

The retirement window

Navigating a period of uncertainty and critical decisions.

For most retirement savers, the primary objective of their financial plan is to ensure they have sufficient funds to meet their spending needs during retirement. Despite this intention, taking action can be daunting due to the uncertainty surrounding a new phase of life and a lack of information around critical decisions that must be made. These are some reasons why, when it comes to retirement, many Americans are unprepared. A Federal Reserve study

found that 25% of working Americans have no retirement savings, and half of those with accounts had savings less than \$87,000¹. The same study found that half of Americans aged 55-70 with accounts have savings of less than \$200,000. These statistics, as well as the self-reliance stemming from the shift from defined benefit to defined contribution plans, highlight the need for improving retirement readiness².

1 2022 Survey of Consumer Finances (SCF), Board of Governors of the Federal Reserve System.

2 BlackRock's Read on Retirement Survey, 2024.

Period of uncertainty

In order to improve retirement outcomes, at BlackRock we believe a lifecycle investment solution should integrate real-world data across three primary risks: **income risk, longevity risk, and markets risk.** These primary and related risks are not stagnant and vary in importance and magnitude over time. What our research has found is that these risks are magnified during the period in which individuals approach retirement and during the early years of retirement. This period between the ages of 55-70 where uncertainty is heightened we refer to as the “Retirement Window.” Across this short period of time, retirement outcomes are either influenced by variables beyond our control or, if controllable, shaped by a few pivotal decisions that bear long-term consequences.

In this paper we highlight areas of uncertainty during the Retirement Window and examples of critical decisions that most seem to miss or misunderstand.

The key focus areas are:

- 1 Employment
- 2 Longevity
- 3 Health
- 4 Financial preparedness

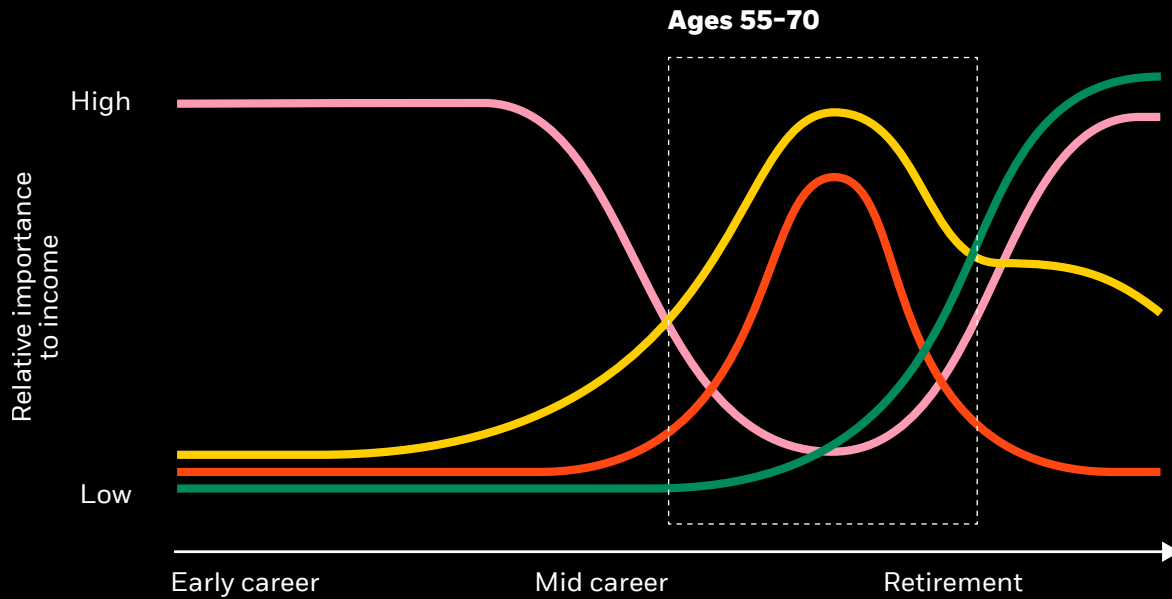
The Retirement Window is a stressful period, and the data proves it. BlackRock’s Read on Retirement® survey found that 60% of respondents worry that they’ll outlive their retirement savings, and 80% say the worrying has impacted their mental health³. We are here to help. What is clear to us is that while there are a million paths to retirement, most individuals prefer the path with most certainty. We believe that as retirement savers approach retirement, their circumstances change, and their retirement solution should evolve with them. That’s why LifePath is not just an exercise in maximizing returns or having a sole focus on market risk. It’s about anticipating and mitigating the various risks that come with each life stage and delivering choices that allow savers to increase certainty around their personal retirement outcomes.

LifePath®	
Objective	It is not maximizing returns; it is about spending.
Risk(s)	Retirement risks pre- and post-retirement shift with different life stages.
Solution	Flexible to accommodate savers/retirees’ preferences and choices.

3 BlackRock’s Read on Retirement Survey, 2024.

The Retirement Window

Although risks exist across a lifecycle, many are heightened between ages 55-70.



This period between the ages of 55-70 where uncertainty is heightened, we refer to as the “Retirement Window.”

Income risk

- Wages
- Economy
- Industry
- Savings
- Ability to spend

● **Longevity risk**

- Demographics
- Mortality
- Retirement age

Market Risk

- Regulations
- Volatility and risk aversion
- Sequence of returns
- Capital market returns
- Shock inflation

Lifecycle investing: A refresher

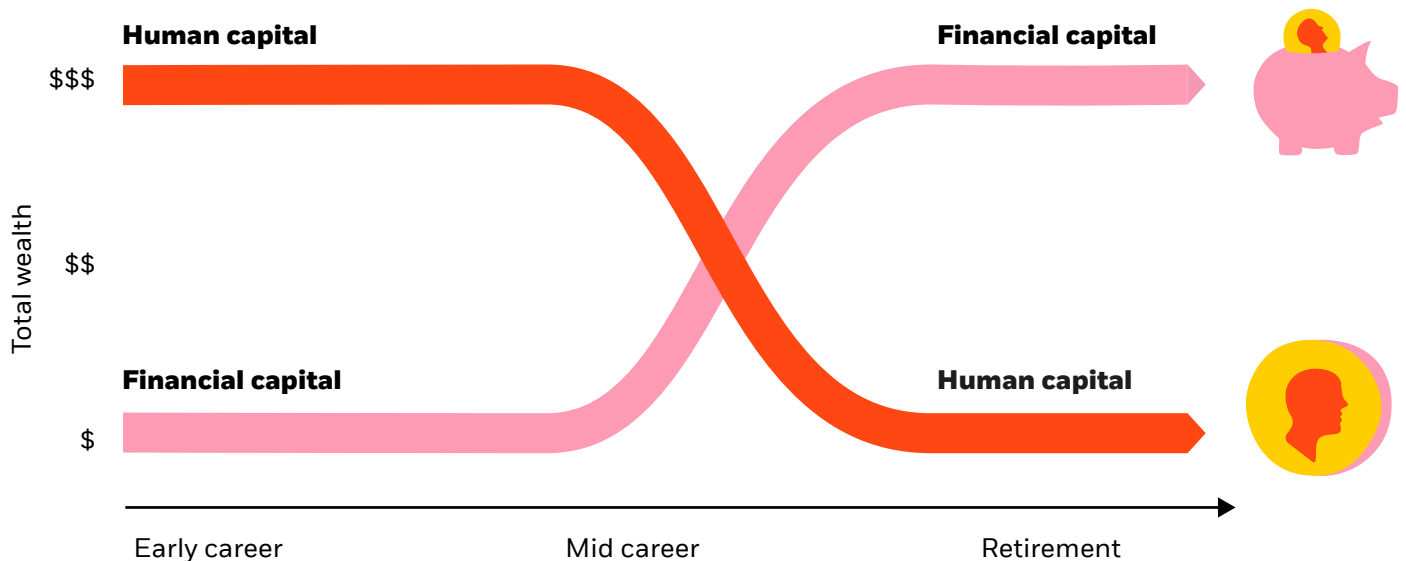
Human capital is the estimated value of an individual's future labor, playing a pivotal role in determining an optimal investment strategy throughout one's life. During the accumulation phase—an individual's working years—the focus is on building financial wealth while human capital remains the primary source of spending. This period emphasizes the importance of saving consistently and investing strategically to maximize the growth of financial capital, which will become the primary source of spending once in retirement.

Lifecycle investing recognizes that individuals can assume greater investment risk during the early stages of their lives, due to the substantial value

of their projected future wages. As human capital depletes over time, financial capital assumes a more significant role, making it necessary to increase the stability of the investment portfolio. In other words, lifecycle investing solutions adjust the risks of financial capital through time in response to changes in risks to human capital. Because your asset allocation changes in response to changes in human capital, it follows that in the absence of human capital, the optimal equity allocation is constant. That's why around retirement, LifePath maintains a constant allocation to equities, which serves to address longevity, sequencing, and inflation risks, allowing individuals to spend more consistently.

Understanding the target date fund

Shift in personal wealth from human capital to financial capital drives changes in portfolio risk.



These insights highlight why LifePath considers real-world income patterns, expected longevity, capital markets assumptions, and other extensive datasets. We believe the optimal lifecycle solution should leverage these datasets as it solves for both the accumulation and spending phases, holistically.

By accounting for both phases, LifePath increases the likelihood of achieving retirement spending goals, while reducing the uncertainty surrounding retirement.

Framing the challenge: uncertainty

For individuals approaching retirement, the transition is often marked by significant uncertainty. This uncertainty is multifaceted and stems from the reality that retirement is not a fixed point in time in the future like a birthday or graduation date, but a window of time requiring careful planning. As people enter the “Retirement Window,” they face risks and complex decisions surrounding their employment, longevity, health, and finances—risks and decisions with long-lasting consequences.

Retirement is not a fixed point in time in the future like a birthday or graduation date, but a window of time requiring careful planning.

The stakes during this period are high. We have observed that individuals can introduce more certainty to their retirement outcomes by improving decisions made in this window related to – understanding the realities of timing retirement, how to manage healthcare, when to draw Social Security benefits, and if-and-when to opt in to guaranteed income.

Adding to the difficulty of making various important decisions over a short period is the continuous evolution of the retirement challenge. There is a constant change in the probability of living longer than expected, the shifting landscape of labor markets, future health-related expenses, and estimating future spending needs. Navigating this critical phase demands a holistic approach, and it’s why LifePath is designed to introduce more certainty around retirement outcomes.

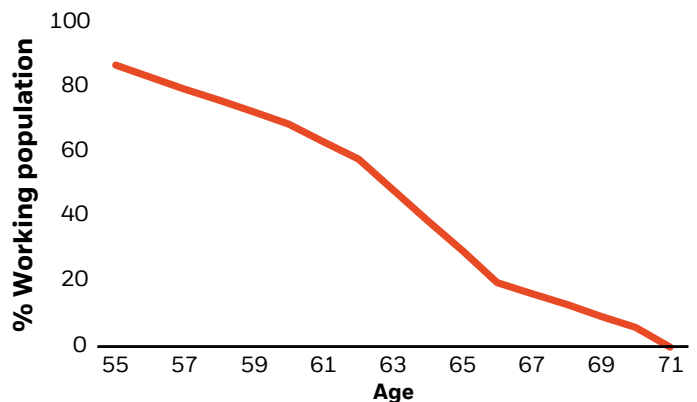
Navigating the four pillars of the retirement window.

To effectively address the uncertainties of the Retirement Window, individuals must manage interconnected risks across four critical areas:

1 Employment

Employment and labor market conditions play a pivotal role in shaping retirement timing and preparedness. While many plan to work until 65 or longer, unexpected events often accelerate retirement. Approximately 40% of individuals leave the workforce earlier than expected, significantly impacting their lifetime earnings and savings. What is critical to emphasize is that although people aspire to work until they decide to retire, reality shows that often the choice is imposed on individuals. In fact, a study from the Employee Benefit Research Institute (EBRI) found that health/disability issues, company restructuring/downsizing, and family caregiving responsibilities were the most common reasons many unwillingly leave the workforce early⁴.

Retirement is not a single point in time

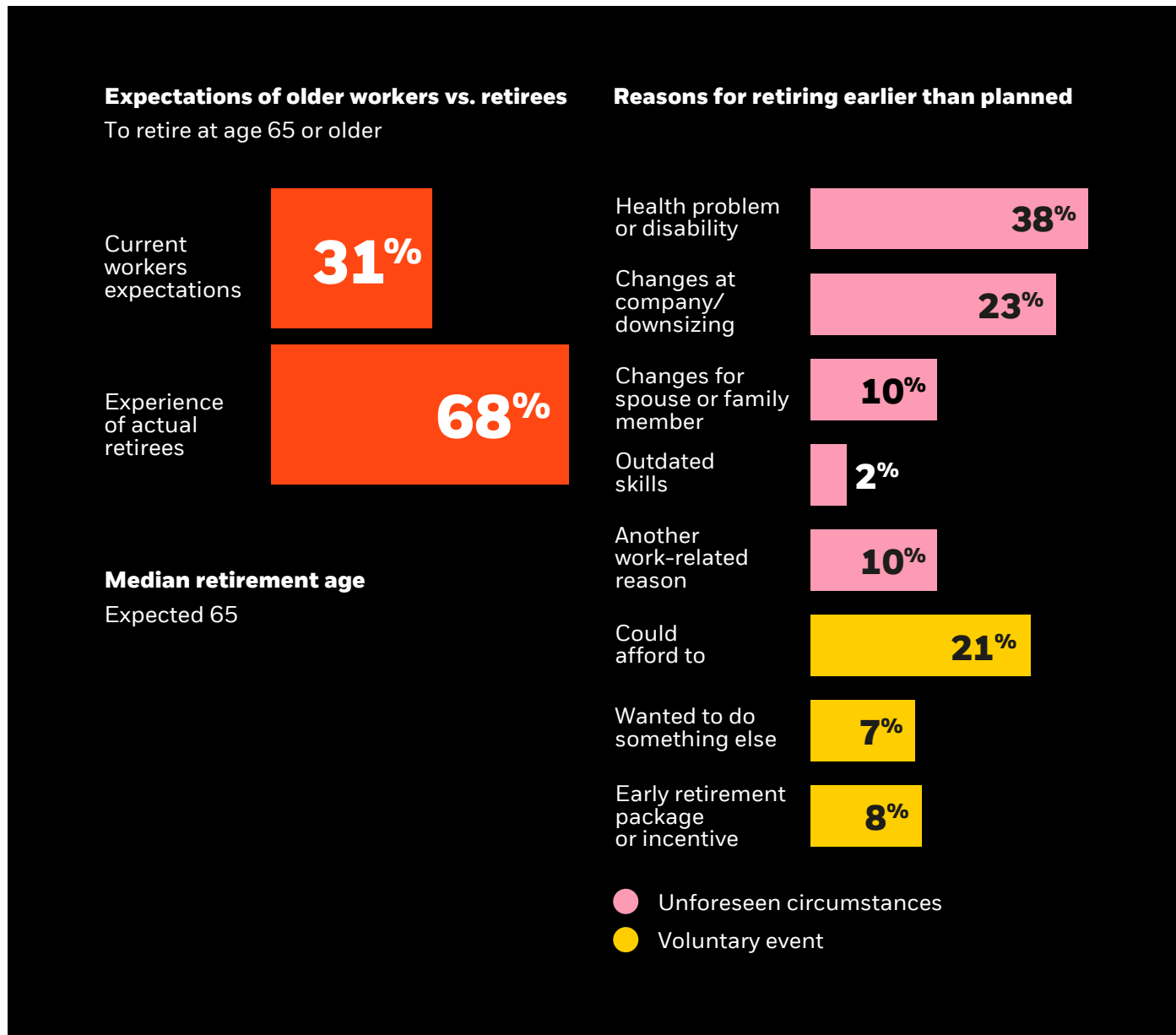


Source: Social Security Period Life Table, 2021, as used in the 2024 Trustees Report.

⁴ Employee Benefit Research Institute (EBRI), 2024 Retirement Confidence Survey.

The type of job or industry someone works in can significantly impact the likelihood of early retirement, as physically demanding jobs or roles in volatile industries tend to have higher risks of early workforce exit. Additionally, economic slowdowns and corresponding layoffs have become more

apparent, further complicating retirement planning. This is critical as each lost year of wages not only reduces immediate income and increases the years in retirement but also limits opportunities to save and grow the wealth that is an important source of spending in retirement.



Investor actions to consider:

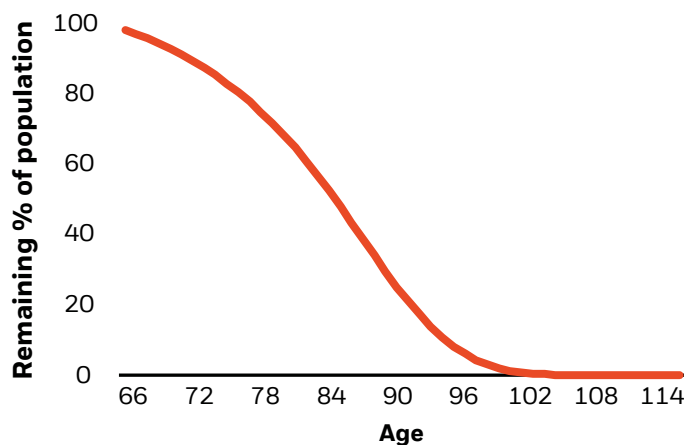
- Increase stability of investment portfolio during this period given heightened employment risks.
- Consider catch-up savings where possible.
- Become familiar with retirement-related decisions and planning early, including solutions that allow you to delay and maximize Social Security.

2 Longevity risk

One source of uncertainty is longevity risk: the uncertainty about how long one will live and, consequently, the risk of outliving one's savings. At age 65, a healthy individual has a 50% probability of living beyond age 85 for women and 82 for men. Surprising and less considered is the non-zero probability of reaching 100. The life expectancy of individuals has trended upward while the age of retirement has remained stagnant. This creates a financial planning challenge—ensuring savings can potentially support a growing number of years of spending in retirement without running out.

Longevity risk is not an isolated challenge and perhaps intensifies broader uncertainties that retirees face. For example, longevity risk coupled with inflation adds another layer to retirement planning. Increased living costs disproportionately impact retirees, creating a challenge in adjusting spending and savings strategies to preserve purchasing power in a fluctuating economic environment. This is another key aspect to consider for well-constructed lifecycle solutions - managing the erosion of real spending from both expected and unexpected inflation.

Non-0% probability of living past 100⁵



Source: Social Security Period Life Table, 2021, as used in the 2024 Trustees Report

As noted, individuals are spending more years in retirement. While the number of working years and commensurate savings has not increased, the amount of spending an individual should account for throughout retirement has. This is a critical insight that should shape the objective of lifecycle solutions. Lifecycle investing is not an exercise in maximizing wealth. It is an exercise in defining and immunizing an individual's liability in retirement to deliver more certainty around retirement spending.



Investor actions to consider:

- Maintain a constant equity allocation in retirement to ensure growth exposure and help hedge against sequencing and inflation risks.
- Preserve purchasing power by hedging both expected and unexpected inflation.
- Be thoughtful in timing and maximizing Social Security.
- More directly hedge longevity risk and explore available guaranteed income and annuity options.

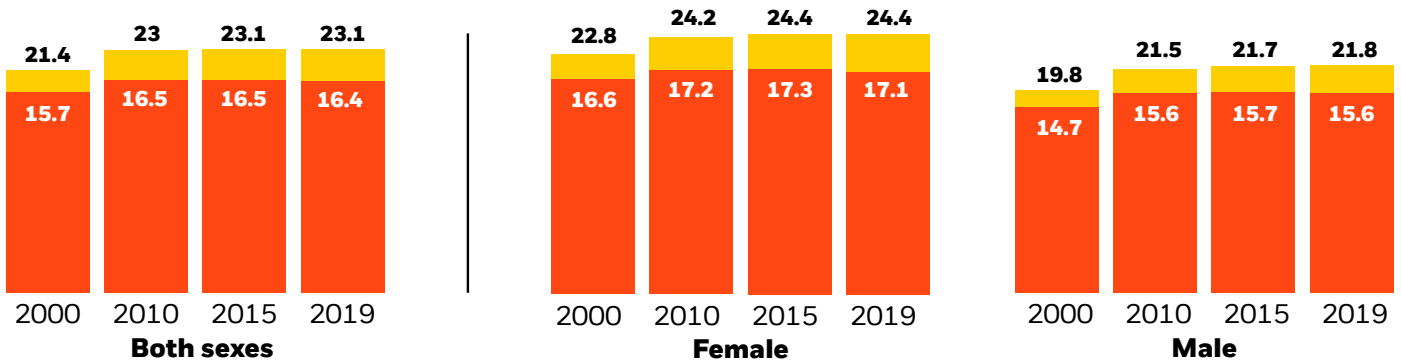
⁵ Social Security Administration, Office of the Chief Actuary. (n.d.). Life Tables for the United States Social Security Area 1900-2100. Actuarial Study Number 120. Retrieved from https://www.ssa.gov/oact/NOTES/pdf_studies/study120.pdf

3 Health

The health of individuals and their families exerts considerable influence on the timing of retirement decisions. Once in retirement, the uncertainty related to health does not subside. Aside from personal health, retirees may find themselves caring for aging parents, ailing spouses, or even grandchildren, which further intensifies emotional and financial pressures during a period when resources are already stretched thin.

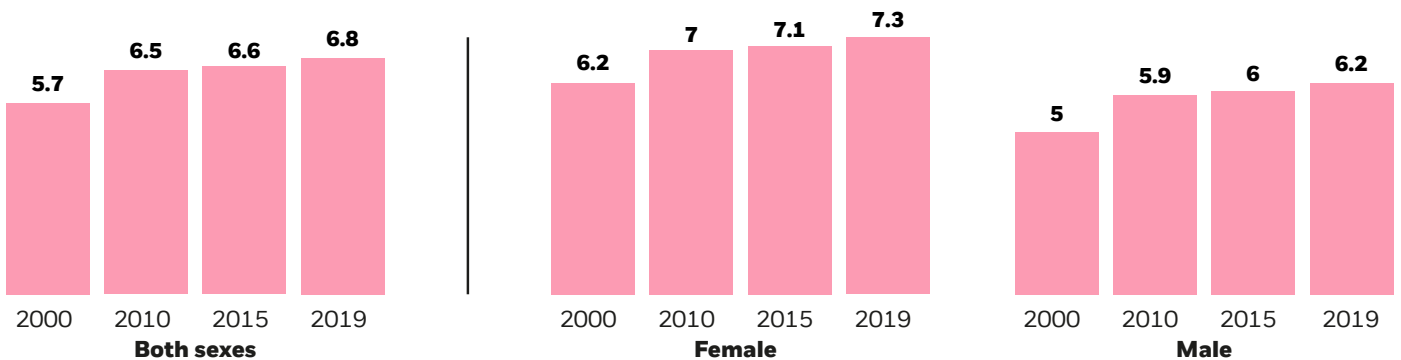
Reality amplifies healthcare costs. Globally, while life expectancy has increased, health life expectancy has lagged, meaning as life expectancy increases retirees spend more years in poor health. Research from the World Health Organization (WHO) has measured a 9.6-year gap between years lived in good health and total lifespans among people living in 183 member countries. The study found that the US had the greatest chronic disease burden of all WHO members, with a health years-to-lifespan gap of 12.4 years⁶. The Employee Benefit Research Institute has also conducted a similar study based on 60-year-olds, as illustrated in the charts below.

US life/healthy life expectancy at 60 in years



- US life expectancy at age 60
- US healthy life expectancy at age 60

Difference between US life/healthy life expectancy at 60 in years



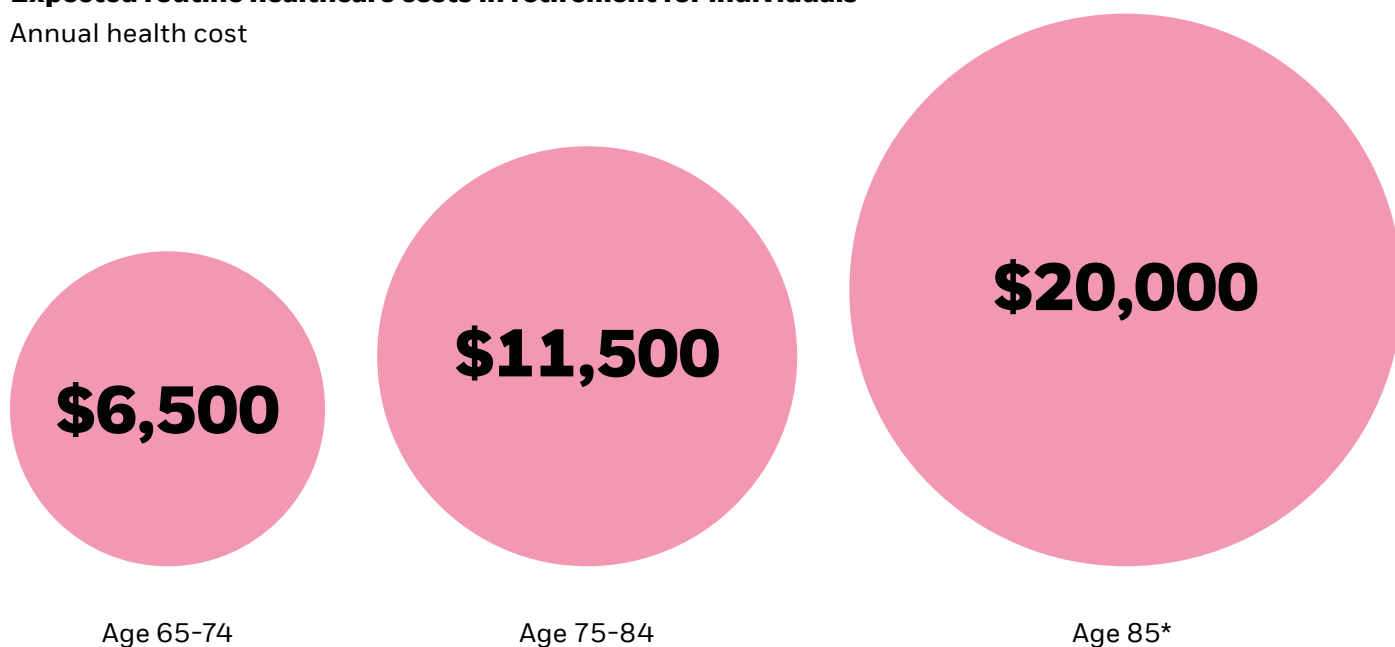
⁶ Garmany, A., & Terzic, A. (n.d.). Global Healthspan–Lifespan Gaps Among 183 World Health Organization Member States. *JAMA Network Open*, 7(12), e2450241. <https://doi.org/10.1001/jamanetworkopen.2024.50241>

The data shows the increase in health years-to-lifespan gap can drive healthcare expenses in retirement higher. Expected routine healthcare costs in retirement, which average \$2,700 per year, frequently escalate to \$6,500 annually for ages 65-74, \$11,500 for ages 75-84, and \$20,000 for those 85 and older⁷. Living longer can potentially mean more years where annual routine healthcare expenses are near the upper range. These costs are further compounded by the potential need for long-term care and unanticipated medical events, placing significant pressure on financial resources.

There is an obvious uncertainty resulting from living longer in poorer health before the corresponding increase in health expenses is considered. According to EBRI, there is already a significant percentage of retirees who face financial stress due to unexpected health expenses. Given the health years-to-lifespan gap, many may be underestimating the true cost of healthcare in retirement.

Expected routine healthcare costs in retirement for individuals

Annual health cost



Investor actions to consider:

- Anticipate increased expenses due to longevity, healthcare costs, and inflation.
- Maintain a constant equity allocation in retirement to ensure growth exposure and help hedge against inflation risks.
- Be thoughtful in timing and maximizing Social Security.
- Consider guaranteed income options and annuities.

7 Source: RBC Wealth Management & Bureau of Labor Statistics. (n.d.). The real cost of health care in retirement - RBC Wealth Management

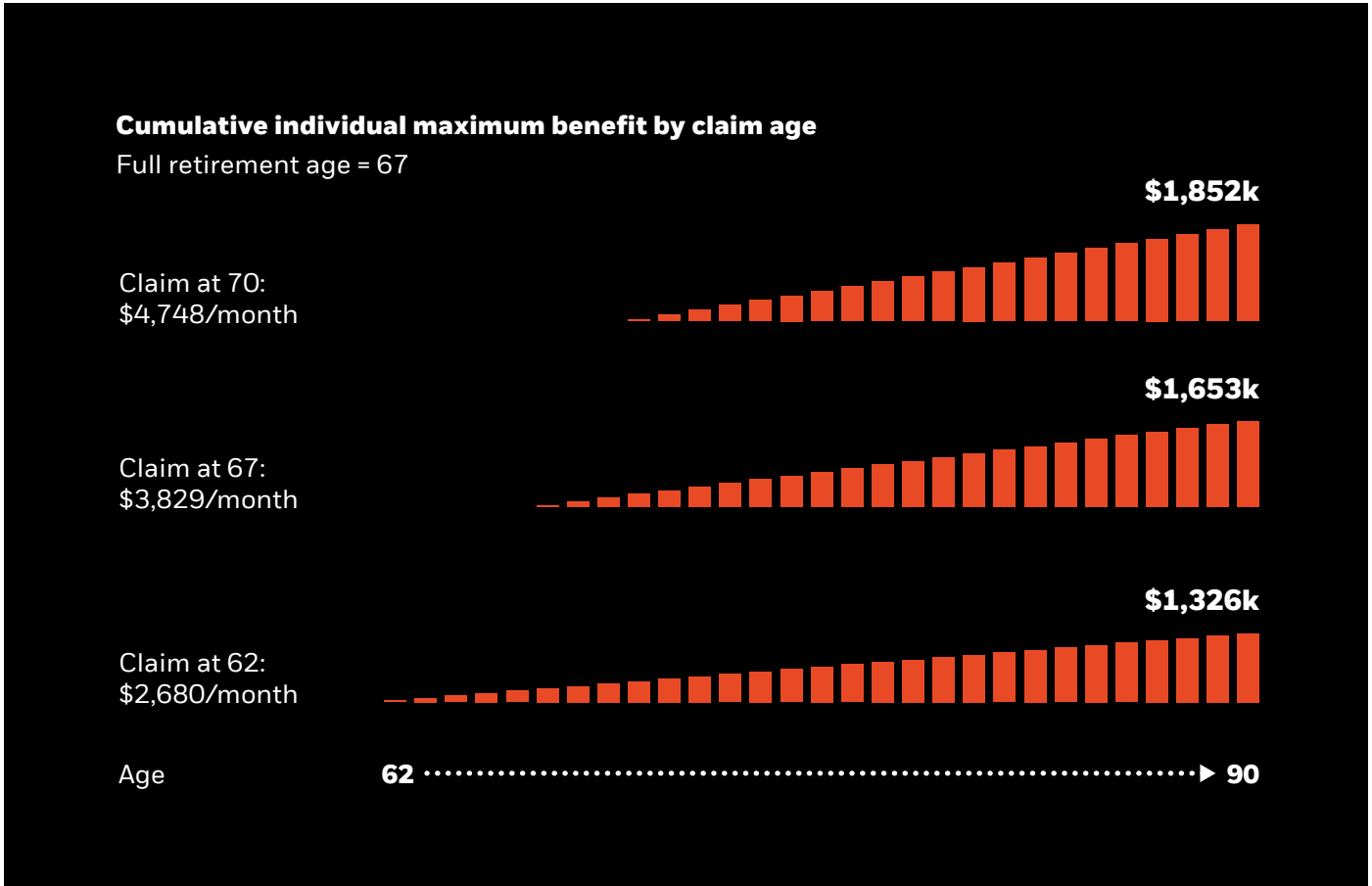
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Financial preparedness

Being financially prepared for retirement requires saving consistently and investing strategically to maximize the growth of financial capital throughout one’s working years, while accounting for the varying risks and magnitude of risks across time. It is understandable for an individual to believe that accomplishing this should result in a more certain retirement. Unfortunately, there is more to it.

Financial preparedness encompasses more than just what is done during accumulation⁸. During

the Retirement Window, it requires careful planning on catch-up savings, how to allocate investments, and diversifying sources of income in retirement. Examples include maintaining a constant equity allocation in retirement to reduce spending uncertainty specifically related to longevity risk, more directly hedging spending uncertainty with guaranteed income solutions like annuities and understanding when it is optimal to claim Social Security benefits⁹.



8 “The 4% Rule-At What Price” Jason S. Scott , William F. Sharpe , and John G. Watson April 2008.

9 BlackRock and the Bipartisan Policy Center, “Paving the Way to Optimized Retirement Income,” June 21, 2023.

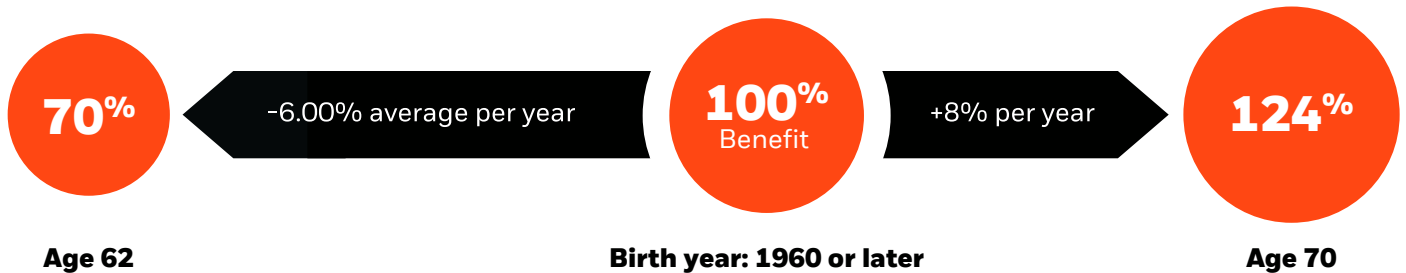
10 “Retirement Benefits”, 2025, Social Security Administration.

For example, when to begin taking Social Security, a once-in-a-lifetime decision, is particularly impactful to an individual's retirement outcome. Claiming Social Security before the full retirement age of 67 reduces the lifetime benefit by as much as 30%, or 6% a year¹⁰. While delaying Social Security

can increase the lifetime benefit by up to 24%, or 8% a year. The impact from delaying is more pronounced when you consider Social Security benefits are inflation-adjusted and guaranteed for life, making it key to protecting the purchasing power of individuals throughout retirement.

Benefits differ by birth year and claim age

Full retirement age = 100% benefit



Financial preparedness encompasses more than just what is done during accumulation.



Investor actions to consider:

- Maintain a constant equity allocation in retirement to ensure growth exposure and help hedge against sequencing and inflation risks.
- Be thoughtful in timing Social Security.
- Consider guaranteed income options and annuities.
- Be flexible in spending and sources of income.

Conclusion: Transforming uncertainty into certainty

The Retirement Window is a period of uncertainty. By understanding and addressing the interconnected risks related to longevity, employment, health, and financial preparedness, individuals can navigate this critical phase with greater confidence. This process begins by engaging with available information to outline potential options, understanding the timing of these options, and evaluating their associated benefits or consequences.

Examples of key areas individuals should focus on to enhance their retirement outcomes include addressing longevity risk, diversifying income sources, maintaining spending flexibility, and taking advantage of catch-up savings when able. It is essential to evaluate how these factors affect an individual's unique circumstances.

The Retirement Window is when the stakes are highest, and proactive management of these aspects and others enables individuals to better mitigate the inherent risks associated with retirement.

BlackRock is dedicated to tackling the challenges, complexity, and importance of retirement decisions. The LifePath platform empowers individuals by providing solutions aimed at creating assurance during this uncertain period. Regardless of how

LifePath is implemented, our platform seeks to transform the Retirement Window from a period of vulnerability to one of preparedness.

Transforming uncertainty into certainty requires thoughtful planning. A more secure and predictable

future allows us to enjoy our retirement years with greater peace of mind. For over 30 years, LifePath's objective has been to deliver more consistent spending. Because we believe everyone's path should have more certainty, to-and through-retirement.

The solution to uncertainty is introducing more certainty. LifePath delivers by thoughtfully addressing:

- Addressing longevity risk and providing an option for an explicit longevity hedge.
- Helping build or maximize multiple sources of income.
- Providing digital tools to help maintain flexibility in spending.
- Taking a total portfolio approach in managing variables impacting retirement outcome.

Authors

Nick Nefouse, CFA, Managing Director,
Global Head of Retirement Solutions

Partha Mamidipudi, PhD, Managing Director,
Head of Human Capital Research for
Retirement Solutions

Arley Reyes, CFA, Director, Senior Investment
Strategist for Retirement Solutions

Want to know more?

blackrock.com | blackrockdc@blackrock.com

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