Janus Henderson INVESTORS

RETIREMENT CONFIDENCE REPORT 2022

In early October 2022, Janus Henderson Investors administered an online survey to better understand how individual investors are coping with a volatile stock market and rising inflation. The survey was distributed to over 250,000 randomly selected Janus Henderson Direct Business Channel (DBC) investors with a balance greater than $0 and a valid email address on file. The DBC caters to self-directed investors who have established Janus Henderson accounts without the assistance of a financial professional, although some may consult with an advisor for other aspects of their wealth.

For purposes of this report, the analysis of responses was restricted to investors age 50 and older and those who are the sole or shared financial decision-maker for their households. The final sample consisted of 1,926 investors who completed the full survey. The findings help answer the following seven critical questions regarding the attitudes and behaviors of investors in light of current economic conditions:

1. How concerned are individual investors about the **stock market and inflation?**
2. How have the **stock market performance in 2022 and rising inflation** impacted investors' retirement confidence?
3. Have individual investors **moved out of stocks and bonds** as a result of the current market conditions?
4. How have the **performance of the stock market and inflation levels** impacted investors' current and planned household spending behaviors?
5. Has the recent economic downturn changed **investor adoption and use of financial advisors?**
6. What are **individual investors' most desired investments** for generating retirement income?
7. What are individual investors' **expectations for the stock market one year from now?**

Within this report, each of the above questions is explored in three sections. First, the survey's overall findings are described. This section is ideal for the casual reader who is primarily interested in the high-level results of the survey. The second section is a more detailed analysis that explores the potential relationships among various investor demographics and certain attitudes, beliefs, and behaviors. This analysis was generated using several regression models, which offer the advantage of isolating the relationship between a single demographic characteristic and a particular outcome variable, holding all other demographic characteristics constant. For purposes of this report, a statistically significant relationship is defined as $p<0.05$. These models are not included in this report but are available upon request. Section three is an implications section that provides financial advisors and other financial services professionals with actionable ideas based upon our findings.

Sample demographics (n=1,926)

Age

50 – 59	21%
60 – 69	38%
70 – 79	30%
80 and older	11%

Gender

Male	74%
Female	26%

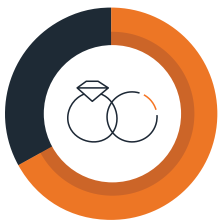
Ethnicity

White	89%
Non-white	11%

Education attainment

High school/ some college	23%
Bachelor's degree	34%
Postgraduate degree	42%

Marital status



Married/partnered	67%
Single	33%

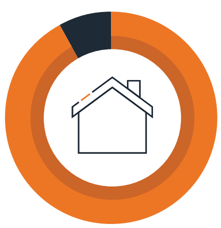
Decision-making

Sole decision-maker	70%
Shared decision-maker	30%

Retirement status

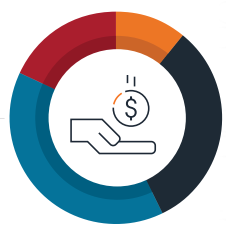
Retired	55%
Not retired	45%

Homeownership



Yes	92%
No	8%

Income

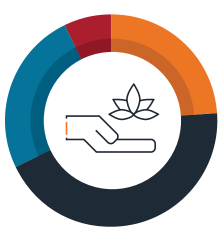


Less than $50,000	11%
$50,000-$99,999	32%
$100,000-$199,999	39%
$200,000 or greater	18%

Investments

Less than $500,000	21%
$500,000-$999,999	25%
$1,000,000-$1,999,999	26%
$2,000,000 and greater	28%

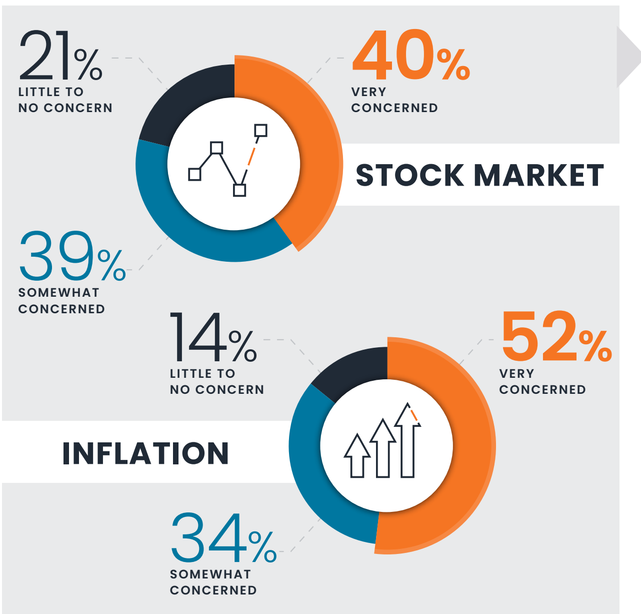
Health



Excellent	24%
Very good	44%
Good	25%
Fair/poor	7%

QUESTION 1:

How concerned are individual investors about the stock market and inflation?



Key findings

According to our survey results, **40%** of investors were "very concerned" about the stock market, **39%** were "somewhat concerned," and **21%** expressed little to no concern. Inflation proved to be an even greater concern for our respondents, as **52%** were "very concerned," **34%** were "somewhat concerned," and only **14%** had little to no concern.

A closer look

Gender appeared to play a partial role in the responses to this question, with females reporting a greater concern about the stock market than males, although no gender-based difference was found in responses regarding inflation. Another key finding was that investors still in the workforce were more worried about the stock market and inflation compared to retirees. Investors with less than $1M in assets were more worried than their wealthier peers about the stock market but were no more or less concerned about inflation. Finally, investors who self-described their health as "good' or "very good" were more concerned about both the stock market and inflation compared to those who reported being in "excellent" health.

Implications

From the financial advisor's perspective, investors who expect to spend more years in retirement will be more challenged to overcome market losses and may have to adjust their plans for retirement accordingly. Specifically, females – who on average have longer life expectancies than males – and pre-retirees, who must fund several years of retirement compared to much older cohorts, are likely to require a revised retirement income analysis. While the market decline has impacted all investors, budgetary adjustments and delayed retirement dates are more likely to be necessary for mass affluent clients at the lower end of the wealth distribution spectrum. Investors who have not yet left the workforce appear more concerned about inflation than retired investors, perhaps because of the many uncertainties associated with how their household budget will change in retirement. One silver lining is generous cost-of-living adjustments for Social Security recipients, which are magnified even further when coupled with delayed retirement credits. Finally, investors with health-related concerns or a history of health problems within their family will likely need to anticipate and budget for higher medical expenses in the future.

QUESTION 2:

How have the stock market performance in 2022 and rising inflation impacted investors' retirement confidence?

Key findings

45% of investors indicated that they felt less confident in their ability to have enough money to live comfortably throughout retirement as a result of market performance and inflation, while **54%** said their confidence has not changed. Only **1%** reported higher levels of confidence.

A closer look

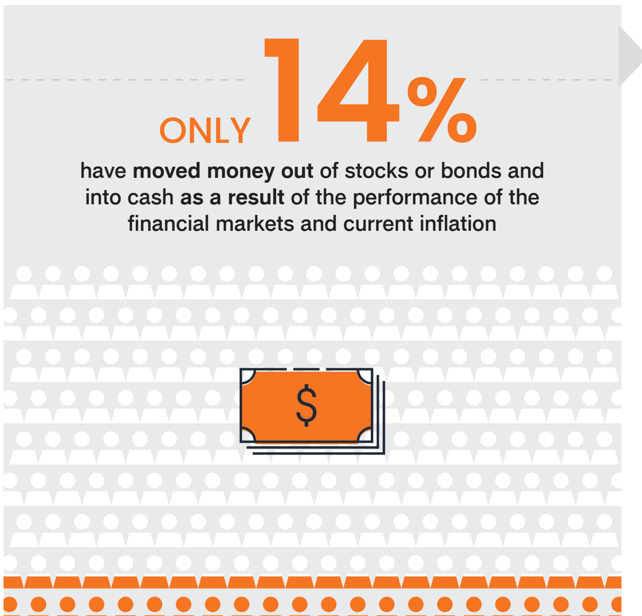
Perhaps unsurprisingly, the investor attributes that were associated with concerns about the stock market and inflation are nearly identical to those of investors who experienced a decline in retirement confidence. For instance, females were more likely to experience a drop in confidence compared to males. Long time horizons through retirement were also a key covariate as a decline in confidence was most commonly reported by younger cohorts and pre-retirees. Similarly, lower wealth cohorts and investors with self-described health other than "excellent" also reported a drop in confidence. One new result, however, was that white investors were more likely than non-white investors to report a drop in retirement confidence.

Implications

While retirement confidence has suffered, it has not collapsed entirely, as slightly more than half of investors reported no change in their confidence levels despite the recent stock market performance and inflationary environment. Nonetheless, almost half of investors may be feeling unnerved. As such, financial advisors should be proactively reaching out to clients to check in and inquire how they are coping with declining account balances. The good news is that financial advisors have an important role to play, as previous research has linked financial advisor use with higher levels of confidence. Encouraging clients to engage or re-engage in the financial planning process may also help boost confidence levels. This is important because high confidence levels have been found to be associated with "staying the course," particularly during periods of economic turmoil, and with implementing agreed-upon recommendations from a financial advisor.

QUESTION 3:

Have individual investors moved out of stocks and bonds as a result of the current economic conditions?



Key findings

Only **14%** of investors have moved money out of stocks or bonds and into cash as a result of the performance of the financial markets and rising inflation.

A closer look

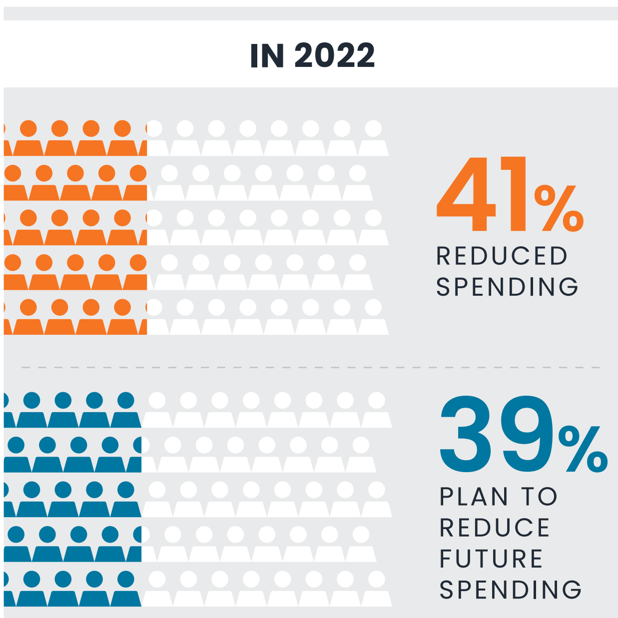
Males were more likely than females to have moved out of stocks or bonds in 2022. No other relationships were found among investor characteristics.

Implications

Some financial advisors may find it surprising that, while males seem less concerned about the markets and inflation and thus were less likely to have reported a drop in their retirement confidence, they were more likely than females to react, perhaps impulsively, to the market environment. This contradiction may be explained by known gender differences regarding investment behaviors, however. Research has found that males are more likely to display investment overconfidence, which is defined as the difference between what investors think they know and what they actually know. The larger the discrepancy, the more overconfident the investor. Research has also found that this overconfidence is associated with excessive trading and market timing, which has been linked with subpar investment performance. Thus, financial advisors who have developed “gender smarts” and who are able to incorporate lessons from behavioral finance and investor psychology into their client service model have a distinct advantage within the profession, particularly during periods of extreme market volatility.

QUESTION 4:

How has the performance of the stock market and inflation impacted investors' current and planned household spending behaviors?



Key findings

Approximately **41%** of investors reported that they have reduced their spending in 2022 as a result of the financial markets and rising inflation. A similar percentage, **39%,** plan to reduce their future spending. In aggregate, about half (49%) of investors have either reduced or plan to reduce their spending.

A closer look

Among our sample, the respondents who said they have reduced spending in 2022 were females, younger investors, individuals with lower wealth levels, and those who self-described their health as anything other than "excellent." Thus a pattern is emerging in which many of the investors who reported being most concerned about the stock market and inflation, and who reported a drop in retirement confidence, have taken the common-sense action of having already reduced their spending in 2022. One additional covariate that was positively associated with a reduction in spending was investors who shared responsibility for financial decision-making within their household compared to households with a single decision-maker. The regression model was re-run to include only married investors and the results were consistent.

Implications

Most of the research regarding sustainable withdrawal rates over the last 20 years points to the importance of mid-course corrections – that is, adjusting annual withdrawals downward following significant market drops to allow assets more time to benefit from eventual recoveries. Guiding clients through these withdrawal changes is where a practitioner can add value. Another important implication is the importance of shared financial decision-making between spouses or partners. Based on our findings, households that take a collaborative approach appear to be proactively adjusting their budgets. When it comes to certain tasks, many households employ a comparative advantage approach, where tasks are divided based upon each person's skill, free time, or simply the enjoyment obtained from completing the task itself. This approach may work for finances as well, but it's important to note that the non-engaged spouse risks missing out on valuable experience and education under this arrangement. Should the non-engaged spouse be required to make financial decisions in the future, their lack of experience could prove problematic.

QUESTION 5:

Has the recent downturn changed investor adoption and use of financial advisors?

Key findings

9% of investors have hired or plan to hire a financial advisor in 2022. Also, **13%** of investors are presently meeting or plan to meet more often with their existing financial advisors. Less than **2%** plan to change financial advisors as a result of the market downturn.

A closer look

The analysis that predicted investor characteristics associated with having hired or planning to hire a financial advisor found a positive relationship among females, pre-retirees, and respondents with investable assets between $1,000,000 and $1,999,999. Also, evidence found investors at the highest end of the income distribution and those in self-reported "good" health (compared to "excellent" health) were also likely to hire a financial advisor.

Implications

Major life events, as well as certain exogenous events such as the Global Financial Crisis, have been linked to the hiring of a financial advisor. In these cases, life transitions such as entering retirement or a sudden change in economic conditions acted as a catalyst for individuals to seek professional help. Many existing "do-it-yourself" investors shopping for a financial advisor are likely to rely on a recommendation from friends and family. Anecdotally, one of the lessons learned from the COVID-19 pandemic was that the use of Zoom and other technology for more frequent, but shorter, client interactions was found to be related to the best type of referral – one received without asking. It would appear that decreasing the time between interactions made it easier for clients to recall others who may be in need of financial advice. Thus checking in frequently may not only elevate the client experience but also keep advisors top of mind for referrals.

QUESTION 6:

What are the most desired investments for generating retirement income?

Key findings

Approximately **65%** of investors reported that they currently use, or intend to use, dividend-paying stocks to generate income in retirement. The next three most popular options were annuities (24%), taxable bonds (23%), and tax-free bonds (23%).

A closer look

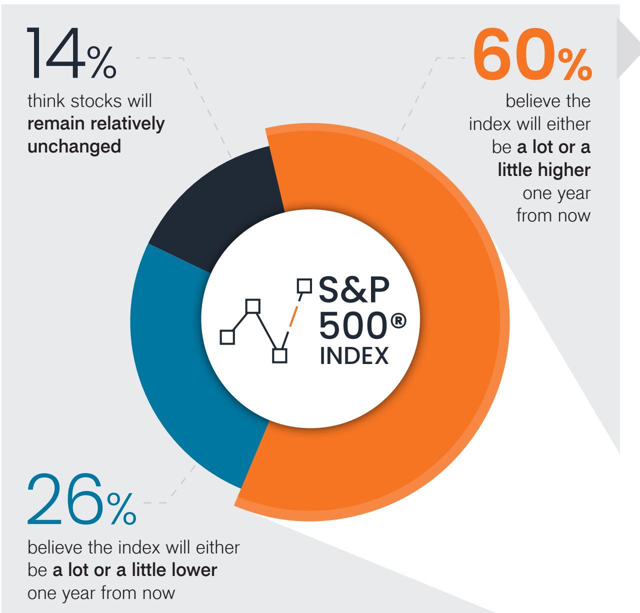
Respondents with investments of $2,000,000 or greater were more likely to use or intend to use dividend-paying stocks for retirement income compared to lower wealth cohorts. No other relationships were found among investor characteristics.

Implications

Based on our results, it appears that high-net-worth investors are prime candidates for dividend-paying stocks. While there are countless types of dividend-paying stocks, advisors might consider taking a global approach. Over the last 20 years, the U.S. has never been the highest dividend-yielding region. Further, while U.S. companies pay dividends quarterly, European and Asian companies pay annually or semi-annually, allowing shareholders to get the entire distribution in one or two payments. This structure also allows investment managers to employ a rotation strategy, overweighting Europe during dividend season (typically the spring) and then moving to other regions to capture additional income.

QUESTION 7:

What are individual investors' expectations for the stock market one year from now?



Key findings

About **60%** of investors believe the S&P 500® Index will either be a lot or a little higher one year from now, and **26%** believe the Index will either be a lot or little lower one year from now. **14%** of investors think stock market performance will remain relatively unchanged.

A closer look

Investor characteristics associated with believing stocks will be lower one year from now are having less than $2,000,000 in investments and being in good or fair/poor health, compared to investors who self-reported being in "excellent" health. Also, the youngest cohort (ages 50-59) was more likely to think stocks would be lower compared to the oldest cohort (age 80 and older).

Implications

The majority of investors believe brighter days are ahead for the stock market. About one-quarter, however, believe stocks are likely to head lower. These investors may be tempted to move to cash, despite some having an extended time horizon to retirement. When discussing the importance of remaining in the market with skittish clients, advisors may wish to incorporate known approaches in behavioral finance. For example, refocusing the client's attention from all-time market highs to considering whether they are still on track to meet their goals can be a powerful motivating factor. Another approach is to ask clients if they would have feelings of regret three, five, or 10 years from now if they were to sell and the markets eventually rebounded. This hypothetical situation can be empirically supported by pointing to how the stock market often provided generous returns immediately following previous bear markets. Finally, advisors should remember that investors are often influenced by the actions of others. Using the results of the study, advisors can reassure clients that their feelings of concern are warranted and shared by others, while also pointing out that most of their peers continue to remain invested and are optimistic about the future.

Final thoughts

Conducted in October 2022, this survey revealed some interesting findings about the state of today's investors age 50 and older. It would appear that most investors have concerns about both the stock market and inflation and, as a result, about half of investors have experienced a drop in their confidence in meeting their retirement goals. Despite these challenges, many investors are taking the common-sense approach of reducing their spending while very few have panicked and moved out of stocks. Further, about 9% of traditional do-it-yourself investors are preparing to engage an advisor. Lastly, the majority of investors believe stocks will be higher one year from now.

There are three additional takeaways that may be particularly helpful for financial advisors. First, clients who may be most unnerved by the current economic conditions and require the most immediate attention are females, pre-retirees, and those with health-related concerns. Advisors should focus on helping individuals who fall into these groups cope with their financial anxiety by offering emotional support and reassurance. However, it's important to note that while men reported feeling less concerned about the markets and inflation, they were more likely to react impulsively to the market environment and make poor investment decisions due to their tendency toward overconfidence. As stated earlier, advisors who develop "gender smarts" and incorporate investor psychology in their practices can help both male and female clients avoid bad behaviors and manage their emotions.

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Second, the survey findings reinforce the importance of taking a collaborative approach to household finances, as couples who do so have been proactive in addressing the adverse effects of market performance and rising inflation by reducing their spending. Finally, investors at the higher end of the wealth spectrum appear most interested in engaging a financial advisor and have a strong preference for dividend-yielding stocks to generate retirement income.

Contributors

Matt Sommer, Ph.D., CFA, CFP®

Head of Defined Contribution and Wealth Advisor Services | Janus Henderson Investors

Matt Sommer is the Head of Janus Henderson's Defined Contribution and Wealth Advisor Services Team. He serves as the firm's lead behavioral finance researcher and wealth strategist, where he and his team provide clients with insights regarding topics related to practitioner best practices, regulatory and legislative trends, and wealth planning strategies. Prior to joining Janus in 2010, Matt spent 17 years at Morgan Stanley Wealth management and its predecessors, Citi Global Wealth Management and Smith Barney, during which time his roles included director of financial planning and director of retirement planning.

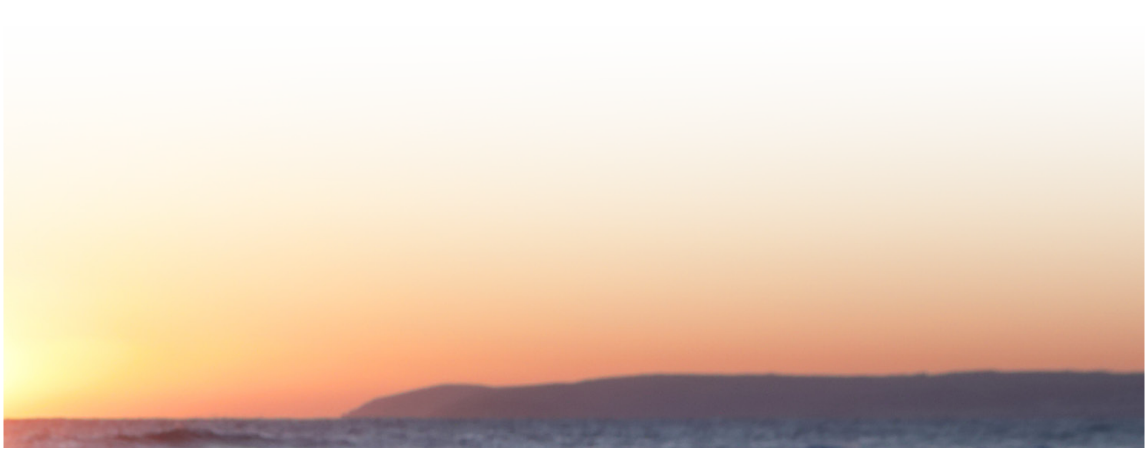
Matt received his bachelor's degree in finance from the University of Rhode Island and an MBA with a concentration in finance from Pace University, Lubin School of Business. He received a doctorate degree (dissertation: Three Essays Investigating the Bequest Intentions and Expectations of Older Adults) from Kansas State University. His doctoral candidacy research was selected for publication in the Journal of Financial Planning and the Journal of Personal Finance. Matt is a frequent guest on CNBC and Bloomberg TV and has been extensively quoted in various industry publications including the Wall Street Journal, Barron's, and Investment News, and is a regular contributor to Kiplinger. He has more than 28 years of financial industry experience.

Kansas State University Department of Personal Financial Planning

The Department of Personal Financial Planning at Kansas State University prepares students for an exciting career helping individual and families meet their financial goals. Students tackle quantitative courses in retirement planning, investment planning, tax planning, insurance planning, and estate planning, as well as course focused on understanding and helping individuals and families. The combined emphasis on understanding financial products and how they work, as well as the role of family in financial decisions, is unique to the program and prepares graduates to thrive in this in-demand profession.

The doctoral program was the first in the nation to conduct most of the curriculum online, allowing students from across the world to earn their doctorate from a respected university while continuing their lives where they live. They are one of four doctoral programs to be registered with the CFP board.

The Department of Personal Financial Planning is home to innovative research in financial therapy, financial planning, and financial counseling. The Financial Therapy Clinic is the first university facility in the nation dedicated to conducting cutting-edge clinical research related to financial therapy, financial counseling, and financial planning. Research integrated the psychological, emotional, and relational aspects of money. Recent research has focused on the office environment and stress as well as financial therapy modalities.



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