up for lost time. In addition, they report similar barriers to saving today with not earning enough, paying off debt and covering unexpected expenses as the most common reasons.

Barriers That Keep Pre-Retirees From Saving

During the first 10 years of working	*Primary reason for not saving*	*Today*
45%	**You did not earn enough at your job**	**41%**
15%	**You simply put it off**	**5%**
45%	**You had to pay off debts**	**29%**
13%	**You were more focused on spending for an enjoyable lifestyle than on saving for the future**	**<.5%**
4%	**You had unexpected expenses**	**11%**
3%	**You were unsure about how to invest the money**	**4%**
3%	**You were not getting good advice about how much to save**	**3%**

In retrospect, the same group acknowledged they could have taken several steps earlier in their careers to have been able to save more, calling out simple budgeting changes they could have made. For example, a majority wished they would have paid more attention to everyday expenses like coffee and movie rentals or dining out. A common thread connects savings rates along with managing household finances.

Grading Themselves

Given their regrets about saving, it's not surprising that nearly one in five pre-retirees grades himself or herself a "D" or "F" in putting money away for the future. However, more than half would give themselves an "A or "B" when it comes to investing for retirement.

C+

Average: 3.33

Almost one in five say they deserve a "D" or an "F" in putting money away.

B-

Average: 3.51

Over half of pre-retirees would give themselves an "A" or "B" when it comes to investing for retirement, but almost half admit to not knowing very well what they were doing.

Negating Being Able to Afford to Save

Pre-retirees felt they should have taken the following actions to make more money available for retirement savings, responding "Definitely Should Have" and "Possibly Should Have."

Paid more attention to everyday expenses such as coffee, movie rentals, etc.	**58**%
Dined out less	**57**%
Conserved energy	**49**%
Made more lunches instead of buying them	**49**%
Taken a second job or found other ways to earn more money	**46**%

Pre-Retirees Have Fewer Concerns about Investing Decisions than Saving Habits

Although nearly half of pre-retirees acknowledge knowing very little about how to invest, they have few regrets about how they personally did in investing their retirement accounts. When asked what advice they would give to younger workers on what they should do better, pre-retirees are far less likely to name investment-related practices like rebalancing or diversification.

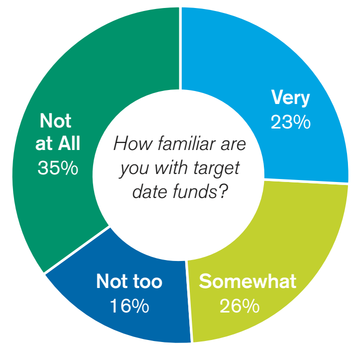
Rated as important	*Behavior*
98%	**Starting to save earlier**
97%	**Investing enough to earn an employer's match**
95%	**Contributing more**

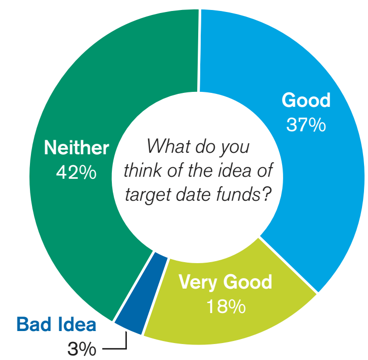
Although still focused on mistakes with respect to saving, pre-retirees note only one commonly-cited investing behavior as something they did well – taking advantage of an employer-sponsored plan.

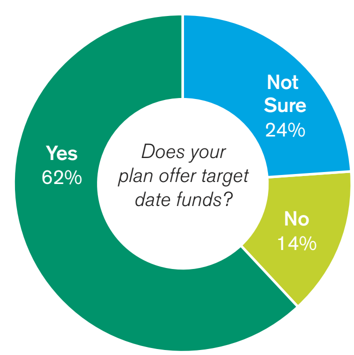
No more than a quarter of pre-retirees believe they did an "excellent" or "very good" job in the following areas of investing:

46%	**Learn more from the employer about plan**
33%	**Stay the course with the investment approach**
30%	**Know all of the plan choices offered**

Thoughts on Target-Date Funds







A target-date fund's target date is the approximate year when investors plan to retire or start withdrawing their money. The principal value of the investment is not guaranteed at any time, including at the target date.

Each target-date fund seeks the highest total return consistent with its asset mix. Over time, the asset mix and weightings are adjusted to be more conservative. In general, as the target year approaches, the portfolio's allocation becomes more conservative by decreasing the allocation to stocks and increasing the allocation to bonds and money market instruments.

Grading Employers

A majority of pre-retirees give high marks – "A" or "B" to their employers for offering a savings plan and administering it. However, less than half would give the same grades for providing proper support of the plan.

C+

Average: 3.38

Just under half of pre-retirees would give their employer a grade of "A" or "B" in terms of supporting their retirement plan with education, tools, and information.

B-

Average: 3.57

A majority of pre-retirees would give their employer a grade of "A" or "B" in providing a retirement plan that offers the opportunity to accumulate retirement savings.

Plan Sponsor Decisions Matter

Pre-retirees appreciate the employer's role in offering a plan, selecting a provider and choosing investment options. However, pre-retirees are looking for more help with respect to education programs, an area behind which sponsors and providers place a significant amount of resources. Given this group's feelings about saving or the lack of ability to do so, education programs might be more effective if they focused on managing household finances in an effort to "find" more money to save. Some 66 percent of pre-retirees agree that employers should require attendance at plan education programs. Pre-retirees are especially interested in educational programs and currently give low marks in programs related to both accumulating money for retirement and transitioning into retirement.

I wish my employer would...

Educate me in the workplace

74% AGREE

Require attendance at plan meetings

66% AGREE

Encourage early saving

55% AGREE

The field of behavioral science has lauded the predictably irrational behavior of people, particularly in matters related to saving and investing. The power of defaults has been proven to be effective in structuring benefit programs. And, according to the research, pre-retirees are receptive to plan design features – particularly automatic programs – and feel they would have helped them along the way. Some 58 percent believe automatic enrollment would have increased their retirement savings with three-quarters feeling that automatic increase would have made a different on their accounts. Furthermore, nearly six out of 10 agree that access to target-date funds would have helped increase their nest eggs.

Access to these features is believed to have had an increase on retirement savings:

Automatic Enrollment

58% AGREE

Automatic Escalation

73% AGREE

Target-Date Funds

58% AGREE

Plan sponsors' decisions may have lasting impact on individual participants. Sponsors can set up effective defaults to encourage higher savings rates and achieve diversification through a target-date series as the qualified default investment alternative (QDIA). Once the defaults are established, building education programs around financial wellness can help influence positive saving behavior among participants which, ultimately, gets them to a comfortable retirement.

Plan sponsors may be able to design a plan that provides participants a good chance of achieving a successful retirement. By adopting plan features that take advantage of defaults and then focusing communication and education programs on financial wellness, sponsors can establish a positive path to retirement.

• Optimize automatic features.

Consider automatic enrollment at a higher contribution level and apply automatic escalation to maximize participant savings rates. Most importantly, employ automatic enrollment retroactively to include all employees rather than just new hires.

• Reset communication and education programs to help participants redefine affordability – and make programs mandatory.

Current participant education programs focus on the importance of saving and the value of the employer-sponsored plan, two elements participants already understand and appreciate. Rather, focus on financial wellness and household budgeting. Help participants make small lifestyle changes to make saving affordable. Try simple trade-off exercises to help participants recognize where they can "find money" to save.

• Consider executing a re-enrollment into the plan's qualified default investment alternative (QDIA).

Sponsors can re-enroll all eligible employees into the plan's QDIA which could encourage suitable asset allocation. The majority of participants will most likely default, and those participants who are engaged investors will be faced with a mandated choice to evaluate their plan allocation. Since participants admitted to not fully understanding investing, a re-enrollment will help facilitate suitable allocation for that group.

Understanding pre-retirees' experiences may help frame better savings opportunities and education programs for more American workers.

Pre-Retirees Rate Employers in Supporting the Plan

Employers were rated "Excellent" and "Very Good" at providing pre-retirees the following:

43%	**a good range of investment options**
42%	**professionally-managed asset allocations**
38%	**retirement tools and calculators**
35%	**good retirement plan collateral information**
30%	**access to a financial advisor**
17%	**seminars and webinars on transitioning to retirement**
10%	**seminars and webinars on accumulating for retirement**

Actively Investing in Your Success℠

Since 1958, American Century Investments has been committed to helping investors and institutions reach their financial goals. Our culture is firmly rooted in the belief that we will only be successful when our clients are successful. We relentlessly focus on delivering superior investment performance and building long term client relationships. Our track record of performance, our private, independent business model and the legacy of our founder set us apart in the industry.

- Performance focus for more than 50 years
- Pure play business model
- Privately controlled and independent
- Profits with a purpose

Survey Methodology

The survey was conducted in February 2013 among 1,054 full-time employed individuals between the ages of 55 and 65 who are currently participating in their employer-sponsored retirement plan. Data were balanced to key demographics (income, gender and education) of all American private sector plan participants between 55 and 65 according to estimates from the 2012 U.S. Consumer Population Survey. Data collection and analysis were completed by Mathew Greenwald & Associates, Inc., of Washington, D.C.

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