

Survey period
03/10/2021 to 03/18/2021

**Respondent Sample for
this Report**
n=990

Methodology
Web-based survey of
2,241 adult Americans
ages 40–80

Retirement Readiness Among Older Workers **2021**

IRI Retirement Readiness Research Series



About This Report

The findings in the following slides are based on responses to an online survey conducted in March 2021. Survey responses came from 990 Americans between the ages of 40 and 73 who are employed on a full- or part-time basis. Most of the exhibits in this report are shown for all respondents and across six different age cohorts to provide an examination of the differences among younger and older respondents.

The primary purpose of this report is to provide IRI member firms with important statistics regarding the retirement savings behaviors, retirement preparation steps, retirement expectations, and retirement investment preferences of American workers. The report is divided into five sections:

- Section 1: Retirement Saving
- Section 2: Retirement Preparedness and Expectations
- Section 3: Budgeting and Contingency Planning
- Section 4: Retirement Investing
- Section 5: Retirement IQ

Also included is an appendix that provides demographic information about the survey respondents and a full description of the survey methodology. Commentary is provided throughout to highlight areas of interest and offer context for responses.

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Key Findings

1 Savings Behavior Needs to Improve



Older workers are under saved ...
51% have less than \$50K saved for retirement



... they are not saving enough ...
57% save less than 10% of income



... and they are insecure about retirement finances.
Only **44%** think they will have enough income throughout retire

2 Retirement Income Expectations are Unrealistic

More than one-half think they'll need **\$55K+** a year; one-third think they'll need **\$75K+**

Despite low savings and lofty income expectations, one-third think they'll retire prior to **age 65** and one-half at **65 or younger**

3 Indications of Strong Interest in Annuities

87%

believe it is important that the income from savings is guaranteed for life

75%

are likely to allocate to an in-plan VA/GLWB

26%

indicate lifetime income is the most important trait of a retirement investment (top answer)

SECTION 1

Retirement Saving

Retirement Saving

Older American workers have not saved enough and regret that they have not saved more or wish they had started saving earlier. Improving retirement prospects requires an increase in the percentage of income saved.



67% wish they had started saving earlier



51% have saved less than **\$50K**



57% save less than **10%** of income

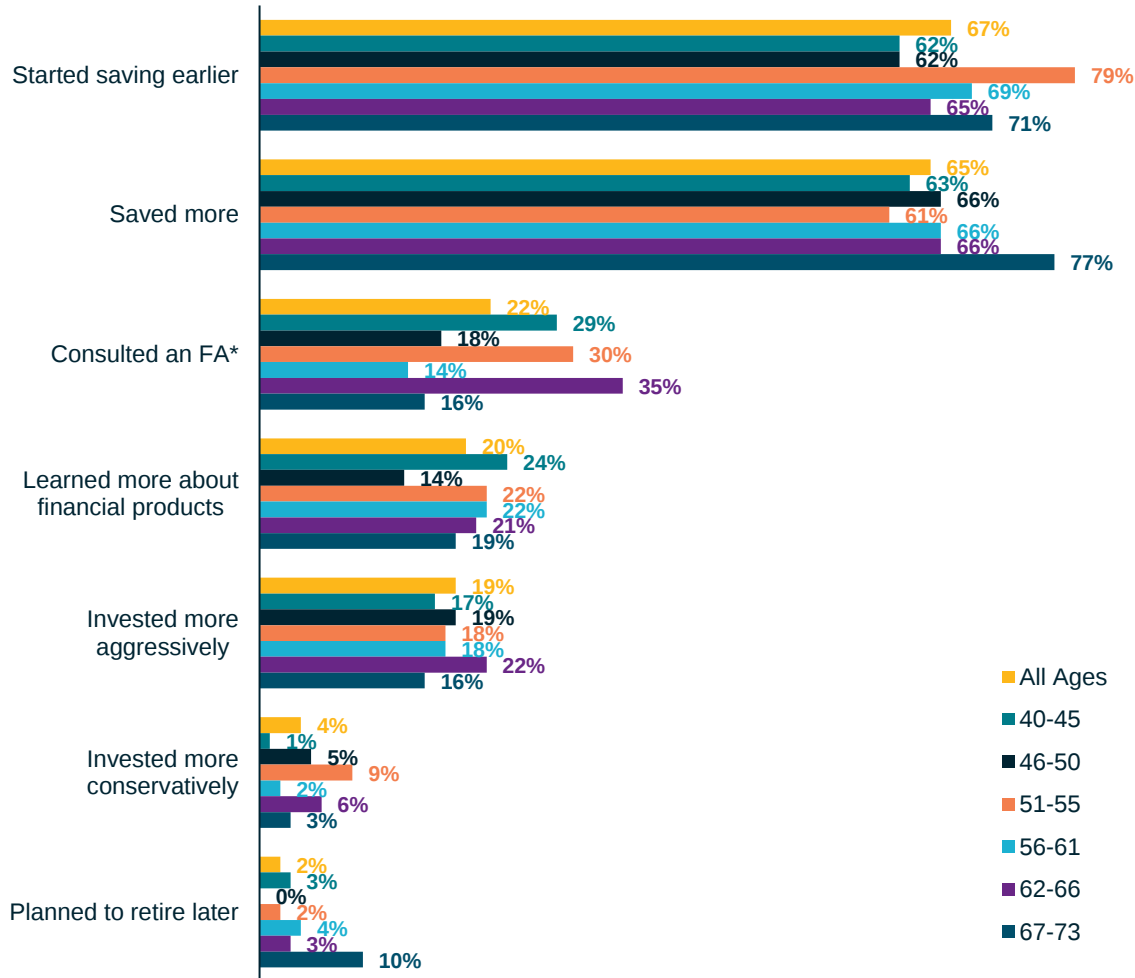


33% save less than **5%** of income



Regrets: They Have a Few

Retirement Preparation Steps Would Have Done Differently (n=990)



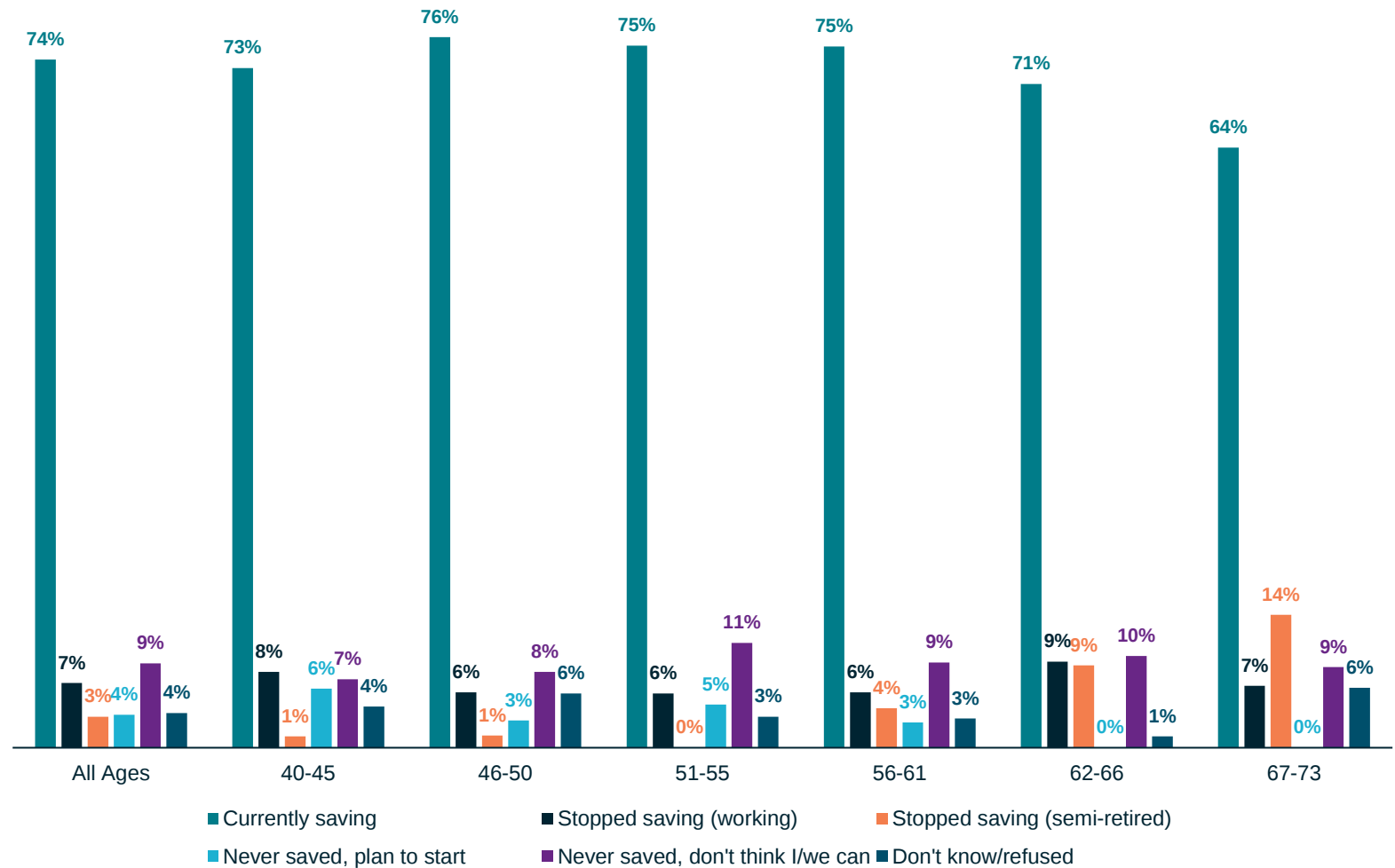
The two things most workers wish they had done better when planning for retirement, regardless of current age, is to have started saving earlier and to have saved more. Given the state of retirement savings, this is not at all surprising and shows clearly that encouraging workers to save more, and to save enough to be able to effectively use annuities to secure their own source of lifetime income, must be a high priority for the secured retirement industry.

The third commonly cited regret, though far below saving more and earlier, was consulting a financial advisor. More than one-third of workers currently have, or have had, a relationship with an advisor. Such a relationship can be the means to not avoiding these regrets, as advisors can help with budgeting, saving, calculating retirement needs, and staying on track to meet financial goals.

The following slides provide more detail about why workers have these regrets.

Workers Are Saving

Retirement Saving Status (n=990)

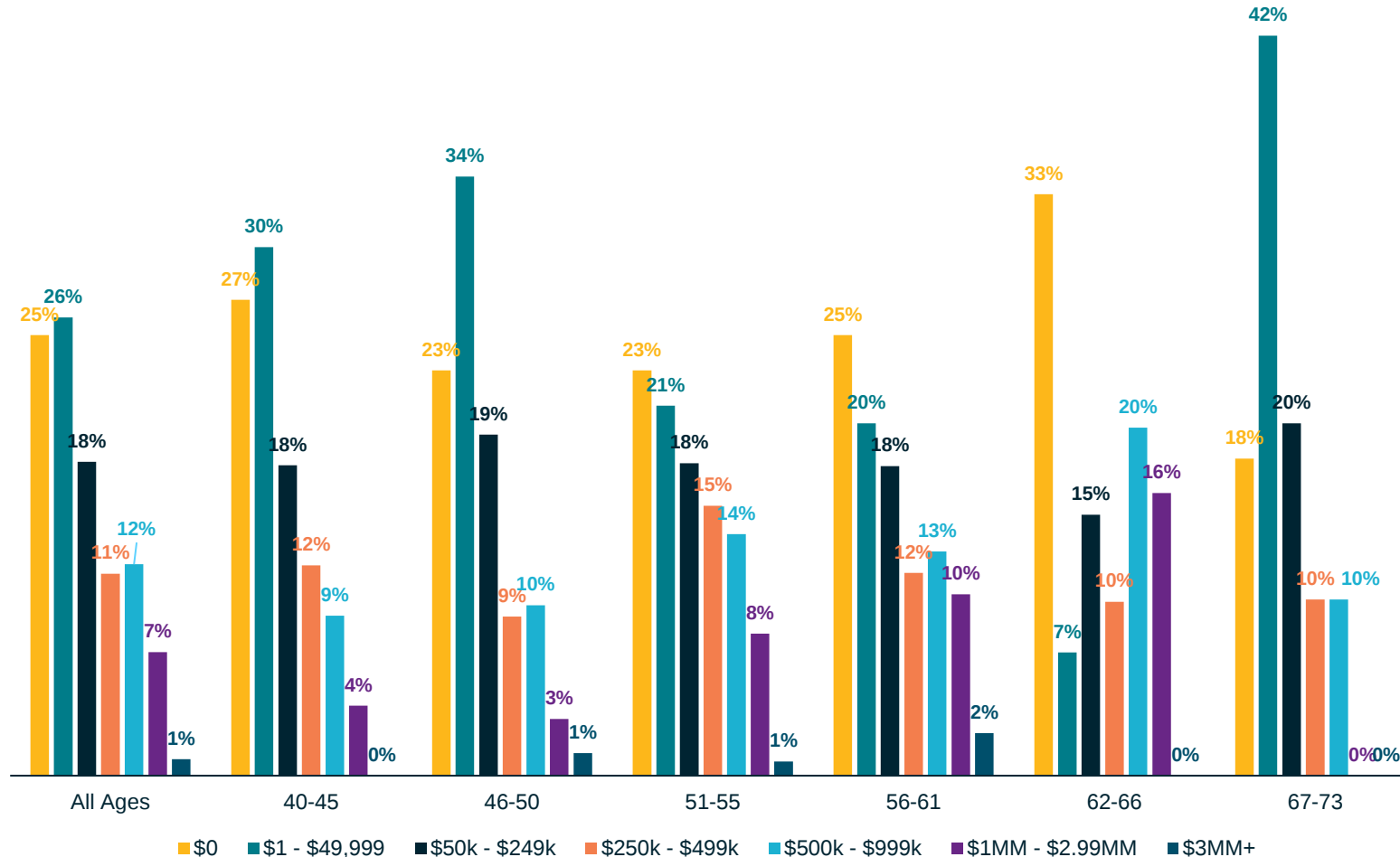


Across most age groups, about three in four workers are saving for retirement but this drops to 64 percent in the oldest age cohort. The oldest workers are more likely to have retired from their primary occupations and stopped contributing to a retirement plan. However, they may still earn income from full- or part-time employment.

Q. Do you (AND YOUR SPOUSE/PARTNER IF APPLICABLE) have money saved for retirement?

But Not Saving Enough

Retirement Savings Account Balances (n=990)



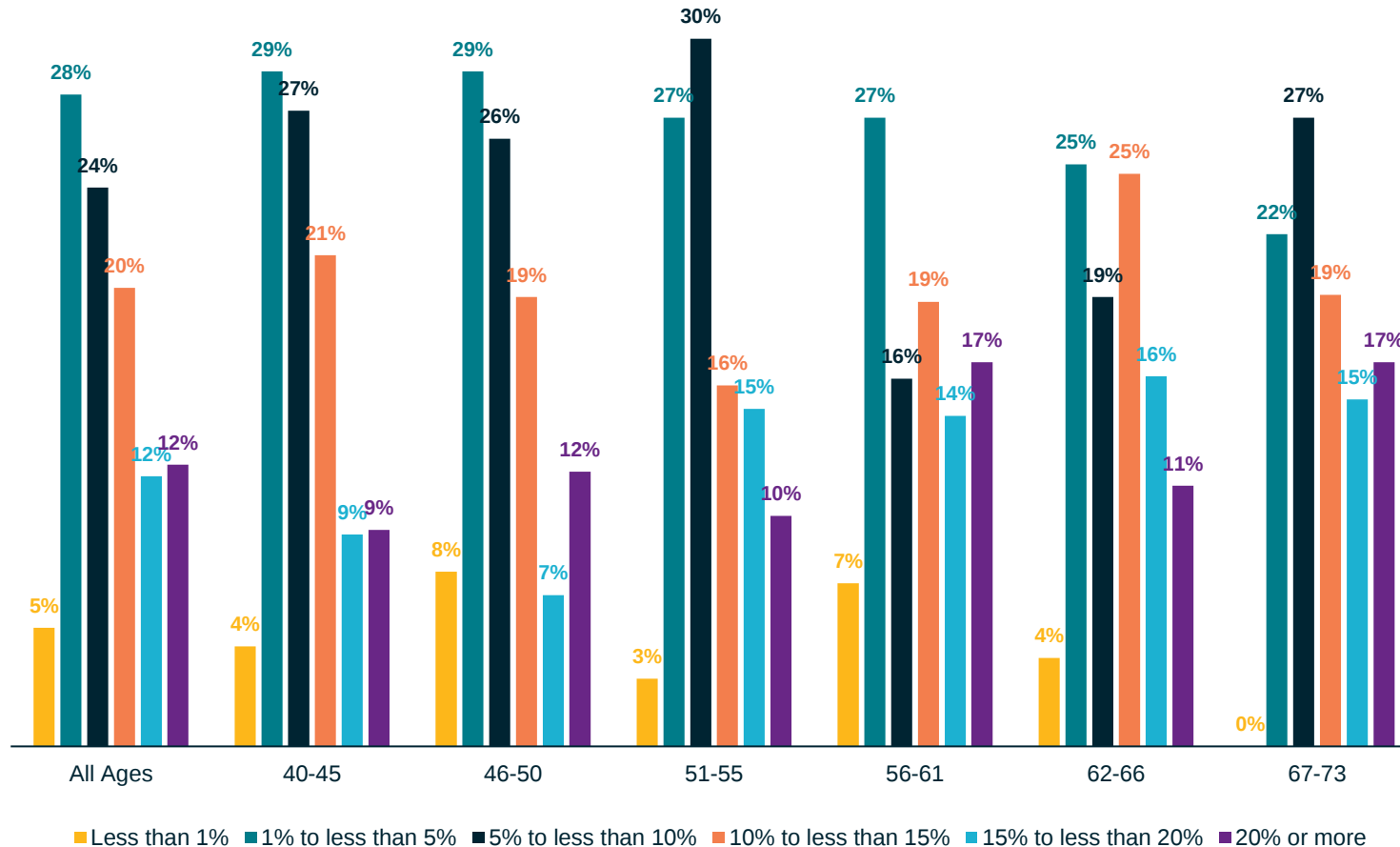
The unfortunate reality, however, is that most workers ages 40 and up are not saving nearly enough to generate sufficient retirement income to meet their retirement expectations, as we'll see further on.

One in four have no savings at all. This stays remarkably consistent until we get to the top two age cohorts, where fully one-third of workers ages 62 to 66 have no retirement savings. The oldest are in slightly better shape, with about one in five having no savings.

About a quarter of respondents have no retirement savings, and half have saved less than \$250K (with half of them having less than \$50K saved). About one in five have saved over \$500K.

1/3 of Workers Save Less than 5% of Income

Retirement Saving Rates by Age Group (n=729)



Among savers, savings rates are not nearly high enough for even the youngest respondents to grow their nest eggs to a level sufficient for meeting their income and budget expectations. With 60 percent of respondents reporting annual household income of less than \$100K and more than half saving less than 10 percent of their income, prospects for a secure retirement seem dim. There is a bit more aggressive saving occurring among those ages 56 to 66, indicating catch-up contributions may be part of their saving. When younger workers reach “catch-up” age (50), it will be important for them to raise contribution rates, if not sooner. These findings highlight the importance of plans not only auto-enrolling but auto-escalating participants to increase savings rates.

Note: Across all age groups, approximately 20% of workers took withdrawals from retirement accounts. However, while shrinkage of retirement accounts is not a positive sign, less than 4% took a withdrawal with penalty, with almost 70% of them in the 40-to-50 age group. This may point to many having withdrawn funds due to factors related to COVID-19.

SECTION 2

Retirement Preparedness and Expectations

Retirement Saving

Workers are not confident in their retirement prospects and may have income expectations that are unrealistic. Most have not saved enough to bridge the gap between what Social Security will provide and what their savings can generate, especially as so many plan to retire before full retirement age.



44%

of workers believe they will not have enough income to last throughout retirement



44%

do not believe they will be able to remain independent throughout retirement



58%

believe they will need \$55K or more in retirement income (in today's dollars)

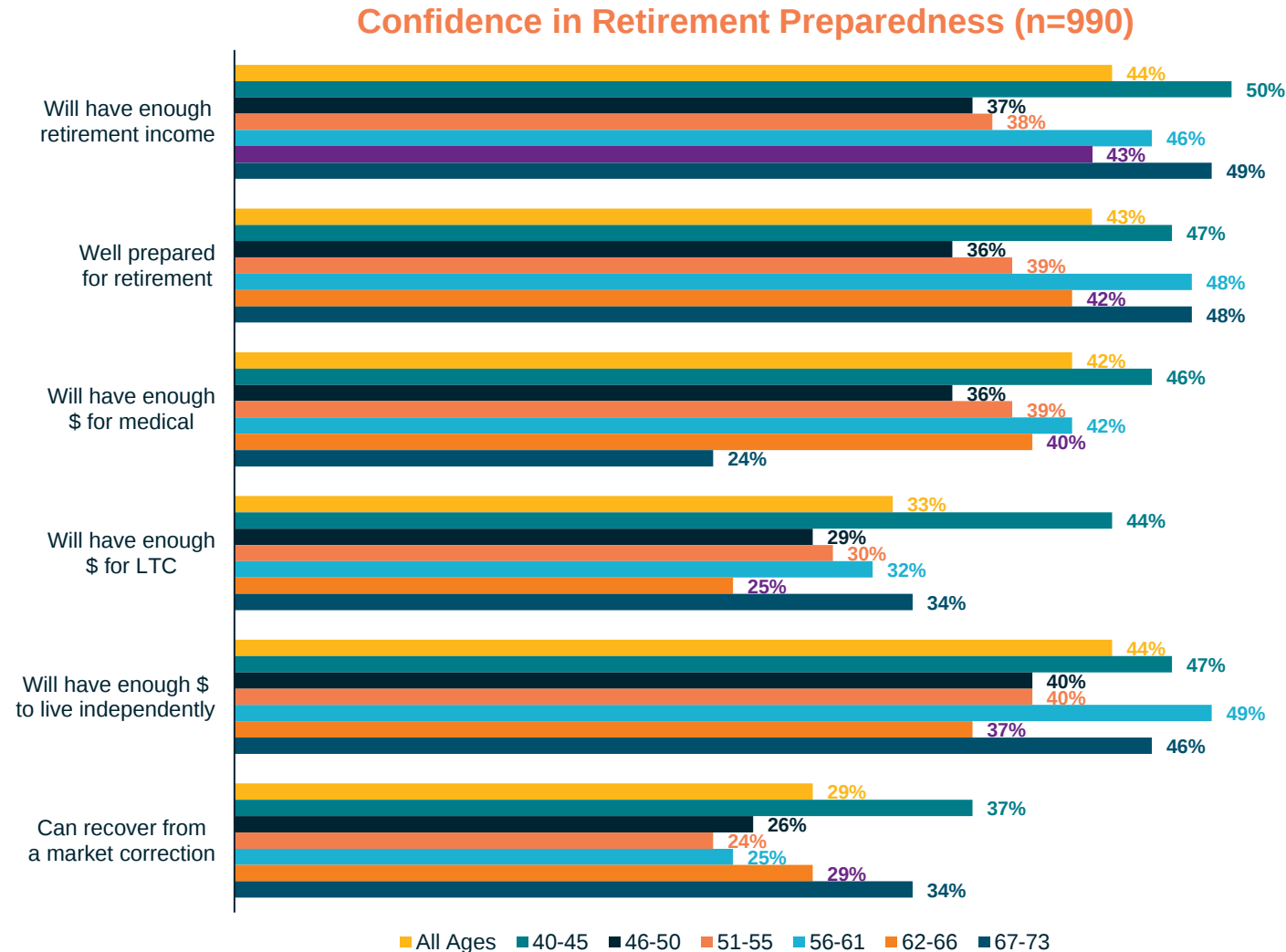


46%

plan to retire at age 65 or earlier



Less Than Half are Confident in Their Preparedness



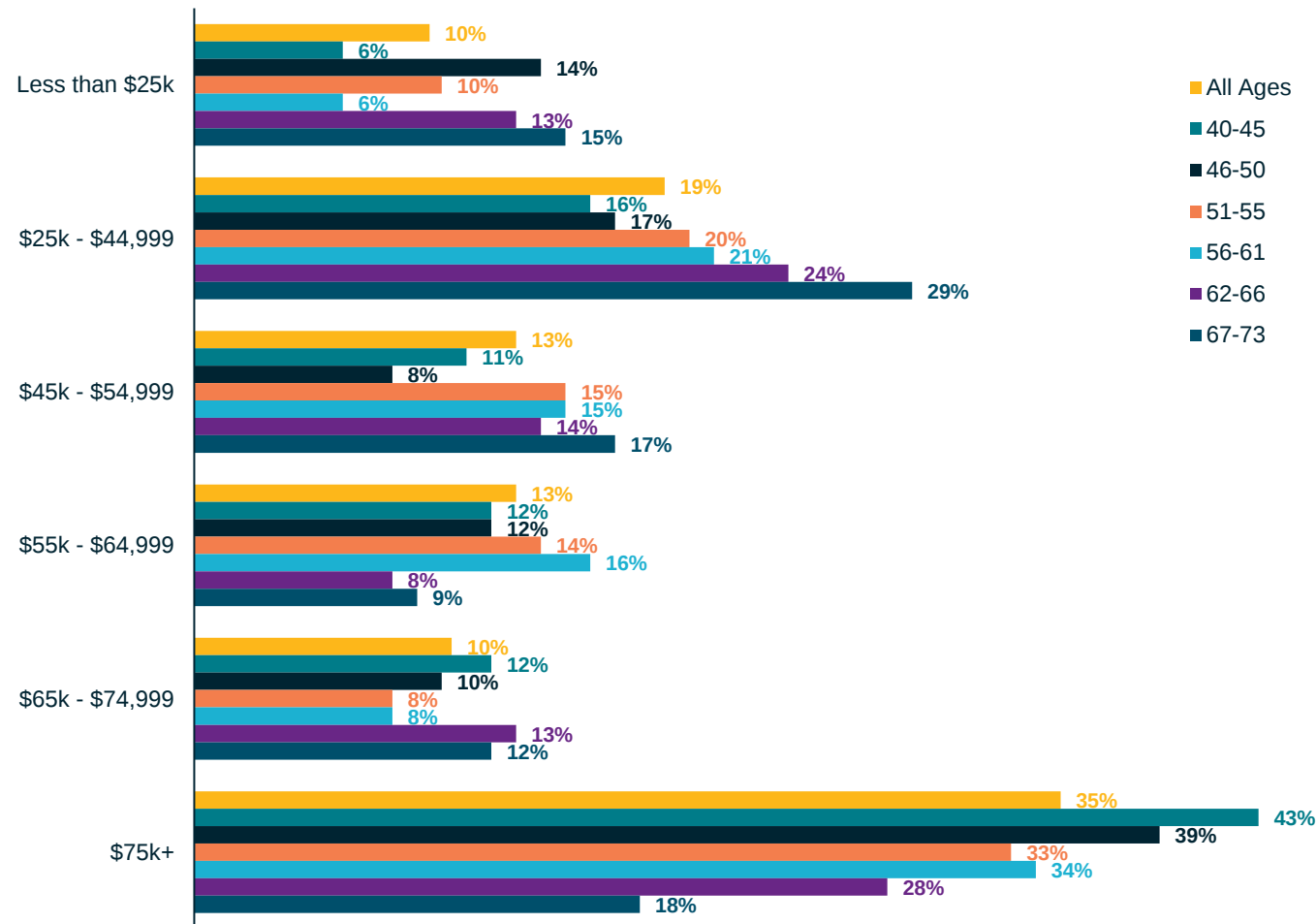
Across several measures of retirement preparedness, workers of all ages are simply not confident. Most fear they will not have enough income, will not be prepared to transition to retirement, will not have enough money for medical expenses or long-term care should the need arise, and may not be able to live independently for the entirety of their retirement.

Perhaps the most interesting finding here, however, is how little confidence workers have that they will be able to recover from a significant market correction. The youngest and oldest age groups are the most confident on this score, likely because some of the youngest realize they have time to recover while the oldest may have minimal allocations to risk assets. This, however, raises the issue of keeping up with inflation, which today's retirees will struggle to do with current yields in government bonds and Certificates of Deposit.

Q. How confident are you (and your spouse/partner if applicable) about certain aspects related to retirement?

But Aggressive Retirement Income Expectations Abound

Expected Annual Retirement Income Need by Current Age Range (n=990)

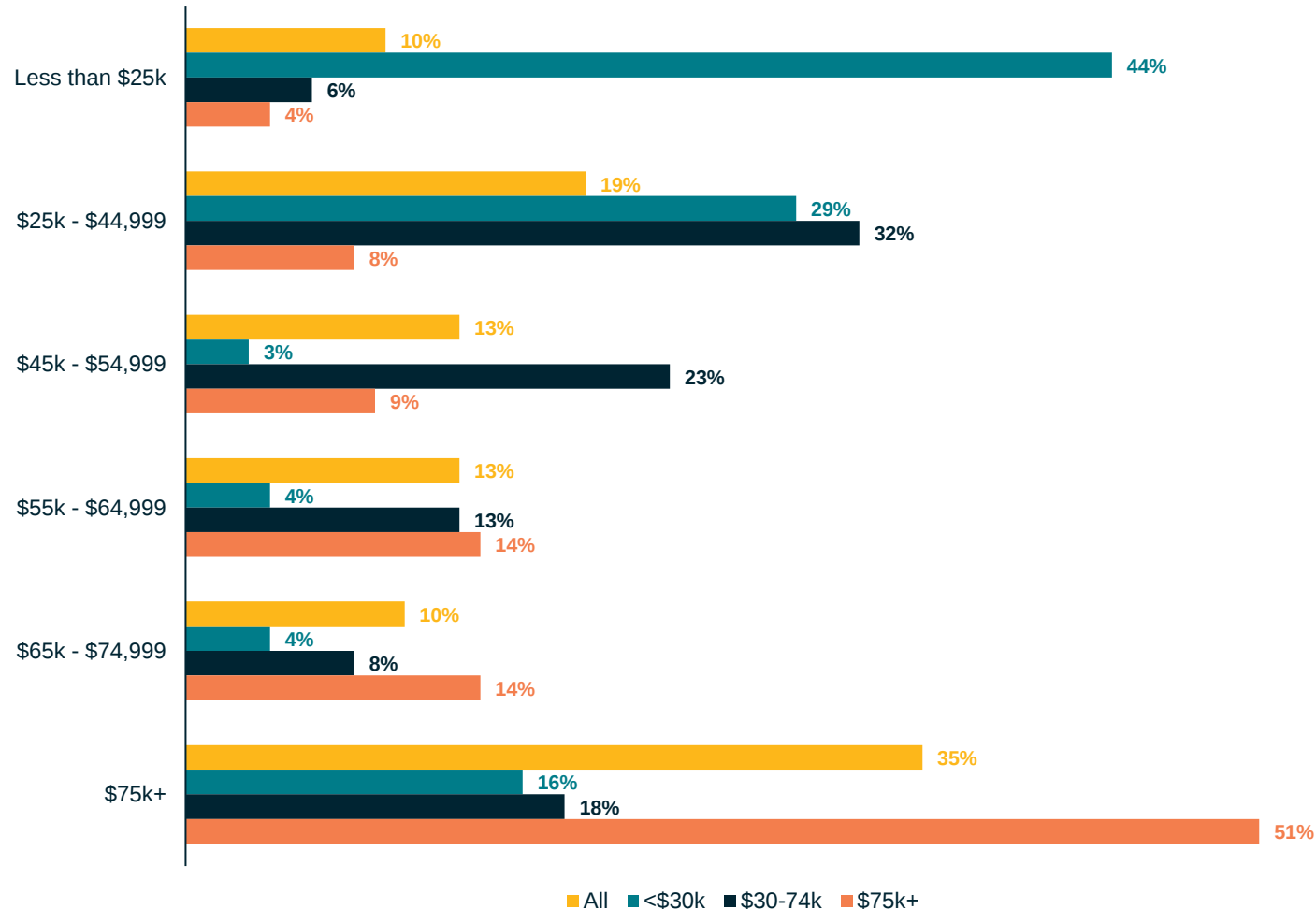


A remarkably high percentage of workers expect to need annual retirement income in excess of \$75K in today's dollars. This is remarkable because, as shown earlier, they aren't saving, and haven't saved, nearly enough to meet that expectation. A simple example will serve to illustrate the disconnect.

A married couple retiring today receives, on average, about \$30K a year, and the maximum benefit, based on two spouses with full work histories at maximum Social Security earnings, would be about \$55K. With only 15% of private industry workers having access to a defined benefit pension, savings of about \$600K to \$1.25 million would be needed to generate sustainable income sufficient to close the gap. Most of the workers represented in this survey are not earning enough to realize the maximum Social Security benefit, so most should expect to need over \$1 million in savings to meet their retirement income expectations. Annuities, of course, can help bridge this gap by providing more income per dollar invested than alternatives and guaranteeing that income for life.

Expectations Misaligned with Current Income

Expected Annual Retirement Income Need by Current Income Range
(n=990)

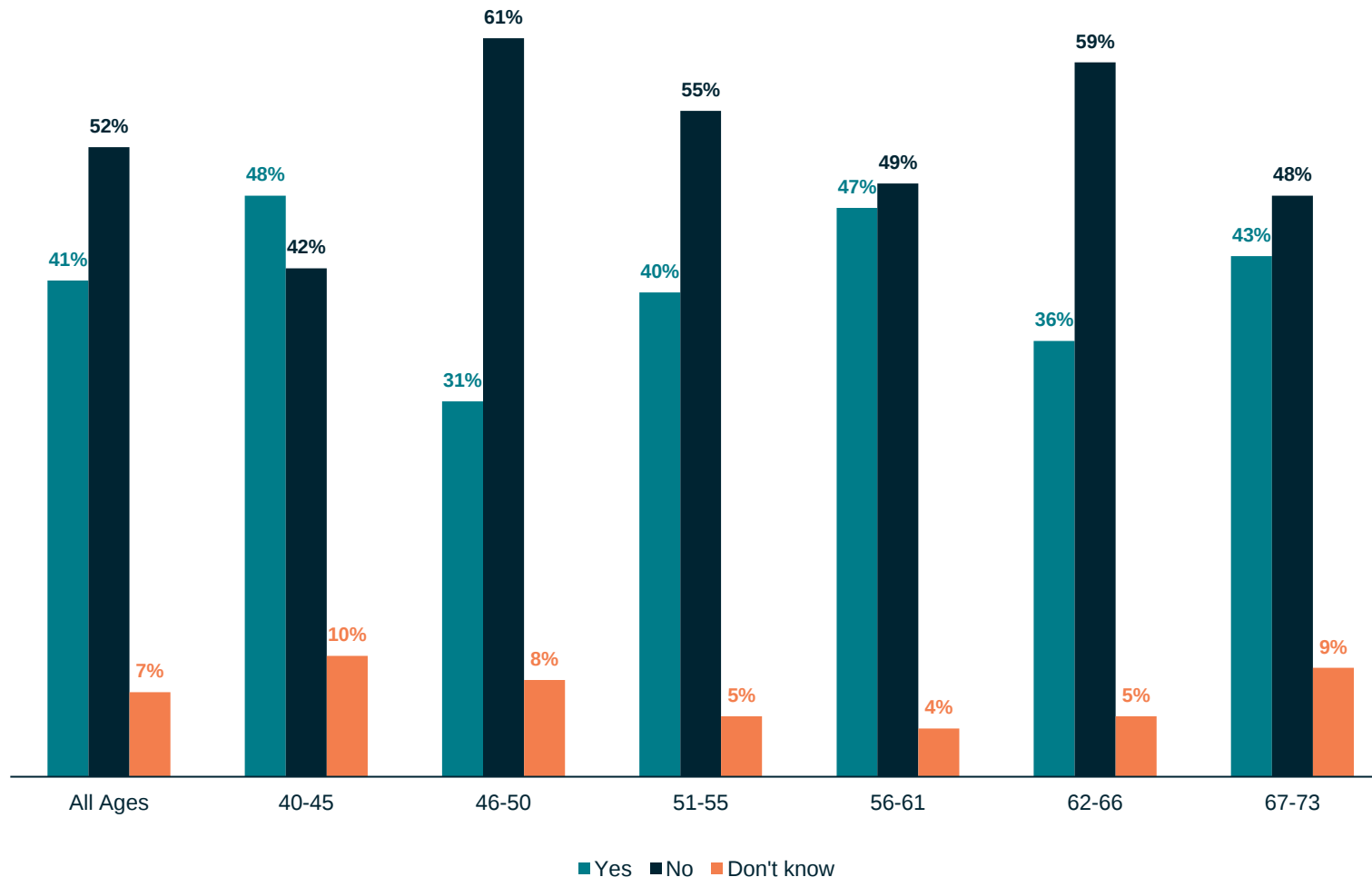


When viewing the preceding chart, a logical assumption would be that those workers with the highest current income would be those with the higher expectations for retirement income. And this is true to some extent. More than one-half of workers with annual household income of \$75K or more also expect to have retirement income of \$75K or more. And 44 percent of those earning less than \$30K today expect to need less than \$25K in annual retirement income.

However, this still leaves the problem of insufficient savings and savings rates — those with less current income will have less saved and will receive a lower Social Security benefit. For example, the 62 percent of those currently earning between \$30K and \$75K a year who expect their retirement income to exceed \$45K annually may only see a Social Security benefit of \$25K, leaving a \$20K gap that will have to be filled using retirement savings or income from another source, such as full- or part-time employment after retiring from a primary occupation.

Perhaps Because They're Not Doing the Math

Have Tried to Calculate Amount Needed to Retire (n=990)



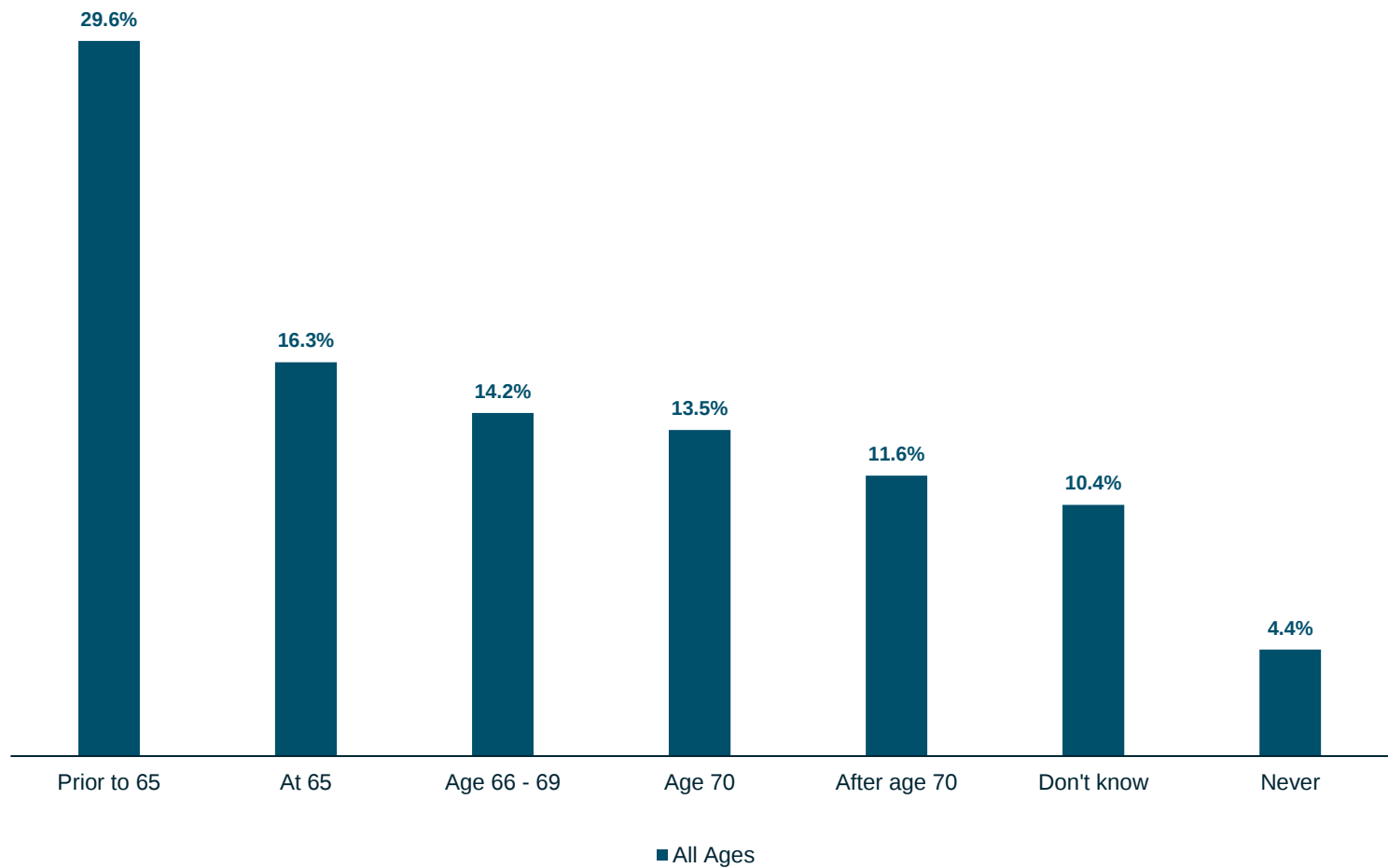
Despite many having rather lofty retirement income expectations, only four in 10 workers have attempted to calculate how much they will need to have saved to meet those expectations. Oddly, in two of the older age groups, 46-50 and 62-66, it is only about one in three.

Intuitively one would expect that, as retirement looms and workers become eligible to make catch-up contributions to retirement plans, there would be motivation to do such calculations to try to boost savings to a level consistent with expectations for retirement. Perhaps some have pensions. And some may believe they will work until they are well past retirement age or that they they will continue to earn income during retirement. But for those without these plans, understanding how much income savings can produce is critical.

Q. Have you (AND YOUR SPOUSE/PARTNER IF APPLICABLE) tried to calculate how much money you will need to have saved by the time you retire so that you can live comfortably in retirement (or if you are already retired, did you try to do so prior to retiring)?

Yet 30% of Workers Believe They Will Retire Before Age 65

Age Planning to Fully Retire (n=990)



Despite not calculating savings needs and having lofty income expectations, almost one-third of workers plan to retire prior to age 65 and another 16 percent at age 65. However, 82 percent of survey respondents are age 61 or younger and not eligible for full Social Security benefits until age 67. Most workers will find that despite wanting to retire at a younger age, they will have to work until age 67 or later to have any chance at a secure retirement given limited savings and no pension.

A person retiring at age 62 whose full retirement age is 67 will see an over 70 percent reduction in their primary Social Security benefits. Conversely, the same person waiting until age 70 will received 124% more than their full retirement benefit.

Q. At what age do you plan to stop working completely?

SECTION 3

Budgeting and Contingency Planning

Budgeting and Contingency Planning

Consistent with inflated income expectations, workers expect that they will not only have adequate income for basic expenses during retirement, but they will also have discretionary income for travel and leisure activities. They also may be unrealistic in their contingency plans if they exhaust their savings.



70%

of workers believe they will have enough income in retirement for living expense and at least some travel/leisure



51%

do not expect to use their savings to pay for basic living expenses



62%

believe they can downsize and get by on Social Security if they exhaust their savings during retirement



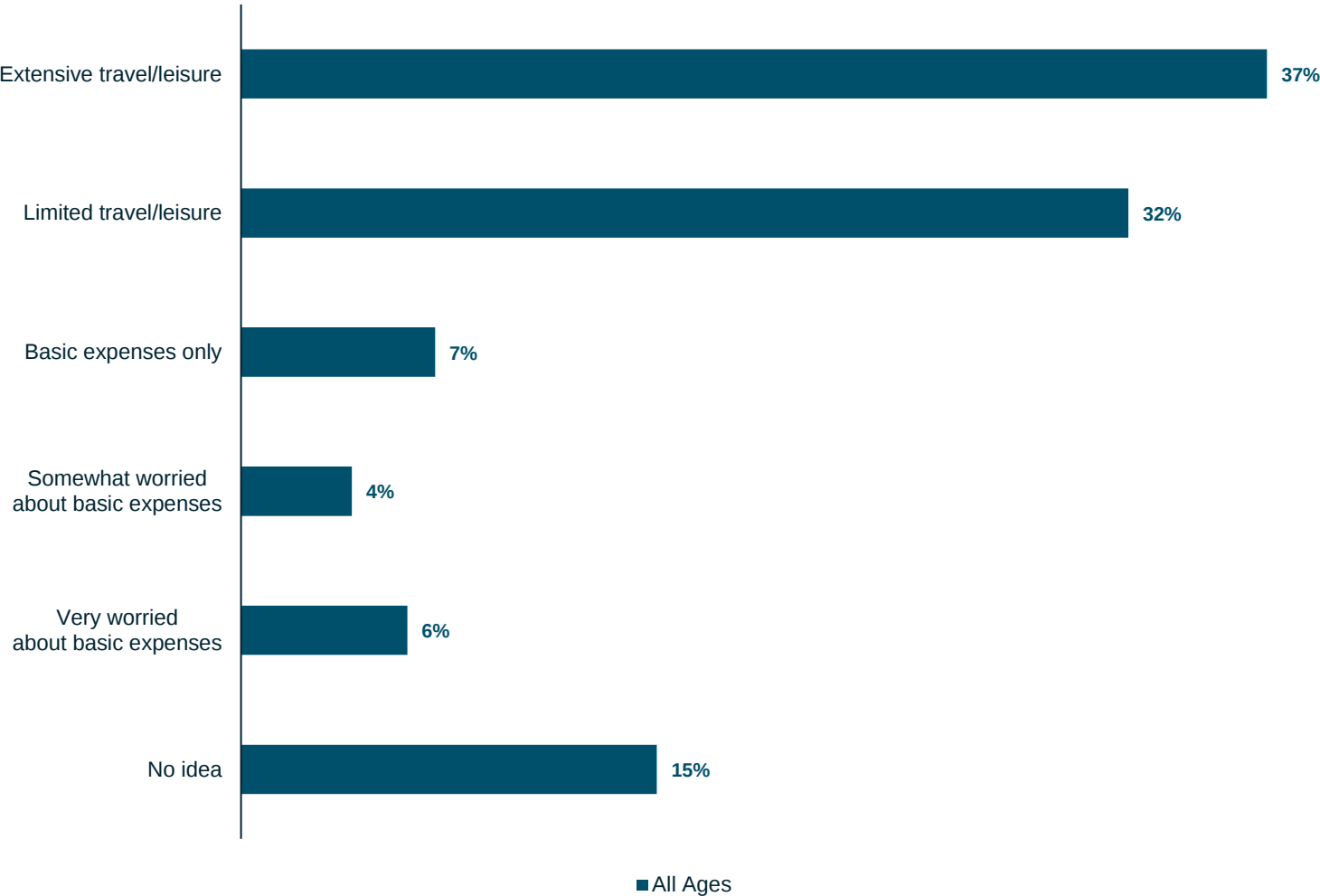
38%

plan to return to work if they run out of money during retirement



Champagne Budgets on Little Savings

Retirement Budget Expectations (n=990)



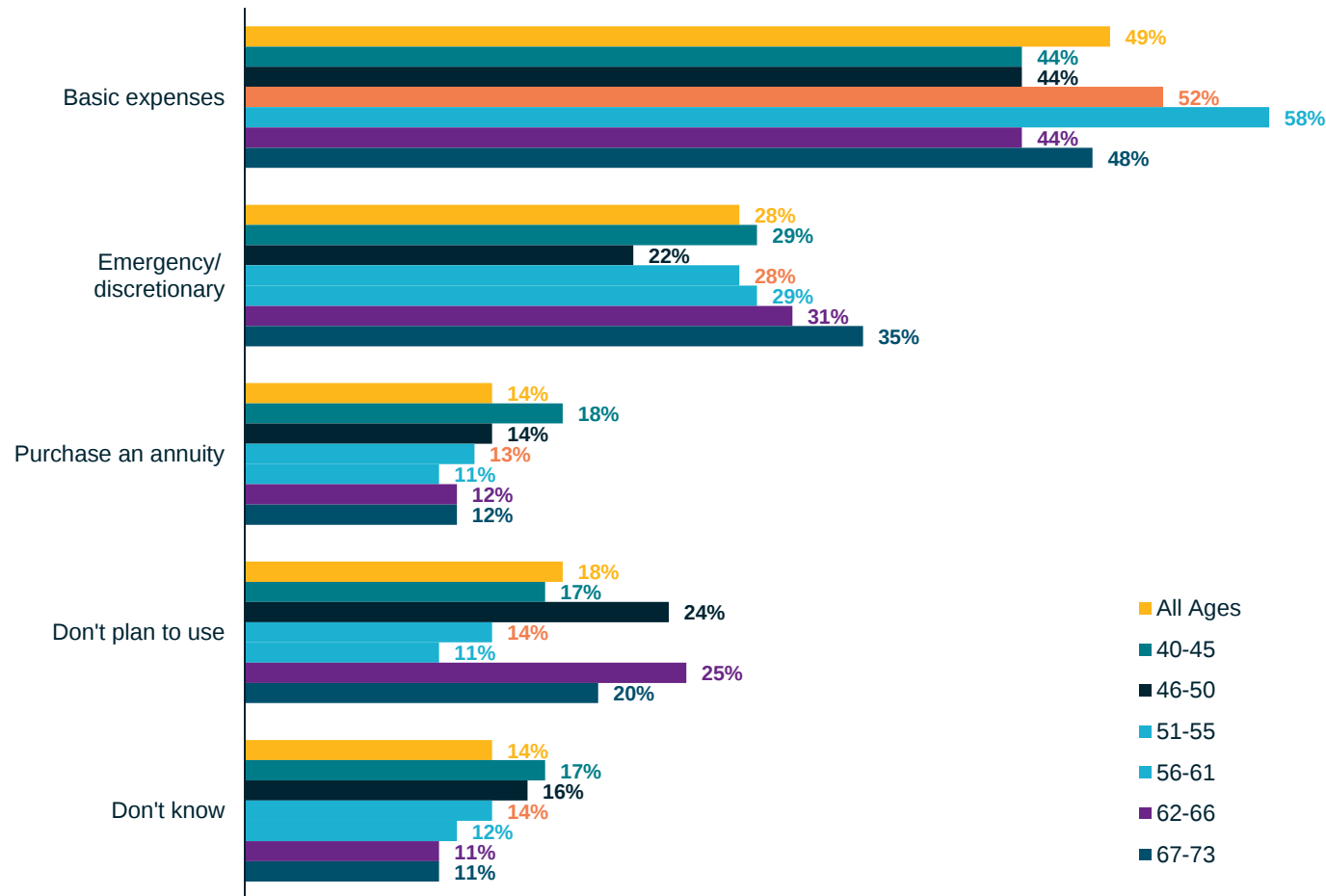
In a further disconnect between savings and reality, seven-in-10 workers believe their retirement income will enable them to cover their basic living expenses and provide a budget for at least some (32 percent) or extensive (37 percent) travel and leisure. This conviction is consistent across age cohorts. The finding that only 10 percent are worried about being able to cover their basic expenses is also surprising, as 44 percent do not think they will have enough money in retirement or be able to maintain their independence.

No significant variation in budget expectations was observed across age cohorts.

Q. Which statement best represents your (and your spouse/partner's if applicable) budget expectations (or if retired, your actual budget) in retirement?

If Not with Savings, How Will They Pay the Bills?

Planned Use of Retirement Savings (n=741)



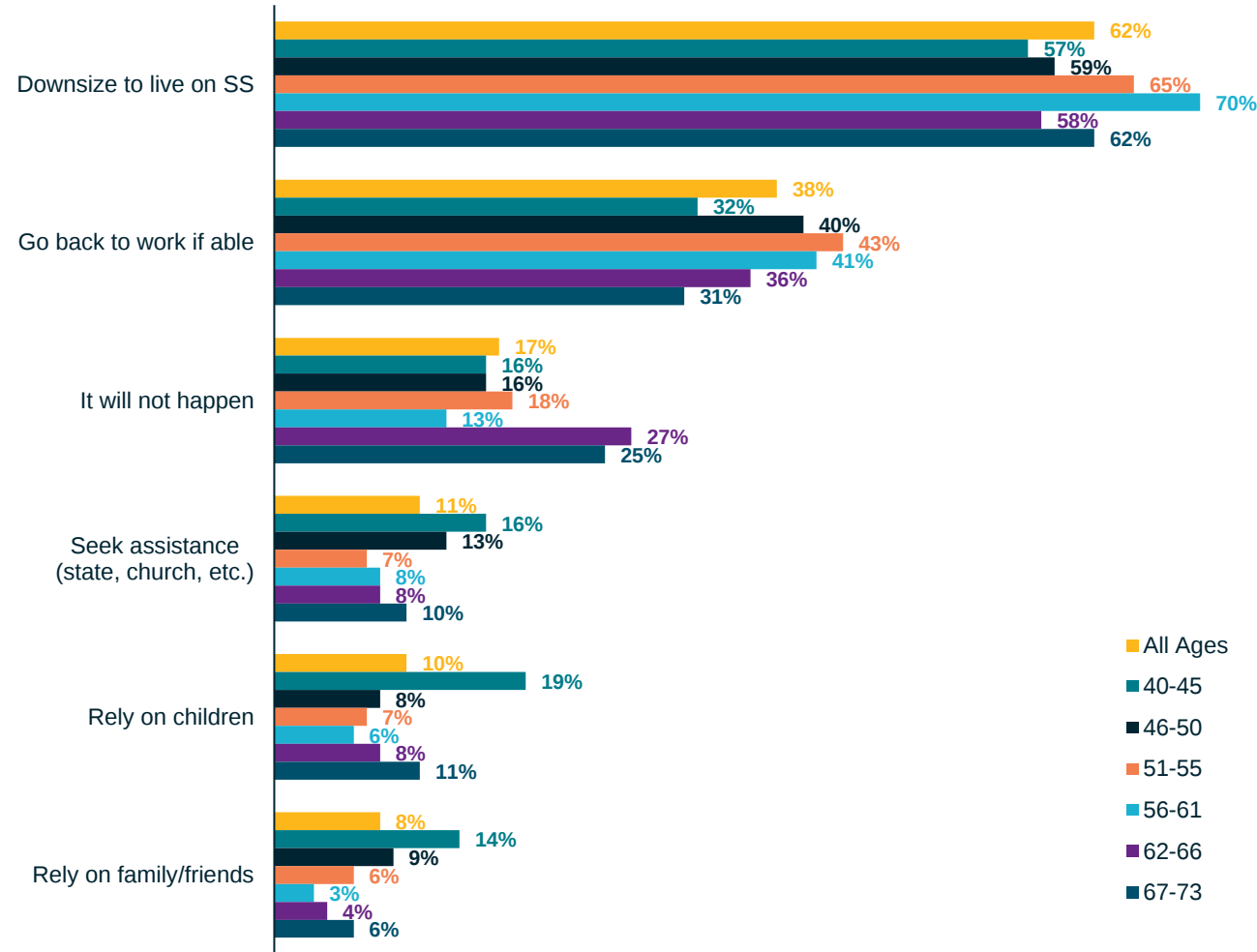
Many workers with savings believe they will not need to use their savings to cover their basic living expenses, perhaps believing that Social Security benefits alone will be sufficient. It is very unlikely that more than one-half of workers will be able to manage on Social Security, particularly if they retire before full retirement age as so many plan to do.

An interesting outlier here is the 18 percent of those ages 40-45 who plan to purchase an annuity with their savings. Younger workers tend to be more pessimistic about Social Security, believing it may not provide them with meaningful income during retirement. Therefore, they may be more motivated to build their own lifetime income benefit. In order to accomplish this, increasing savings to the point where an annuity purchase can create meaningful income will be critical.

Q. How do you plan to use, or if retired how are you using, the money saved in your retirement accounts (401(k), IRA, etc.) during your retirement years? Select all that apply.

Unrealistic Income Contingencies

Contingency Plans in the Event Assets are Exhausted Prior to Death (n=990)



Most workers plan to simply downsize to get by on Social Security or return to work if they exhaust their savings during retirement. There are several problems with this contingency planning:

- Social Security benefits may be insufficient to cover even basic living expenses. Bureau of Labor Statistics data indicate average annual household expenditures of approximately \$53,000 for those ages 65-74, close to the maximum Social Security benefit for a married couple.
- Based on current law, Social Security can only pay 78 percent of projected benefits starting in the mid-2030s.
- Four-in 10 respondents believe Medicare will cover their health care needs. However, they may still face significant out-of-pocket costs for medical care, and Medicare does not cover long-term care.
- Running out of money is a scenario likely to happen many years into retirement. Many may not possess either the marketable skills or good health necessary to return to work.

SECTION 4

Investing for Retirement

Investing for Retirement

Workers are overwhelmingly in favor of considering retirement investment options that guarantee income for life, yet only about one in five owns an annuity. They are especially interested in annuity products being made available in defined contribution plans.



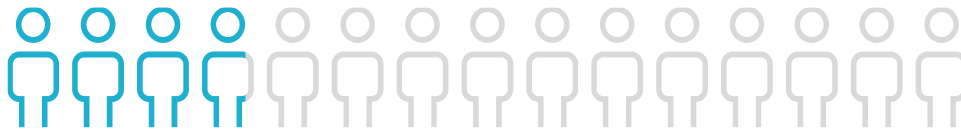
90%

of workers want non-Social Security income to be guaranteed for life



77%

would be likely to allocate to an in-plan variable annuity with a lifetime income guarantee



26%

think guaranteed lifetime income is the most important trait of a retirement investment (#1 answer)



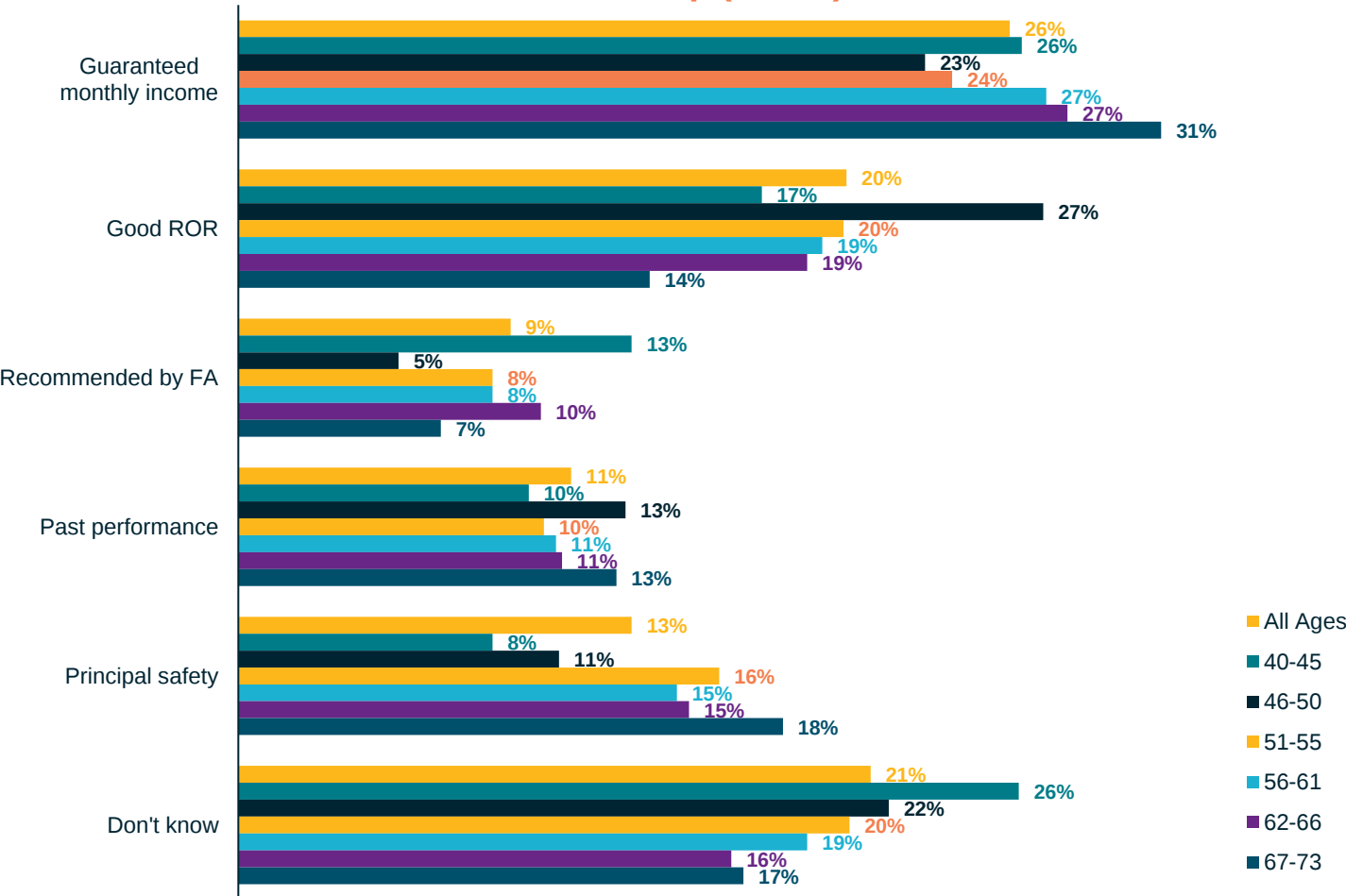
22%

own annuities



Workers Want Monthly, Guaranteed Retirement Income

Most Important Trait of a Retirement Investment Product by Age Group (n=990)



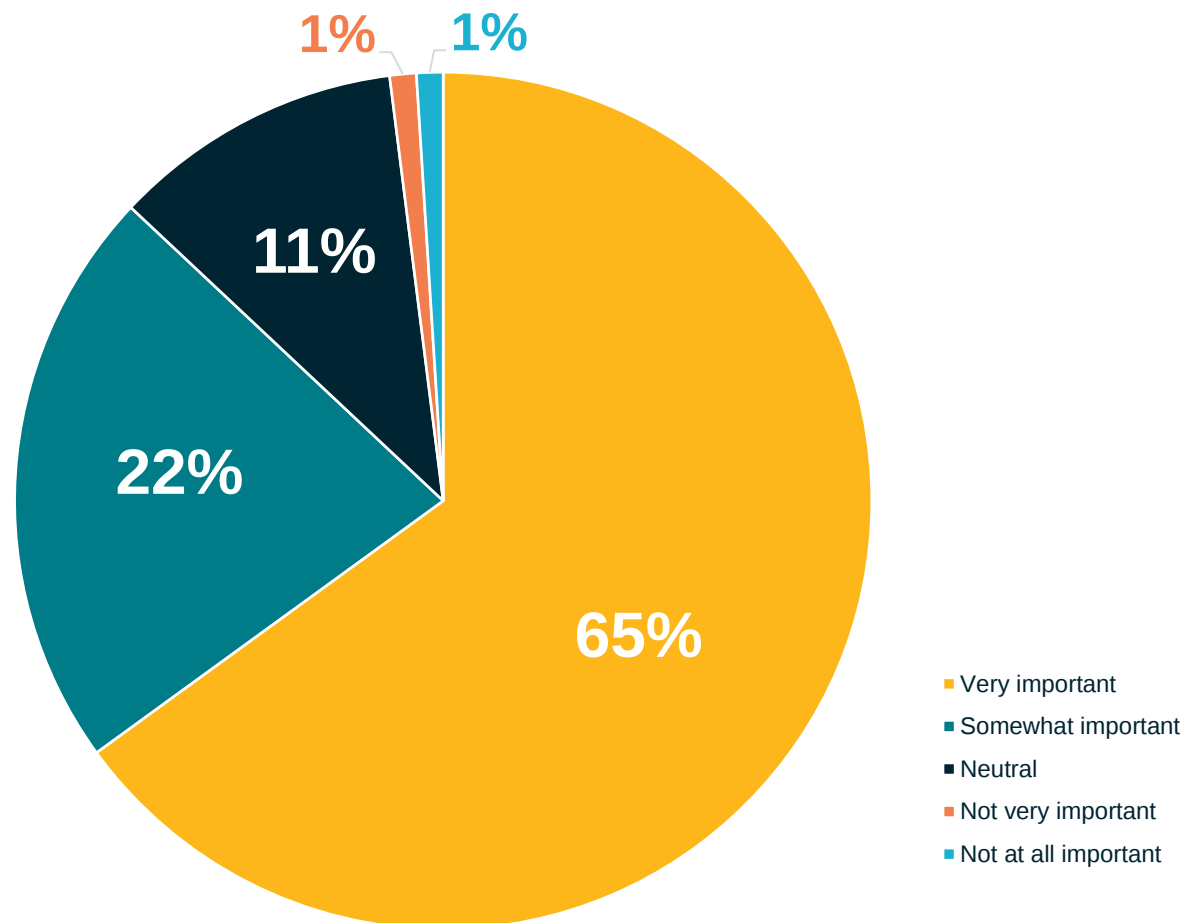
Q. When you select a retirement investment product, what is the one most important trait you look for?

A bit of good news in the survey results is that there is no trait of a retirement investment product that is more important to American workers than guaranteed retirement income. This bodes well for the inclusion of income focused annuities in defined contribution plans, as facilitated by the provisions of the Secure Act.

Interestingly, the 46-50 age cohort jumps out as being more interested in a good rate of return (ROR) on investments than guaranteed monthly income or principal safety. However, the youngest age cohort flips back to valuing the income more than ROR. Younger workers tend to have less belief Social Security will provide meaningful income and more distrust of markets, having come of age around the time of the 2008 financial crisis.

And They Want That Income to Last a Lifetime

Importance of Income Lasting for Life (n=990)



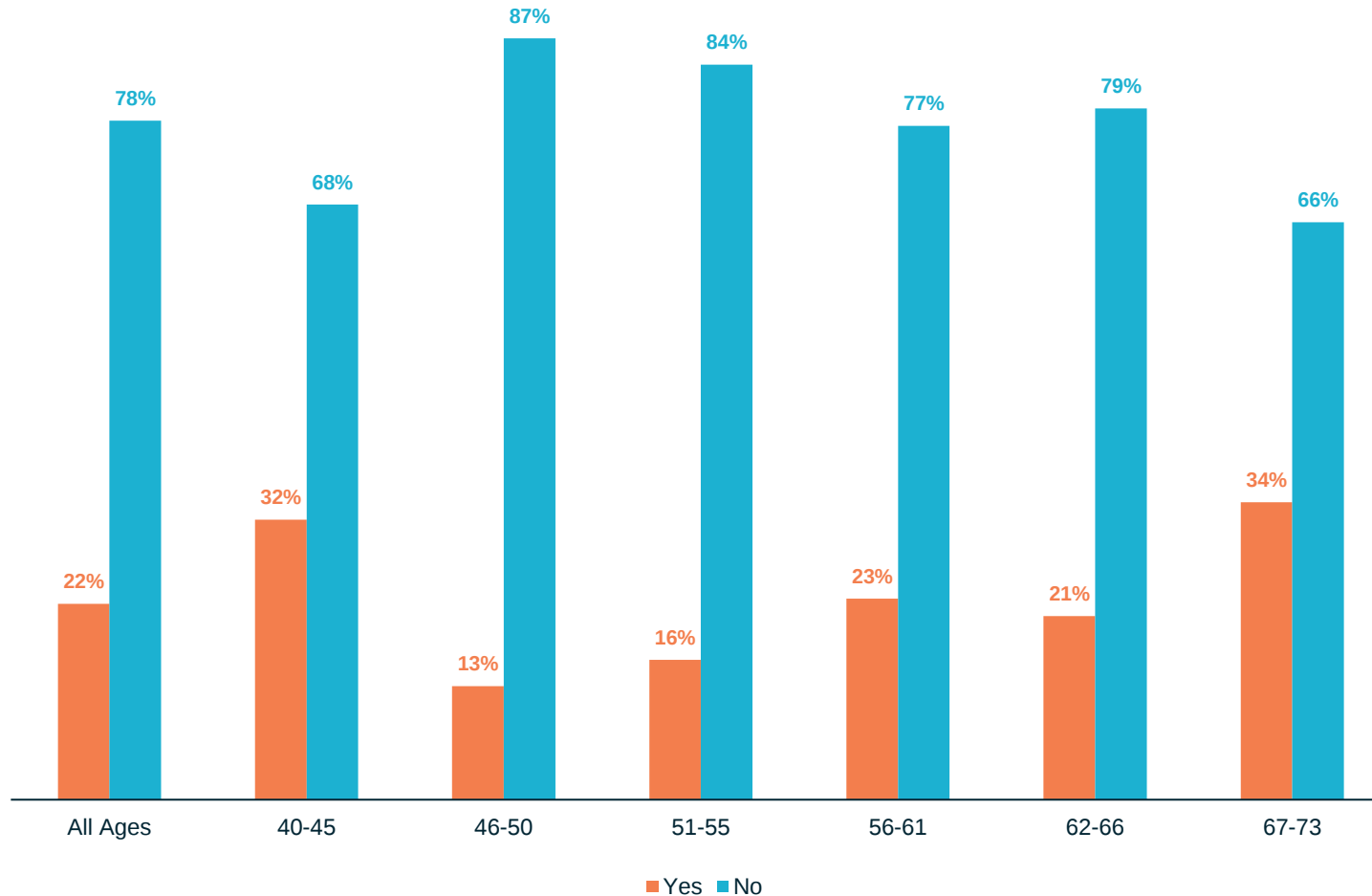
Almost nine-in-10 workers want their sources of supplemental retirement income (i.e., sources other than Social Security) to last for their lifetimes, or the lifetimes of them and their spouses. This highlights a few challenges faced by the retirement income industry:

- Workers aren't connecting the dots between "annuities" and "lifetime income."
- Generating meaningful income from an annuity requires a substantial investment. For example, an annuity with a four percent lifetime withdrawal benefit will only generate \$333 in monthly income for each \$100K invested. The Lifetime Income Disclosure provisions in the SECURE Act can help workers make this connection by showing them how much their savings can expect to produce in monthly lifetime income.

Q. How important is it to you that your sources of retirement income (besides Social Security) are guaranteed to last for your lifetime, or for you and your spouse/partner's lifetimes (if applicable)?

But Relatively Few Buy Guaranteed Income Products

Owns One or More Annuities (n=990)

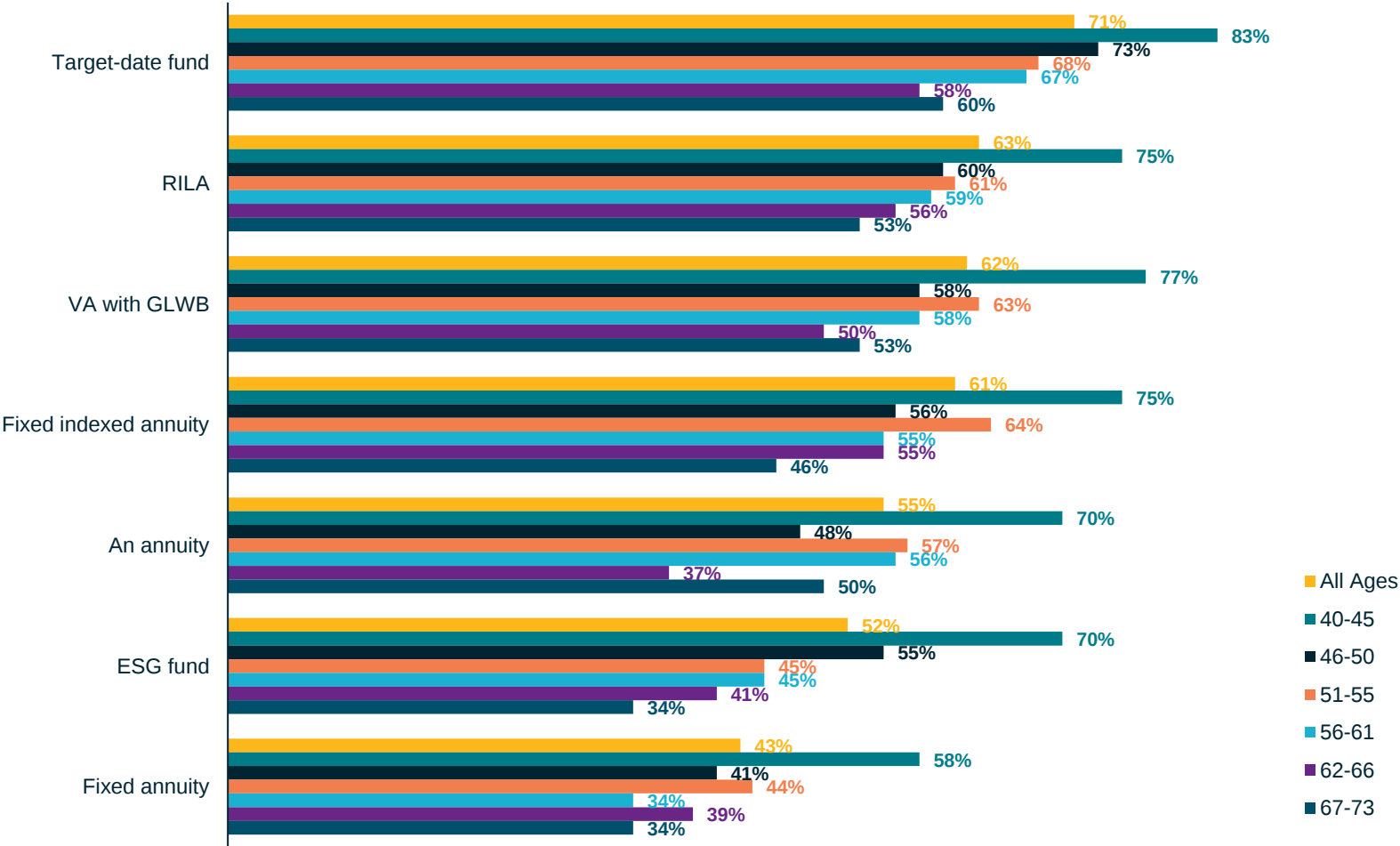


Within the oldest age cohort surveyed, one-third of workers own an annuity. At these ages this may be aligned with the savings available to make such an investment, but ownership of annuities is far less common at younger ages.

Purchasing annuities 10 or 15 years prior to retirement provides time for the invested amount to grow and produce more income in retirement. This should be made clear to workers when income-focused annuities are added to defined contribution plans.

Though Interest in Annuities as Plan Options is High

Likelihood of Using Various Investment Options (Very/Somewhat Likely, n=741)



Another very encouraging finding is the level of interest workers have in seeing annuities added to their workplace defined contribution plans. When asked about them in a general way, 70 percent of the youngest age cohort say they are very or somewhat likely to allocate a portion of their plan to annuities.

However, this improves when specific products are described in detail, with about three in four indicating they would be likely to use Registered Indexed-linked Annuities (RILAs), Variable Annuities with Guaranteed Lifetime Withdrawal Benefits (VA with GLWB), and fixed indexed annuities.

Q. If they were available in your retirement account (401(k), IRA, etc.), how likely would you be to allocate a portion of your account balance to each of the following options?

SECTION 5

Retirement IQ

Retirement IQ

The Retirement IQ evaluation is based on four questions designed to help understand how well workers understand concepts important to planning for, and navigating, retirement income needs. The questions addressed inflation risk, sequence of returns risk, knowledge of Social Security benefit amounts, and safe withdrawal rates. Except for Social Security, the answers were not much more accurate than what would be expected from guessing.



26%

of workers correctly chose the income growth needed to offset 3% inflation over 10 years (16% would be consistent with guessing)



31%

correctly chose the optimal timing of market losses to limit impact on an income portfolio (guess = 25%)



42%

correctly chose the average Social Security benefit paid in 2021 (guess = 20%)



28%

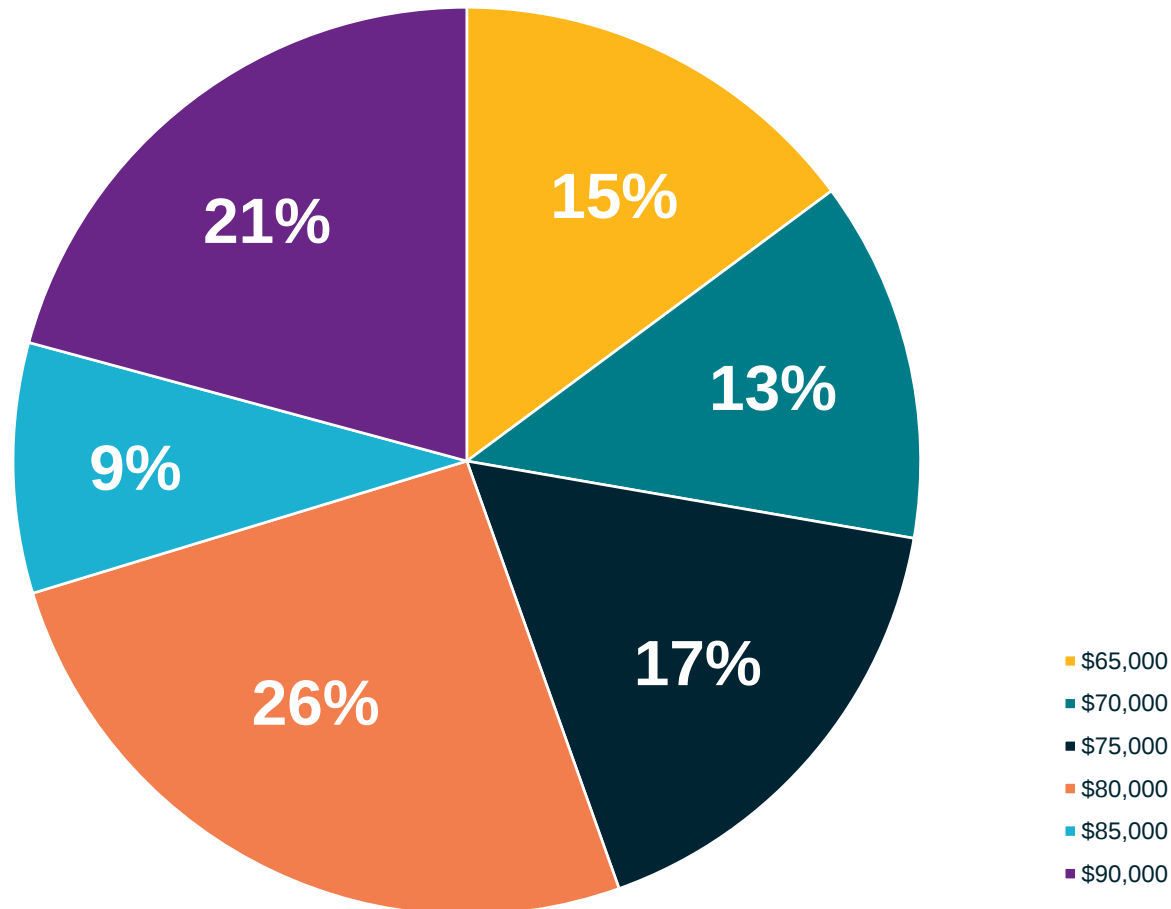
correctly chose the monthly income that could be safely withdrawn from a diversified investment portfolio (guess = 20%)



Hard to Plan for What You Don't Understand

– Part I

Retirement IQ: Inflation Risk (n=990)



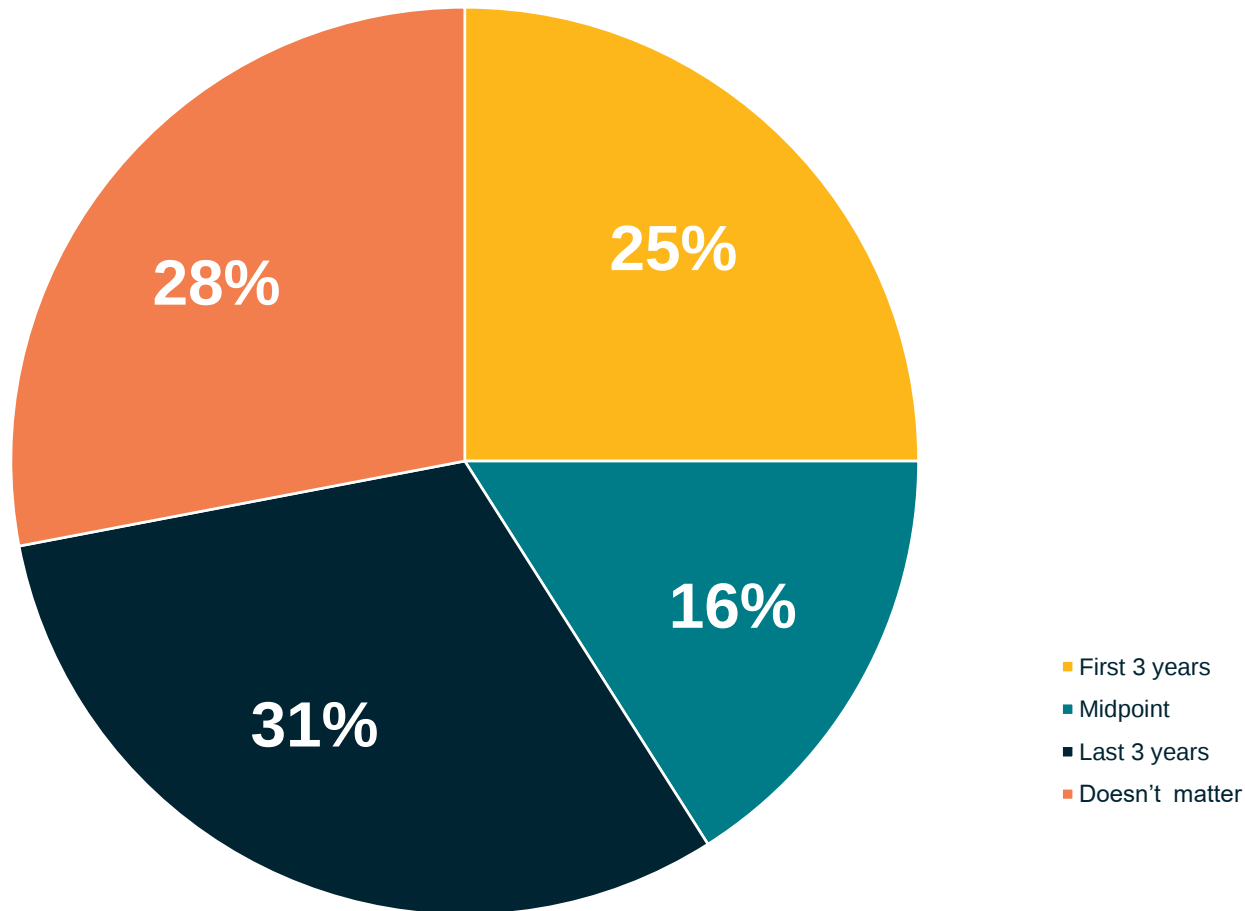
For the first question, only 26 percent of respondents correctly estimated how much annual income would be required in 10 years to maintain standard of living when the annual inflation rate is three percent. Understanding the erosive effect of inflation on spending power is critically important for planning to enjoy a secure retirement, and the importance of having a portion of retirement investment portfolios in risk assets that have a better chance of keeping pace with inflation than “safe” investment options.

Q. If you retire at age 65 with an annual retirement income of \$60,000 and inflation is 3% per year, how much annual income will you need in 10 years to maintain the same lifestyle?

Hard to Plan for What You Don't Understand

– Part II

Retirement IQ: Sequence of Returns Risk (n=990)

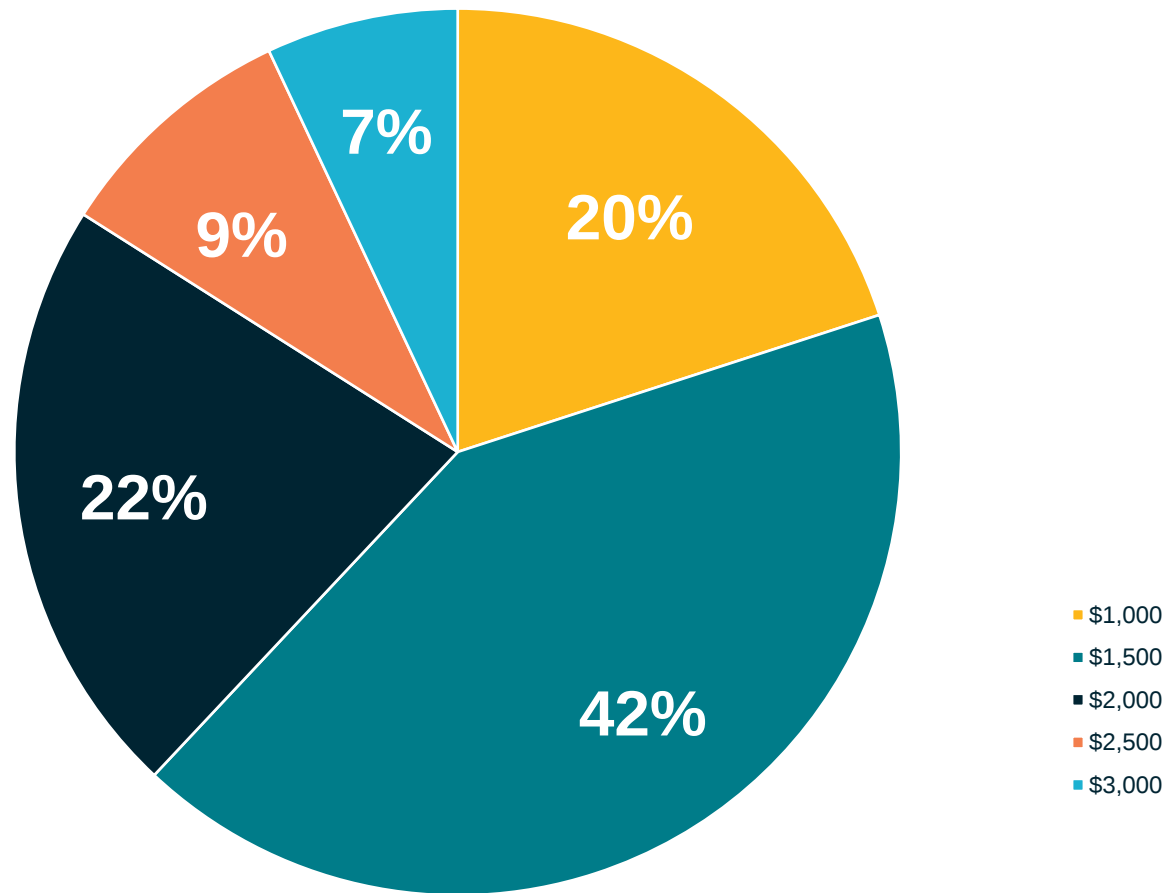


To measure understanding of sequence of returns risk, respondents were asked when they would prefer to have a significant market correction occur, assuming they are no longer working and are taking monthly withdrawals from an investment portfolio to meet their income needs.

Only three in 10 correctly responded that it would be best to have such a correction occur late in life, in this case sometime in the three years prior to death. Of course, this means that seven-in-10 respondents answered incorrectly, with 28 percent saying it does not matter, which is only true if no withdrawals are taken. This is a significant gap in knowledge about an important concept that can have severe repercussions on financial security during retirement.

Hard to Plan for What You Don't Understand – Part III

Retirement IQ: Average Monthly Social Security Benefit
(n=990)



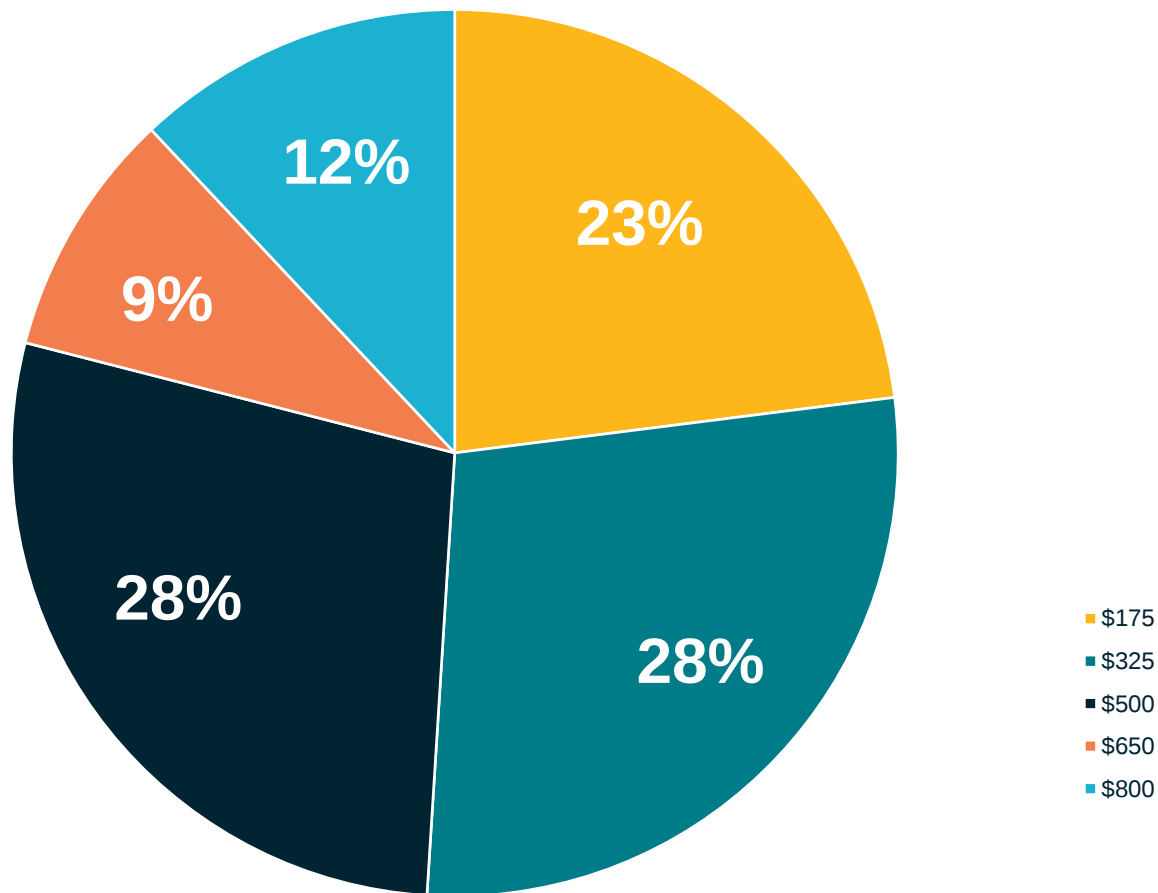
Respondents fared better on this question, with 42 percent correctly selecting \$1,500 as the average monthly benefit. Another 20 percent selected \$1K, meaning 62 percent did not overestimate the average monthly benefit currently paid to retirees.

However, almost four in 10 did overestimate Social Security benefits, which is a real concern for retirement planning. This is another area where workers would benefit from having a relationship with a financial advisor who can help them understand how much they can expect to receive from Social Security and develop a strategy to maximize benefits.

Hard to Plan for What You Don't Understand

– Part IV

Retirement IQ: Monthly “Safe” Withdrawal Estimate
(n=990)



The last Retirement IQ question deals with “safe” withdrawal rates. Respondents were asked to estimate the amount of monthly income they should withdraw from a \$100K retirement account in order to have income lasting until age 95.

The correct answer is about \$325 dollars a month, and respondents were split 50/50 between selecting the correct answer or underestimating the amount and overestimating the income they could safely withdraw. This is another key concept in managing retirement savings and failing to understand it could hasten the depletion of retirement funds. It also points to another benefit of annuities: locking in assets to produce lifetime income is a disciplined way to deploy assets so as not to overspend and face financial insecurity.

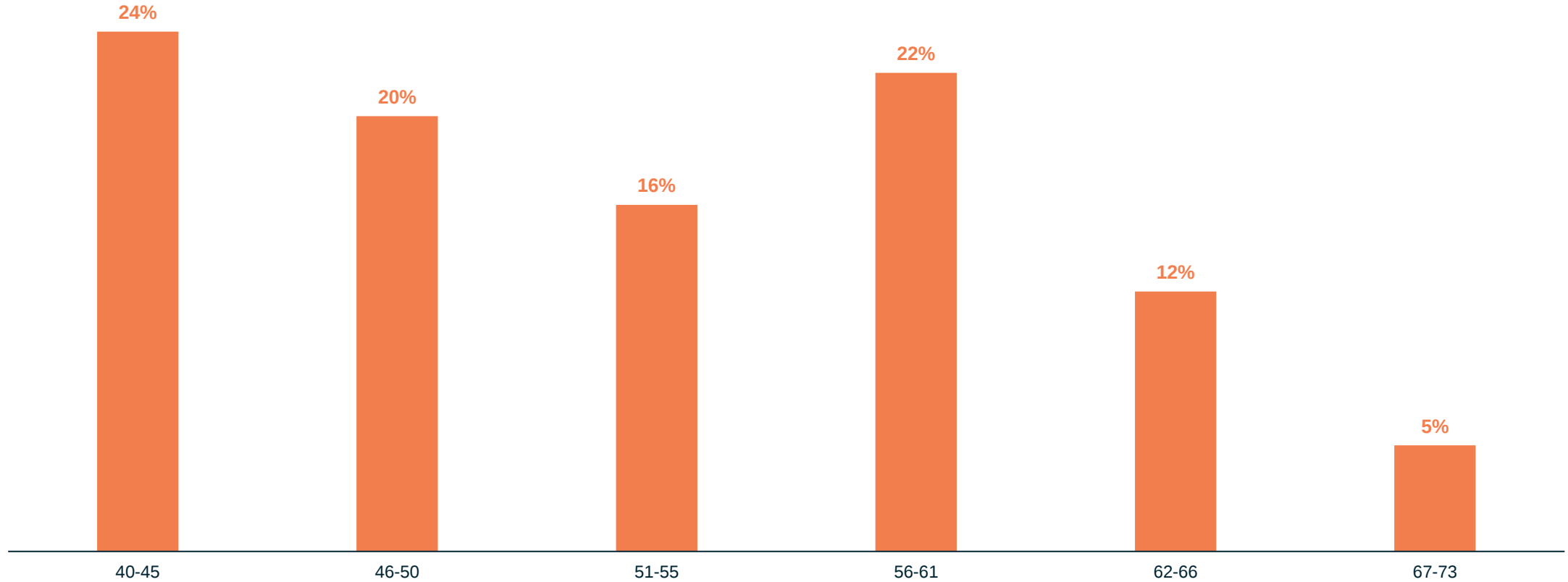
Q. About how much monthly income, increasing by the rate of inflation each year, can you safely withdraw from a \$100,000 retirement account, starting at age 65, in order for the income to last until you are at least age 95?

Demographics

The background of the slide is a solid dark teal color. At the bottom, there are several diagonal lines in two colors: a lighter teal and an orange. These lines are arranged in two groups, one on the left and one on the right, both sloping upwards towards the center. The lines are of varying thicknesses and are parallel to each other within each group.

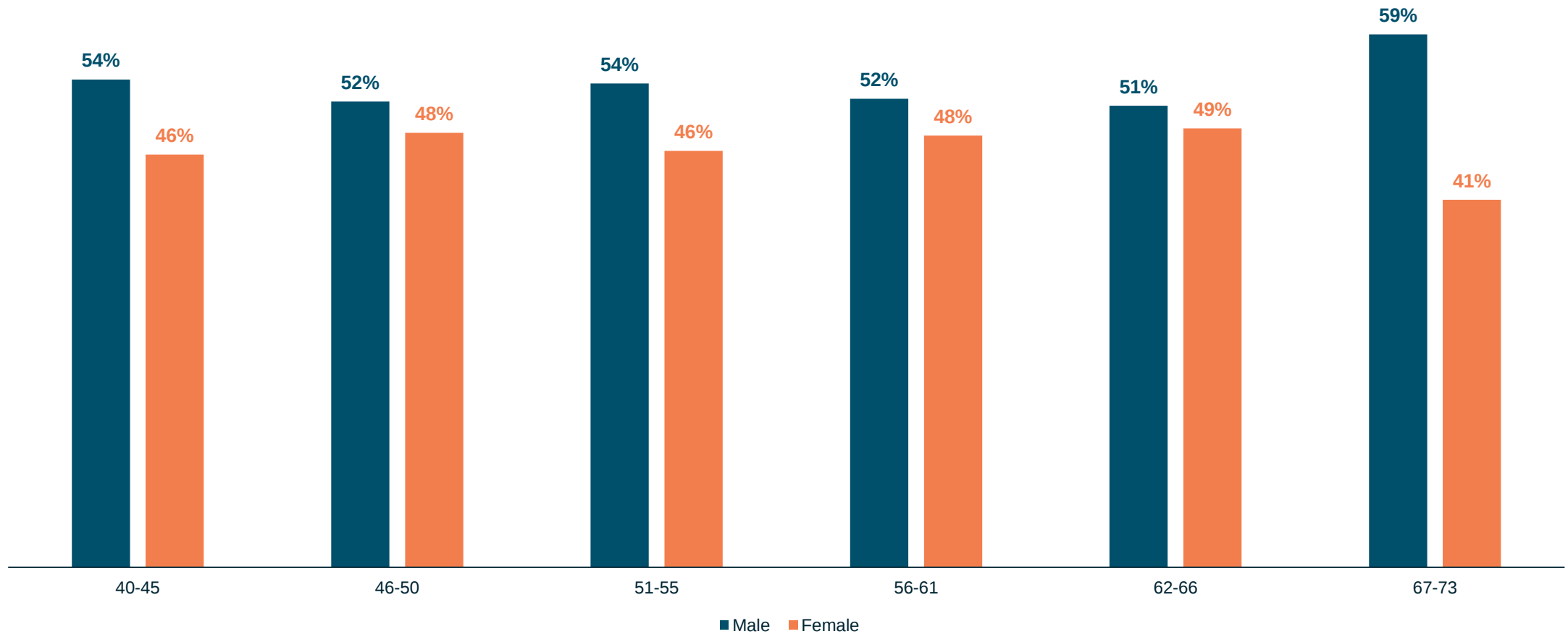
Respondent Demographics – Age

Age Distribution of Survey Respondents (n=990)



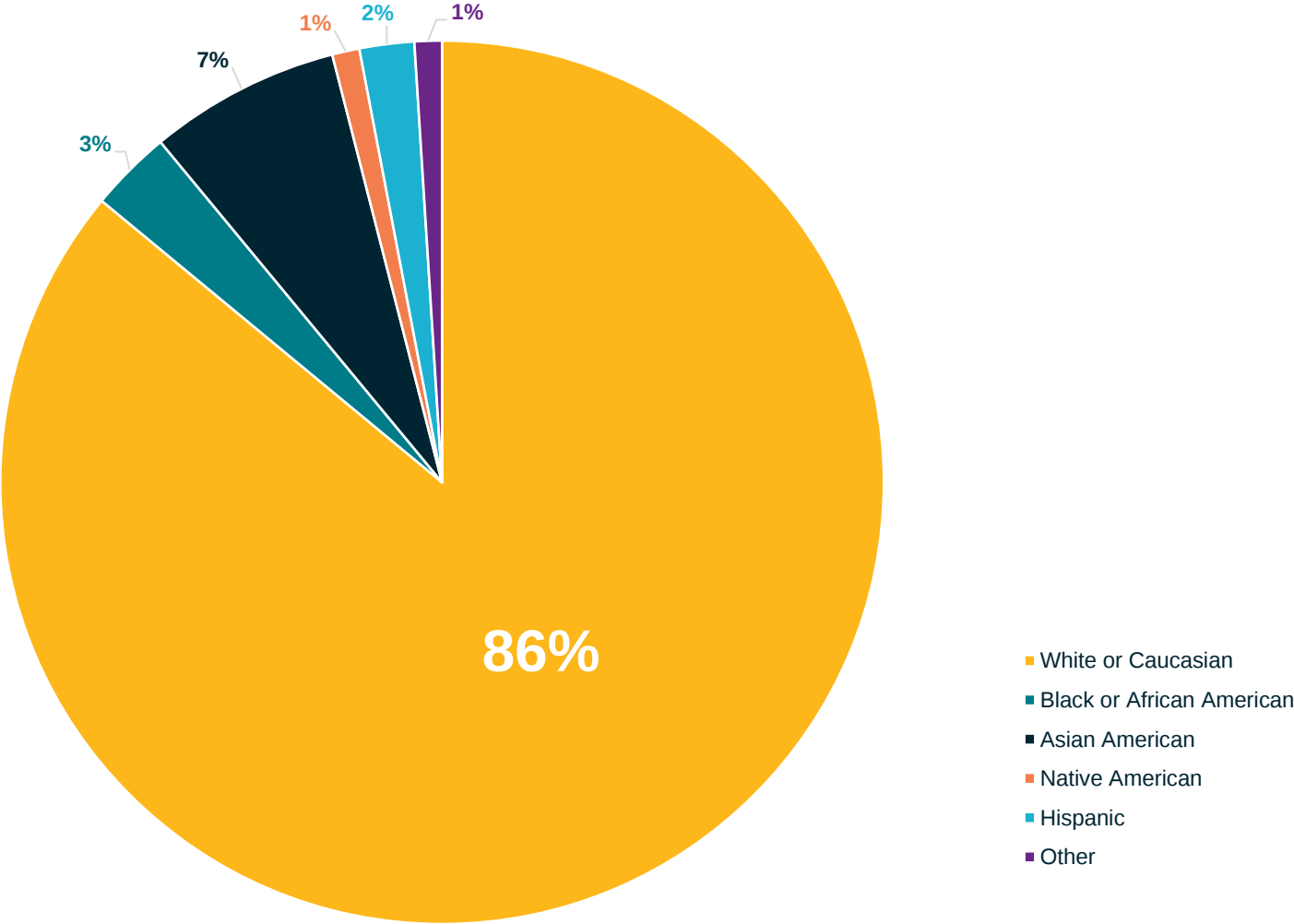
Respondent Demographics – Gender

Gender Distribution of Survey Respondents by Age (n=990)



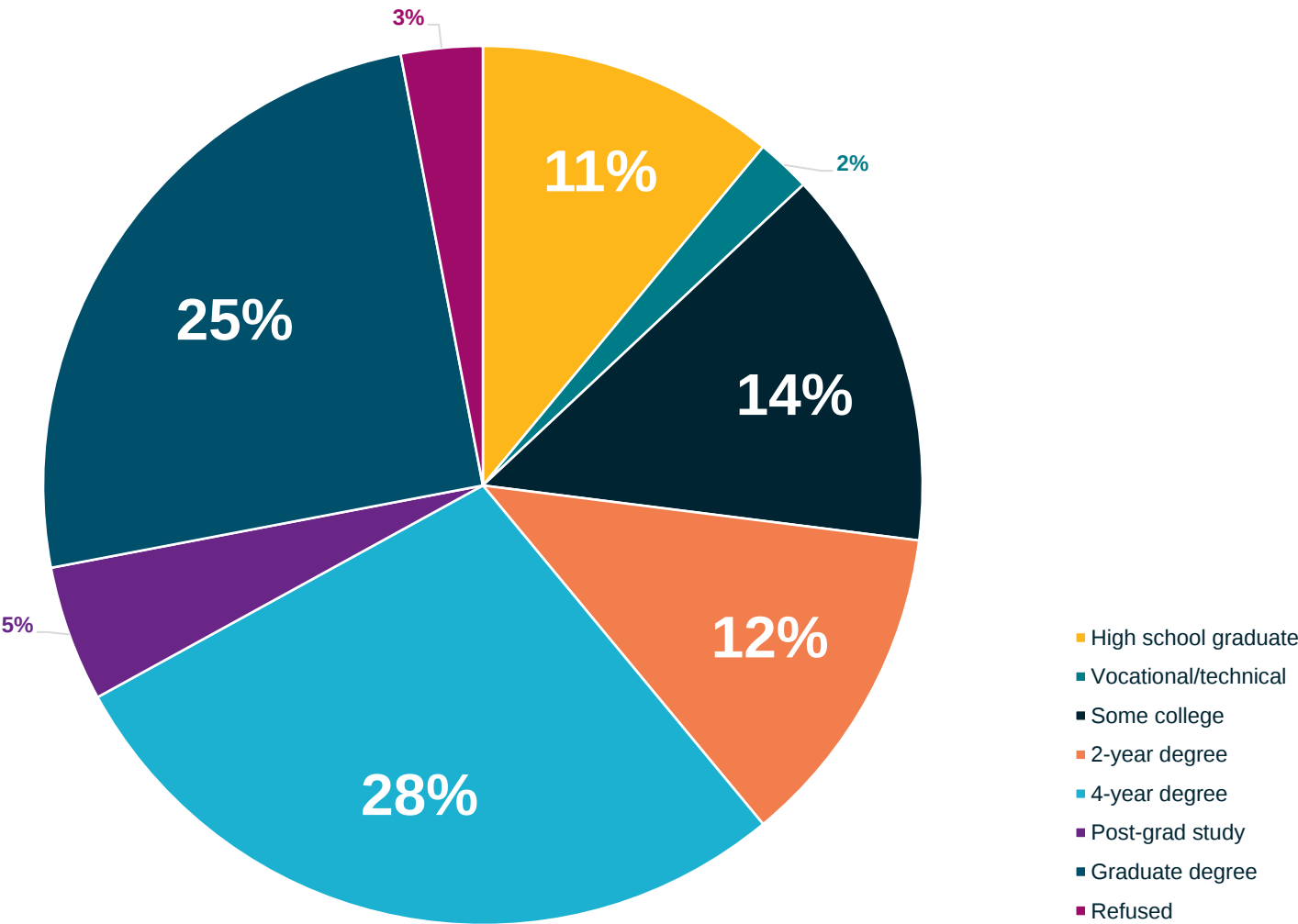
Respondent Demographics – Race

Racial Distribution of Survey Respondents (n=990)



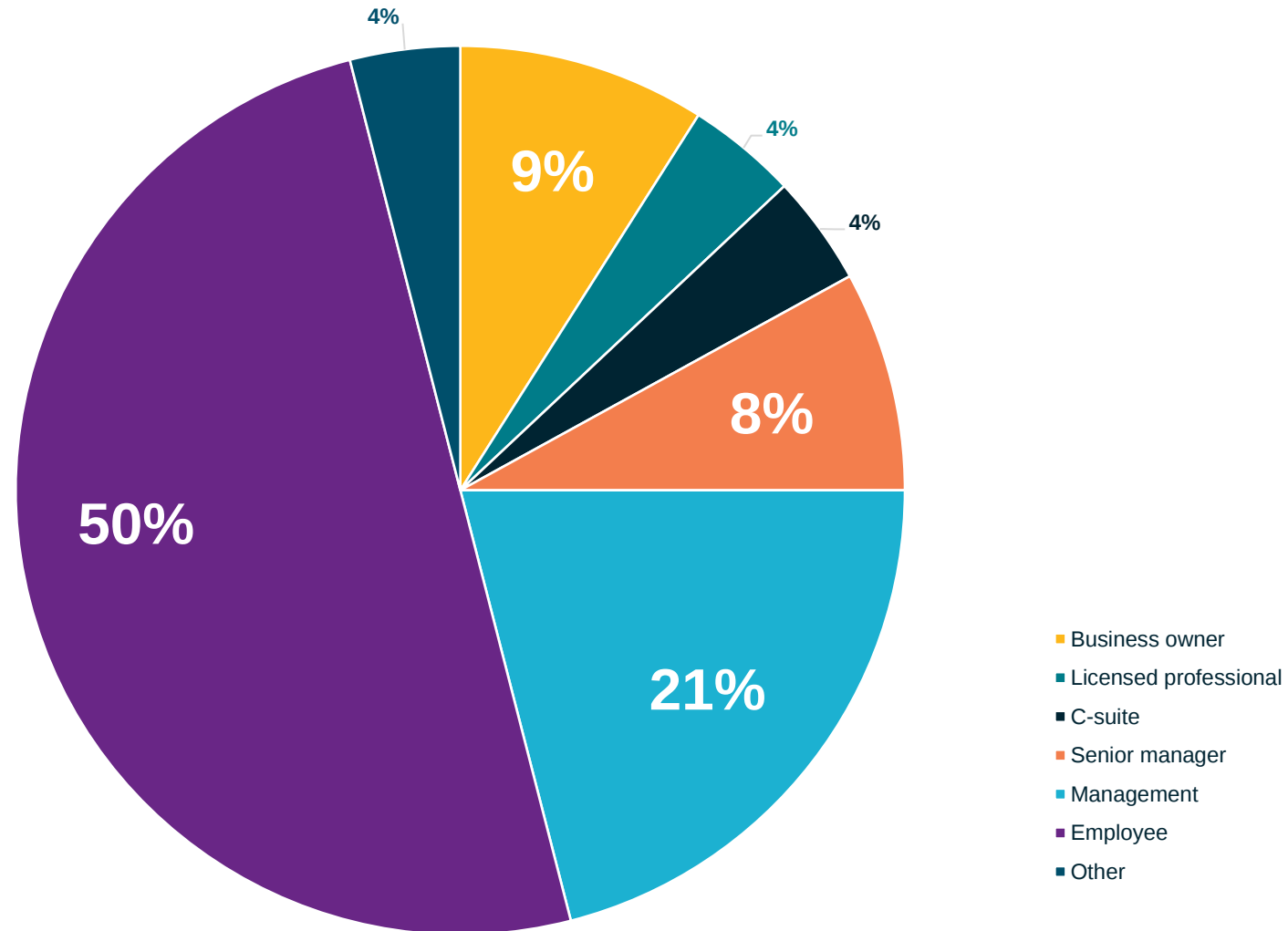
Respondent Demographics – Education

Educational Distribution of Survey Respondents (n=990)



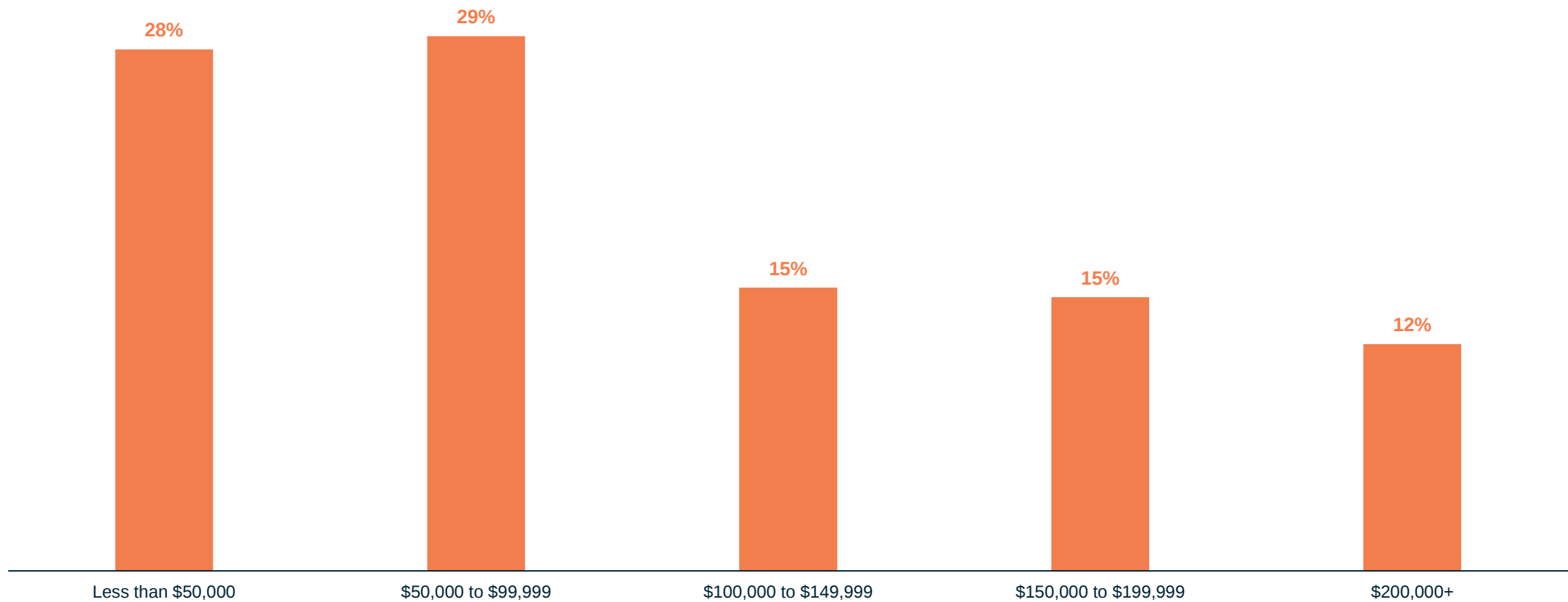
Respondent Demographics – Occupation

Educational Distribution of Survey Respondents (n=990)



Respondent Demographics – Income

Income Distribution of Survey Respondents (n=990)



Methodology

The image features a solid dark blue background. In the center, the word "Methodology" is written in a bold, white, sans-serif font. The bottom-left and bottom-right corners of the image are decorated with several parallel diagonal stripes. These stripes alternate between a dark blue color and a bright yellow color, creating a dynamic, geometric pattern that frames the central text.

Methodology

The research was carried out by means of internet interviews. A total of 2,241 adult Americans aged 40-80 were interviewed. The final sample included the following counts:

- GenX n=902
- Baby Boomer n=918
- Retirees aged 40-80 n=801

The sample was drawn as follows:

- Sample of 902 GenX respondents (ages 40-55) drawn randomly from the population of adults aged 40-55.
- Sample of 918 Baby Boomer respondents (ages 56-73) drawn randomly from the population of adults aged 56-73.
- Sample of 800 respondents who have been retired for 5-15 years (in the 40-80 year-old age group). GenX and Baby Boomer respondents who had been retired between 5 and 15 years were also counted as part of the retiree sample.

The results for the GenX sample and the Baby Boomer sample were weighted by age and gender to the 2018 American Community Survey.

The data were collected from March 10-18, 2021.

The margin of error for the GenX and Baby Boomer samples is $\pm 3.25\%$.

The margin of error for the retiree sample is $\pm 3.5\%$.

