NATIXIS INVESTMENT MANAGERS

CENTER FOR INVESTOR INSIGHT

The Million Dollar Question

Retirement sentiment among high net worth investors

The million dollar question: How much do I need to retire?

Ask someone how much they'll need to be financially secure in retirement and you're likely to get a nice round number – like one million dollars. In abstract terms, seven figures may sound like an audacious goal that, once achieved, should put investors on the road to a secure retirement. In reality, though, a cool million may be only table stakes in funding a retirement that could last 25–30 years.

To get a better fix on the level of security that this big number can provide, we tapped the 1,617 individuals who already have accumulated $1 million or more in investable assets who participated in the 2021 Natixis Global Survey of Individual Investors. We found that on the surface most (79%) say they will be financially secure in retirement, but deeper down they are far less confident.

In fact, millionaires were nearly as likely to say it will take a miracle to achieve a secure retirement (35%) as investors overall (40%). One key reason may be that the million-dollar mark may not be as significant as it once was.

35%

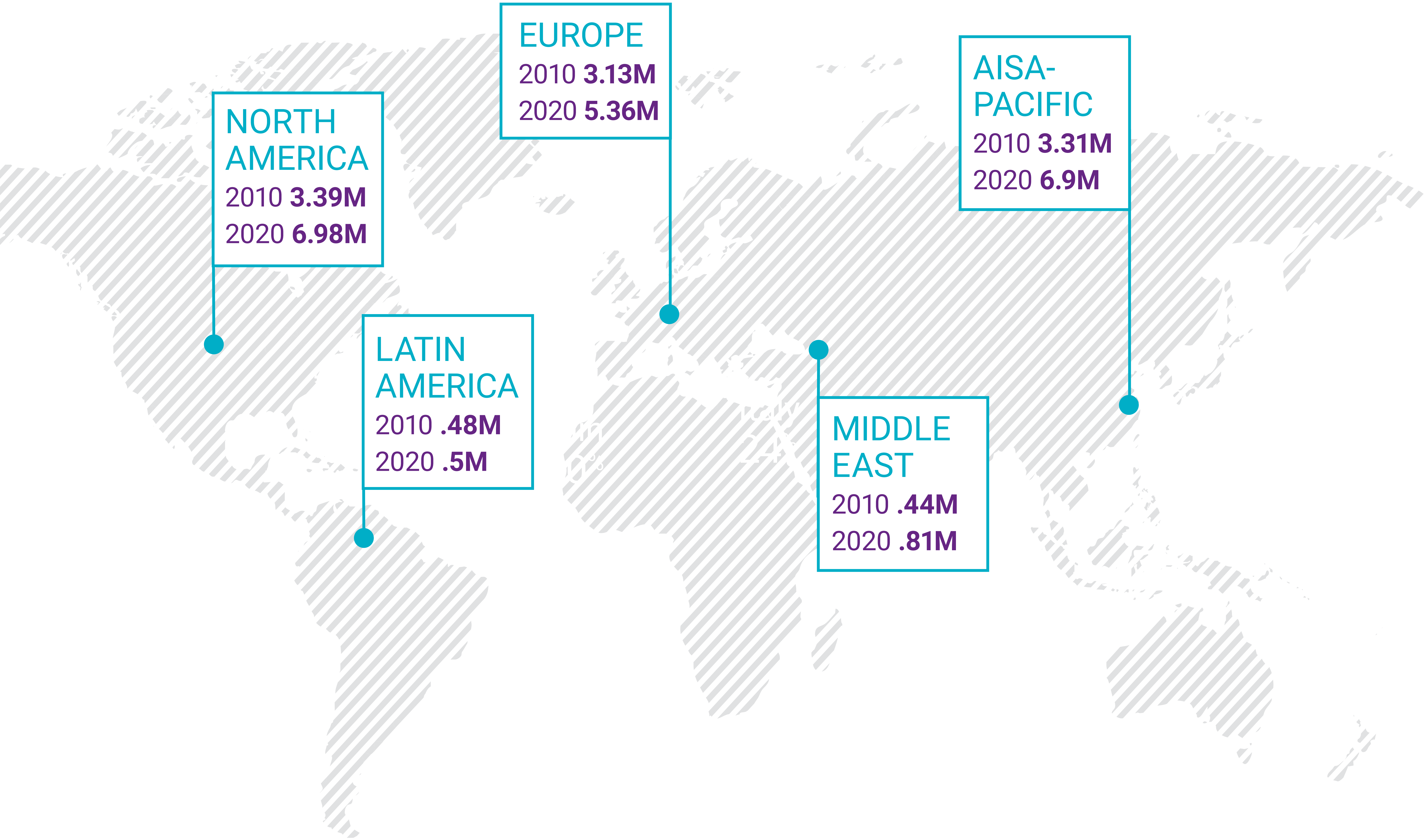
of millionaires say it will take a miracle to retire securely

A million ain't what it used to be

The millionaire handle has always held a certain mystique. But over time, the picture of wealth it paints has changed dramatically. Where our grandparents may have envisioned the Monopoly guy – Uncle Pennybags – as a millionaire, we're more likely to think of our neighbors. Gone are the top hat, morning suit and spats and in their place are a pair of jeans, running shoes, and a comfortable sweater.

It's not that a million dollars isn't a lot – it's still the qualifier for most definitions of High-Net-Worth Individuals (HNWI) – it's just that there are a lot more millionaires. In fact, Capgemini's World Wealth Report shows that the number of individuals at this asset level globally has nearly doubled from 10.9 million in 2010 to 20.8 million in 2020. That report finds large numbers of millionaires in North America (6.98 million), Asia (6.9 million) and Europe (5.36 million) alike.[1]

THE MILLIONAIRE POPULATION OF THE WORLD HAS NEARLY DOUBLED IN THE LAST DECADE



The rich are different than you and I

They have more money. But that may not make a difference in how they feel about their chances of achieving a secure retirement. Within the Natixis survey group, high-net-worth individuals report that they have accumulated more than four times the median assets of the overall population ($2 million vs. $450,000). But when it comes to their retirement savings, they are not as far ahead.

In fact, HNWI in the survey report median retirement savings of $625,000, which, while good, comes out to just 2.5 times the $250,000 median retirement savings of the overall survey population. Similarly, while an average retirement savings rate of 19.4% is impressive, it is still just under three percent higher than the overall average of 16.6%. As a result, it appears that while the numbers look good, the difference is not great enough to merit any substantial difference in sentiment.

Work poses big questions for millionaires, too

Banking $625,000 for retirement should elicit some level of confidence about the future – such as the 79% who say they will be financially secure in retirement – but it is not enough to remove lingering doubts about what the future may actually hold. In fact, like other investors, those in the high-net-worth group have many questions. Employment raises a significant issue for this group.

Even though they plan on retiring at the relatively early age of 63, almost six in ten (58%) say they accept the fact that they may have to work longer than they plan. This underscores one of the key problems of retirement planning, the unpredictability.

58%

Accept they'll have to work longer than planned

HOW MILLIONAIRES COMPARE

	Median Total Assets	Median Retirement	% Annual Income Saved	Goal Retirement Age
HIGH NET WORTH	$2 MILLION	$625,000	19.40%	63
GLOBAL	$450,000	$250,000	16.60%	62
GEN Y	$350,000	$150,000	17.10%	60
GEN X	$450,000	$250,000	16.10%	62
BOOMERS	$450,000	$250,000	16.50%	65

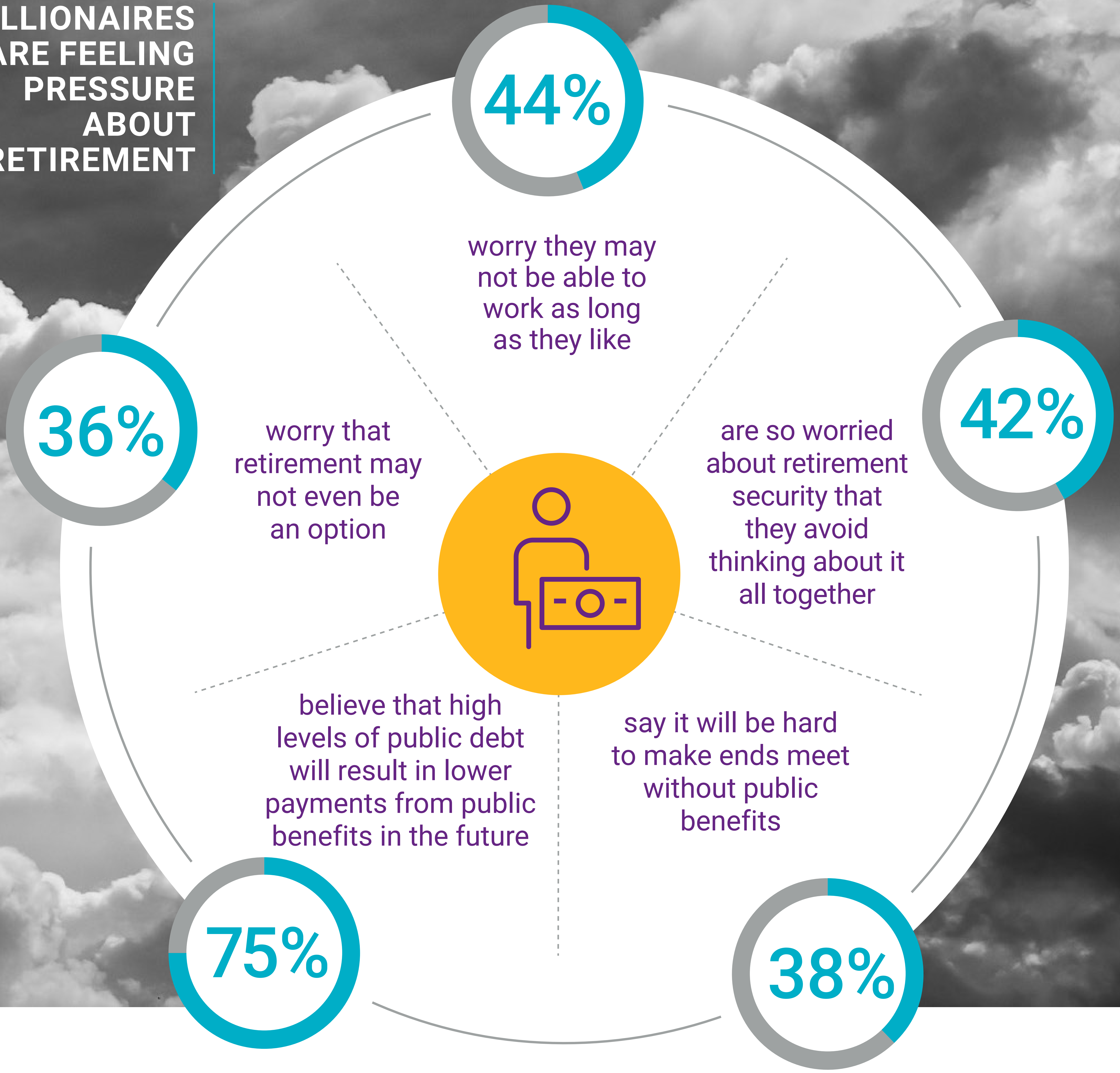
The retirement pressure is on

Any number of factors could demand working more years than planned: a change in finances, health issues that require extended insurance coverage, needing additional income to care for an elderly parent or support an adult child.

But as much as having to work longer can be an unforeseen challenge, 44% in this group worry they may not be able to keep working as long as they'd like. A late career layoff, or stepping aside to care for family can have just as much impact on retirement security.

Looking at a complex financial picture that may require dramatic changes can pose even greater challenges, and 36% worry that retirement may not even be an option. The pressures are real, even for high-net-worth investors, and they can feel overwhelming. In fact, 42% of those surveyed are so worried about retirement security that they avoid thinking about it altogether.

MILLIONAIRES ARE FEELING PRESSURE ABOUT RETIREMENT



Economic threats are growing

Even as they plan and save for retirement, high-net-worth investors recognize that there will be factors out of their own control that pose a threat to their security. Ranking near the top of the list is the viability of public retirement benefits, which even for higher-net-worth investors factor into retirement plans.

Public debt looms large

Three-quarters of wealthy investors are convinced that the high levels of public debt we see today will result in lower payments from public benefits in the future. This concern may weigh most heavily on the shoulders of the 38% of investors with one million plus in assets who say it will be hard to make ends meet without public benefits.

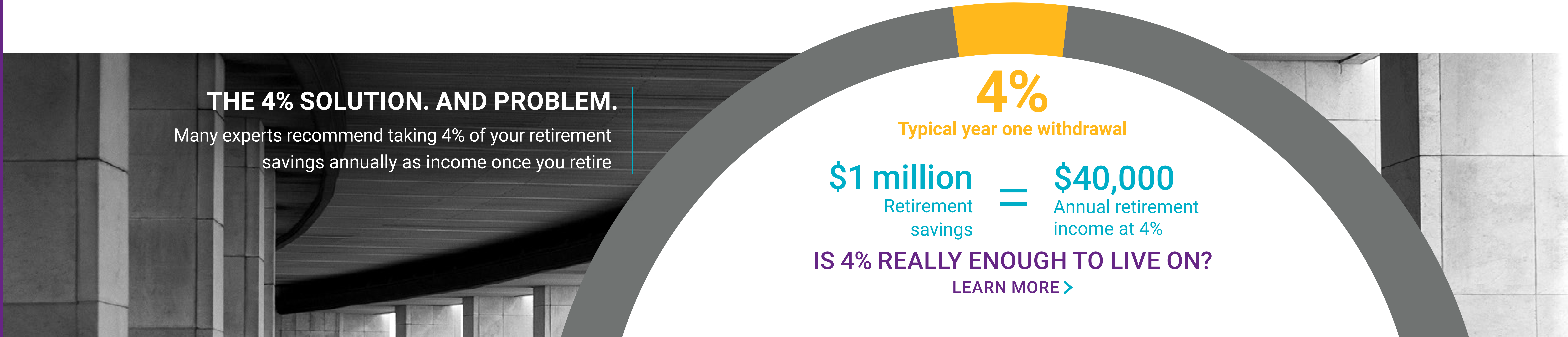
Why, many may wonder, would someone worth a million dollars worry about public benefit reductions? It comes down to a matter of scale. Reaching that magic one-million-dollar level may not translate into the comfortable lifestyle some may assume.

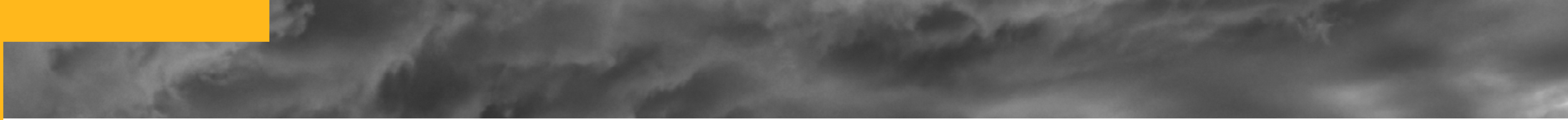
If retirees want to ensure their nest egg lasts 20 years or more , they'll need to moderate withdrawals. Most commonly, retirement income strategies call for taking 4% of assets as income in the first year of retirement and then only 4% plus the rate of inflation each year for future withdrawals. With a $1 million balance, this comes down to an income of just $40,000 as a starting point – a figure that is likely to be well below pre-retirement income for many. This is why investment professionals and financial planners recommend a three-pronged approach to retirement income that taps retirement savings, personal savings, and public benefits.

Inflation eating away at income plans

Nearly seven in ten also see inflation as a threat. After experiencing the highest inflation in 40 years, investors are wise to recognize the impact that rising prices can have on their finances in retirement. Essentially, when things cost more, their savings will not go as far.

While rapid increases in the cost of food and energy have been key inflation challenges in 2022, there are other costs that concern high-net-worth investors. Rising healthcare costs in particular pose a challenge. In fact, 65% of this group worry that healthcare and long-term care costs will impact their financial security in retirement.





Interest rates a low point

Compounding the problems posed by rising prices are the limitations of low interest rates. Low rates may seem like an ideal environment for consumers looking to finance big ticket items like homes and cars, but they're a big challenge for retirees. In retirement, low rates impede investors' ability to annuitize assets, leaving many with an income that is less than ideal. In fact, 58% of high-net-worth respondents recognize that low rates will make it difficult to generate an income off their savings.

While central banks have upped rates to combat rising inflation in 2022, the hikes will not bring immediate relief to retirees. It's important to note that even while higher rates could mean higher levels of income in the future, it also means that bonds that pay less could lose their value. And even though rates have increased, the Fed has only gone to 3.25%, the Bank of England to 2.25%, and the European Central Bank has only recently brought rates up to 0.75%, none of which translates into a tremendous income boost.[2]

Further compounding the problem is the spike in market volatility brought on by the combination of a 40-year high in inflation and interest rate hikes. Market turbulence can unnerve even high-net-worth investors. In fact, 56% of those surveyed believe market volatility undermines their ability to reach their retirement goals.

A tough year to retire

When it comes down to it, two of the fears expressed by high-net-worth respondents have come home to roost in 2022, making it a tough year to retire. With inflation high and rates going up, markets have become volatile, with the S&P 500® down as much as 23%.[3]

Those opting to retire in 2022 will not only be taking income from a retirement pot that could be down 10%–20% or more, but higher costs will mean they have to take more from their pot to cover expenses and will need to go beyond the traditional 4% plan. With their savings depleted faster than anticipated, it will be hard for retirees to recover their assets, as they have less time and may have a lower risk tolerance.

WHAT THE PROS KNOW It would seem that the millionaire population is concerned about the right issues when it comes to their retirement plans. The 2022 Natixis Global Survey of Financial Professionals[4] asked 2,700 advisors and planners in 16 countries for the biggest mistakes investors can make in their retirement plans. Their top five mistakes add up to a challenge for even the wealthiest investors.

1

DON'T FORGET INFLATION

Given the current economic environment, it's no surprise that they see underestimating the impact of inflation as the top retirement planning mistake. After a 20-year run with little or no inflation, this factor may have been easy to overlook and it is equally hard to forecast in the future. But retirement plans should consider this unknown variable by recognizing that spending will generally increase over time.

2

CONSIDER HOW LONG LIFE COULD BE

Another unknown also factors into planning mistakes: underestimating how long they will live. Over time, our surveys have shown that investors believe they will live for about 20 years in retirement. Two decades may be a good starting point, but many people will live longer.

In fact, OECD reports the average life expectancy past age 65 in G20 countries reached 21.3 years for women and 18.1 years for men between 2015 and 2020. Between 2060 and 2065 it is estimated that women will live 25.2 years past 65 and men will live another 22.5 years.[5] This is the average. Many will surpass these marks. Simply put, it's best to plan for more years than less.

3

SET REALISTIC INCOME GOALS

Financial professionals say over-estimating how much income assets will generate is another mistake. This is where the 4% formula is a powerful lesson. For example, in 2015 we asked 1000 defined contribution plan participants in the US how much annual income they could take from a $1 million pot and have the assets last 30 years. Only four in ten answered 4%. Another 17% said 8%. Overall, 43% thought they could take 10% or more and still preserve their assets.[6] Setting a realistic income goal is another critical retirement planning step.

4

BE MINDFUL OF RISK

Risk can often be perceived as a negative – like the losses investors may be seeing in 2022 – but there is a flip side to risk: reward. Retirees generally need to be more conservative about the level of risk in their portfolios. But financial professionals say there can be too much of a good thing. The next big mistake they see in retirement plans is retirees who are too conservative in their investments. For many retirees, the preservation of assets is a top goal, but with inflation looming, it's important to ensure that investment returns can outpace the cost of living, so a measured approach to risk is needed.

5

SET REALISTIC EXPECTATIONS FOR INVESTMENT RETURNS

Unrealistic return expectations are another critical mistake according to financial professionals. Our own research shows that expectations may already be out of step with markets. In 2021, high-net-worth investors said they expected long-term returns of 14.6% above inflation. Of course, this was before 2022's high inflation and after an 18% return for the S&P 500,® but professionals say it's more realistic for investors to expect 9.0% above inflation.

More challenges ahead

Financial professionals also say there are other retirement planning mistakes to avoid. One of the more telling is failing to factor in healthcare and long-term care costs. It's important to recognize that as individuals age, they may need more frequent and extensive medical attention. Depending on where they live, that could come at a significant cost.

They also say investors do not always understand the sources of their retirement income and many may be relying too much on public retirement benefits for their income.

It all underscores that regardless of how much money individuals accumulate, the transition from retirement saver to retiree is fraught with many challenges – challenges that can require professional advice. It's no wonder that retirement income planning is the number two service that high-net-worth investors want from their advisors.

So, how much is enough?

That truly is the million dollar question. If only there was a way to predict that need with accuracy. In reality, the best advice for retirement planning is to save early and often so individuals give themselves as much time to save and as much time as possible for compounding to help those assets grow. After all, when it comes down to it, even millionaire investors recognize that financing retirement is no small feat. In fact, more than one-third (36%) go so far as to say they worry that they'll never have enough money to retire.

TOP 10 RETIREMENT PLANNING MISTAKES

1	Underestimating the impact of inflation **49%**	6	Forgetting to factor in healthcare costs **39%**
2	Underestimating how long you will live **46%**	7	Failing to understand income sources **35%**
3	Overestimating investment income **42%**	8	Relying too much on public benefits **33%**
4	Being too conservative in investments **41%**	9	Underestimating real estate costs **23%**
5	Setting unrealistic return expectations **40%**	10	Being too aggressive in investments **21%**

Source: Natixis Investment Managers, Global Survey of Financial Professionals

About the survey

Natixis Investment Managers, Global Survey of Individual Investors conducted by CoreData Research in March and April 2021. Survey included 8,550 respondents in 24 countries.

About the Natixis Center for Investor Insight

The Natixis Center for Investor Insight is a global research initiative focused on the critical issues shaping today's investment landscape. The Center examines sentiment and behavior, market outlooks and trends, and risk perceptions of institutional investors, financial professionals and individuals around the world. Our goal is to fuel a more substantive discussion of issues with a 360° view of markets and insightful analysis of investment trends.

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1. Capgemini. (June 14, 2022). Number of high net worth individuals (HNWIs) worldwide from 2010 to 2021, by region (in millions) [Graph]. In Statista. Retrieved September 29, 2022, from https://www.statista.com/statistics/263488/millionaires-worldwide-by-region/
2. Bloomberg (as of October 3, 2022)
3. Bloomberg (as of October 1, 2022)
4. Natixis Investment Managers, Global Survey of Financial Professionals conducted by CoreData Research in March and April 2022. Survey included 2,700 respondents in 16 countries.
5. "Pensions at a Glance." OECD and G20 Indicators | OECD ILibrary, https://www.oecd-ilibrary.org/sites/a957e891-en/index. html?itemId=%2Fcontent%2Fcomponent%2Fa957e891-en.
6. Natixis Investment Managers, Survey of U.S. Defined Contribution Plan Participants conducted by CoreData Research, August 2015. Survey included 1,000 U.S. workers, 750 being plan participants and 250 being non-participants.

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