

BOOMER EXPECTATIONS FOR RETIREMENT 2019

NINTH ANNUAL UPDATE ON
THE RETIREMENT PREPAREDNESS
OF THE BOOMER GENERATION



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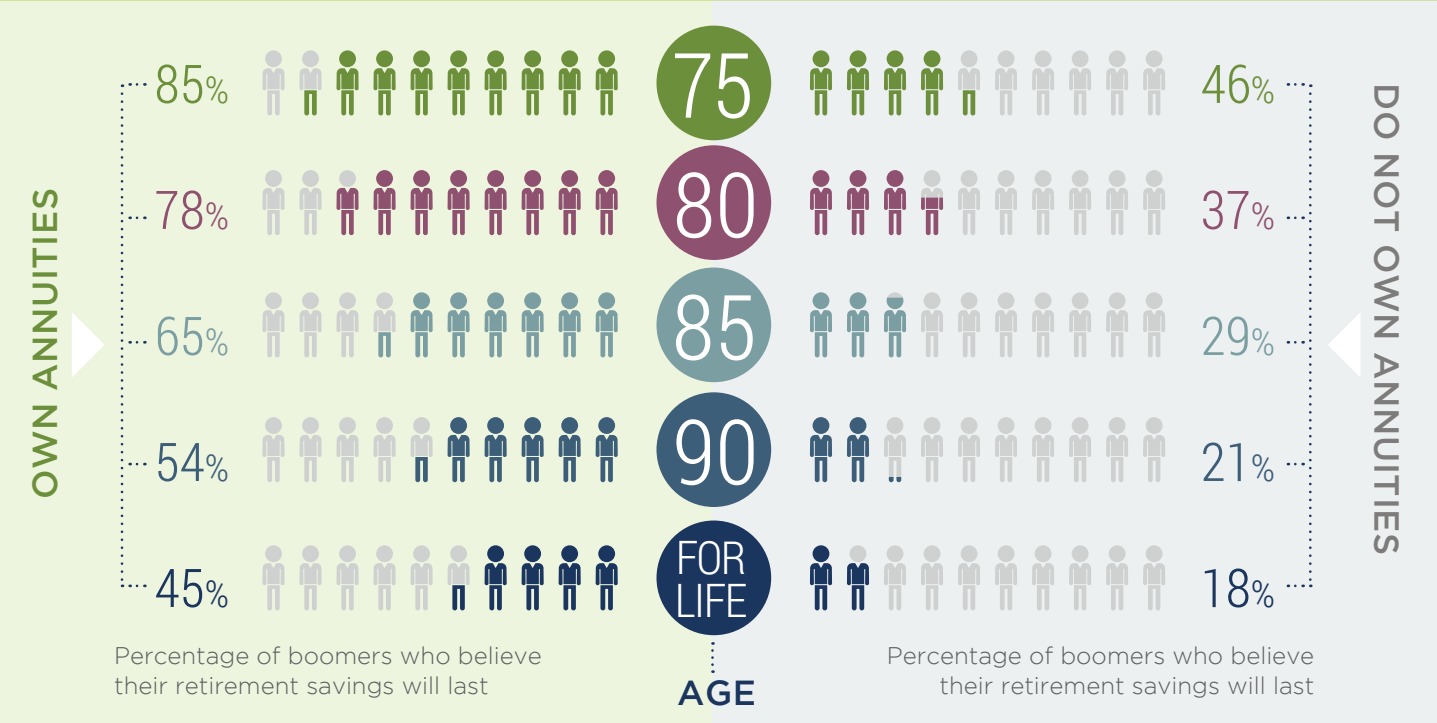
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OVERVIEW

This is the ninth year of the IRI baby boomer study, and how things have changed for this generation since the series started! In the inaugural study conducted in 2011, only 19 percent of survey respondents were retired from their primary occupation; today, 47 percent are retired. This equates to approximately 34 million retired baby boomers in 2019. According to data from the U.S. Census Bureau, in 2030 (when all boomers will have reached age 65), one in five U.S. residents will be of retirement age. And as the IRI baby boomer report has consistently shown, boomers are largely unprepared for retirement: unrealistic in their expectations, and under-saved. In fact, 45 percent have no retirement savings. Alarming, many of those with savings are either unwilling to engage in actions that can ensure efficient and sustainable income is created from their savings, or unaware of the need to take such action. For example, younger boomers are less likely to have or expect pension income than older boomers yet are also less likely to own annuities, which could provide them with pension-like secure lifetime income. However, there are bright spots, especially for those boomers still in the work force - while higher wealth certainly helps, it is professional advice and guidance, and ownership of annuities, that translate into security and peace of mind.

THE BIG TAKEAWAY: ANNUITIES DRIVE CONFIDENCE IN RETIREMENT SAVINGS SUSTAINABILITY





KEY FINDINGS

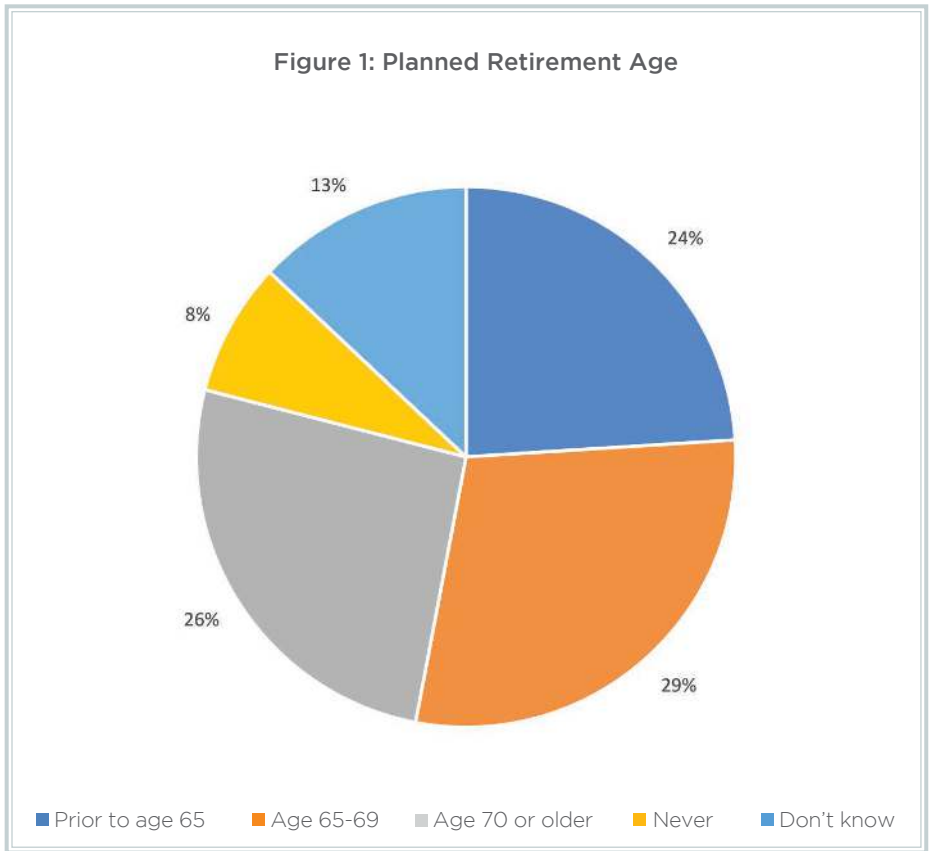
- **One-third** of baby boomers plan to retire at age 70 or older, or not at all.
- **One-third** of employed boomers ages 67 - 72 postponed retirement.
- **Seven in 10** boomers who work with financial advisors have calculated a retirement savings goal, versus 25 percent of those without a financial advisor.
- Boomers with financial advisors are **three times** as likely than those without to say they need a financial advisor to help them perform tasks related to planning for retirement, such as selecting investment and insurance products.
- Boomers with financial advisors and/or who own annuities are **two to three times** more likely to believe they did an effective job planning for retirement, and that their income will last throughout retirement.
- **Seven in 10 boomers** with financial advisors and six in 10 annuity owners feel “excited and confident” or “happy and cautiously optimistic” about retirement, compare to one-third of boomers without advisors and four in 10 who do not own annuities.
- Boomers with financial advisors are **three times** as likely, and annuity owners more than **twice as likely**, as those without advisors and/or who do not own annuities to believe they will be more secure in retirement than the average American.

- More than **four in 10** boomers erroneously believe Medicare will cover long-term care costs.
 - **Only 55 percent** of Boomers have any money saved for retirement, and almost one-half of the 45 percent who do not have retirement savings did have savings at one time.
 - **Four in 10** boomers plan to access their retirement savings “as needed” to pay for basic expenses in retirement, compared to only six percent who plan to purchase an annuity.
 - **Six in 10 boomers** have taken no action with their workplace defined contribution plans.
- **Only 23 percent** of boomers ages 56-61 expect to receive income from a private company pension plan.
 - **Only 16 percent** of boomers who have not purchased an annuity have not done so because of a negative perception of the product.
 - **Eight in 10** boomers believe it is very (60%) or somewhat (21%) important for income sources to be guaranteed for life.
 - Boomers most frequently rate guaranteed income and guarantee of principal as the **two most important traits** of a retirement asset, ahead of traits such as rate of return and past performance.

BOOMERS AND RETIREMENT PLANNING

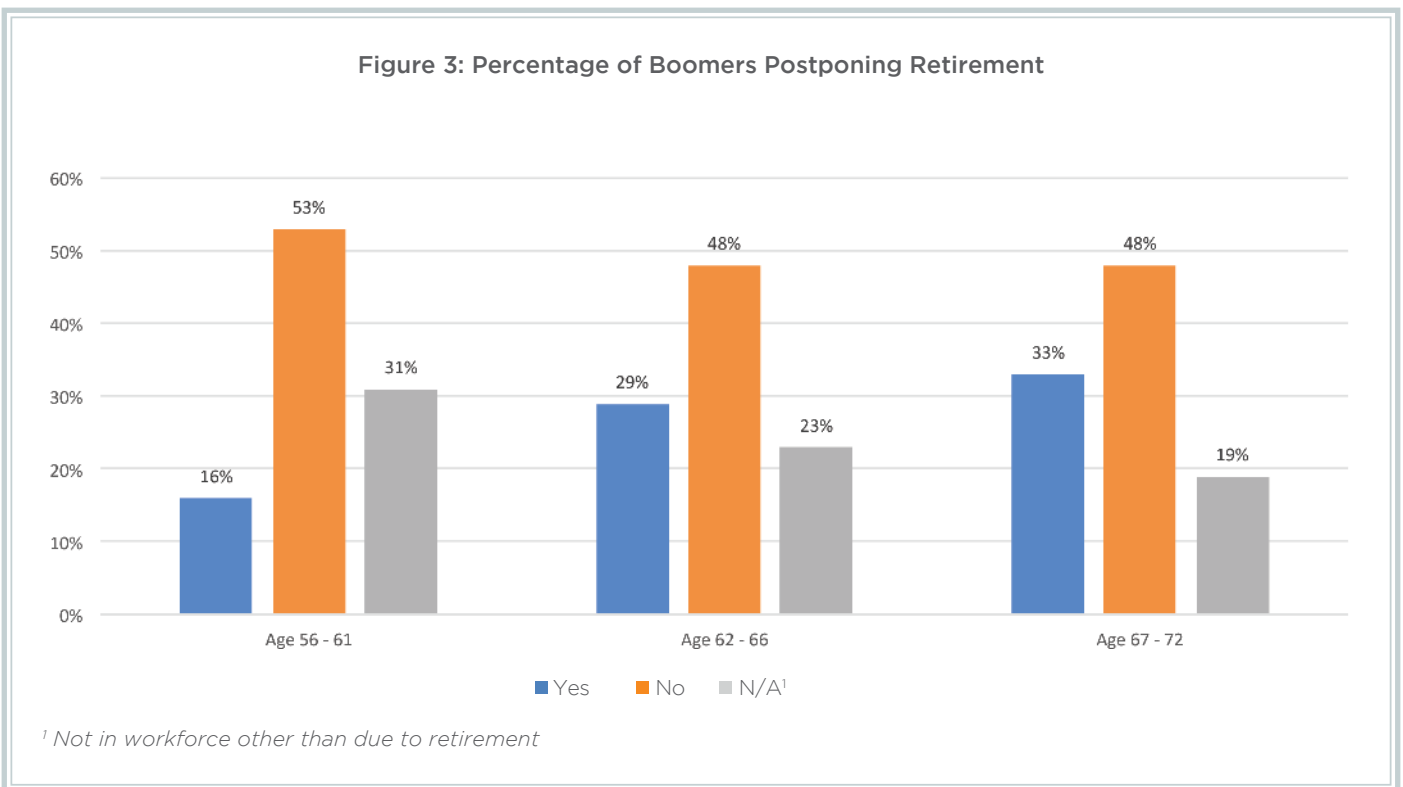
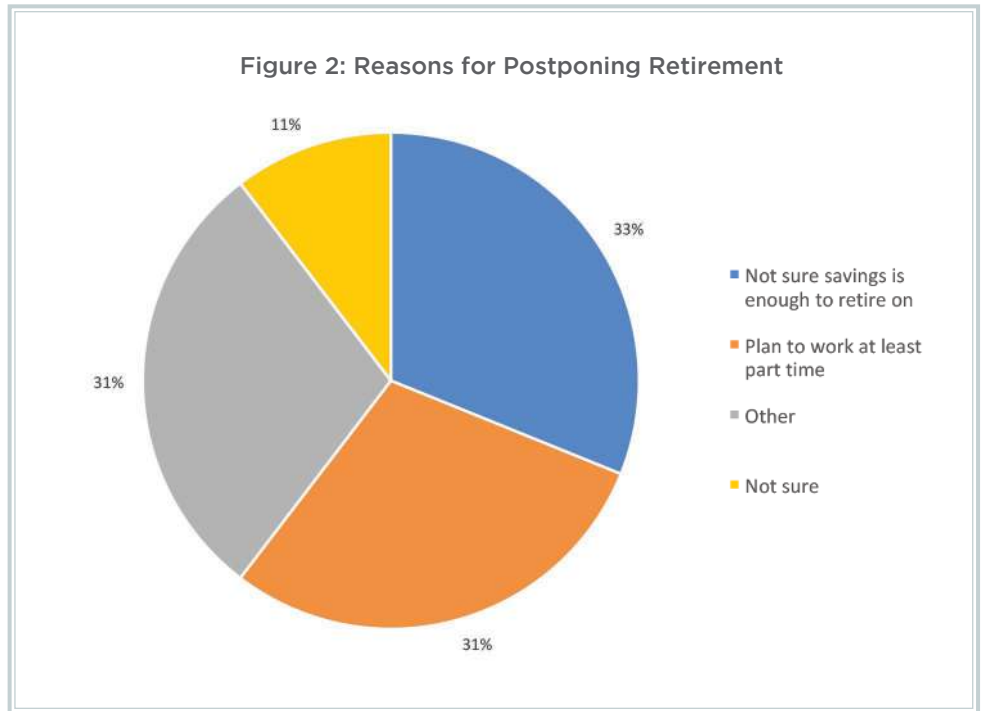
A critical decision Americans must make about retirement is “when.” At average annual spending for ages 65 to 74 of over \$55,000¹, retiring at 65 versus 70 means more than an additional \$275,000 in income must be generated from a combination of Social Security (which is not maximized until age 70), pension (if any), and personal savings. **Figure 1** shows that only 26 percent of boomers plan to retire at age 70 or older, and others are unsure when they will be able to retire or plan to work until they die. Retirement age ranges among boomers have not varied tremendously from year to year since the boomer research series began, though there has been an increase of about five percent in those retiring prior to age 65. This is likely due at least in part to involuntary retirement. As this year’s findings show, many of those who plan to retire prior to age 70 may end up delaying retirement, provided they are healthy enough and have market opportunity, in order to achieve parity between expected expenses and potential income.

Figure 1: Planned Retirement Age

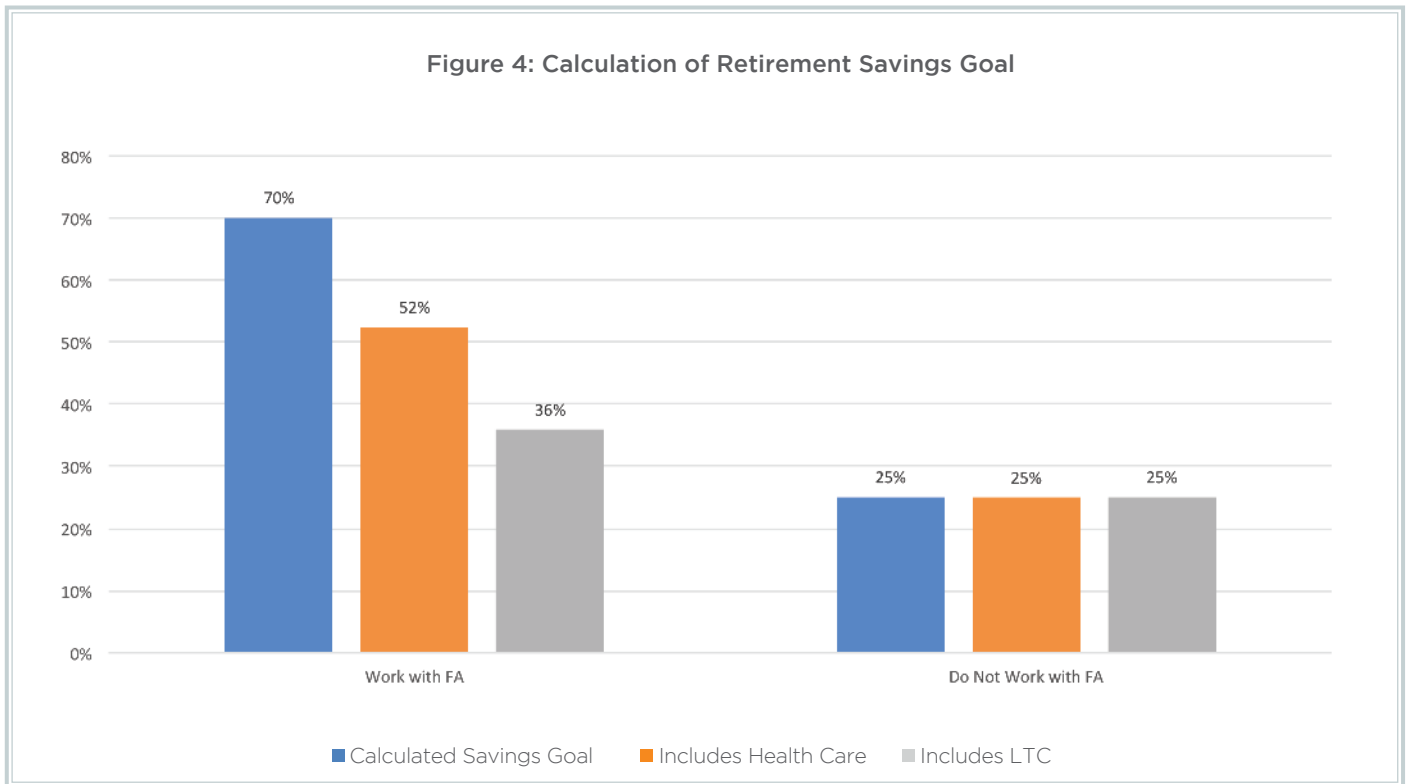


While most have a retirement age in mind, **Figure 2** reveals that one-third of the one in 10 who don't know when they will retire say it is because they don't know if their retirement savings will be enough. As other survey findings will indicate, perhaps more boomers should share this concern.

Workers tend to overestimate the age at which they will retire, with 31 percent saying they plan to retire at age 70 or older, while only 7 percent of retired workers report retiring at or above age 70.² However, for some boomers continuing to work is not part of their original plan. **Figure 3** shows the percentage of boomers who have postponed retirement, which rises from 16 percent at the youngest ages to one-third of boomers still working at ages 67 to 72.



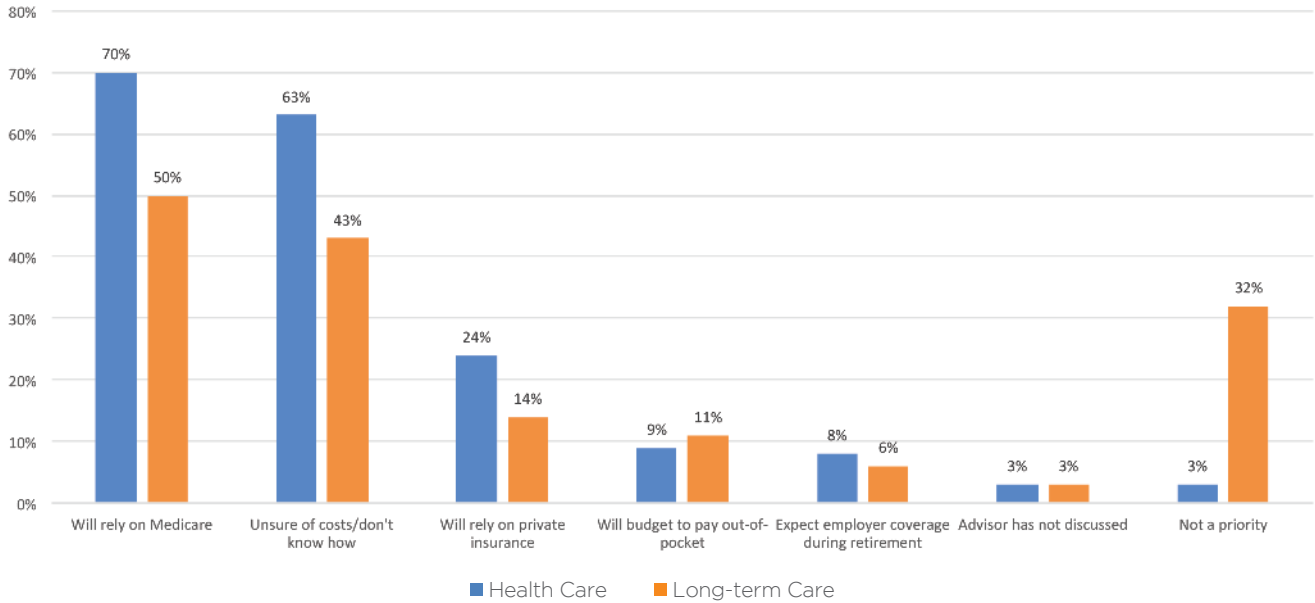
Staying on track for the retirement one wants to experience requires creating a plan and setting goals. A good proxy for gauging the extent to which boomers are really planning for retirement versus “winging it” is whether they have set a goal to reach a certain amount of retirement savings by their expected retirement age. Financial advisors can help boomers calculate an achievable, realistic savings goal by helping them figure out what their costs will be in retirement, including two categories of retirement expenses that are likely to be significant: health care and long-term care. In Figure 4, boomers working with financial advisors are far more likely to have calculated a retirement savings goal.



However, while boomers working with financial advisors are three times more likely to have calculated a retirement savings goal, factoring in expected health and long-term care costs is less common. These costs can have a serious impact on a financial plan. An average healthy 65-year-old couple retiring in 2018 could expect to pay \$363,946 (\$537,334 future value) in lifetime Medicare and supplemental insurance premiums and out-of-pocket costs, and this amount does not include the cost of long-term care.³ Someone turning 65 today has an almost 70 percent chance of needing some type of long-term care services⁴, and the national average cost of a semi-private room in a nursing home was \$89,297 in 2018.⁵

Helping clients understand the implications of health and long-term care expenses for their savings goals, and for their retirement security, represents an opportunity for advisors who are not incorporating such expenses into their planning process to enhance the services they provide to their clients. In **Figure 5**, the number one reason boomers calculating savings goals do not include these costs is that they expect Medicare to cover them – an erroneous assumption on both counts, and especially for long-term care, for which Medicare provides no coverage. The second most common answer is simply that they are unsure of the costs involved and/or they don’t know how to calculate them – a powerful value-added service for advisors to provide.

Figure 5: Reasons Health Care and Long-term Care Not Factored Into Savings Goal



An interesting aspect of boomers' relationships (or not) with financial advisors is the perception of the need for the assistance of an advisor in various aspects of the retirement planning process. In **Figure 6**, boomers who maintain a relationship with a financial advisor are three times as likely to say they need an advisor's help with a planning step versus those who don't work with an advisor. Interestingly, deciding when to claim Social Security is the least likely action either group says they need assistance performing, when in fact determining the best time to claim Social Security is dependent on many variables, can be quite complicated and is best done as part of a comprehensive retirement plan to ensure benefits are optimized.

Figure 6: Likely to Need a Financial Advisor (FA) to Execute Retirement Step

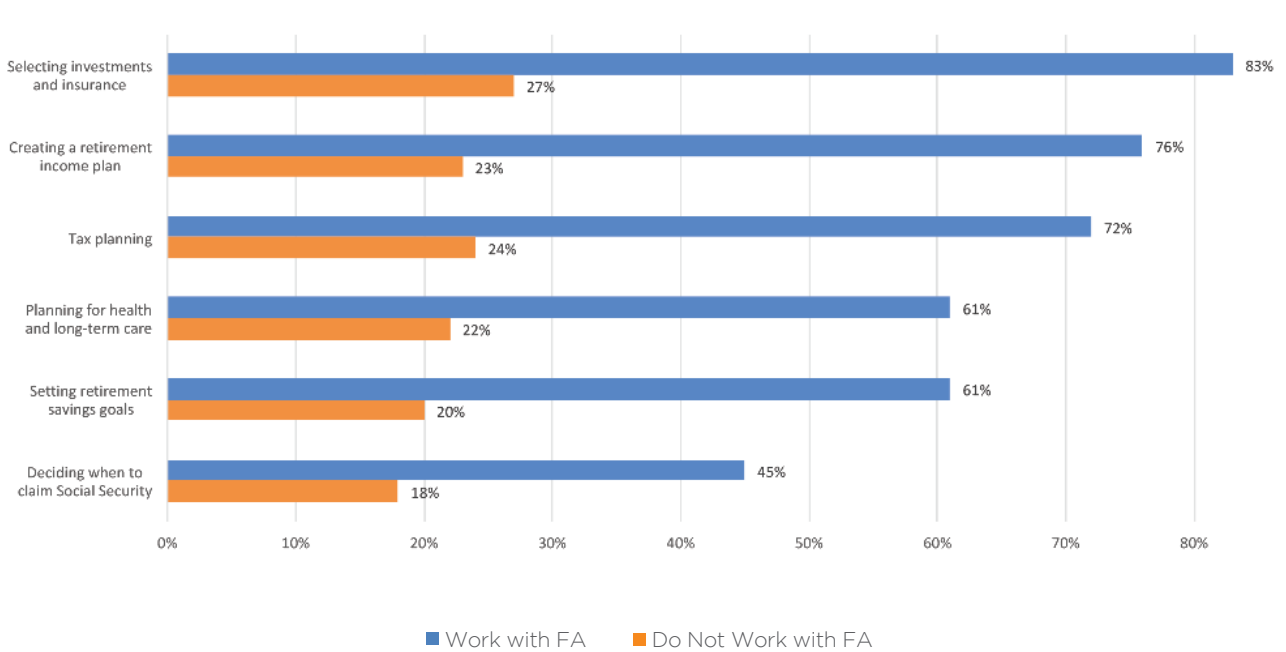
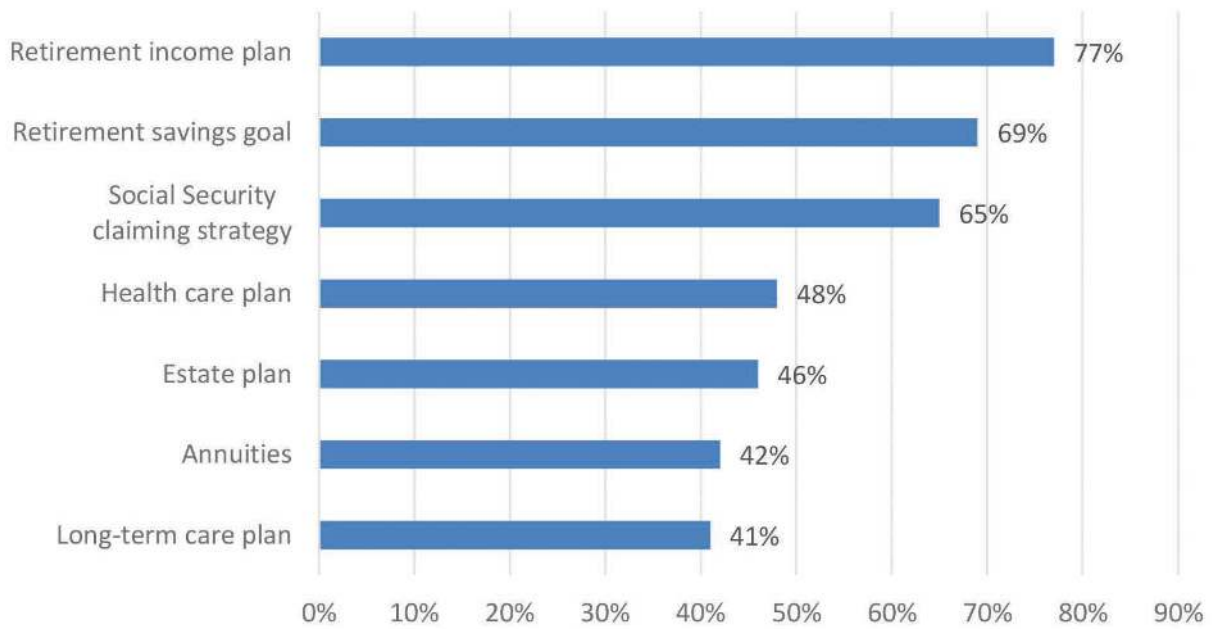


Figure 7 shows that most Baby boomers who work with financial advisors have the most important retirement planning steps, such as creating a plan for retirement income, setting a savings goal, and developing a Social Security claiming strategy, included in their overall financial plans (commonly provided services like investment selection were not included in this question). However, as in **Figure 4**, planning for health and long-term care are areas where more advisors should provide guidance.

Figure 7: Elements Included in Financial Plan Prepared by Financial Advisor



RETIREMENT CONFIDENCE

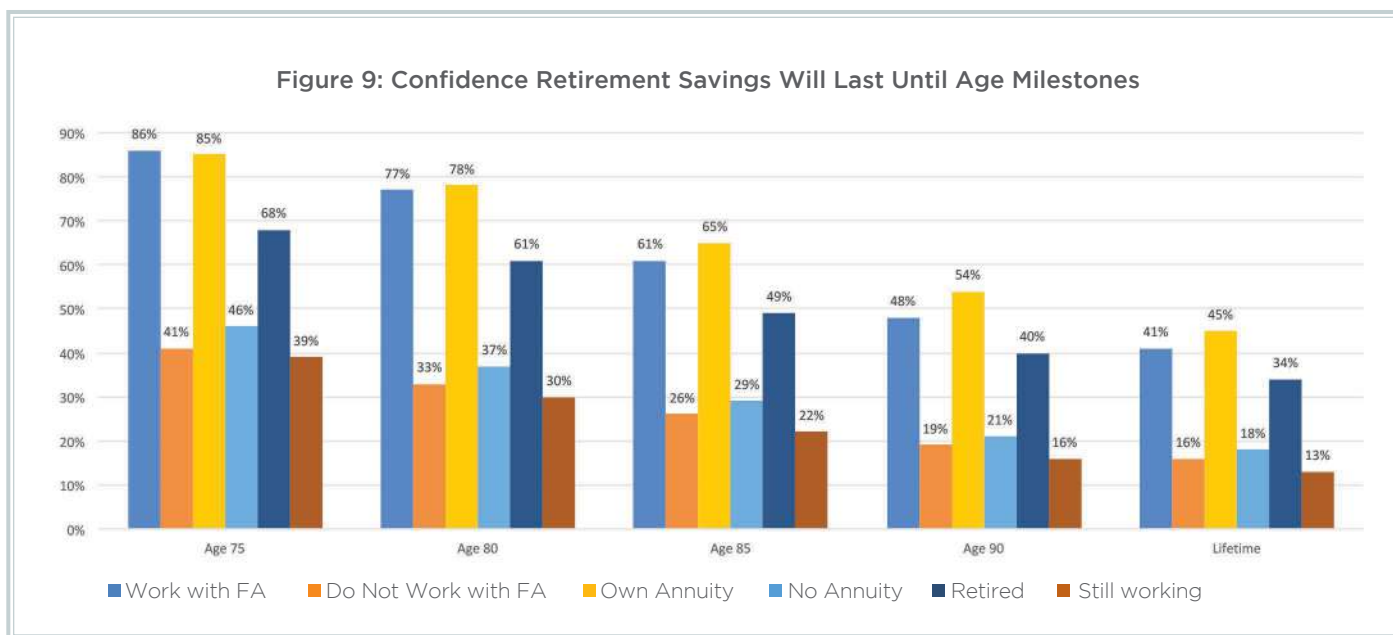
Financial advisors provide baby boomers with the guidance, products, strategies and tools they need to navigate retirement, but the relationship also results in boomers feeling more confident in their ability to be successful in retirement than their counterparts who do not work with advisors. Similarly, owning annuities, which provide a source of guaranteed lifetime income, is also correlated with increased confidence about key aspects of retirement. **Figure 8** compares boomers with and without financial advisors and/or annuities, revealing that at least twice as many boomers with advisors are confident in most major aspects of retirement and retirement planning. And while it is concerning that one-half or more of boomers with financial advisors are not confident about many aspects of retirement and retirement planning, it is important to remember that even those with retirement savings have largely not saved enough to be unconcerned about running out of money or having their retirement plans impacted by highly variable health and long-term care expenses. Similarly, while annuities can provide a secure source of lifetime income, something like a long-term care event can still result in extreme financial hardship. Among those not confident they did a good job preparing for retirement, the top two things they wish they had done differently were to have saved more (63%) and to have started saving earlier (58%). They were far less likely to wish they had taken specific action such as consulting a financial advisor (11%). Ironic, as consulting an advisor may well have resulted in earlier and greater saving.

Figure 8: Confidence in Key Aspects of Retirement and Retirement Planning



Longevity risk is an important concept in retirement planning; living to an advanced age without guaranteed sources of lifetime income beyond Social Security is an unpleasant reality to contemplate. In almost one-half of 65-year-old married couples, one partner will survive to at least age 95.⁷ In light of this probability of longevity, how long boomers think their savings will last has implications for how much they will enjoy their retirement free from the worry that they will exhaust their financial resources and be forced to subsist on Social Security benefits alone. **Figure 9** shows the confidence boomers have that their savings will last until successive age milestones. While it should be expected that confidence decreases at older ages, both financial advisor relationships and annuity ownership are strongly correlated with belief that retirement savings will not be completely depleted.

Also note that those boomers who are already retired are more likely to believe their savings will last. There are several possible reasons for this, for example those with more wealth may be more likely to be retired and therefore more likely say they feel confident about their savings. Additionally, the attitudes of pre-retirees may reflect a fear of the unknown whereas those boomers who are already retired have adjusted and may feel more confident in their predictions.



A more psychological measure of retirement readiness is how boomers feel about entering retirement. Here again there is strong correlation between positive feeling about retirement and the use of financial advisors and/or ownership of annuities. **Figure 10** shows that almost seven in 10 boomers who work with advisors, and more than six in 10 who own annuities, have positive feelings about retirement. Conversely, just over one-third of boomers without financial advisors, and four in 10 who do not own annuities, feel positive about retirement.

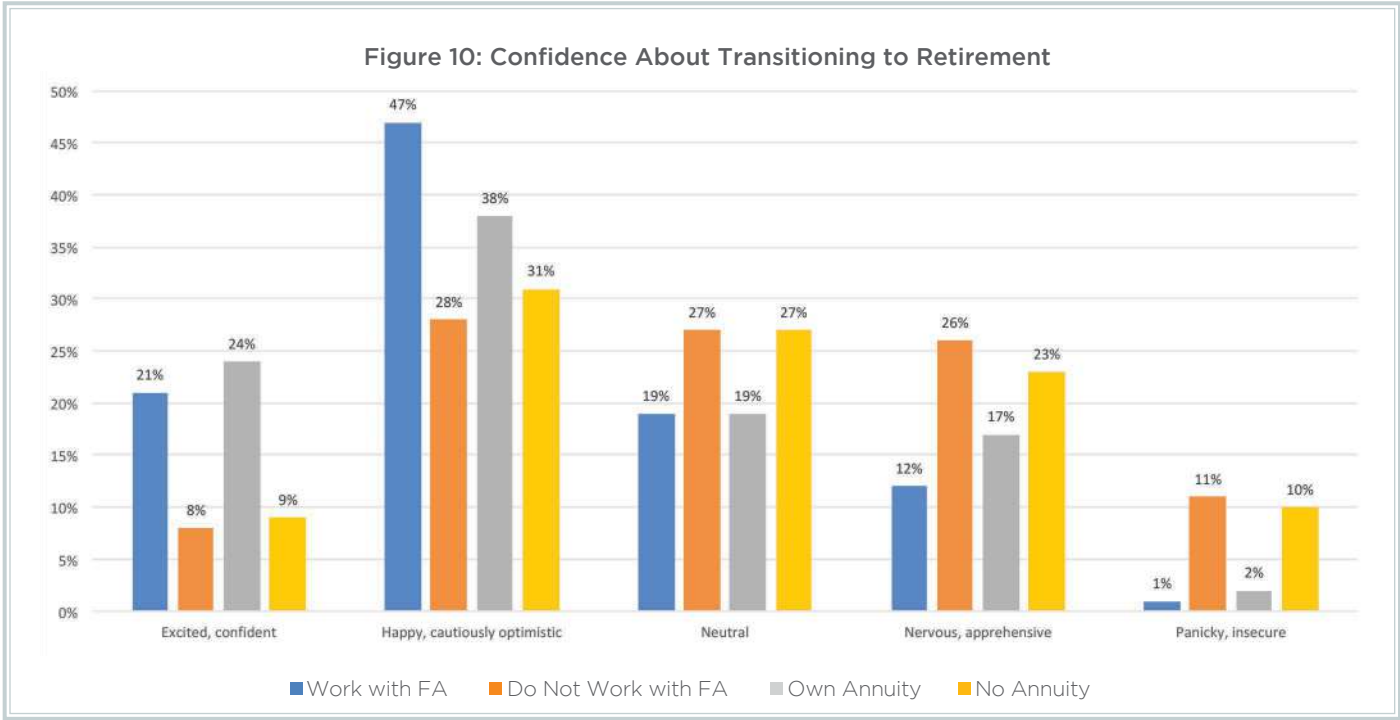
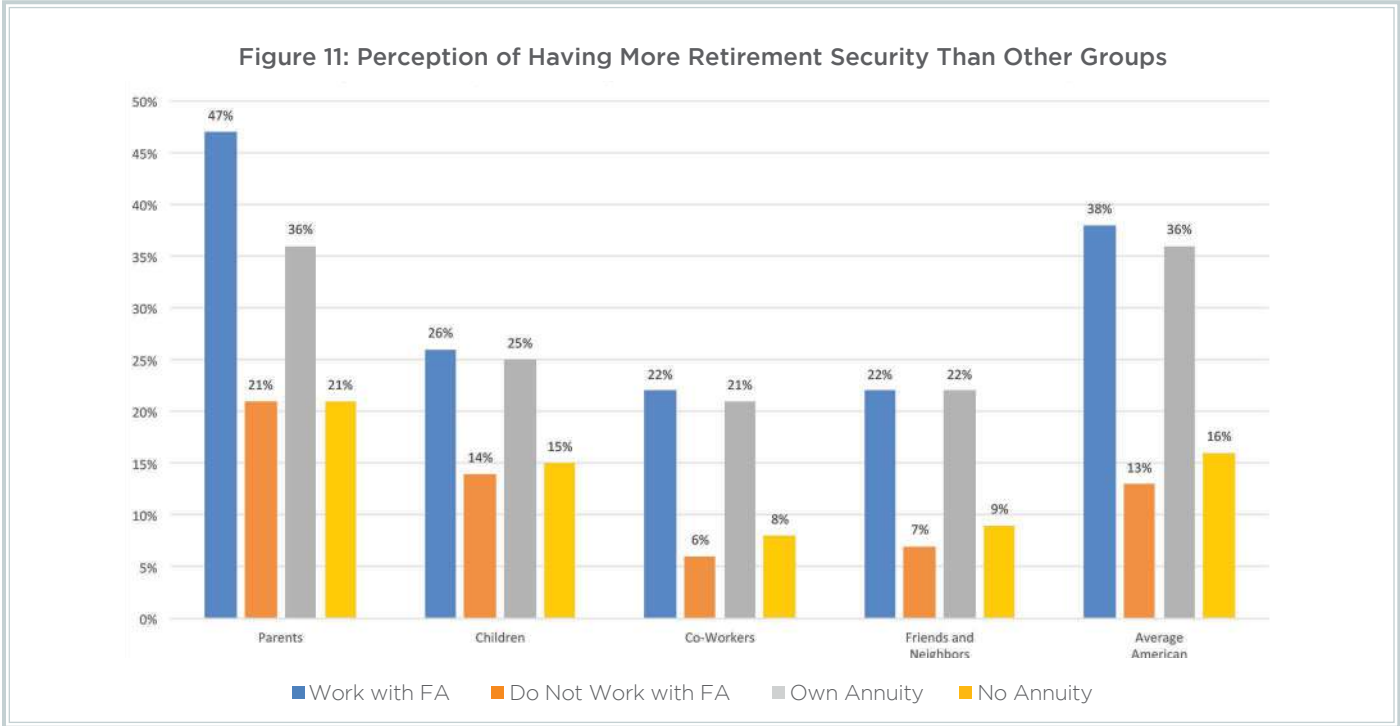


Figure 11 shows that boomers with advisors and/or annuities are far more likely to feel they have more retirement security than other groups, such as their parents, children, peer groups, and the average American.



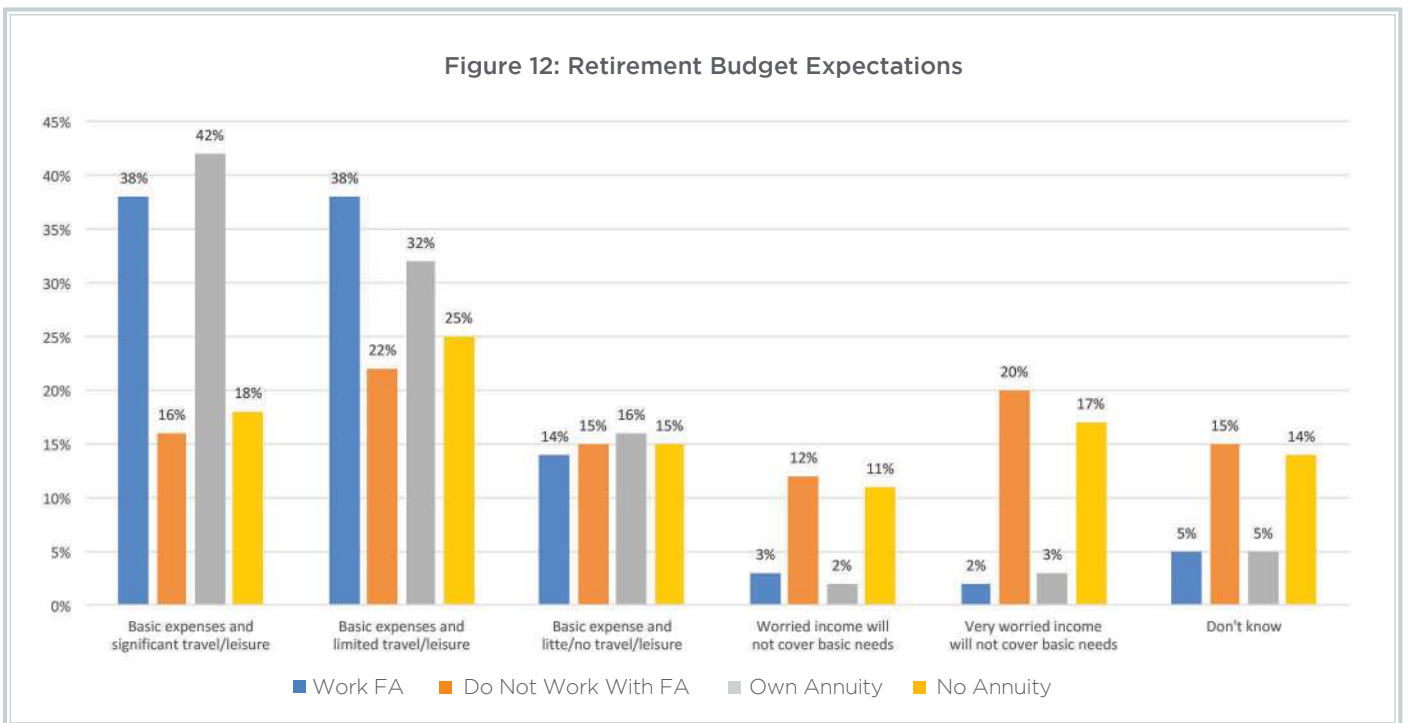
RETIREMENT EXPECTATIONS

So, what are some of the factors contributing to boomers' lack of confidence in their ability to retire comfortably, and realize a sustainable income throughout their retirement years? While individual circumstances are unique and all or none of these may apply to a specific person, there are several interconnected dynamics that will impact millions of boomers:

- Unrealistic expectations regarding the extent of their ability to engage in discretionary spending.
- Uncertainty and underestimation of the potential amount of their income that will be consumed by health care and long-term care expenses.
- Misunderstanding what services Medicare and Medicaid will cover, and under what circumstances.
- No or low retirement savings.
- Underestimation of the amount of annual retirement income they will need.
- Pensions fading rapidly from the retirement landscape.
- A disconnect between the desire for sources of guaranteed lifetime income and an understanding of how to create guaranteed lifetime income from retirement savings.

Figure 12 breaks down boomers' expectations regarding their spending in retirement. A few things to note in this chart:

- The much larger number of boomers who work with financial advisors and/or own annuities who are confident they can enjoy some or a significant amount of travel and leisure
- The very low instance of boomers with advisors and/or annuities being worried or very worried about paying for basic expenses.
- The still significant number of boomers, about four in 10, without financial advisors or annuity income who believe they will be able to cover basic expenses and some level of travel and leisure. For some, such as the few with very high levels of savings or who are expecting pensions, this might be realistic, but recall Figure 4 showing only 25 percent of these boomers have calculated a savings goal.



In **Figure 13**, more than 50 percent of boomers believe health care costs will consume 20 percent of their income, or less. However, analysis by HealthView Services estimates that a healthy 66-year-old couple who retired in 2018 would need 48 percent of their lifetime Social Security benefits to address total lifetime health care expenses. With nearly one-half of Social Security lost to health care, supplemental income from pensions (for the fortunate few) and savings would need to be substantial for health care to be 20 percent, or less, of total income.

Figure 13: Expectation of Health and Long-term Care Costs as a Percentage of Retirement Income

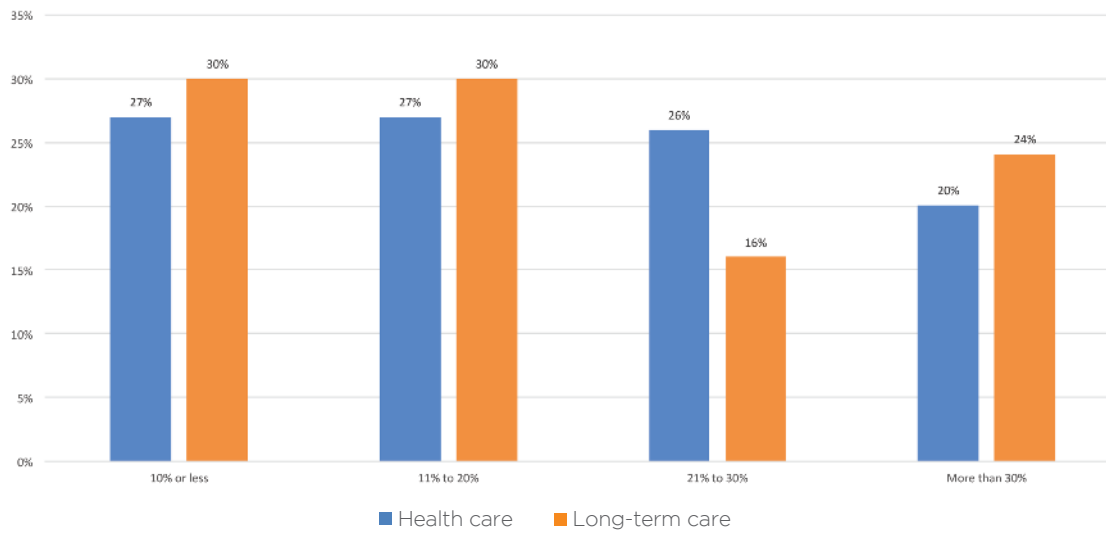
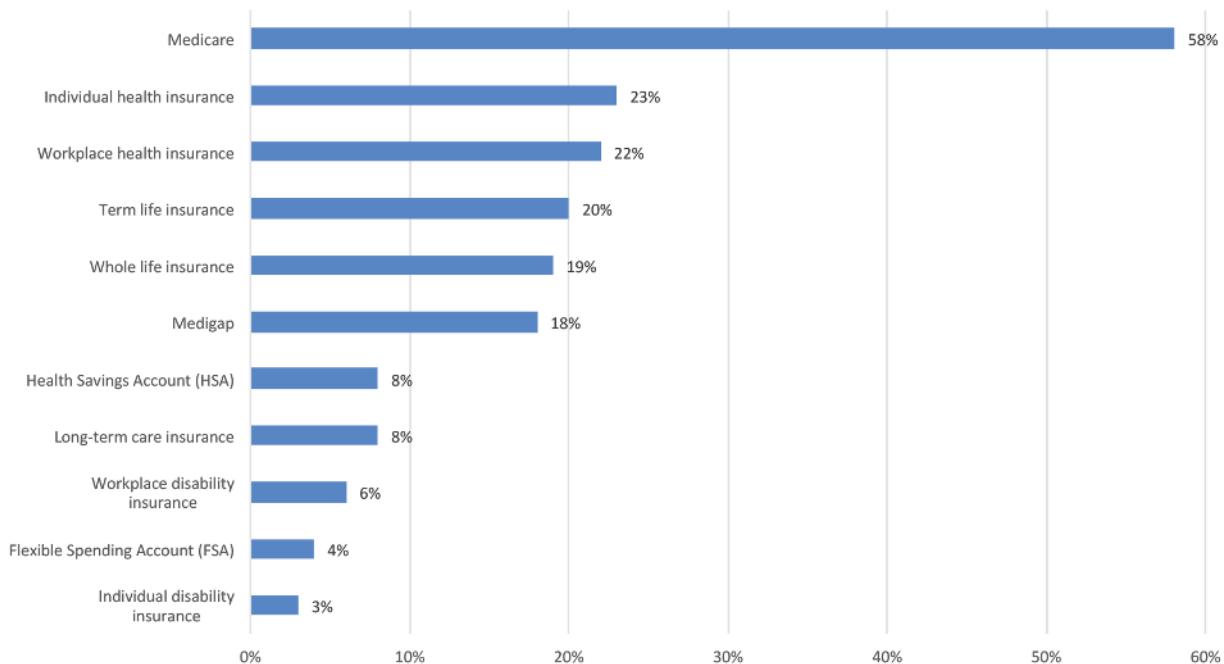


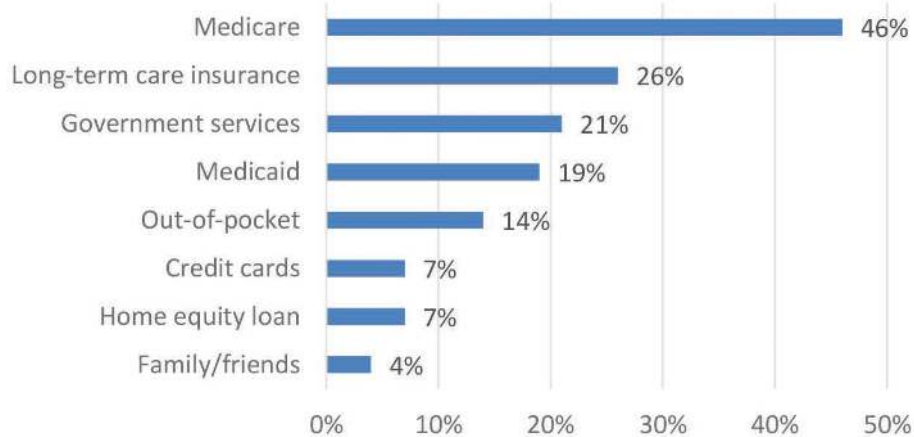
Figure 14 shows the likelihood of boomers using the types of insurance products and tools that can potentially help mitigate the impact of health and long-term care costs, as well as those that help them address other retirement needs such as estate planning and ensuring continued income for spouses or other family members. With almost one-half of boomers retired, it is not surprising to see a high level of Medicare enrollment, but unfortunately relatively low instances of the use of other insurance are observed. Health Savings Accounts (HSAs), for example, provide a triple tax benefit (contributions are pre-tax, interest and earnings are not taxed, and distributions are not taxable if used for qualifying health care expenses) but are poorly understood and not yet widely owned, in part due to the requirement that a contributor to an HSA be enrolled in a high-deductible health plan.⁸

Figure 14: Ownership Levels of Expense Management Tools and Insurance



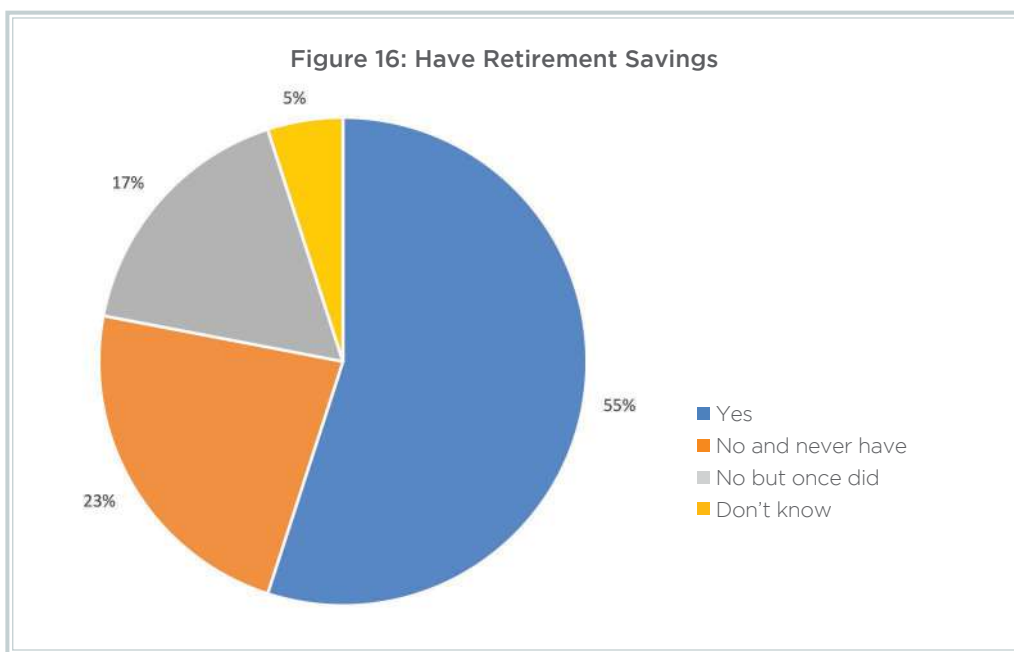
Long-term care suffers from a particularly perilous misconception. In **Figure 15**, almost one-half of boomers believe Medicare will cover their long-term care costs, but this is not the case. And while long-term care insurance is an expected source of coverage for more than one in four boomers, only 8 percent say they own a long-term care policy (see Figure 14). This likely means that boomers intend to purchase a long-term care policy in the future, but many may not be aware that long-term care can be difficult to qualify for, and prohibitively expensive. Roughly four in 10 boomers describe their health as good, fair, or poor (versus very good or excellent), a group that may have difficulty qualifying for long-term care insurance. The average annual long-term care policy premium for a 60-year-old couple was \$3,490⁹, or at best almost 5% of gross income (and even more of net income) for the two-thirds of boomers earning (or receiving in retirement) less than \$75,000 a year. Hybrid solutions, such as long-term care riders on annuity products, can be good alternative options.

Figure 15: Expected Sources of Long-term Care Cost Coverage

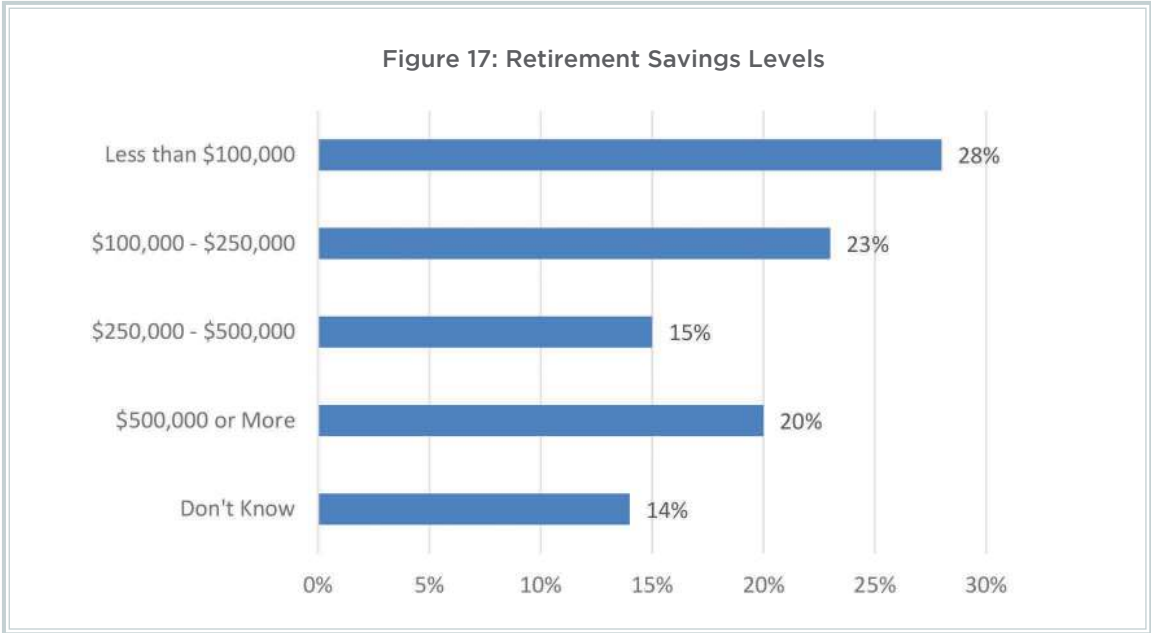


RETIREMENT SAVINGS AND INCOME

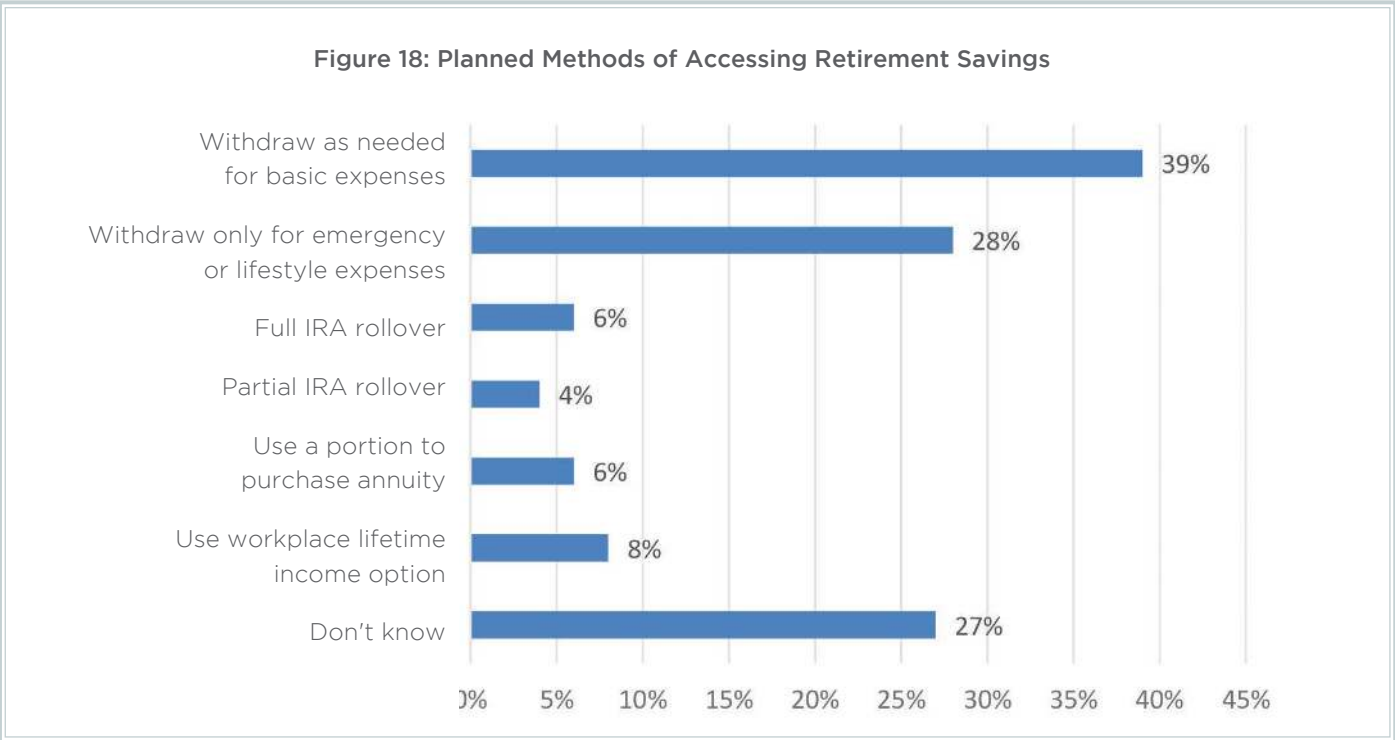
As noted earlier, 45 percent of boomers have no retirement savings. In prior years boomers were simply asked whether they had retirement savings; this year they were asked whether that meant they had never saved for retirement, or whether they had savings but either fully depleted those savings for retirement income or were forced to use those savings for other purposes prior to retiring. The results are telling, with **Figure 16** showing that almost one in five boomers had retirement savings at some point, but no longer do. Boomer research in 2020 will examine the reasons why those accounts were depleted.



Unfortunately, having retirement savings does not put most boomers “in the clear” with regard to retirement security. **Figure 17** shows that most have modest savings, with only one-third having retirement savings of \$250,000 or more. To put that in context, an immediate life annuity purchased by a 65-year-old couple would provide about \$14,000 in annual lifetime income¹⁰; coupled with the average Social Security benefit of \$28,000 that couple would have an annual income of approximately \$42,000 a year, well below the \$55,000 spent by Americans in the 65-74 age range.¹¹



The preceding exhibits reveal a precarious balance, and for many boomers a serious imbalance, between expected sources and amounts of retirement income and the expenses boomer retirees will likely face during their retirement years. Of major concern, then, is how boomers intend to use their savings (to the extent they have savings) to help them meet those expenses – i.e. ensuring that their savings produce sustainable income as opposed to being used to purchase a boat on retirement day one. **Figure 18** shows that, as in prior years, the most prevalent approach boomers plan to take for using their savings during retirement is to simply withdraw money from savings when they need it. Conversely, only six percent plan to purchase an annuity. Another eight percent say they would use a lifetime income option in their plan, but at present this is unlikely to be available to most workers. The “withdraw as needed” method is perilous, as it is invariably a haphazard approach to using retirement savings.



However, encouragingly **Figure 19** shows that six in 10 boomers have not taken any action with their workplace defined contribution (DC) plans, either because they have not retired, or they don't know how to go about it. This is an extraordinary opportunity for financial advisors to connect with retiring DC plan participants and provide them with the tools and guidance they need to produce sustainable, lifetime income from their savings.

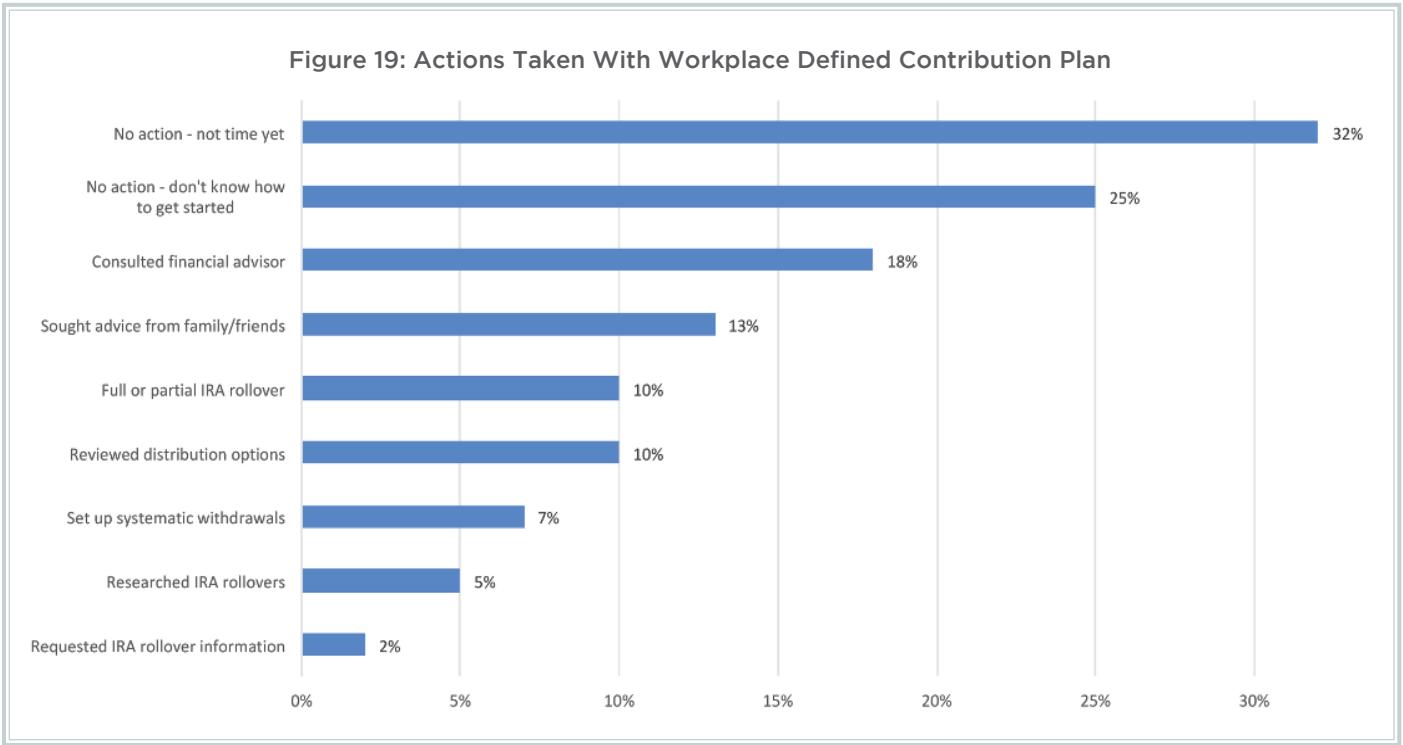


Figure 20 brings the preceding charts into sharp relief. Only 30 percent of boomers believe they will need \$55,000 or more in annual retirement income, in today's dollars. With \$55,000 as the *average* spent by Americans age 65-74, many boomers will have a higher income need than they project.

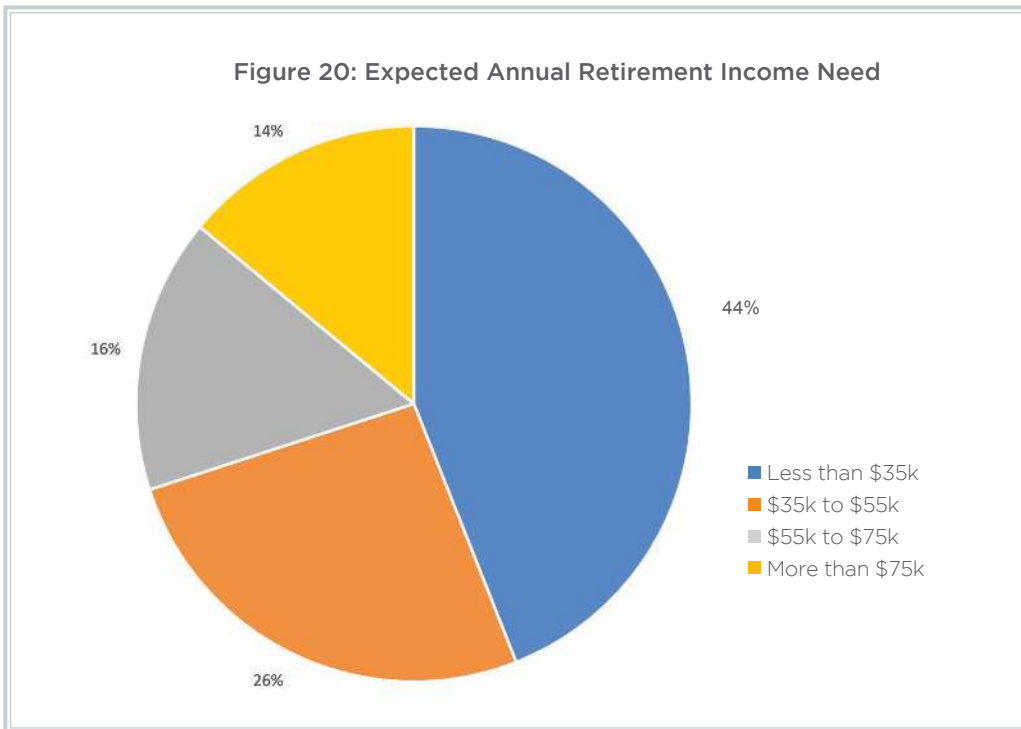


Figure 21 highlights the rapidly disappearing defined benefit pension. In 2018, only 17 percent of private industry workers had access to a pension, and among younger boomers only 23 percent expect income from a company pension in retirement, versus 38 percent of older boomers receiving or anticipating a pension. Paradoxically, annuity ownership is highest among those boomers who are the most likely to have pensions; possibly a familiarity with the concept of lifetime income payments made them more receptive to the idea of purchasing their own annuities to provide additional guaranteed lifetime income.

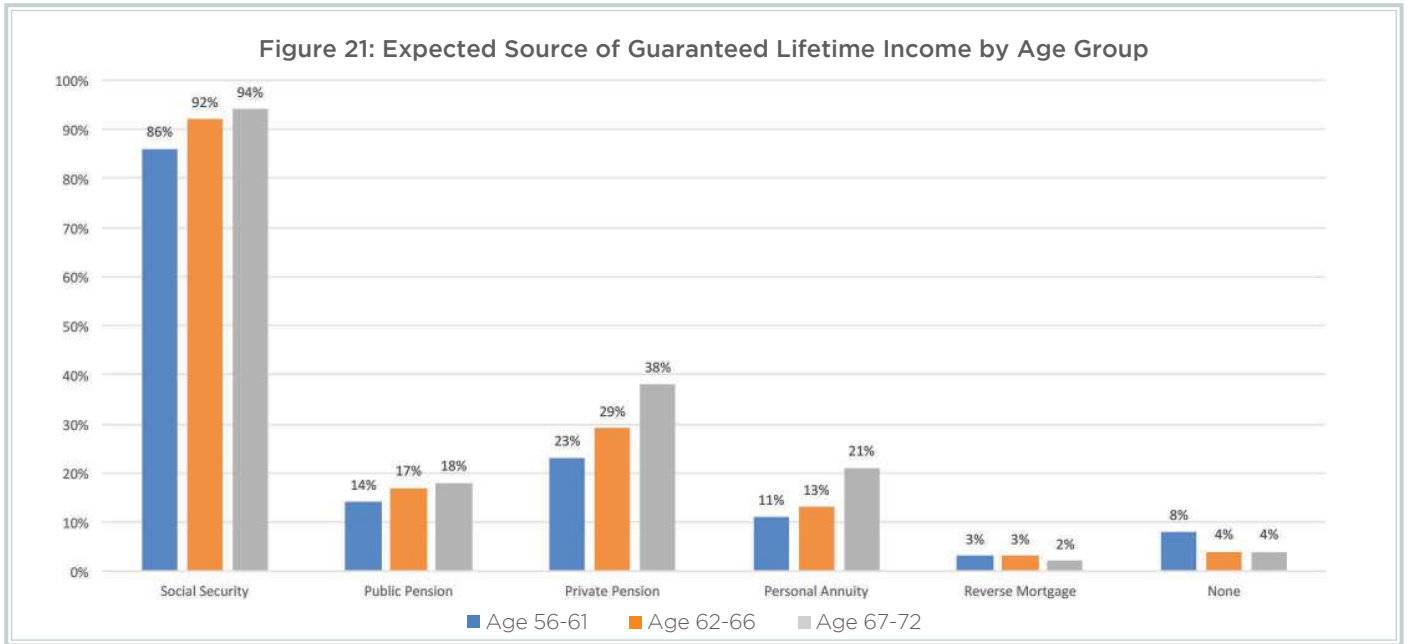
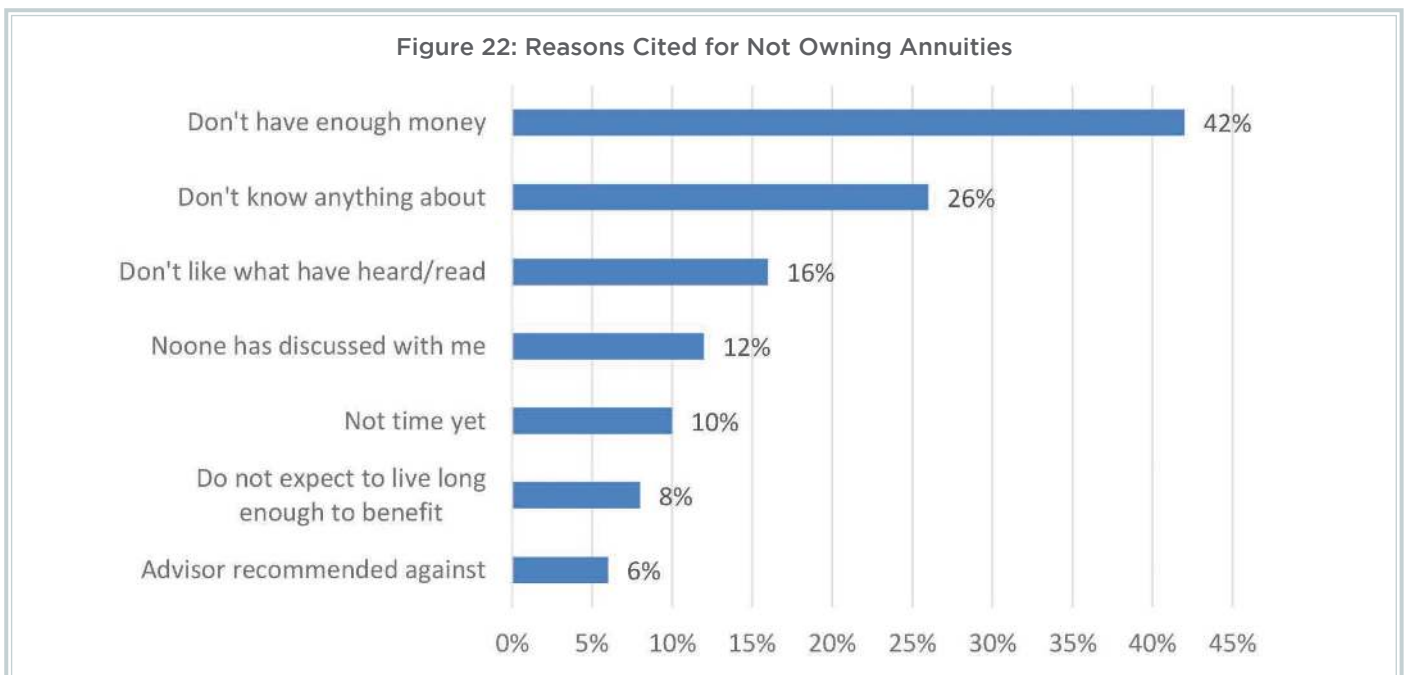
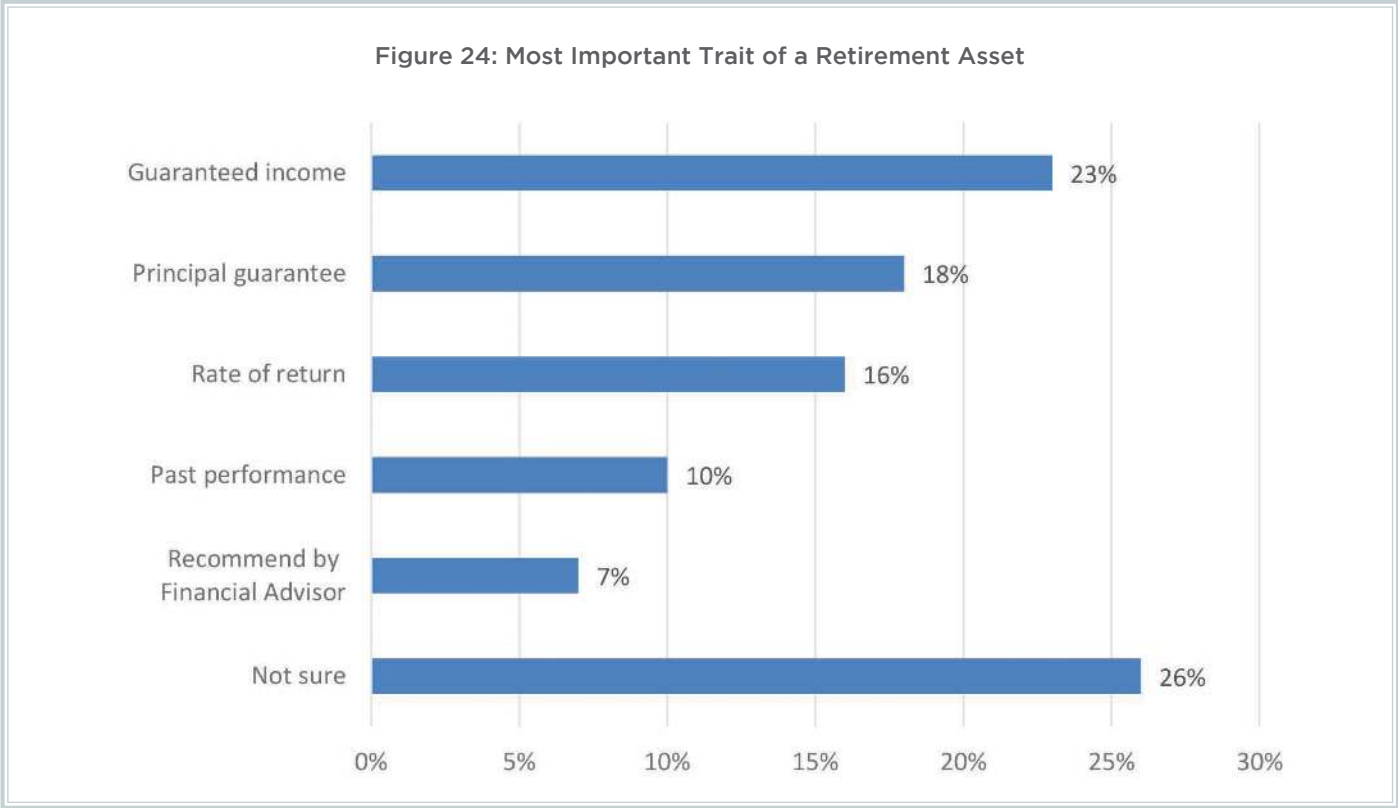
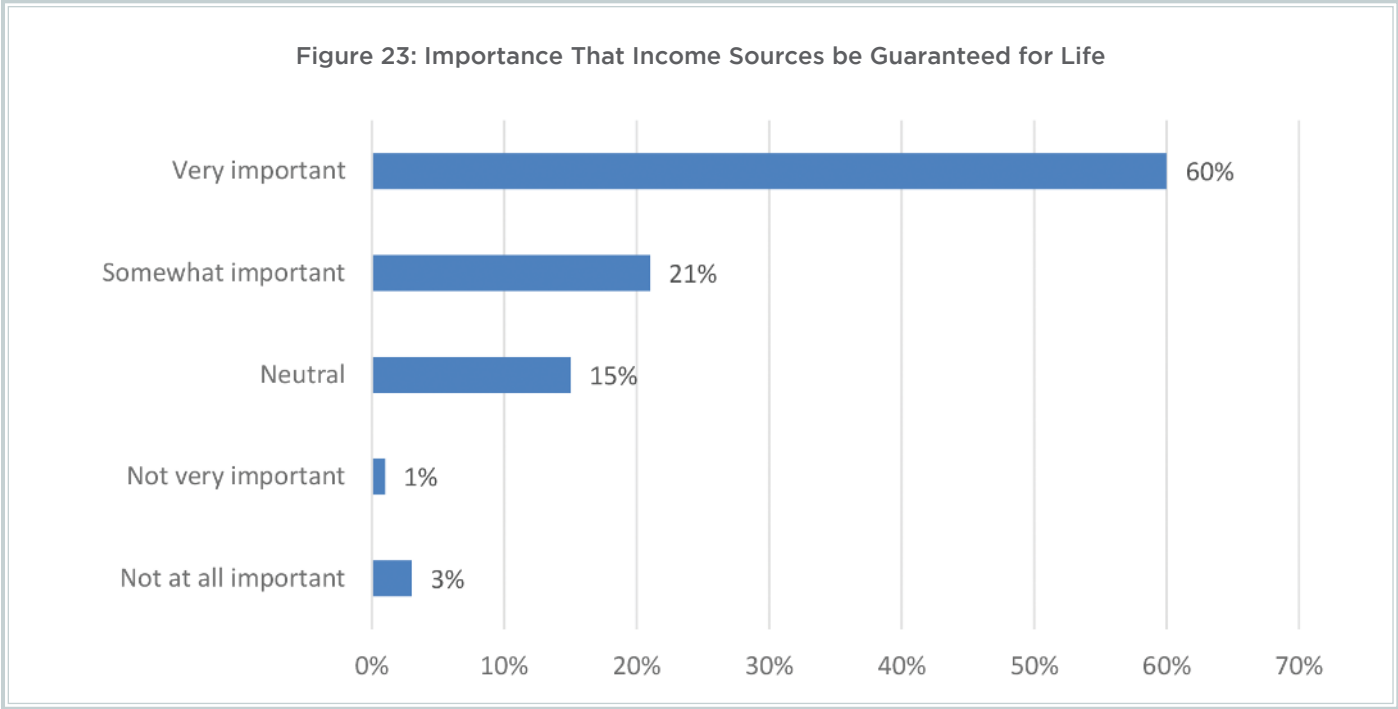


Figure 22 explores why annuity ownership is relatively low despite demonstrable income gaps. About as many boomers say they don't have enough money to purchase an annuity as say they have no retirement savings, an unfortunate reality. However, it is more common for boomers to say they simply don't know anything about annuities than to be biased against them, and this is an opportunity for the insured retirement industry and for financial advisors. Similarly, some of those who feel they do not have the longevity potential for an annuity purchase to make sense may be overlooking the possibility that medical advances will result in them living longer than they expect, and that medically underwritten annuities may increase payments to the point where an annuity purchase becomes attractive.



Figures 23 and 24 represent the conundrum often observed in research that explores consumer receptivity to annuities. Both charts show the importance people attach to retirement income, and in particular that such income be guaranteed, both in absolute terms and as a feature of a retirement product in which they would invest their money. However, as the preceding exhibits, and other IRI research, have shown, many are unfamiliar with and not purchasing annuities.



OTHER BOOMER INSIGHTS

- The **top two responses** regarding actions boomers plan to take if they run out of money during retirement are to downsize in order to get by on Social Security alone (58%) and/or attempt to return to work (37%). Only six percent said they would ask their children for financial assistance.
- Approximately **one-third** of boomers have taken steps to protect themselves in the event they experience some form of cognitive decline, such as creating a written document detailing their wishes and appointing someone to manage their affairs.
- Over **80 percent** of boomers believe they live within their means, though about one in five say they sometimes get behind on bills. Seven in 10 believe they are adequately insured, yet they are not insuring one of their biggest risks – maintaining income throughout retirement.
- Tax deferred earnings is also a key aspect of investment products for boomers. About **six in 10** boomers say tax deferral is very (29%) or somewhat (29%) important when selecting a retirement investment product

CONCLUSION

Baby boomers, particularly those who are younger and still working, face an urgent need to save more and create financial plans for retirement. Most will not have pensions, so it is imperative that they maximize Social Security, create guaranteed lifetime income from their savings, become realistic about their retirement budgets, and employ insurance protection and financial management tools to mitigate the risk that health care and long-term care costs will erode their savings and income.

METHODOLOGY

The Insured Retirement Institute (IRI) commissioned Woelfel Research, Inc. to conduct a survey of individuals broadly defined as members of the Baby Boomer generation. The research was conducted by means of internet interviews with 804 Americans aged 56-72. The results were weighted by age and gender to the 2015 American Community Survey. Data were collected from February 11-15, 2019. The margin of error for the sample of 804 was 3.5%.

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³ Healthview Services: 2018 Retirement Health Care Costs Data Report

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⁶ Putnam Investments, *Five things you need to know about optimizing Social Security* (2018)

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⁹ American Association for Long-Term Care Insurance (2018)

¹⁰ CANNEX Financial Exchanges

¹¹ Bureau of Labor Statistics



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