News Release

Corporate Communications

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Wells Fargo/Gallup Survey: If Tax-Deferred Saving in a 401(k) Is Eliminated, Nearly Half of U.S. Investors Would Save Less or Stop Saving

Investor optimism at 17-year high; nearly half of non-retired investors don't have retirement savings "number"

SAN FRANCISCO, December 12, 2017 –– The Wells Fargo/Gallup Investor and Retirement Optimism Index held steady in the fourth quarter at +140, statistically unchanged from +138 in the third quarter. The index is near its September 2000 high of +147. Three-quarters of non-retired investors in the survey have a 401(k) plan, and more than half – 57 percent – say the most valued feature of their plan is the "match contribution from their employer." The next most valued feature is the tax deferral on the money they contribute, which was noted by 33 percent. Forty-six percent say they would "save less" or "stop saving" in their 401(k) if the tax deferred status of their plan was taken away, whereas 42 percent say they would "save the same amount." The survey was conducted by telephone with 1,015 U.S. investors Nov. 1–5, 2017, 67 percent of whom are non-retired and 33 percent of whom are retired.

"The 401(k) plan has evolved into the greatest savings and investment vehicle that Americans have today to steadily build a retirement nest egg. Pre-tax savings has a direct impact on the level of savings that people achieve, and we have to recognize this as the country contemplates changes in tax policy. The employer-sponsored 401(k) is critical to allowing working people to save and invest over time," said Fredrik Axsater, executive vice president and head of Strategic Business Segments at Wells Fargo Asset Management.

Investors are generally optimistic about all seven aspects of the index, with especially strong optimism about economic growth, stock market performance and employment. Retired investors are more optimistic than non-retired, with an optimism index score of +151 versus +135 for non-retired investors.

According to the poll, 72 percent of investors are “somewhat” or “very optimistic” that they will be able to achieve their investment goals over the next five years, up from 52 percent of investors during the same quarter five years ago. Investor optimism generally tracks with market gains, as the S&P has gained nearly 100 percent since the fourth quarter of 2012.

Investors value guaranteed income stream in retirement but are unsure how to achieve it

Nearly all non-retired investors — 98 percent — “strongly agree” or “somewhat agree” that “it is important to have a guaranteed income stream in retirement, in addition to Social Security,” and yet there is confusion about how to get this additional income stream. Six in ten (61 percent) either “strongly agree” or “somewhat agree” that they want a guaranteed monthly income stream that lasts as long as they need it, even if that means “giving up access to some of their money.” But at the same time, 75 percent of non-retired investors either “strongly agree” or “somewhat agree” that they want the freedom to spend their money as they want in retirement, even if that means they may run out of money “too soon.”

Investors also are unsure about what products are available to provide them with a guaranteed income throughout retirement: 49 percent “strongly agree” or “somewhat agree” that they are unsure about these types of products.

The retirement sieve

More than half of non-retired investors (53 percent) have a savings “number” in mind for retirement, but 47 percent do not. Non-retired investors with a specific number in mind say $1 million (median) is the right objective, although 29 percent say $500,000 or less. Forty-one percent of non-retired investors have a specific savings number in mind and can also estimate what that sum will generate annually in retirement, but many of these estimates are unrealistic. Nineteen percent of non-retired investors have a savings goal in mind and a somewhat realistic assumption of withdrawing up 1 to 5 percent of their savings every year throughout retirement. The rest are unsure about what their annual draw down would be, or they estimate a number that amounts to more than a 5 percent annual withdrawal rate.

To put this in perspective, Wells Fargo Asset Management estimates that even with a five percent inflation-adjusted annual distribution there is a 20–30 percent risk of running out of money in retirement, assuming they are invested in a well-diversified investment portfolio.

Another point in the data: Investors who say they need to save a target of $1 million or more expect to draw 5 percent per year, on average, while those who say they need to save less than $1 million expect to draw an average of 7 percent per year. The latter group is aiming to save less but to withdraw a larger proportion per year in retirement.

“Setting a retirement savings goal — even if it’s an estimate — is a critical step in the process of managing one’s retirement outcome, but it’s hard to do. Further, it becomes even harder to try to estimate what one will harvest from savings each year of living in retirement. This is where our industry must come up with solutions that allow people to envision their savings needs and what that translates to in terms of annual draw down in retirement,” said Axsater.

Some interest in “social impact investing,” especially among female and younger investors

The survey asked investors about their views on “social impact investing,” which was defined for respondents as “choosing investments based on the effect they have on things like the environment, human rights, diversity and other social values, in addition to investment returns.” Female investors express more interest in investing in social impact investments, with 39 percent “very interested” or “somewhat interested” as compared with 26 percent of male investors. Younger investors appear more interested in this type of investing, with 39 percent of investors aged 18–49, “very interested” or “somewhat interested,” compared with 29 percent of investors age 50 and older.

There is encouraging news for employers who want to offer social impact investments to employees as part of their 401(k) portfolio options. Forty-four percent of non-retired investors with a 401(k) say they would “definitely” or “probably” put money in social impact investments if they had the option in their plan. Moreover, 34 percent of non-retired investors with a 401(k) say that including social impact investments as an option in a work-place retirement plan would make them feel “more positively” toward their employer. Of those non-retired investors who would feel more favorably about their employer, 53 percent are women and 47 percent are men**.** Only 6 percent of investors would feel “more negatively” toward their employer if these investments were offered.

Although only 10 percent of investors say they currently have money in social impact investments, 33 percent of investors say they are “very interested” or “somewhat interested” in social impact investments.

Investors are unclear about the performance of social impact funds in comparison to the market as a whole. Although 37 percent say social impact investing performs the same as the market average, 33 percent say these investments perform worse, and 28 percent are unsure. Just 2 percent say these types of investments perform better. More men (39 percent) than women (27 percent) say social impact investments will perform "worse" than the market average.

In the Wells Fargo/Gallup survey, investors were asked to rate their interest in each of three specific social impact themes. Seventy-eight percent of investors say they are "very interested" or "somewhat interested" in protecting the environment, 76 percent are "very interested" or "somewhat interested" in doing social good — such as promoting diversity and improving education — and 74 percent are "very interested" or "somewhat interested" in focusing on responsible corporate governance, including "ethics" and "behaviors."

Investment diversification

When asked their views on the riskiness of investing internationally, 57 percent say making international investments is "a little" or "a lot" riskier than U.S. investments. A quarter of investors (25 percent) see international investing as equal in risk to domestic investments, and 10 percent say international investing is "a little" or "a lot" safer than domestic investments.

Investors who view international investing as "riskier" than domestic investing tend to be older: 64 percent of investors older than age 50 view international investments as riskier, versus 48 percent of those 18–49. Fifty-three percent of investors who say investing abroad is more risky say it is because of the "potential for political instability" in these countries.

"The perception that international investing poses a higher risk is interesting, and it seems to be age-related, with older investors more likely to cite political risk as a factor than younger investors. Political risk exists in foreign countries, as well as the U.S., presenting a strong case for all investors to have a well-diversified, global portfolio," said Axsater.

According to the Wells Fargo Investment Institute outlook for 2018, some international equity markets look more attractive than domestic markets because the U.S. market is later in its growth cycle compared with international economies and markets.

About the Wells Fargo/Gallup Investor and Retirement Optimism Index

These findings are part of the Wells Fargo/Gallup Investor and Retirement Optimism Index, conducted Nov. 1-5, by telephone. The index includes 1,015 investors, aged 18 and older, randomly selected from across the U.S. with a margin of sampling error of +/- 4 percentage points. For this study, the American investor is defined as an adult in a household with total savings and investments of $10,000 or more. About two in five U.S. households have at least $10,000 in savings and investments. The sample size consists of 67% non-retirees and 33% retirees. Of total respondents, 41% reported annual incomes of less than $90,000; 59% reported $90,000 or more. The Wells Fargo/Gallup Investor and Retirement Index is an enhanced version of Gallup's Index of Investor Optimism, which provides the historical trend data. The median age of the non-retired investor is 47 and the retiree is 68.

The Index of Investor Optimism had a baseline score of 124 when it was established in October 1996. It peaked at +178 in January 2000, at the height of the dot-com boom, and hit a low of -64 in February 2009.

About Wells Fargo Asset Management

Wells Fargo Asset Management, a division of Wells Fargo Wealth and Investment Management, strives to help clients achieve their financial goals through top-tier investment options managed by specialized investment teams that are supported by independent risk management and backed by superior, collaborative service. With more than $496 billion in assets under management,* Wells Fargo Asset Management has 29 autonomous investment teams with specialized expertise and proven processes; more than 500 investment professionals; and a global reach with offices and clients around the world.

About Wells Fargo

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About Gallup

Gallup delivers analytics and advice to help leaders and organizations solve their most pressing problems. Combining more than 80 years of experience with its global reach, Gallup knows more about the attitudes and behaviors of employees, customers, students and citizens than any other organization in the world.