Vanguard® | VIEWPOINTS

How America Retires

Turning complexity into clarity

Providing clarity in a complex retirement landscape

Retirement can be complicated. But it doesn't have to be.

Introducing *How America Retires*, our new research report that provides a comprehensive look at the current defined contribution (DC) retirement plan landscape. In it, you'll discover insights, trends, and plan design considerations to help retirees with their spending and investing strategies.

Complementing *How America Saves, How America Retires* continues our in-depth analysis of the participant saving journey—from the first penny invested to the last one taken out.

With data and insights, *How America Retires* sheds light on the behaviors of DC plan participants, provides best practices for plan sponsors, and helps turn retirement uncertainty into retirement confidence.

Plan participants work hard. They deserve a good retirement. Let's work together to give it to them.

Section 1:

Landscape and background

The road to retirement

DC retirement plans are the centerpiece of the private-sector retirement system in the United States, covering more than 100 million Americans with more than $12 trillion in assets.[1]

Over the past two decades, the growth and performance of DC plans have been remarkable. Encouraged by the Pension Protection Act of 2006, plan sponsors have worked to strengthen DC plan designs, leading to improvements in participant saving and investing behaviors. As of year-end 2024, the average plan participation rate was 85%, the average total contribution rate was 12%, and 67% of participants were invested in a professionally managed allocation—all of which are at all-time highs.[2]

DC plan accessibility and use are on the rise for American workers as the availability of traditional defined benefit (DB) plans has decreased, with only 15% of private-industry workers now having access to a DB plan.[3]

Historically, DB plans were designed to provide workers with a reliable and predictable retirement income stream. But costs and administrative complexities have pushed many employers to transition their retirement saving programs to DC plans, providing workers with flexibility both in how much they save for retirement and the investment risk they take. And DC plans are portable, allowing workers to continue saving if they change employers.

But the ability to convert DC balances into an appropriate retirement income stream can be a challenge for many participants. As plan sponsors continue to improve the accumulation phase of retirement saving, uncertainty remains over the best way to help participants decumulate their savings during retirement. While automatic saving and investing solutions are incredibly effective in helping participants prepare for retirement, it's challenging to envision an "automatic income solution" that will serve a broad and diverse retiree population—given the individuality and personalization of every participant's retirement needs.

1 U.S. Department of Labor. *Private Pension Plan Bulletin Historical Tables and Graphs 1975-2022*, September 2024; and Investment Company Institute. *Quarterly Retirement Market Data, Second Quarter 2025*, September 2025.

2 *How America Saves 2025*. Vanguard.

3 U.S. Bureau of Labor Statistics. *15 Percent of Private Industry Workers Had Access to a Defined Benefit Retirement Plan.* The Economics Daily, April 19, 2024.

From saving to spending

After years of working and saving for retirement, shifting to retirement spending doesn't come naturally for some retirees. Advancements in plan designs have helped improve saving and portfolio construction, making the accumulation process relatively effortless for many plan participants. When they are automatically enrolled into retirement plans, automatically enrolled into annual escalation features, receive employer contributions, and are defaulted into a well-diversified, age-appropriate target-date fund, many participants are set up for success without needing to take any action. And strong retirement plans created to help participants save a total of at least 12% (participant and plan contributions) are designed to position most for a successful retirement.

There aren't similar automatic solutions for the decumulation phase. Planning for retirement is extremely individualized, as each worker's financial situation, goals, and lifestyle preferences are unique. Factors such as household savings, anticipated spending, investment risk tolerance, health and longevity risk, legacy goals, and debts vary among individuals, influencing how much money they will need and spend in retirement. Additionally, personal goals such as travel, hobbies, or supporting family members play a significant role in determining retirement income needs.

Social Security benefits, pensions, and other sources of income also differ among individuals, affecting the overall retirement income strategy. Tax considerations, such as the impact of withdrawals from retirement and nonretirement accounts, add another layer of complexity. Ultimately, a personalized approach ensures that retirement income planning aligns with an individual's specific circumstances, providing financial security and peace of mind.

Plan participant considerations: Careful planning required

Transitioning from saving for retirement to spending in retirement can be challenging. There are many decisions to be made and multiple complex factors to consider.

Work with an advisor?

When preparing for retirement, one of the first decisions is whether to use advice. Personalized advice can support one's needs during their working career as well as through retirement. In fact, working with an advisor can be especially beneficial in retirement. A capable, cost-efficient advisor can support retirees' unique needs and goals, provide personalized, expert financial guidance, and help boost financial peace of mind **(Figure 1)**.

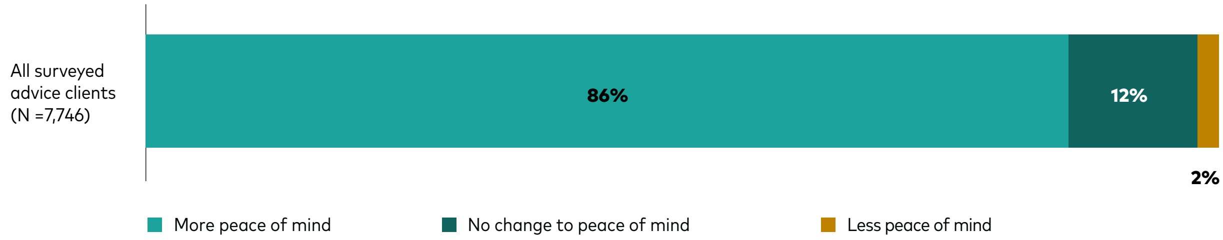
Saving a total of

12% to 15%

throughout a 35-year career, in an age-appropriate, well-diversified portfolio, when combined with Social Security, helps participants generate about 75% of their pre-retirement income in retirement.

Source: *The Vanguard Participant Saving Rate Index.* Vanguard, July 2022.

Figure 1. Percentage of investors that report getting emotional value from advice



Note: The survey question was: "Compared with managing my finances on my own, having an advisor/digital advisor service gives me (a lot less, less, neither more nor less, more, a lot more) peace of mind."

Source: *The Emotional and Time Value of Advice.* Vanguard, June 2025.

Remain in the plan or roll over to an IRA?

Once retired, plan participants must decide if they want to keep their assets in the retirement plan or roll them over to an IRA. This decision involves several factors:

- **Institutional pricing.** It's important to consider mutual fund fees, as retirement plans may offer investments with institutionally priced fees that may be lower than fees with investor share classes.
- **Fiduciary oversight.** Retirement plan fiduciaries are responsible for monitoring investment options, ensuring that fees are reasonable. They are legally obligated to act in the best interests of participants. Some financial advisors may also serve as fiduciaries.
- **Investment choices.** IRAs typically offer a wider range of investment options, including stocks, bonds, mutual funds, and exchange-traded funds. Conversely, some retirement plans offer stable value funds—which are fixed income, principal-preservation investments and are not available outside of DC plans.
- **Flexibility with withdrawals.** IRAs may offer more flexible withdrawal options than some retirement plans.
- **Ease of management.** Maintaining assets in a 401(k) plan may simplify management, especially if the retiree is familiar with the plan's investment options and administrative processes. Or a retiree may want to consolidate household assets with one firm and/or advisor to help streamline retirement accounts.

Health care

After years of being covered by an employer's health care plan, workers preparing for retirement need to plan for both expected and unexpected health care needs. It's crucial to understand the distinction between medical care, which is typically covered by health insurance, and long-term care, which is not. Nearly half of all individuals will need some form of paid long-term care, with women more likely than men to require extended care.[4]

Social Security strategies

When to claim Social Security is a highly individualized decision based on various factors. For most workers born after January 1, 1960, claiming at age 62 reduces the benefit amount by 30%, while claiming at age 70 increases it by 24%, relative to the benefit received at full retirement age. Many may benefit from later claiming strategies to increase longevity protection or maximize wealth. However, those with little to no risk of outliving their assets might benefit from early claiming.[5]

4 *Six Steps to Creating a Health-Aware Retirement Plan.* Vanguard, March 2025.

5 *Claiming Social Security Early: A Spectrum of Breakeven and Longevity Risks.* Vanguard, February 2025.

Roth accounts

It's difficult to predict what a retiree's future tax rate will be. There are many variables that could move a retiree into another tax bracket, including future tax laws, marital status, income level, and required minimum withdrawals.

A diversified approach that spreads assets across accounts with different tax structures can help reduce some of the potential future tax risk. Maintaining a mix of traditional (tax-deferred), Roth (tax-free), and taxable accounts can help manage tax exposure during retirement and can spread risk across different types of accounts.

As of year-end 2024, 18% of active participants were contributing to Roth accounts. And 36% of DC plans allowed Roth in-plan conversions **(Figure 2)**, which offer additional tax diversification flexibility and provide participants with the ability to convert all or a portion of their pre-tax and/or traditional after-tax assets into a Roth account.

Required minimum distributions

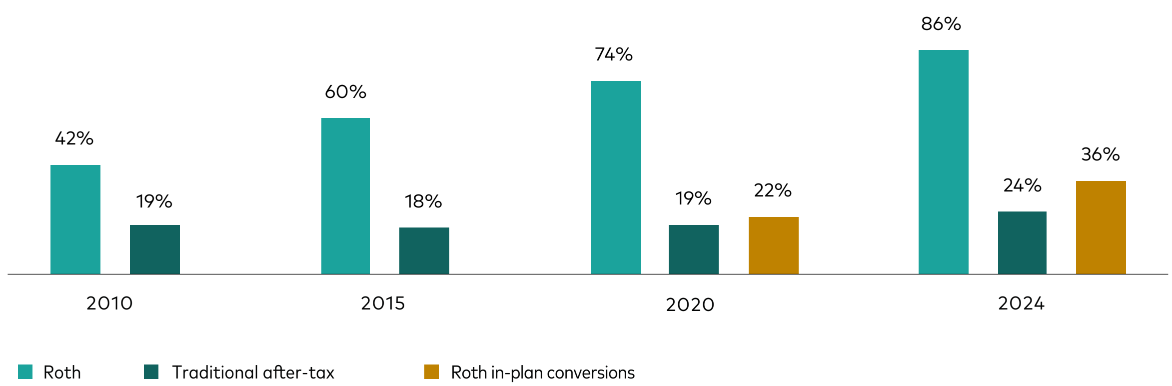
At age 73, individuals must begin taking annual minimum withdrawals from their tax-deferred retirement accounts, including 401(k) plans and traditional IRAs.

The SECURE 2.0 Act raised the age at which account owners must begin taking required minimum distributions (RMDs). Retirees older than 73 must take RMDs by December 31 each year. A retiree turning 73 must take their first RMD by April 1 of the following year. For each subsequent year, the retiree must take their RMD by December 31.[6]

Spending/Roth conversions between retirement and RMDs

Between ages 59½ and 73, participants have the option to annually revisit how to minimize future taxes. For example, if they have a large balance in a tax-deferred account—like a traditional IRA or a 401(k) plan—they might face high RMDs in the future. In these cases, they may consider withdrawing more assets in the years leading up to their RMD age, decreasing future RMDs because of a smaller account balance. Or they may consider converting a portion of their traditional pre-tax or after-tax account into a Roth account, which isn't currently subject to RMDs or taxes when withdrawn in retirement.

Figure 2. Percentage of plans offering Roth and traditional after-tax contributions



Source: Vanguard 2025.

6 Active participants are not required to take RMDs from their current DC plan.

Market risk

Market risk is the chance that investment losses will reduce the value of a retirement portfolio. While every investor faces market risk, it can have a bigger impact on retirees as income needs continue regardless of market conditions—and there's less time to recover from losses.

A form of market risk unique to retirees is sequence-of-returns risk. Market downturns that occur early in retirement can increase the risk of running out of money, can reduce total income, and can leave behind smaller balances. Even with strong long-term returns, the timing of gains and losses can lead to very different outcomes for retirees with similar strategies. A disciplined investment approach, thoughtful asset allocation, and awareness of timing risk are important for long-term sustainability.

Inflation risk

Inflation can lead to increased prices and erode purchasing power, so for retirees living on a fixed income, it means their money won't go as far as it used to. This can make planning for long-term retirement needs challenging.[7] Portfolios without growth-oriented investments may be especially vulnerable.

Inflation also affects people differently. While some costs may drop in retirement, others—like health care—often rise faster than during working years. Standard inflation measures don't always reflect these personal realities.

Longevity risk

While retirees fear market downturns, outliving their savings is often a greater risk. Market returns shape the path of your wealth, but it's longevity that determines whether you run out of money.

With people living longer, it's not unusual for retirement to last 20 to 30 years or more, especially for healthy individuals and couples.

Longevity risk doesn't affect everyone equally. Factors such as gender, health, and income all play a role. Women tend to live longer and are more likely to depend on a single income later in life. Those in higher-income households also tend to live longer; while those relying on portfolio withdrawals for essential expenses are more exposed to longevity risk, which makes planning even more important.

Ultimately, workers have a lot to think about as they financially plan for retirement. As plan sponsors decide how to best prepare their participants for retirement, there are philosophical and plan design strategies that are important to consider.

Plan sponsor considerations: Retirement plans as destinations

Plan sponsors should decide if they want their DC plan to serve the needs of retired participants. Some sponsors may prefer to focus primarily on the accumulation phase of retirement planning and encourage former participants to roll their assets out of the plan. However, as modern plan design features such as automatic enrollment, annual escalations, and target-date funds have greatly improved the accumulation phase of retirement saving, many plan sponsors are now including retirement income options designed to help participants through retirement.

After years of helping their participants save and invest for retirement, many plan sponsors want to provide their retirees with support and guidance through the retirement years. There are several plan features that can help create a retiree-friendly retirement plan.

Advice

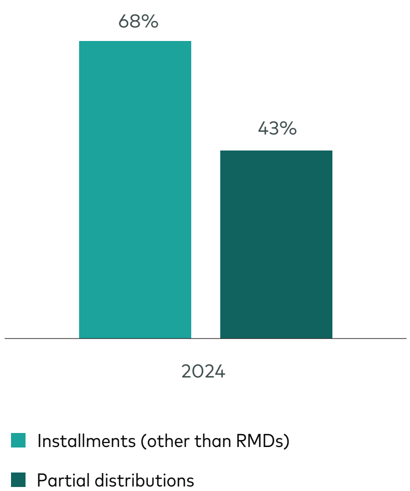
Personalized advice in a retirement plan can support a participant's needs during their working career as well as help them through retirement. Offering low-cost, high-quality advice can support all participants with their unique needs and goals; provide personalized, expert financial guidance; and help boost financial peace of mind.

7 *How Long Will My Retirement Savings Last?* Vanguard.

Installments

Installment payments can be a valuable feature for retirees, offering structure in managing retirement income. As of year-end 2024, 68% of plans offered installment payments to their retirees, up from 58% of plans 10 years ago **(Figure 3)**.

Figure 3. Distribution options



Source: Vanguard 2025.

Partial withdrawals

Ad hoc partial withdrawals are an increasingly popular feature providing unlimited flexibility for retirees. As of year-end 2024, 43% of plans offered ad hoc withdrawals for retirees, up from 13% of plans a decade ago **(Figure 3)**.

Annuities

Annuities help retirees turn their retirement savings into a reliable income stream. As participants explore retirement income options, providing them with access to institutionally priced annuities can help educate those who may favor predictable income and want protection against outliving their savings.

Consolidate retirement savings

Plan sponsors can help participants consolidate their retirement assets throughout their careers, enabling them to retire with a single, more manageable account. This includes allowing and encouraging rollovers of existing retirement savings not only when participants are actively employed, but also after they leave.

Investment strategies

Investment strategies provide participants with a strategic asset allocation they can hold through retirement. Target-date funds can serve as a starting point for portfolio construction, and participants can adjust their allocation based on different risk tolerances. When considering target-date funds as one fund, plan sponsors offer an average of 17.5 funds, typically from a diverse set of asset allocations classes (domestic equities, international equities, bonds, stable value, and money market funds).

Building on the adoption of target-date funds, hybrid annuity target-date funds have emerged, integrating guaranteed income within a multiasset portfolio. And when considering the needs of participants and their typical preference to decrease investment risk as they age, it's important for sponsors to consider various fixed income investment options. This could include funds that incorporate both index and active management or segments of the global fixed income market to allow participants to tailor investments to their needs.

Automatic portability

Automatic portability is a distribution default option for small plan balances. Without an affirmative participant election, auto portability automatically transfers a terminated participant's small balance account to their new employer's plan when they change jobs. This feature helps preserve small balances, which are critical building blocks to retirement outcomes.

Financial wellness and guidance

Financial wellness and guidance equip retirees with essential resources to effectively manage their retirement spending. Modeling tools, calculators, and educational content can help retirees determine how long their savings could last through retirement and how to think about different aspects of retirement, both financial and nonfinancial.

Section 2:

Careful considerations—Decisions for retirees

Plan participant behaviors

When planning for retirement and for years of retirement income, DC plan participants have an important decision—whether to remain in the plan or roll over their assets to an IRA or another qualified retirement account.

The ability to remain in the plan

Upon a retiree's separation from service, plan sponsors have the option to distribute the former employee's vested account balance without additional consent if that balance is below a statutory limit. Historically the limit was $5,000, but it was increased to $7,000 through an optional provision of SECURE 2.0 Act, effective for distributions made after December 31, 2023.

Plan distributions between $1,000 and $5,000 in some plans and between $1,000 and $7,000 in other plans are generally rolled over automatically to an IRA unless the participant elects otherwise—this is the most common plan provision, with 86% of plans electing this design in 2024 **(Figure 4)**. Two percent of plans allowed participants with any balance (including those of less than $1,000) to remain in the plan, and 12% of plans permitted any balance of more than $1,000 to remain in the plan.

Most plan sponsors permit indefinite deferral of savings, meaning that retiree balances can remain in the employer plan if they are above the distribution threshold. However, 2% of sponsors required terminated participants to leave the plan by age 65 or age 70.

All retirees have the option of taking a lump-sum cash distribution, but they will incur a possible income tax liability (and a 10% penalty if they are younger than 59½).

Figure 4. Frequency of automatic distributions, 2024
Vanguard defined contribution plans

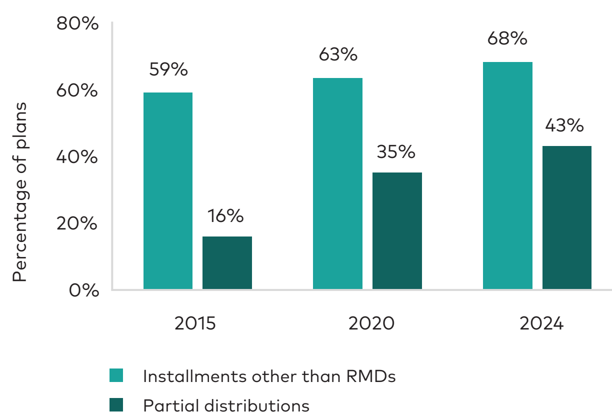
Number of participants	All	<500	500–999	1,000–4,999	5,000+
Percentage of plans offering					
Remain in plan (no automatic distribution)	2%	2%	1%	2%	2%
Automatic cash-out if balance is <$1,000, remain in plan if balance is higher	12%	12%	8%	13%	20%
Automatic cash-out if balance is <$1,000, roll over if balance is between $1,000 and $5,000	29%	34%	23%	22%	30%
Automatic cash-out if balance is <$1,000, roll over if balance is between $1,000 and $7,000	57%	52%	68%	63%	48%
Percentage of participants offered					
Remain in plan (no automatic distribution)	2%	2%	1%	2%	1%
Automatic cash-out if balance is <$1,000, remain in plan if balance is higher	18%	11%	8%	13%	21%
Automatic cash-out if balance is <$1,000, roll over if balance is between $1,000 and $5,000	26%	28%	22%	21%	27%
Automatic cash-out if balance is <$1,000, roll over if balance is between $1,000 and $7,000	54%	59%	69%	64%	51%

Source: Vanguard 2025.

Flexible retirement income features

Installments and ad hoc partial withdrawals are increasingly popular plan design features. In 2024, 68% of plan sponsors allowed participants to establish installment payments; 43% of plans permitted terminated participants to take partial ad hoc cash distributions, up from 16% in 2015 **(Figure 5)**. If a plan does not offer ad hoc distributions, it requires any terminated retiree seeking to use any part of their retirement savings to withdraw or roll over the entire account balance. When plans offer an ad hoc distribution feature, a plan can be used directly as a flexible source of income and withdrawals.

Figure 5. Distribution option trends
Vanguard defined contribution plans



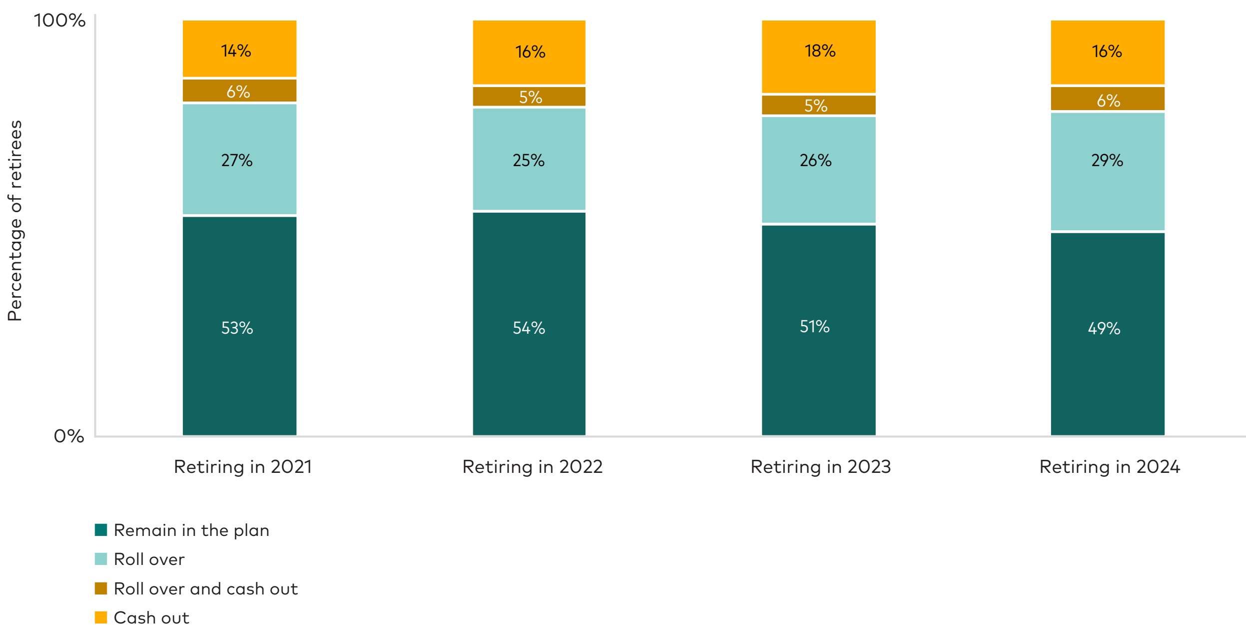
Source: Vanguard 2025.

Initial retiree decisions

The most common first decision for retirees is to remain in the plan. When examining initial retiree[8] behaviors over the past four years, many retirees were still in the plan by the end of their retirement year **(Figure 6)**. Fifty-three percent of workers who retired during 2021 still maintained a balance in their plan at the end of that year, while 27% rolled over their assets and 14% cashed out of their retirement plan. Initial retiree decisions have remained similar over the last four years.

Since 2021, retirees who initially decided to roll over their assets or roll over their assets while also taking a distribution tended to have modestly higher balances than those remaining in the plan **(Figure 7)**. Many retirees who remained in the plan had sizable account balances, however, with about one-quarter of them having balances of more than $300,000. Conversely, about 15% of retirees who cashed out their retirement plan during their retirement year typically had significantly lower balances, with the median distribution at about $7,000. They were most likely shorter-tenured employees with other retirement assets and were using their retirement plan for immediate retirement income (they would not be subject to the 10% early withdrawal penalty because they would be older than 59½). While 14% of 2021 retirees cashed out their retirement plan, this only represented 2% of the total assets of all 2021 retirees. Ninety-eight percent of the retirement assets were either preserved for retirement, rolled over, or distributed as both a rollover and a cash-out.

Figure 6. Initial retiree decisions
Vanguard defined contribution plans



Source: Vanguard 2025.

8 Retirees are defined as any participant who terminates employment and is at least 60 years old.

Figure 7. Retiree balances by initial decision
Vanguard defined contribution plans

2021 retirees	Remain in the plan	Roll over	Roll over and cash out	Cash out
Percentage of total 2021 retirees	53%	27%	6%	14%
75th percentile	$307,361	$367,592	$438,749	$25,564
Median	$94,345	$138,216	$154,880	$7,209
25th percentile	$22,405	$40,089	$45,284	$1,264
Average	$259,366	$287,961	$338,289	$29,646

2022 retirees	Remain in the plan	Roll over	Roll over and cash out	Cash out
Percentage of total 2022 retirees	54%	25%	5%	16%
75th percentile	$353,735	$424,855	$456,162	$31,364
Median	$112,718	$156,174	$171,015	$8,839
25th percentile	$27,393	$43,392	$48,855	$1,713
Average	$302,660	$323,898	$360,096	$32,843

2023 retirees	Remain in the plan	Roll over	Roll over and cash out	Cash out
Perentage of total 2023 retirees	51%	26%	5%	18%
75th percentile	$276,281	$343,770	$361,154	$22,369
Median	$84,465	$126,376	$136,613	$6,137
25th percentile	$19,792	$34,634	$37,354	$1,301
Average	$235,175	$266,796	$301,238	$26,442

2024 retirees	Remain in the plan	Roll over	Roll over and cash out	Cash out
Percentage of total 2024 retirees	49%	29%	6%	16%
75th percentile	$330,491	$409,182	$406,318	$26,374
Median	$102,914	$142,092	$139,607	$7,707
25th percentile	$26,098	$36,816	$36,072	$1,580
Average	$284,808	$314,752	$326,966	$30,458

Note: Balances are as of the year-end before retiring.
Source: Vanguard 2025.

When examining retirees' equity exposure, the median equity allocations of those who rolled over assets and those who remained in the plan were incredibly similar **(Figure 8)**. In 2021, retirees who rolled over assets had a dispersion of 25 percentage points for the middle 50th percentile of their equity exposure. Twenty-five percent of retirees had an equity exposure below 49% and another quarter was above 74%. Retirees who remained in the plan also had a similar separation of the middle 50th percentile, with just slightly lower equity allocations. Retirees who cashed out were separated by 16 percentage points, most likely because of increased target-date fund use.

Figure 8. Retiree equity exposure by initial decision
Vanguard defined contribution plans

2021 retirees				
	Remain in the plan	**Roll over**	**Roll over and cash out**	**Cash out**
Percentage of total 2021 retirees	53%	27%	6%	14%
75th percentile	71%	74%	76%	60%
Median	59%	59%	59%	56%
25th percentile	45%	49%	42%	44%
Average	57%	59%	58%	54%

2022 retirees				
	Remain in the plan	**Roll over**	**Roll over and cash out**	**Cash out**
Percentage of total 2022 retirees	54%	25%	5%	16%
75th percentile	67%	69%	70%	57%
Median	57%	57%	57%	57%
25th percentile	45%	45%	40%	45%
Average	54%	55%	54%	50%

2023 retirees				
	Remain in the plan	**Roll over**	**Roll over and cash out**	**Cash out**
Perentage of total 2023 retirees	51%	26%	5%	18%
75th percentile	64%	66%	67%	55%
Median	55%	55%	55%	55%
25th percentile	43%	43%	38%	43%
Average	53%	53%	52%	50%

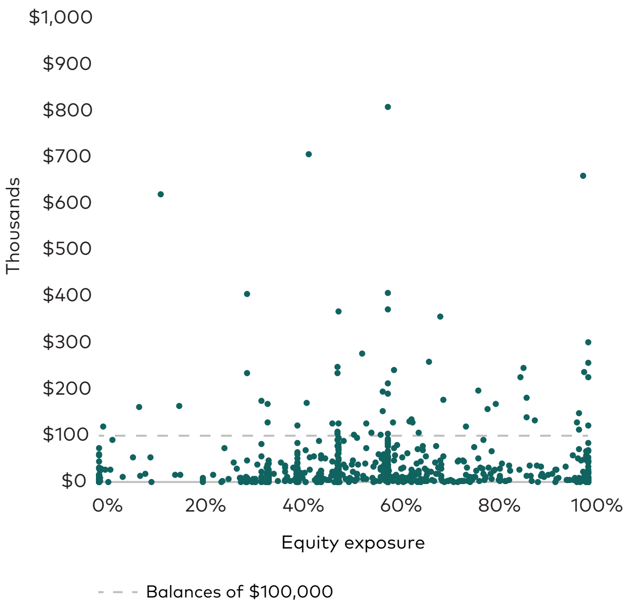
2024 retirees				
	Remain in the plan	**Roll over**	**Roll over and cash out**	**Cash out**
Percentage of total 2024 retirees	49%	29%	6%	16%
75th percentile	65%	69%	68%	62%
Median	53%	55%	54%	53%
25th percentile	40%	45%	40%	40%
Average	54%	56%	53%	50%

Note: Equity exposure is as of the year-end before retiring.
Source: Vanguard 2025.

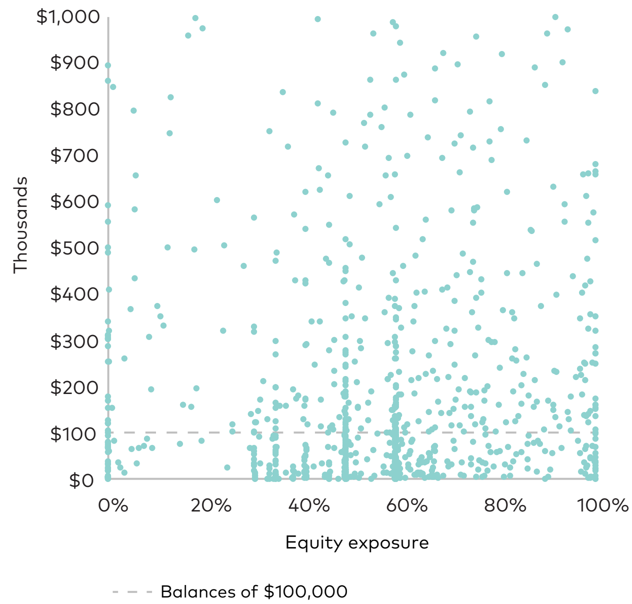
Examining the characteristics of 2021 retirees, 94% of retirees who cashed out their retirement plan had a balance of less than $100,000 **(Figure 9)**. For those who remained in the plan or rolled over their assets, about 50% to 60% had balances of greater than $100,000.

Figure 9. Balance and equity characteristics, 2021 retirees
Vanguard defined contribution plans

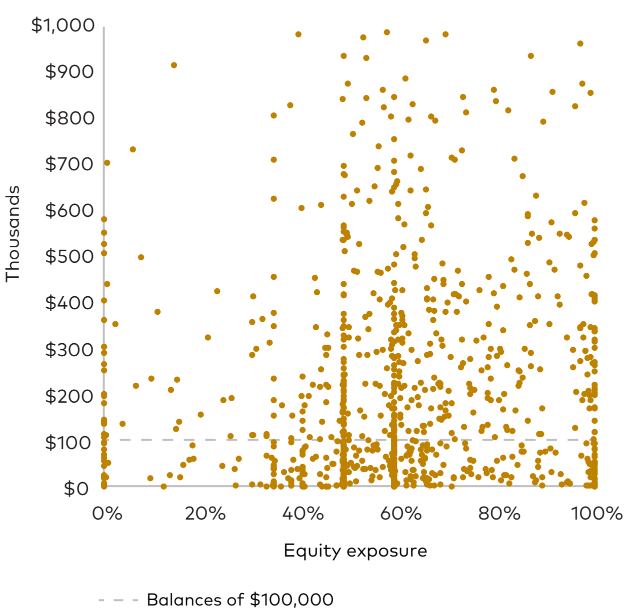
A. Cash out



B. Remain in the plan



C. Roll over



Note: Each chart includes a random sample of 1,000 participants drawn from their respective samples. Balances and equity exposure are as of year-end 2020 and balances above $1 million were excluded from the visualizations (0.1% of cash-outs, 5% of remain in plan, 5% of rollovers).
Source: Vanguard 2025.

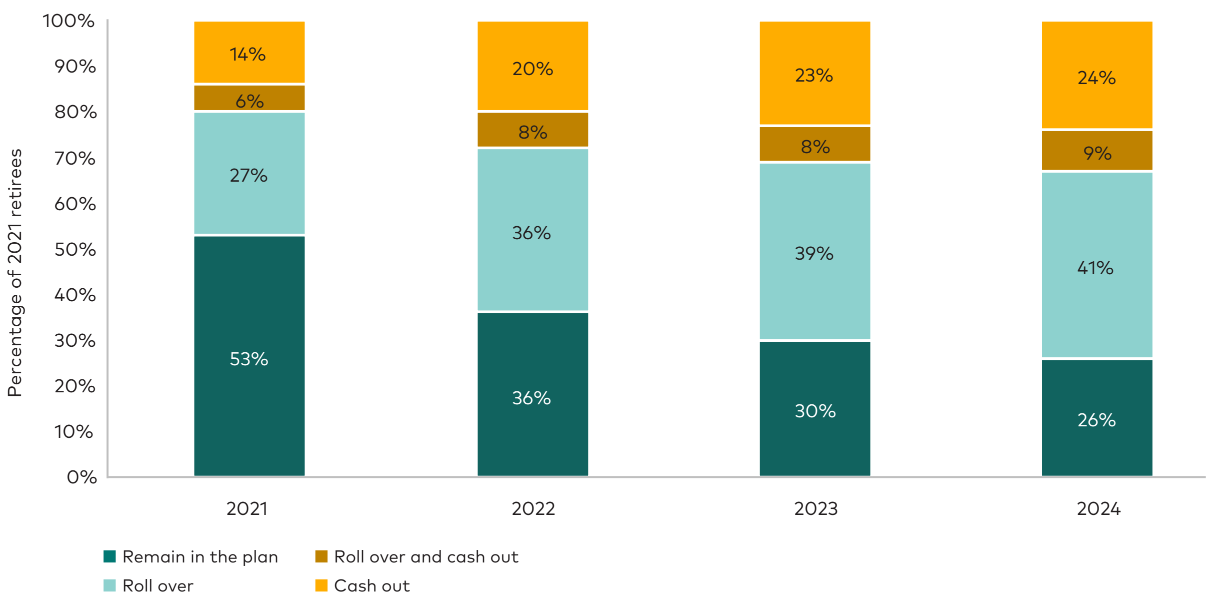
Equity exposure was also similar between those who remained in the plan and those who chose to roll over assets. Seventy-two percent of retirees remaining in the plan had an equity exposure between 30% and 80%, the same range as those who rolled over. About 20% of the retirees who either remained in the plan or rolled over had more than 80% of their assets allocated to equity, which may be aggressive for investors in their 60s (or older). Conversely, about 1 in 10 retirees had less than 30% allocated to equities, many without any exposure to equities at all.

Generally, retirees who remained in the plan and those who rolled over assets had similar account balances and equity exposure. Because of the assumption that retirees who rolled over or remained in the plan were preserving assets for a future retirement income stream, and considering these similarities in balances and equity exposure, plan sponsors are increasingly offering flexible retirement income distribution options for retirees who remain in the plan. They also are working to ensure that participants have access to an in-plan managed account service to provide personalized financial planning and investment management that can help them reach their retirement goals.

Impact of plan design

While 53% of employees who retired in 2021 remained in the plan initially, additional retirees left the plan over time **(Figure 10)**. By 2024, 50% of 2021 retirees had rolled over their assets (with some also taking a cash distribution), 24% had completely cashed out, and 26% had remained in the plan.

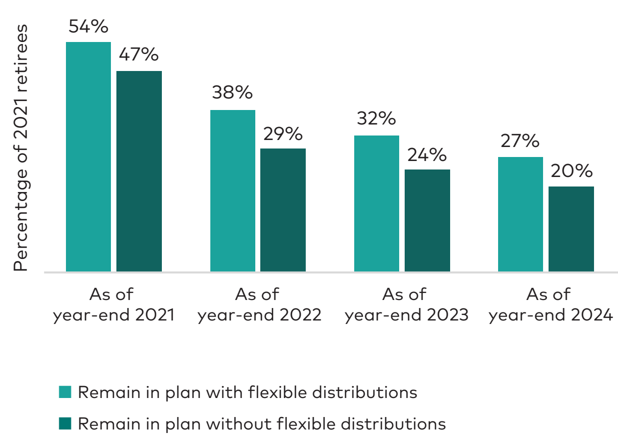
Figure 10. Trend in 2021 retiree behaviors
Vanguard defined contribution plans



Source: Vanguard 2025.

Plan design impacts retiree behaviors. As large plans (with large numbers of participants) are more likely to offer flexible distribution options (installments and partial distributions), more than three-quarters of participants had access to these retirement income features in 2024. Retirees in plans with flexible distributions were more likely to remain in the plan than retirees in plans not offering the option **(Figure 11)**. By year-end 2024, 27% of 2021 retirees remained in a plan with flexible distributions, compared with 20% in plans that did not offer the feature. Therefore, three years after retirement, employees in plans with flexible distribution options were 35% more likely to remain in the plan.

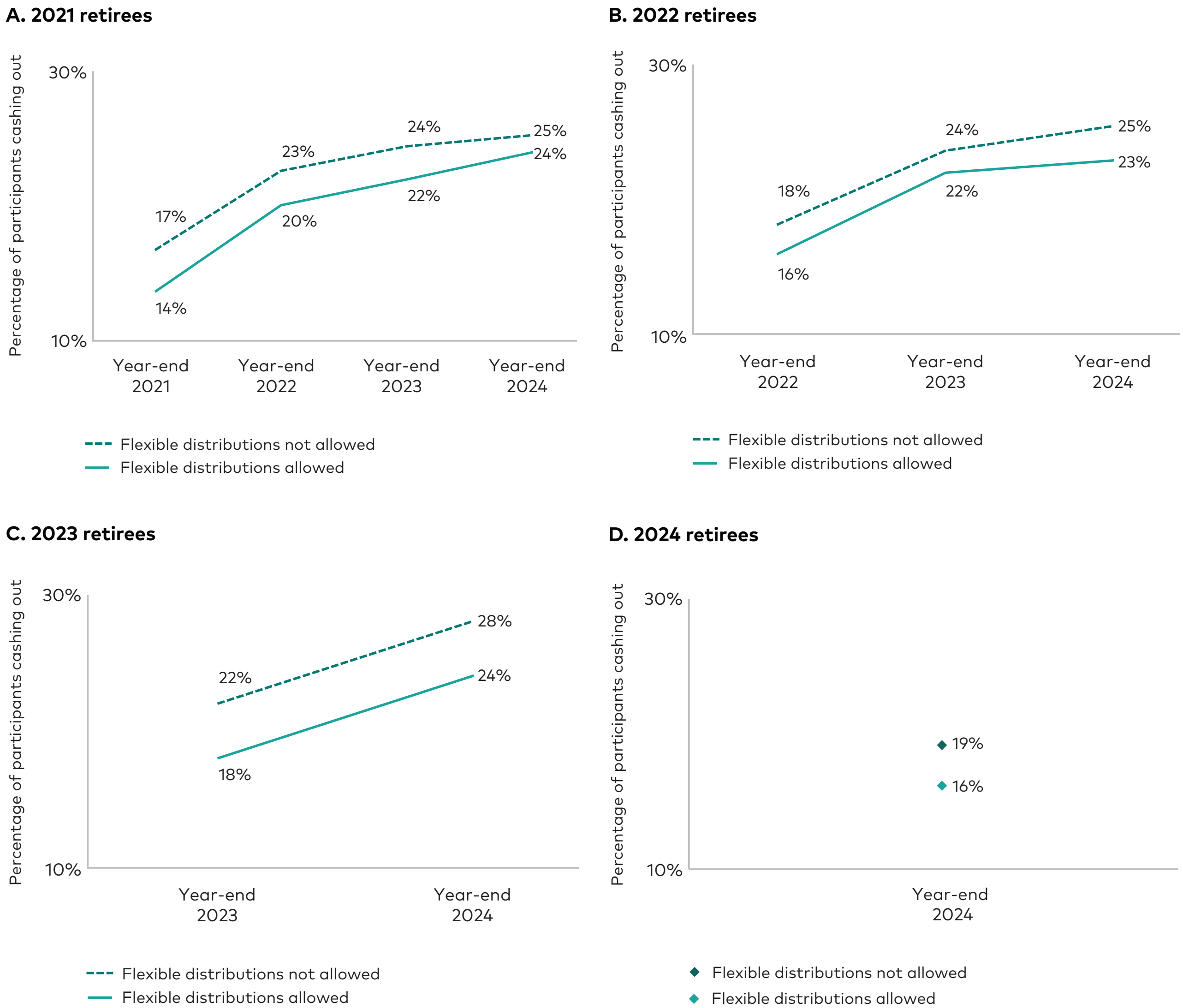
Figure 11. Trend in 2021 retiree behaviors by plan design
Vanguard defined contribution plans



Source: Vanguard 2025.

Flexible, in-plan retirement income features also impact cash-outs. Since year-end 2021, participants in plans with flexible distributions were less likely to cash out their retirement savings than those in plans without the option **(Figure 12)**. By the end of a participant's retirement year, those in flexible plans were about 15% to 25% less likely to cash out. Plan designs that make it easier to generate retirement income can help reduce the likelihood of full cash-outs.

Figure 12. Multiyear trend in retiree cash-out behaviors by plan design
Vanguard defined contribution plans

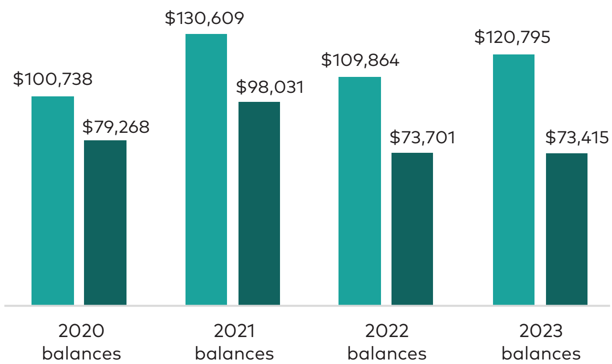


Source: Vanguard 2025.

Furthermore, for those remaining in the plan after three years with flexible distribution options, the average balance was $331,025; the median balance, $120,795 **(Figure 13)**. For those remaining in the plan without flexibility, the median balance was nearly one-half that amount, at $73,415.

Figure 13. Median account balances, 2021 retirees remaining in the plan

Vanguard defined contribution plans



Source: Vanguard 2025.

Withdrawal behaviors when remaining in the plan

Retirees in a plan without flexible distributions typically have two options: roll over or cash out. In plans with flexible distributions, retirees have three options: roll over, cash out, or generate retirement income from their retirement plan.

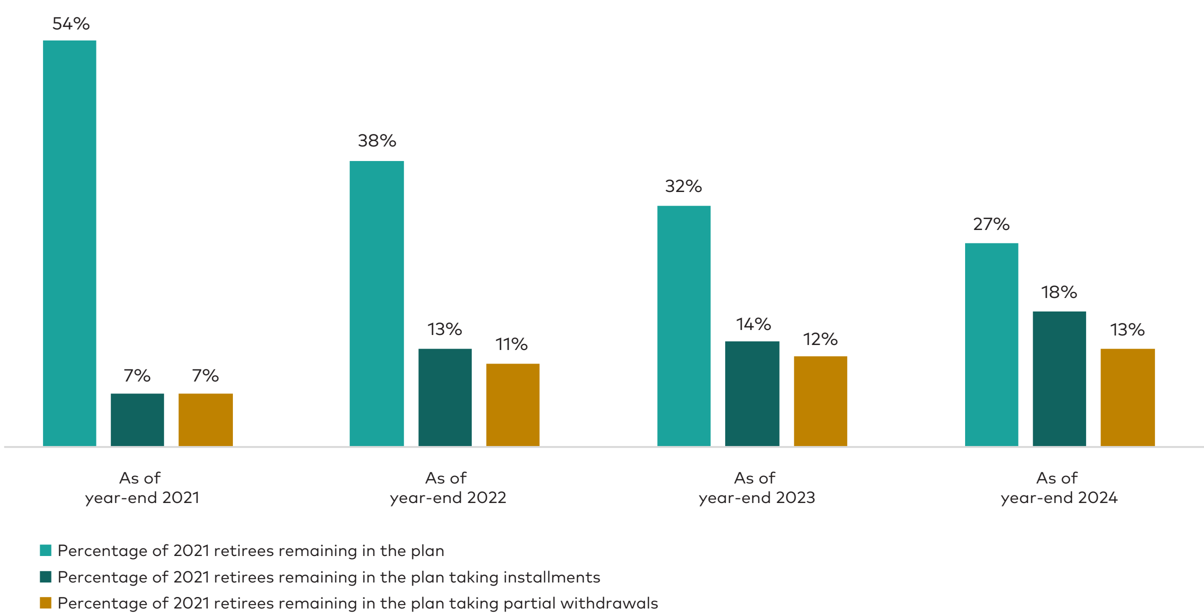
For the 54% of 2021 retirees who remained in the plan at year-end 2021 and had the option to leverage flexible distribution options, 7% set up installment payments and another 7% took partial withdrawals **(Figure 14)**, excluding any required minimum distributions. However, in subsequent years, as the number of retirees who remained in the plan decreased, the percentage of participants who were active installment or partial withdrawal users increased.

After three full years, about 3 in 10 remaining participants were taking either installment payments or ad hoc partial withdrawals.

These behaviors are aligned with other research on retirement income. The Employee Benefit Research Institute found that many IRA owners do not take a distribution until they are required to, regardless of what the RMD age might be.[9] In 2021, when the RMD age increased to 72, only 31.7% of those at age 71 took a distribution; and in 2019, only 30% took a distribution at age 69.

Figure 14. 2021 retiree withdrawal behavior

Vanguard defined contribution plans that allow flexible distributions



Source: Vanguard 2025.

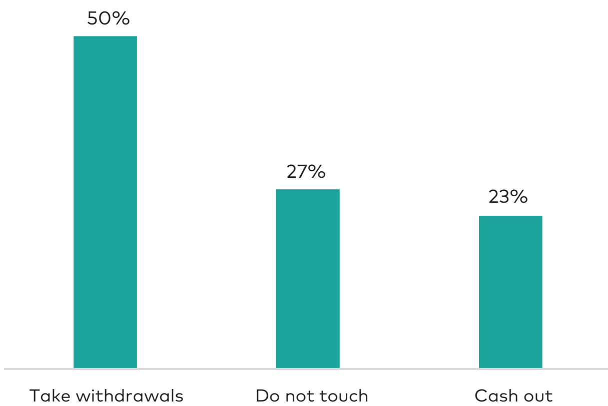
9 *RMDs Are a Default Withdrawal Strategy, Despite SECURE 2.0 Changes: EBRI.* Plan Sponsor Council of America, March 2025.

Overall withdrawal behaviors

In examining a sample of retirees over a period of five years and their total assets at Vanguard (DC plan, IRA, and taxable accounts), half of retirees have taken withdrawals, including required minimum distributions **(Figure 15)**. One in 4 retirees did not touch their savings, and the remaining 1 in 4 cashed out after leaving their employer.

Figure 15. Retiree withdrawal behavior

*Sample of 70,000 retirees age 60 or older for whom Vanguard has a bulk of total assets across 401(k), IRA, and taxable accounts.**



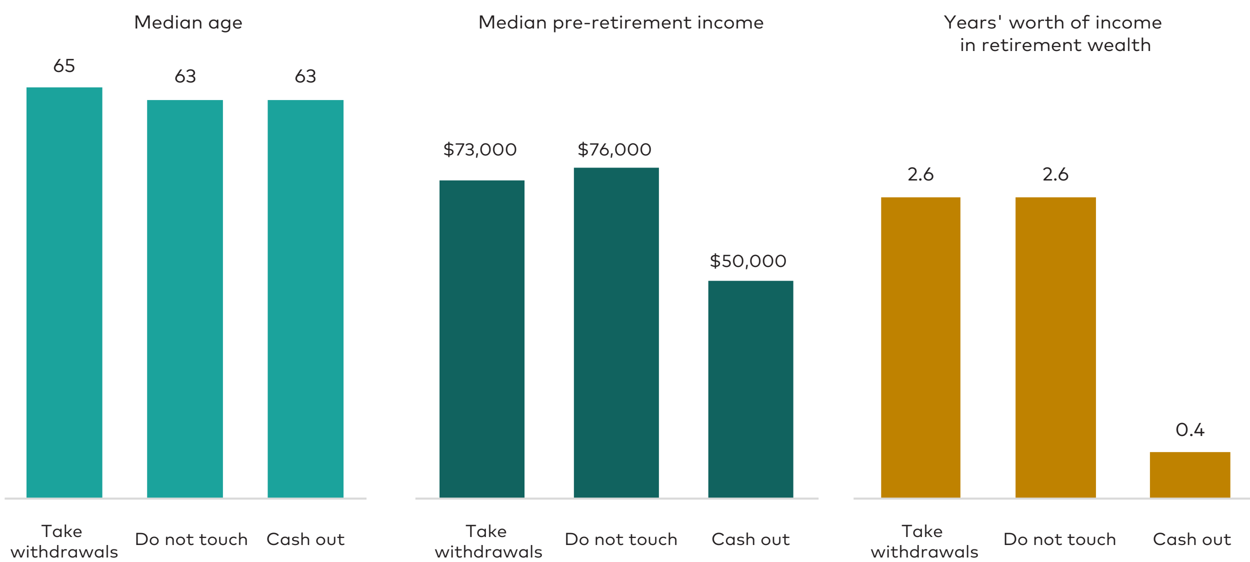
* Sample analyzed withdrawal behaviors over a five-year period from 2014 to 2018.
Source: Vanguard 2025.

Among those who took withdrawals, the amounts fluctuate significantly—some withdrew nothing in certain years and large sums in others. Of retirees who began withdrawing within five years of retirement, 19% took a withdrawal in only one year, while 34% took a withdrawal each year. Yet, among this consistent group, just 20% withdrew a steady 3% to 10% annually.

Individuals in this sample who left their retirement assets untouched had similar financial profiles, investment horizons, incomes, and equity allocations as those who took withdrawals **(Figure 16)**. The key difference is that those who didn't touch their assets tended to be, on average, two years younger, suggesting they may not have been ready or may not have known how to begin withdrawing.

Figure 16. Characteritics of retirees

*Sample of 70,000 retirees age 60 or older for whom Vanguard has a bulk of total assets across 401(k), IRA, and taxable accounts.**



* Sample analyzed withdrawal behaviors over a five-year period from 2014 to 2018.
Source: Vanguard 2025.

Implications

- More plan sponsors are working to ensure their retirement plan is accommodating for retirees and provides features that allow retirees to create a sustainable retirement income stream directly from the plan.
- While retirees who take a cash distribution typically have smaller balances, both rollover and remain-in-the-plan retirees tend to have higher balances, highlighting the importance of offering retirement income solutions. Furthermore, by the end of the year of retirement, about one-half of retirees remain in the plan. After three years, about 1 in 4 remain in the plan, with about 3 in 4 retirees preserving assets (remaining in the plan or rolling over).
- Retirees who remain in the plan and those who roll over assets have similar balances—and they also have similar investment portfolios. Nearly three-quarters of retirees have between 30% and 80% in equity, while about 3 in 10 have either an aggressive or conservative allocation, identifying possible opportunity areas for improved portfolio construction.
- Plan designs can impact the retirees' behaviors. Those in plans that offer flexible distributions are about 35% more likely to remain in the plan three years after retirement, are 15%–25% less likely to cash out their balance in the first year, and have balances that are nearly twice as high as those in plans without flexible options.
- Nearly 3 in 10 retirees stay in the plan three years after retiring, and about a third of them make withdrawals. This indicates there may be room to provide clearer retirement income tools to guide safe withdrawal amounts and help retirees consider their options.

Section 3:

Shaping the future—Products and solutions

Plan sponsor opportunities

After years of saving and accumulating retirement assets, drawing down assets can be a challenge. Many variables influence retirement income, but ultimately most participants simply want to know how much they can withdraw while retaining sufficient assets to last through retirement.

Fortunately, there is increasing awareness and focus on this challenge in the retirement planning industry, and plan sponsors have several products and services available to help their retirees.

Advice

A financial advisor is a person or a digital-based program that helps retirees manage their finances, including investment management, budget creation, and tax assistance. More plan sponsors now provide managed account advice to assist their participants. Forty-five percent of Vanguard DC plans offered advice in 2024.[10] And with most larger plans offering it, nearly 8 in 10 participants had access to financial advice.

But there are opportunities for some older participants to benefit from advice. Older participants (age 55 or older) are more likely than younger participants to self-direct their retirement investments. One-half of older participants are do-it-yourself investors. They tend to have the highest balances, with an average balance of more than $420,000, and, as a group, have a wide dispersion of equity.

About

3 in 10

older investors had an extreme equity allocation in 2024, indicating a possible need for advice.

10 *How America Saves 2025*, Vanguard.

Important steps for retirees considering advice:

- **Assess financial goals.** Do they have a single goal, like retirement, or are they balancing multiple goals? Do they want a onetime conversation or ongoing advice and wealth management? The complexity of their financial situation will help determine the level and sophistication of the financial services needed.
- **Consider the options.** There are various types of advice programs available. Some retirees may be more comfortable talking with a human financial advisor, while others may prefer doing everything online, in which case a robo-advisor could be a good fit. Or perhaps a combination of the two would work best—handling most things online but talking to a financial advisor when they have a question.
- **Verify the credentials of financial professionals.** The term "financial advisor" doesn't reflect any specific credentials, so it's important to understand what professional certifications and designations an advisor holds. In addition, they should be fiduciaries, which means they're legally required to always act in their clients' best interests.
- **Learn investment strategies.** Retirees can learn about the investments an advisor recommends by asking for a sample portfolio. It should include primarily low-cost, broadly diversified funds and exchange-traded funds (ETFs) balanced between domestic and international stocks and bonds.
- **Assess cost and compensation.** Are the fund and ETF fees reasonable? And how is the advisor compensated? A reputable advisor will be transparent and candid when discussing fees and compensation. If an advisor is registered to provide both advice and brokerage services, they may charge an asset-based fee in addition to the commissions and expense ratio. It's worth knowing if an advisor is being paid to sell specific funds.
  - Fee-only advisors are compensated directly by their clients for their services. Typically, fee-only advisors charge on an hourly basis, a flat fee per plan, or a retainer, but some offer subscription payment models.
  - Fee-based advisors charge a fee based on the percentage of assets managed on behalf of the client. These fees generally range from 0.25% of assets ($250 on a $100,000 investment) to 1.5% or more ($1,500 on a $100,000 investment). Advisors' compensation will vary. Some advisors are salaried, while others may be compensated as a percentage of the assets managed.

Communications drive engagement, help prepare participants

Plan communications to participants—emails, physical mail, statements, forms, and other media—are a powerful tool for driving awareness of retirement income. Retirement income requires a sustained engagement strategy, starting well before participants reach retirement, to build awareness and facilitate planning. Recordkeepers and financial wellness providers likely have dedicated communications and outreach strategies for retirement income.

Beyond driving engagement, communications can also prepare participants for the big decisions awaiting them once they retire, such as keeping assets in the plan, working with an advisor, or considering an income annuity. Even a simple reminder to active participants of their options in retirement can be beneficial. Together, these components of a financial wellness program can dispel perceptions that participants need to look elsewhere for financial services once they retire.

Annuities

Annuities can be a source of guaranteed income for life or for a set number of years. An annuity is a form of insurance—it's a contract with an insurance company. If retirees are worried about outliving their savings, annuities are an option they may want to consider.

Annuities can provide a retiree with a steady stream of income in retirement, which can be used to supplement other income sources.

An annuity can help manage the risk of outliving retirement savings, often referred to as longevity risk. Thus, an important consideration is how long a retiree expects to live. In addition to lifetime annuities, some annuities offer payments for fixed periods of time—over 10 or 20 years, for example.

Annuities can provide a retiree with a steady stream of income in retirement, which can be used to supplement Social Security, pensions, and the retirement savings in their 401(k) plan or an IRA. For example, if a retiree is looking for $3,000 a month in steady income in retirement, and they are receiving $1,600 a month in Social Security and $400 a month from a small pension, they could consider an annuity that pays $1,000 a month to reach their target.

For some retirees, annuities can make sense. For example, if they:

- Expect to live a long life.
- Have a low risk tolerance and are concerned about outliving their assets.
- Have enough savings left to meet unexpected expenses after buying the annuity.
- Have no legacy intent for the money used to purchase the annuity.

Annuity types

The most common annuity options are:

- **Immediate fixed income annuity.** Upon purchase, regular payouts begin shortly afterward. They offer a guaranteed amount each month that doesn't change. Some insurers provide minimum payout guarantees or refunds if the annuitant dies before receiving their initial investment, but these options lower the payout amount.
- **Deferred fixed income annuity.** The payouts do not start until later—possibly years or decades in the future. They also offer a guaranteed amount each month. Deferred annuities offer larger payouts than immediate annuities. A qualified longevity annuity contract is an example of this type of annuity.
- **Variable annuity.** Payouts can vary and are determined by the performance of underlying investments. Payments would be higher when the underlying investments do well, and lower when they perform poorly.
- **Index annuity.** Payouts can vary and are determined by the performance of a market index.

Note: Annuities are not risk free.[11] They're subject to the risk that the insurer will default. In addition, immediate variable annuities contain underlying investment portfolios that are subject to investment risk, including possible loss of principal. Deferred variable annuities are long-term vehicles designed for retirement purposes and contain underlying investment portfolios that are subject to investment risk, including possible loss of principal.

Trade-offs

Annuities allow retirees to convert retirement assets into a dependable stream of income that can last for life and be personalized for their needs.

But there are important considerations, as retirees may part with a sizable portion of their savings to purchase an annuity. This can reduce the cash available to pay for emergencies. When purchasing an annuity, liquid wealth (or money on hand) immediately drops.

There are psychological trade-offs as well. The retiree may need to write a big check from their retirement savings, which can be unsettling.

11 Product guarantees are subject to the claims-paying ability of the issuing insurance company.

However, annuities may help retirees feel more confident in spending with the knowledge they have a reliable income stream.

While most plan sponsors do not have in-plan annuity options, many support a simple, unbiased solution that allows participants to obtain real-time, competitive annuity quotes from multiple insurance companies.

Investment strategies

Target-date funds

Target-date funds (TDFs) offer simplicity—they're a complete portfolio in a single investment. By investing in several broadly diversified stock and bond funds, each TDF fund is designed to provide a mix of age-appropriate investments and typically offers:

- Less risk through diversification.
- Professionally managed asset mix.
- Automatic rebalancing.
- Low costs.

While the investments are sophisticated, selecting a TDF is straightforward, as participants simply choose the TDF closest to their estimated retirement year. More than 90% of plans use a TDF as the default fund. As a result, nearly 60% of all participants are pure TDF investors, meaning that 100% of their assets are invested in one TDF.

Once a participant reviews a TDF's mix of stocks and bonds, they can choose a fund with a later target date if they'd prefer a more aggressive investment mix. But if the participant wants a more conservative mix, they can choose a fund with an earlier target date. And because personal situations likely change over time, it's always important for participants to review their asset mix regularly to ensure their portfolio still matches their goals and risk tolerance.

can help simplify investing—a complete portfolio in a single, diversified investment.

When a participant retires, investing focus can shift from growing their money to balancing growth and preservation. A retiree who prefers to protect their retirement savings, has a lower risk tolerance, or expects their stable income sources to cover less than half of basic living expenses may want a more conservative asset mix. Whereas a retiree may want a more aggressive mix if they prefer a potential for higher growth, have a higher risk tolerance, or expect their stable income sources to cover at least half of their basic living expenses.

Hybrid annuity TDFs

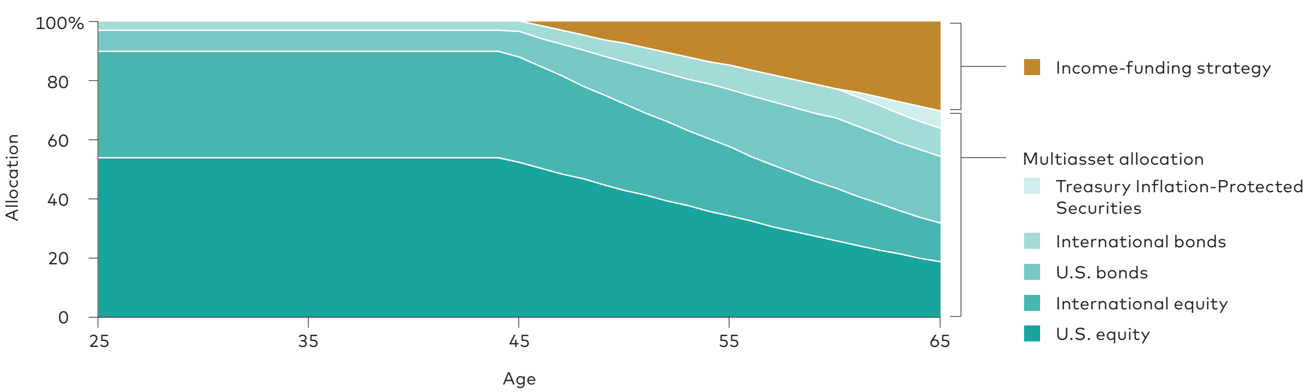
Given the increased attention on TDFs and retirement income sufficiency, a new investment product has emerged that combines annuities with a TDF—a hybrid annuity TDF.[12] Hybrid annuity TDFs are a new generation of retirement solutions that support both the accumulation and decumulation phases of retirement saving. It is a professionally managed product intended to stabilize assets as the participant approaches retirement and then, upon selection, provide guaranteed income during retirement (subject to the claims-paying ability of the issuing insurance company). Most hybrid annuity TDFs have three components:

12 Although we refer to this product type as a "fund" for simplicity, it can also be structured as a trust.

- **A multiasset allocation to support asset growth.** In a hybrid annuity TDF, the multiasset allocation provides the opportunity for asset growth during the accumulation phase. It is a diversified portfolio with an asset mix like that of a traditional TDF, following a glide path that derisks as a participant approaches retirement.
- **An income-funding strategy for the guaranteed income purchase.** The income-funding strategy is an annuity liability management strategy where invested assets are used to prefund the annuity purchase. Allocation to this strategy gradually increases with a participant's age and peaks near the time of the final annuity purchase. While the income-funding strategy is always liquid, structure and approach vary among hybrid annuity TDF providers.
- **An annuity for guaranteed income.** Hybrid annuity TDFs use an annuity component as a source for guaranteed income during the decumulation phase. Our analysis focused on fixed-rate annuities that provide a guaranteed income stream based on a payout rate determined at the time of the annuity purchase.

A hypothetical hybrid annuity TDF with these components is illustrated in **Figure 17**. As shown, the allocation to the multiasset allocation decreases while the allocation to the income-funding strategy increases along the life-cycle glide path. This is done to gradually reduce exposure to risky assets and increase assets dedicated to the income-funding allocation for annuity liability management.

Figure 17. Components of a hybrid annuity TDF



Source: Vanguard 2025.

The main driver of investment value for hybrid annuity TDFs is stable retirement income in multiple market and longevity scenarios. Income from the investment portfolio might not be sufficient to meet goals during unfavorable market regimes (market risk) or in cases where a participant outlives their retirement savings (longevity risk). Hybrid annuity TDFs remove some of these risks by providing guaranteed income from the annuity, but this benefit comes at the cost of reduced accumulated wealth from the annuity purchase.

For a participant, accumulating sufficient wealth is important not just for a bequest goal but also to support any ad hoc expenses that could be planned (like a vacation or house renovation) or unplanned (health care expense or car repair).

Those who worry about outliving their retirement savings may prefer a hybrid annuity TDF, whereas those with bequest or higher wealth objectives may not find sufficient value in a hybrid annuity TDF.

A traditional TDF has a lower average income shortfall than a hybrid annuity TDF given that the hybrid annuity TDF makes up for this income shortfall in the later years of the participant's life. Participants will assess this trade-off between reduced wealth and retirement income sufficiency differently depending on their goals and preferences. The caveat is that most participants either do not have the resources to fully fund that risk mitigation or prefer not to. Participants seeking a simple and transparent solution are still well served by traditional TDFs.

There are several considerations for a plan sponsor when deciding if they should offer a hybrid annuity TDF and, if so, which one to choose. The fund's suitability, liquidity, cost, recordkeeping integration, and engagement are all important factors for plan sponsors to consider.

Suitability, liquidity, cost, recordkeeping integration, and engagement are all important factors for a plan sponsor considering a

annuity TDF.

Fixed income funds

Fixed income is essential in a well-diversified portfolio. Portfolio diversification with a strategic allocation to fixed income is one of the most potent strategies available to investors to smooth returns over the long term. In the event of a recession, fixed income can serve as a ballast, providing stability and enhancing portfolio performance. While market downturns are inevitable, patience and a steadfast commitment to long-term investment strategy are crucial.

There are various fixed income investments that can align to a participant's unique objectives. Retirees concerned about volatility and looking to use bonds to diversify risk may prefer high-quality bonds, such as Treasuries.

Fixed income options for retirees who want to use income from bonds to meet their spending needs and seek greater credit exposure can include diversified active bond funds, emerging markets, high-yield, and active multisector investments.

Nearly all retirement plans offered bond funds in 2024, with 9 in 10 plans offering an index bond fund. Over the last 10 years, availability of active and international bond funds has increased. Eighty-one percent of plans offered active bond funds in 2024, up from 69% in 2014. The percentage of plans offering international funds jumped from 13% in 2014 to 19% in 2024.

%
of plans offered active bond funds in 2024, up from 69% in 2014.

Financial wellness and guidance

Many retirees prefer to handle retirement income on their own. For those who decide against using an advisor, it's important for them to have access to financial wellness and guidance to help them model and estimate their monthly retirement income.

As of year-end 2024, 68% of plans offered installment payments to their retirees, up from 58% of plans in 2014. In addition, 43% of plans allowed retirees to take ad hoc partial withdrawals, up from 13% in 2014. These trends highlight the increased interest plan sponsors are showing in allowing retirees to remain in the plan and in supporting their retirement spending needs.

68%
of plans now offer installment payments.

Beyond providing retirees with flexible withdrawal options for their retirement assets, it's essential to offer resources that enable them to assess their income requirements in retirement and evaluate how effectively their assets can meet those needs. This can be achieved through scenario modeling tools that clarify potential outcomes.

Retirement income calculators and "paycheck" modules are foundational in helping retirees and pre-retirees clearly understand what their monthly income could be and in providing them with guidance on how long their assets could last in retirement. These tools help retirees and pre-retirees model "what-if," personalized scenarios, helping them to be more confident with their retirement planning experience and empowering them to independently draw down their retirement savings.

Conclusion

Navigating retirement is a challenging journey. Each investor's planned retirement is unique, shaped by personal choices, financial situations, and life experiences, among other factors. There isn't a one-size-fits-all approach for plan sponsors. What's important is working to ensure that all retirees understand their next steps—from in-plan solutions, features, and services to additional out-of-plan options.

It's vital to support participants at every stage of their retirement journey. Plan sponsors need to recognize their participants' individual goals, circumstances, and aspirations. Offering a range of retirement products and solutions designed to cater to various financial situations and preferences can help participants secure a comfortable and sustainable retirement.

All investing is subject to risk, including the possible loss of the money you invest. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income. Diversification does not ensure a profit or protect against a loss.

Bond funds are subject to the risk that an issuer will fail to make payments on time, and that bond prices will decline because of rising interest rates or negative perceptions of an issuer's ability to make payments.

Investments in target-date funds are subject to the risks of their underlying funds. The year in the fund name refers to the approximate year (the target date) when an investor in the fund would retire and leave the workforce. The fund will gradually shift its emphasis from more aggressive investments to more conservative ones based on its target date. An investment in target-date funds is not guaranteed at any time, including on or after the target date.

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