

Boomer Expectations for Retirement 2016

Sixth Annual Update on the Retirement Preparedness of the Boomer Generation



April 2016



The Insured Retirement Institute (IRI) is the leading association for the retirement income industry. IRI proudly leads a national consumer coalition of more than 30 organizations, and is the only association that represents the entire supply chain of insured retirement strategies. IRI members are the major insurers, asset managers, broker-dealers/distributors, and 150,000 financial professionals. As a not-for-profit organization, IRI provides an objective forum for communication and education, and advocates for the sustainable retirement solutions Americans need to help achieve a secure and dignified retirement. Learn more at www.irionline.org.

2016 IRI

All rights reserved. No part of this report may be reprinted or reproduced in any form or used for any purpose other than educational without the express written consent of IRI.

OVERVIEW

There are about 76 million Baby Boomers in the United States, more than 40 million of whom are already age 65 or older. As a generation, they have shaped and altered every life stage they've moved through, and their sunset years promise to be no exception. They will retire at a rate of 10,000 per day through at least 2030, when almost 73 million Americans, comprising more than 20 percent of the U.S. population, will be age 65 or older.

Approximately 35 million Boomers lack any retirement savings today, a statistic that appears to only be getting worse. The grim legacy for many Boomers, after long working lives spent caring for families, putting children through college, and perhaps caring for their own parents, will be to struggle financially in retirement as they live long lives, exhaust their limited financial resources, and find that their only income in their later years is a Social Security benefit that may be largely consumed by expenses for health care.¹

Millions of Boomers who lack sufficient savings to live comfortably in retirement need strategies. Those with little or no savings will need to work longer or transition to part-time employment – if they can and if it's available. They also will need to lower their expectations, and downsize significantly or they risk exhausting what financial resources they do have. The next 20 years may bear witness to some interesting and creative solutions for Boomers.

For those with moderate savings, these Boomers will need advice and guidance to ensure their limited financial resources are not exhausted during what may be a 25-year retirement, or even longer.² And even those who have adequate retirement savings will need guidance as they transition to the de-cumulation stage to ensure their savings can appropriately help them reach their retirement goals, which may include legacy considerations.

KEY FINDINGS

- The percentage of Baby Boomers who are satisfied with how their lives are going from an economic perspective has fallen to 43 percent, the lowest level since 2011.
- 21 percent of Boomers plan to retire prior to age 65, and 59 percent at age 65 or older. This includes 26 percent who plan to retire at age 70 or later.
- Boomers are less confident than they were five years ago about almost every aspect of retirement:
 - Only 24 percent of Boomers are confident they will have enough savings to last throughout retirement, versus 36 percent in 2012.
 - 22 percent believe they are doing a good job preparing financially for retirement, versus 41 percent in 2012.
 - 27 percent believe they will have enough money for health care expenses, versus 37 percent in 2012.
 - 16 percent believe they will be able to pay for the cost of long-term care, versus 24 percent in 2012.

- Boomers who lack confidence in their retirement plans, when asked what they would have done differently: 68 percent said they would have saved more and 67 percent said they would have started saving earlier.
- Only 39 percent of Boomers have tried to figure out how much they need to have saved for retirement. Of those who have, a third did not include health care costs in their calculations.
- Only 55 percent of Baby Boomers have money saved for retirement, down from 58 percent last year and from more than three in four in prior years.
- On average, Boomers' estimate health care costs will consume 23 percent of their income in retirement, compared to the 33 percent of income those aged 60 or older currently spend on health care.
- A greater number of Boomers have stopped contributing to retirement accounts (30 percent), have found it more difficult to pay their mortgage or rent (30 percent), and have taken premature withdrawals (16 percent) than in recent years.
- Boomers citing Social Security as a major source of retirement income jumped to 59 percent, versus 42 percent five years ago.
- Only one in four Boomers expect significant income from an employer-provided pension.
- Unsurprisingly given low or no retirement savings, an even bigger drop is observed in those citing a defined contribution (DC) plan as a major source of income, to 23 percent from 34 percent in 2014.
- 60 percent of Baby Boomers believe their retirement income will cover basic expenses as well as at least some travel and leisure, yet only 55 percent have retirement savings.
- One in five Boomers are worried they will not have enough savings for basic expenses.
- Only 46 percent of Boomers think it is very or somewhat important to leave money to heirs, as compared to 63 percent who believed this was important five years ago, indicating that as Boomers move closer to, and into, retirement they are discovering it may not be realistic to plan to leave money to heirs. Conversely, 67 percent of GenXers believe it is important to leave an inheritance.
- More than eight in 10 Boomers who work with financial professionals believe they are better prepared for retirement as a result of that relationship.
- At least nine in 10 Boomers who work with a financial advisor have retirement savings, a measure which has remained above 90 percent since the inception of the study in 2011.
- Among the 55 percent of Boomers with retirement savings, 58 percent have saved \$100,000 or more for retirement. When Boomers work with financial advisors this increases to 78 percent.
- More than seven in 10 Boomers plan to downsize and subsist on Social Security alone if they run out of money in retirement, and about half would try to return to the workforce.
- Seven in 10 Boomers with an annuity have saved at least \$100,000 for retirement.
- 60 percent of Boomers prefer to meet with a financial professional in person, and 62 percent are very or somewhat unlikely to use a robo-advisor.

- Divorce is impacting Boomers' retirement plans: 24 percent of divorced Boomers are, or expect to be, worse off in retirement than if they had not divorced.
- When thinking about retirement in their 80s and beyond, Boomers are more worried about changes to Social Security (65 percent) than running out of money (55 percent), highlighting the importance many Boomers place on Social Security in the absence of other income sources.
- 74 percent of Boomers have taken at least some action to plan for cognitive impairment, versus only 42 percent last year, though the most common was to have "made a written record of wishes." More concrete steps, such as documenting assets or appointing a conservator, were undertaken by less than one-third.

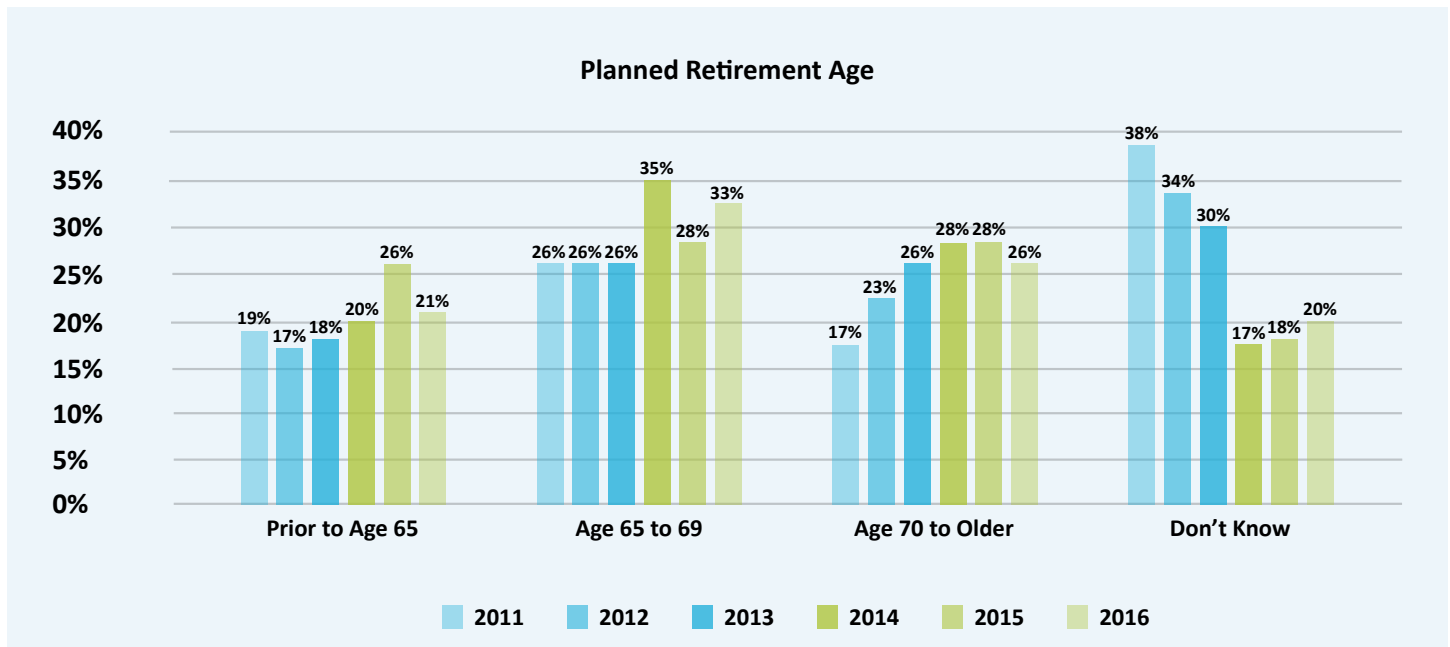
SATISFACTION, CONFIDENCE, AND RETIREMENT PREPAREDNESS

A core assessment in the annual IRI Boomer study is the extent to which survey participants feel satisfied, from an economic standpoint, with the way things are going in their lives. The extent to which individuals are able to manage current financial affairs, and feel confident in the future, tremendously influences this measure, which has fallen almost continuously since the study's inception in 2011 and precipitously in recent years. This drop is not confined to Baby Boomers, as noted in the recently released IRI report on Generation X, "Don't You (Forget About Means)," which found that 64 percent of GenXers are satisfied versus 83 percent five years ago.

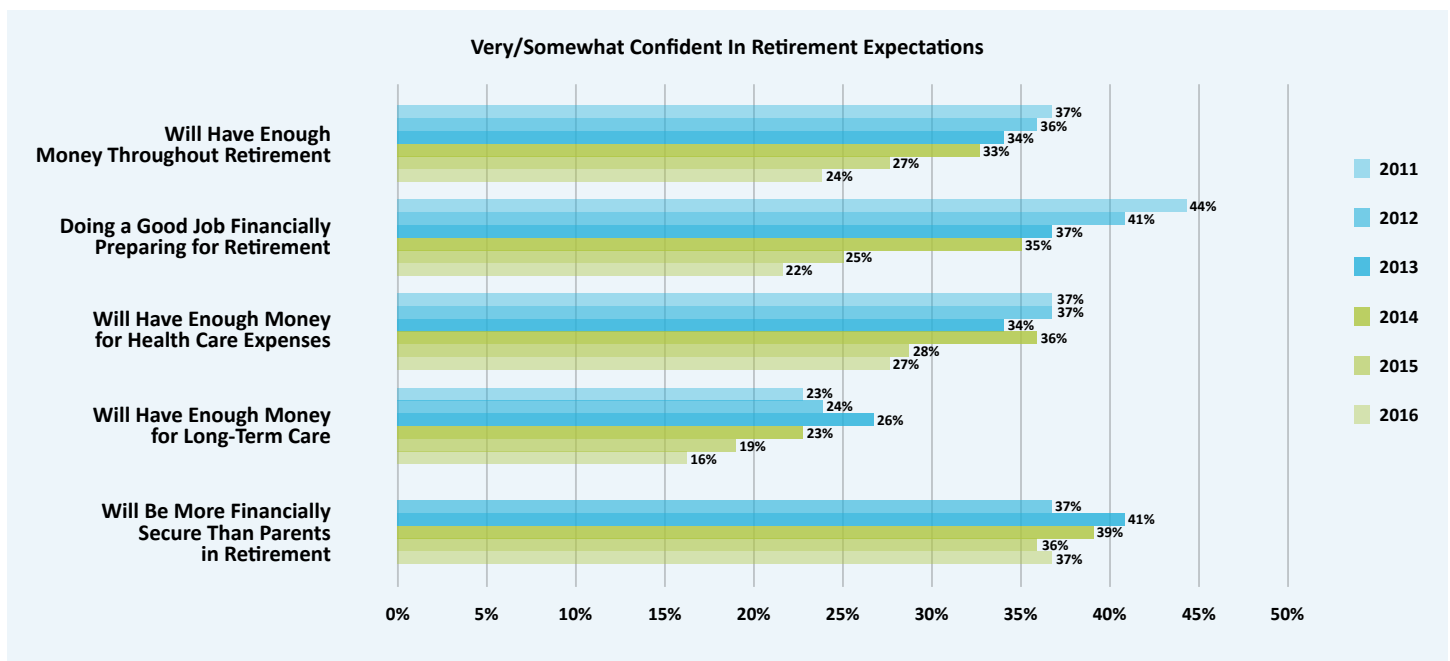


Economic satisfaction among Baby Boomers has dropped fairly steadily despite years of positive equity market returns, low market volatility (until very recently), and generally improving consumer sentiment. This indicates that many Boomers may be "on the outside looking in," with insufficient retirement savings both limiting their participation in market returns and weighing on their future outlooks. Along with feeling less satisfied from an economic perspective, as Boomers have gained clarity on their retirement age, they often times are opting to retire at more advanced ages. More than one in four Boomers plans to retire at age 70 or older, down slightly from last year but up

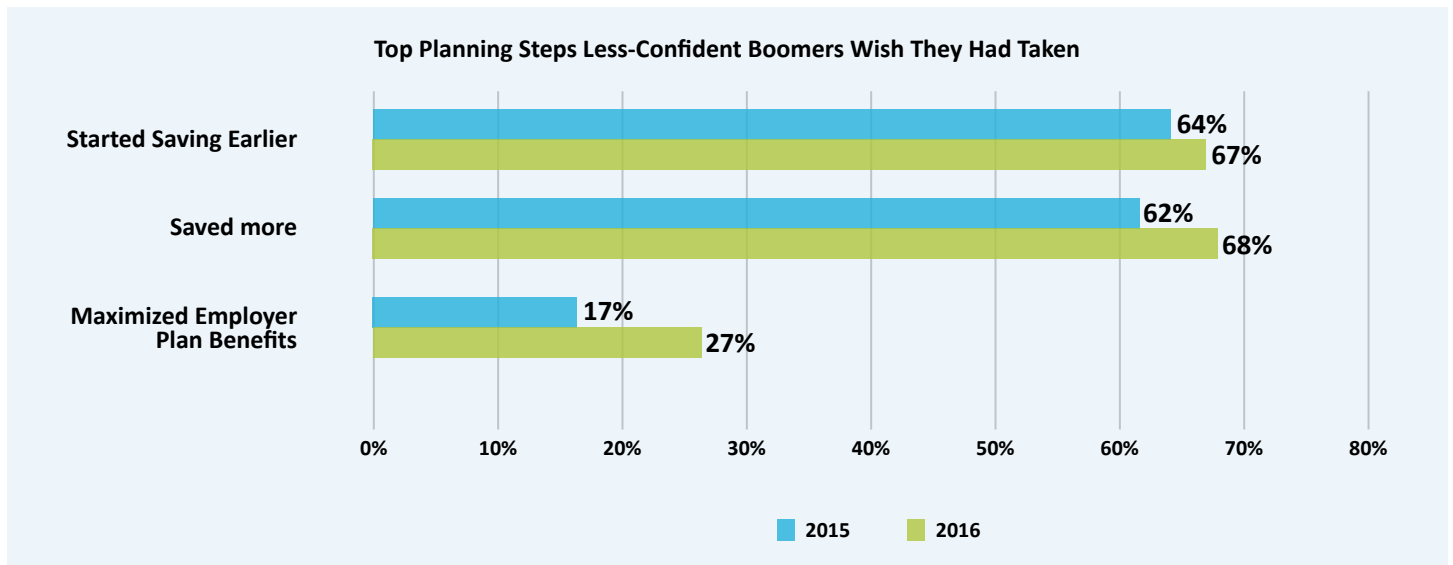
from 17 percent in 2011. More Boomers than last year, 33 percent versus 28 percent, expect to retire between ages 65 and 69, while fewer think they will retire prior to age 65, 21 percent versus 26 percent. Slightly more Boomers are unsure of their retirement age than last year, but this has dropped quite a bit in the past several years as Boomers have moved closer to retirement and their retirement plans have solidified.



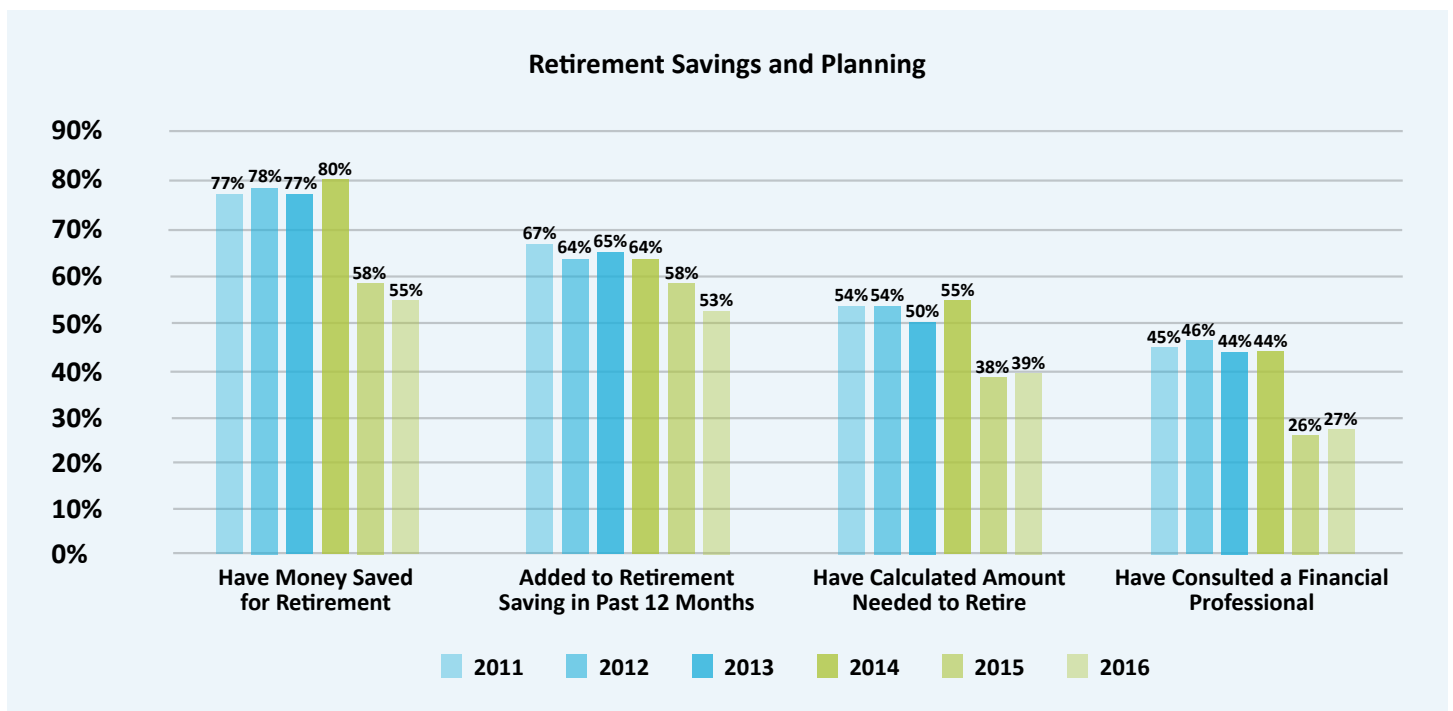
Closely associated with falling economic satisfaction are declining measures of confidence in retirement expectations. While a measure such as the extent to which Boomers feel they will be more financially secure in retirement than their parents has remained fairly static, confidence in having enough money to live comfortably throughout retirement, that they are doing a good job preparing financially for retirement, and that they will have enough money for health care expenses and long-term care, have all fallen. These drops in confidence are likely directly related to a lack of planning and growing uncertainty about the future, as well as lower retirement savings and increased concern about retirement expenses.



There are a few common regrets among Boomers who do not feel they have done a good job preparing for retirement. When asked what they would have done differently, more than two-thirds said they wish they had started saving earlier, and that they had saved more. Significantly more than last year also recognized that they should have maximized the value of their employer-provided retirement benefits, to the extent such benefits were available.

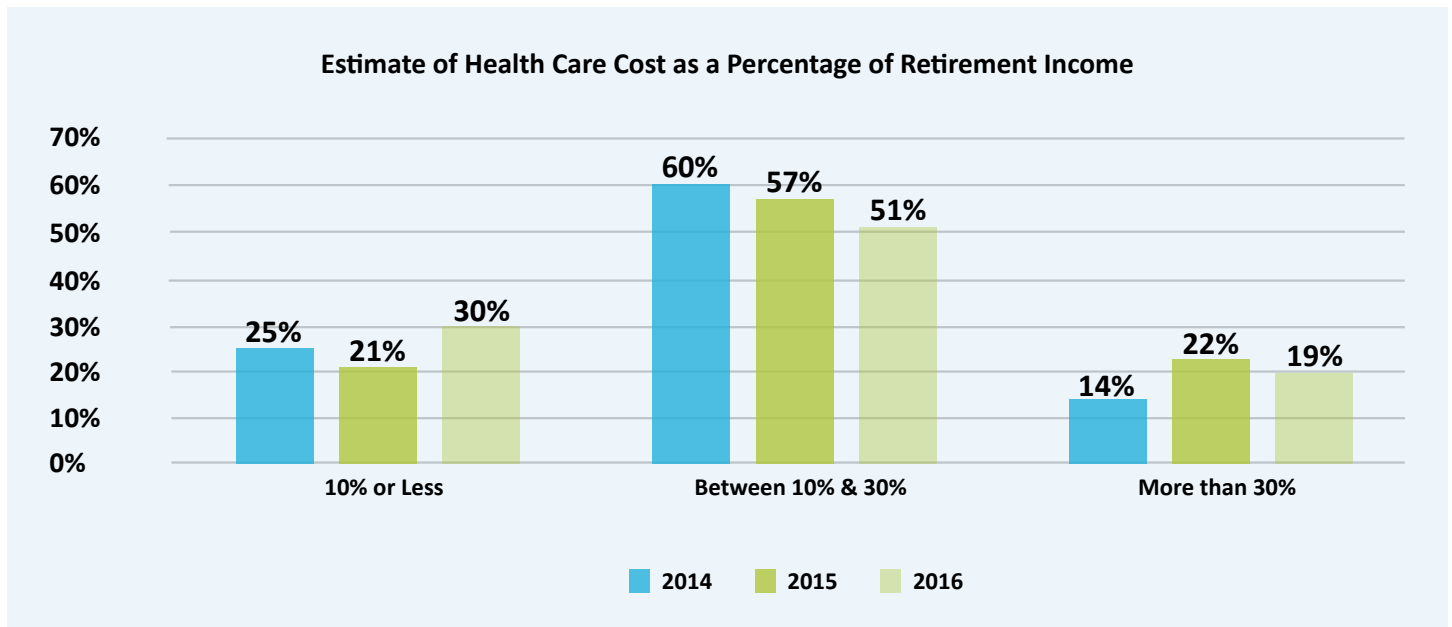


Feeling secure about the future is often a function of preparation, as it is difficult to be confident about a goal that is years away without having made a plan or taken steps to achieve that goal. To that end, Boomers are understandably insecure, as nearly half have not saved anything for retirement, and almost half of those with savings have not made additional contributions in the past year. To be sure, some of these drops are accounted for by Boomers retiring and shifting from the accumulation phase to the withdrawal stage. But in addition to not having savings for retirement, only 39 percent have tried to determine how much they need to have saved to be able to retire, and only 27 percent have sought assistance from a financial professional. These measures have all dropped in recent years.



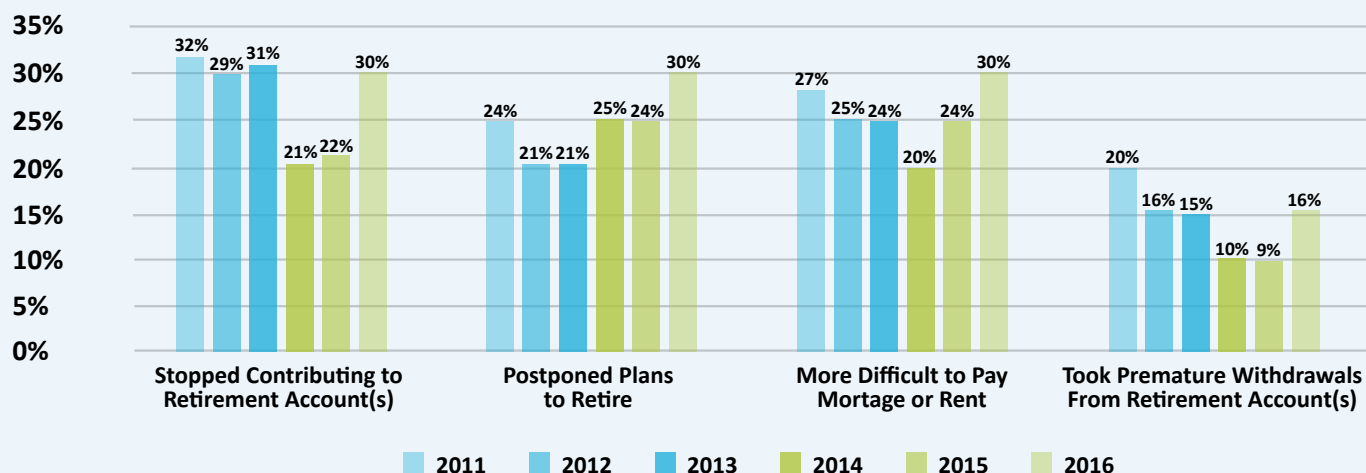
INCOME AND EXPENSE EXPECTATIONS

Calculating the amount of savings needed to retire is not necessarily simple or straightforward. There are general “rules of thumb,” such as saving 10 to 15 percent of income – which is one of the first things a Google search for “how much should I save for retirement” would suggest – which are better than no saving or planning guidelines at all. But relying solely on such maxims, particularly for a highly personalized process such as retirement planning, risks glossing over critical aspects. Health care expenses, for example, will be highly variable based on health status and lifestyle factors. Fortunately, 64 percent of Boomers who have attempted to calculate a retirement savings goal are including estimates of retirement health care expenses in their calculations, but they do underestimate the magnitude of those expenses. On average, Boomers believe expenses for health care will consume 23 percent of their income in retirement, significantly lower than the 33 percent of income those aged 60 and older currently spend on health care.³ Of even greater concern, an increasing number of Boomers estimate costs at the low end of the scale, as 30 percent believe they will need less than 10 percent of income for health care.



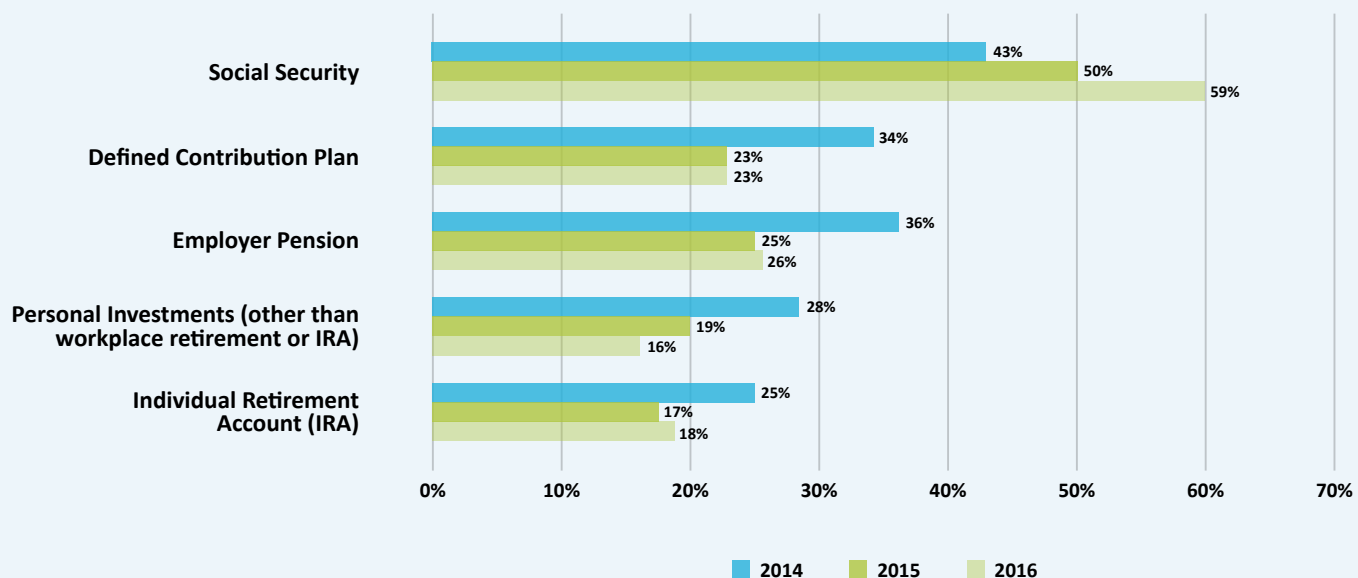
Boomers also are discovering it more difficult to meet current financial obligations and engage in positive financial behaviors. Most notably, 30 percent of Boomers have stopped contributing to their retirement accounts, have found it more difficult to pay mortgages or rent, and have postponed plans to retire – all higher than in recent years. And almost twice as many have taken premature withdrawals from retirement accounts. While premature withdrawals are not as common as in 2011, this was trending down prior to spiking this year. With large numbers of working Boomers so close to retirement, this is a worrisome development.

Impact of Economic Environment

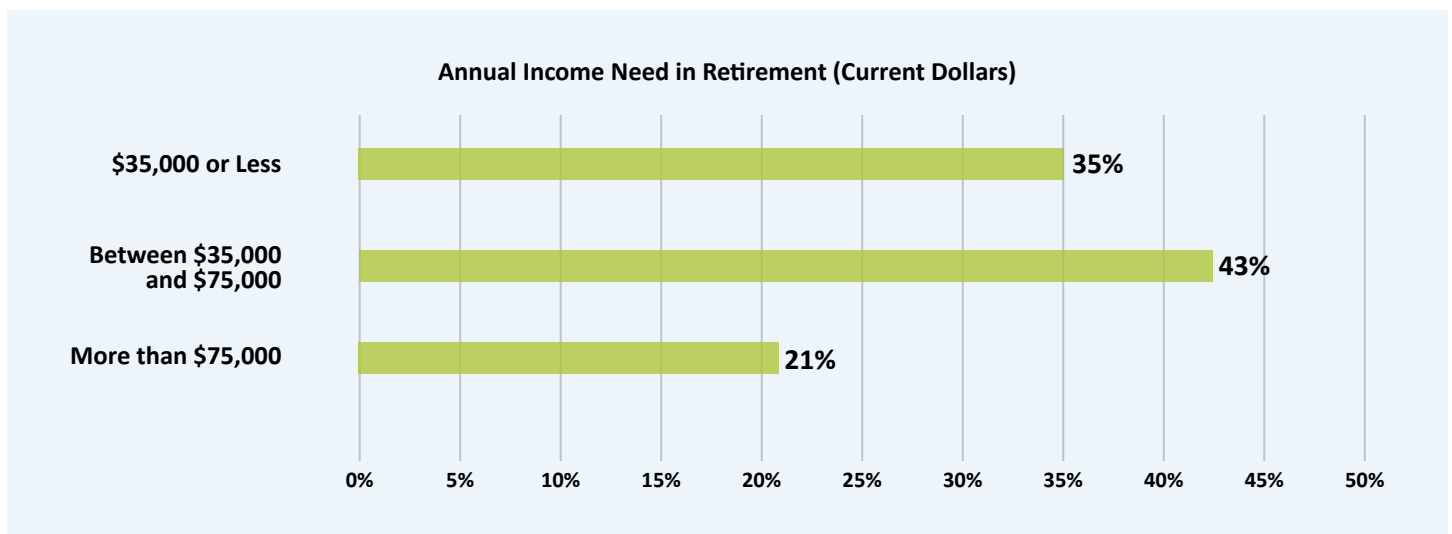


Boomers also are shifting in terms of what they see as primary income sources. A few years ago, four in 10 Boomers asserted that Social Security would be a major source of income, while 36 percent cited an employer-provided pension. Today, 59 percent of Boomers see Social Security as a major source, while only 26 percent expect a pension to provide significant income. An even bigger drop is observed in defined contribution plans such as 401(k)s, from which only 23 percent expect meaningful income versus the 34 percent who expected such plans to help fund their retirement years in 2014. In lockstep, fewer Boomers also expect to tap an IRA as a major source of income. The expectation that retirement savings will not be a major source of retirement income is also reflected in a 2015 Government Accountability Office study, which found that Americans age 55 to 64 with retirement savings have saved an average of \$104,000, which would produce only \$3,720 in annual lifetime income. By comparison, the average Social Security retirement benefit in 2016 will be about \$16,100.⁴

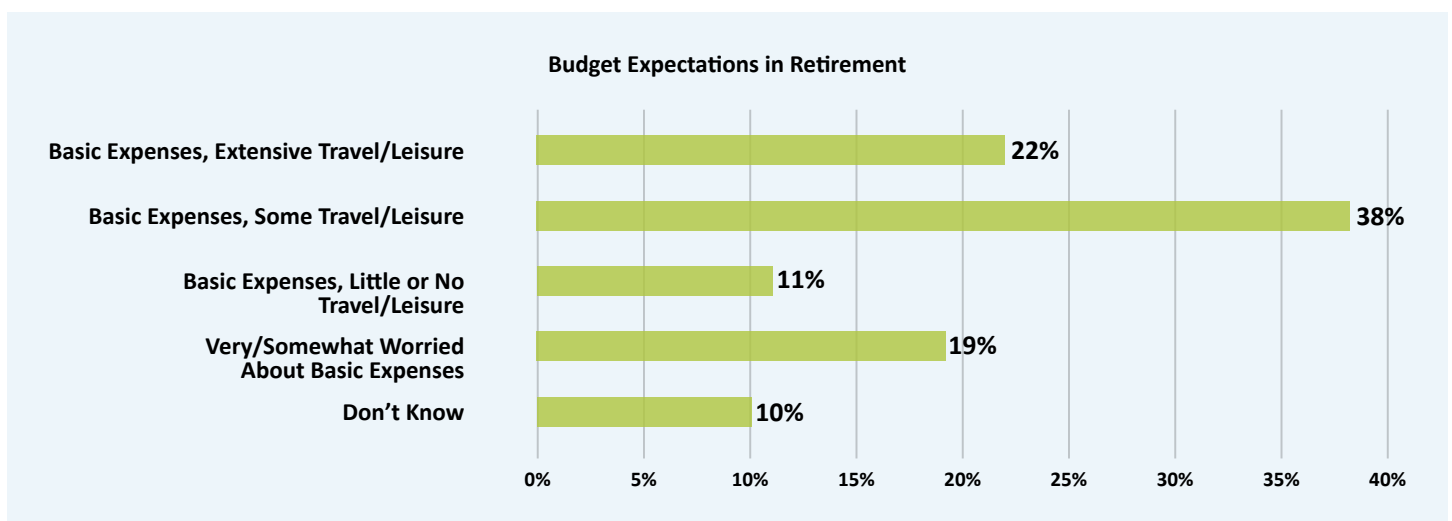
Major Sources of income



Despite missing the mark on health care expenses as a percentage of income, many Boomers do have a somewhat accurate idea of their total retirement income needs. More than in six in 10 believe they will need at least \$35,000 in annual income, as compared to actual average expenses of \$46,757 incurred by those aged 65-74 in 2013.⁵

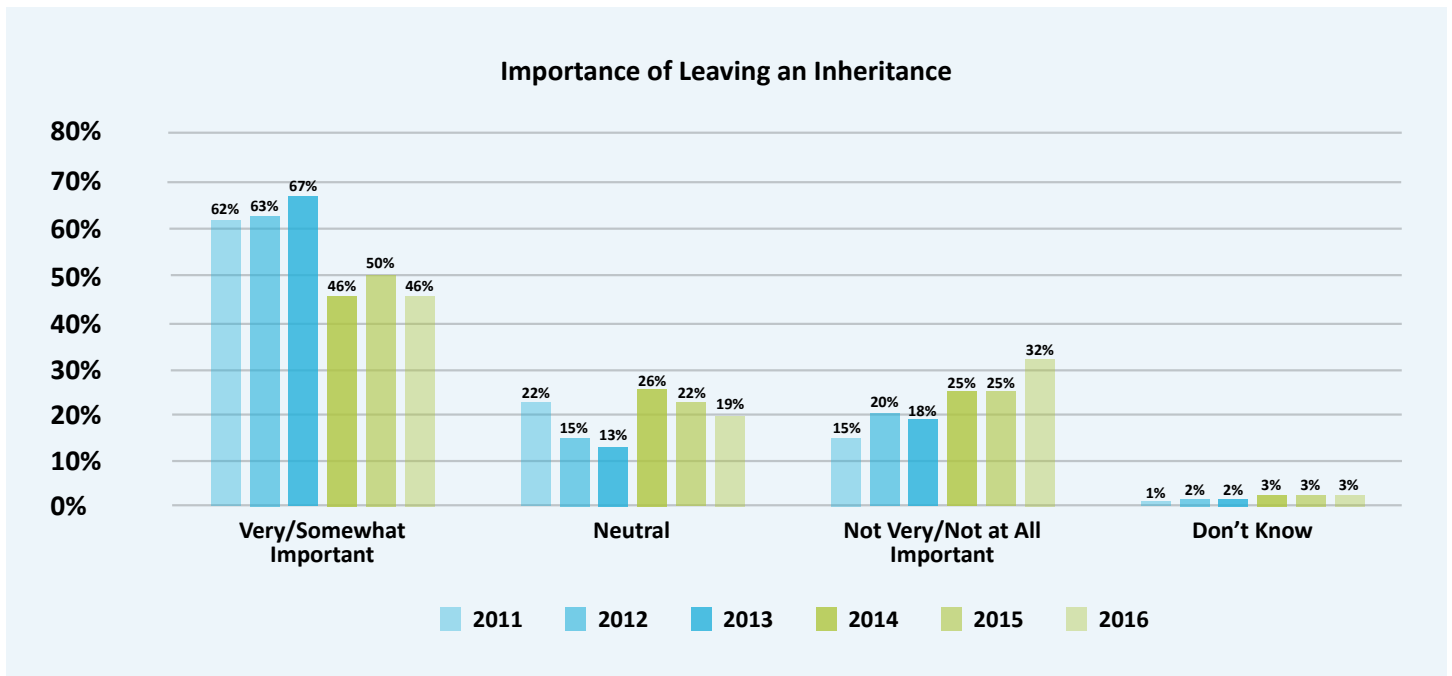


The real surprise is in Boomers' expectations for the lifestyles they will lead in retirement. Despite being under-saved and largely lacking sources of lifetime income beyond Social Security, six in 10 Boomers believe their retirement income will cover basic expenses and a limited (38 percent) or extensive (22 percent) budget for leisure activities. Only 11 percent essentially expect a subsistence lifestyle, paying for basic needs and little else, while 19 percent worry they will not have enough money to meet even basic expenses for food, housing and health care. For these Boomers, a long-term care event would be devastating and almost certainly require state care.



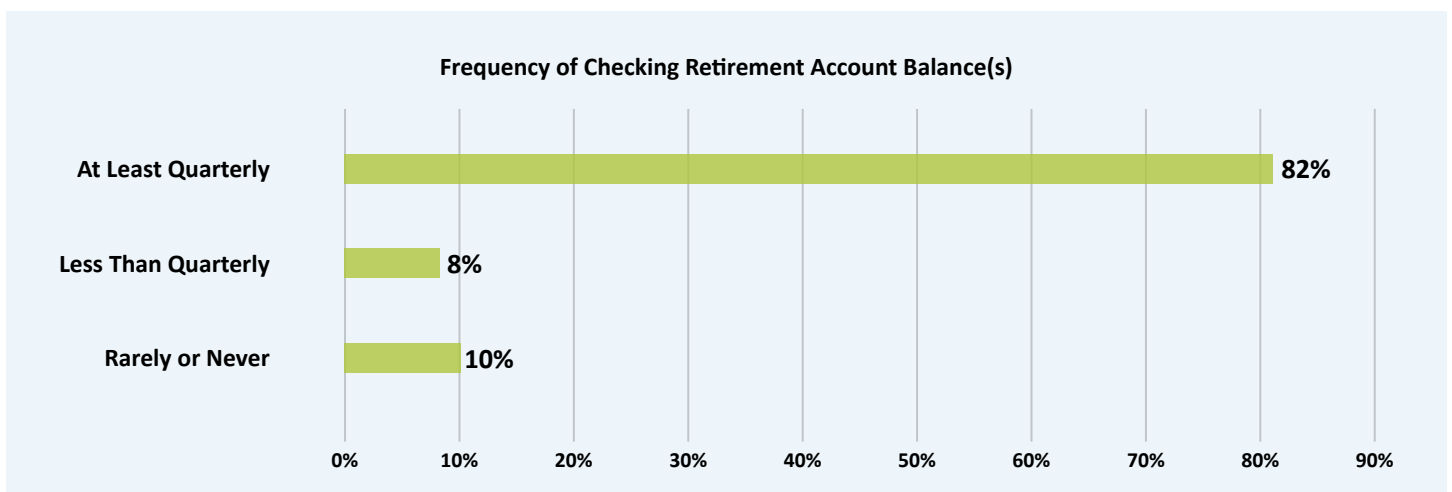
With few retirement income sources beyond Social Security and rather aggressive lifestyle expectations, Boomers are naturally less apt to be willing or able to leave a financial legacy to their heirs. Only 46 percent believe it is very or somewhat important to leave an inheritance, as compared to 63 percent finding this important five years ago. As Boomers move closer to, and into, retirement they may be finding that leaving money to heirs is not realistic given their savings levels and retirement income. The recent IRI report "Don't You (Forget About Means)" found that 67

percent of Generation X believe it is important to leave money to heirs, but GenXers are also under-saved for retirement.



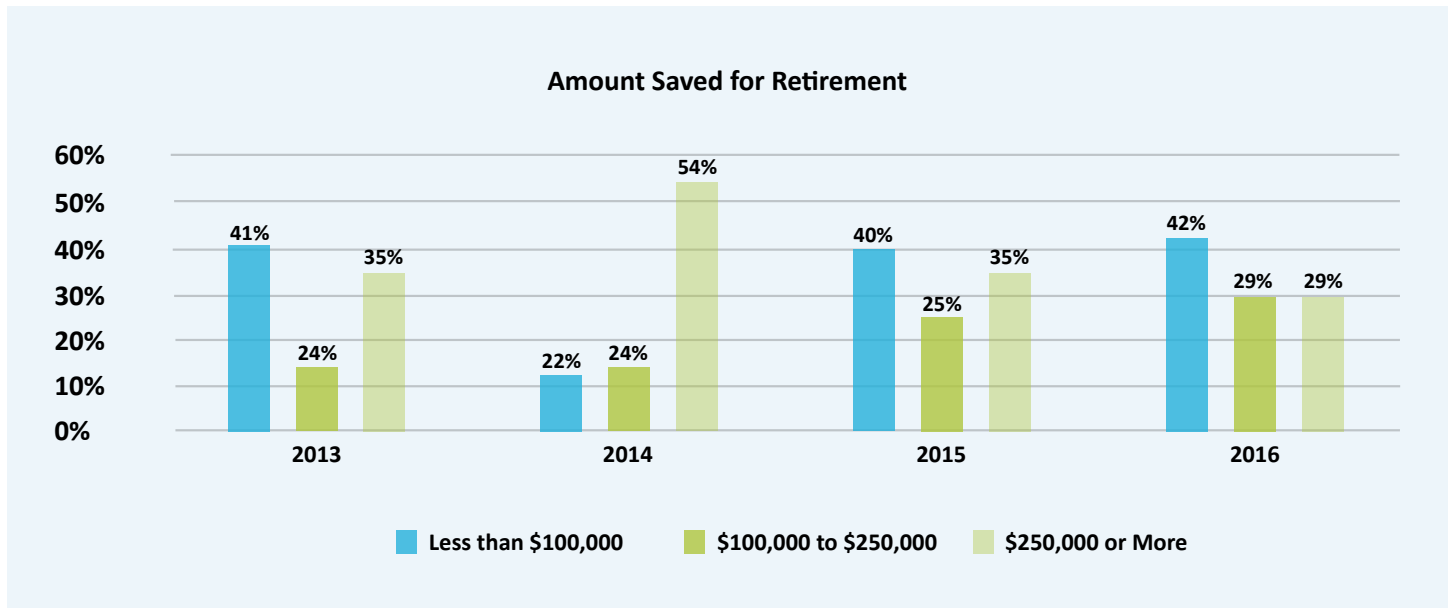
ENGAGING AND LEVERAGING RESOURCES

While few Boomers report having retirement savings, those that do are paying attention to them, with more than eight in 10 reporting that they are actively checking their account balances on at least a quarterly basis. This represents an opportunity for the retirement industry to reach Boomers with educational materials geared toward helping them transition to their retirement years and use their savings efficiently.



Engaging with financial professionals for help planning and saving for retirement is correlated with both empirical measures, such as level of savings and performing concrete planning steps, and with a greater sense of confidence and achievement on the part of Boomers with regard to their retirement planning. In fact, more than eight in 10 Boomers who have relationships with financial professionals feel better prepared for retirement, and more than seven in 10 have had a retirement plan prepared for them by their advisors.

As noted earlier, only 55 percent of Boomers have retirement savings, and many of them have relatively low savings for being close to retirement age. Of those with savings, 71 percent have less than \$250,000, while only 29 percent have \$250,000 or more saved.

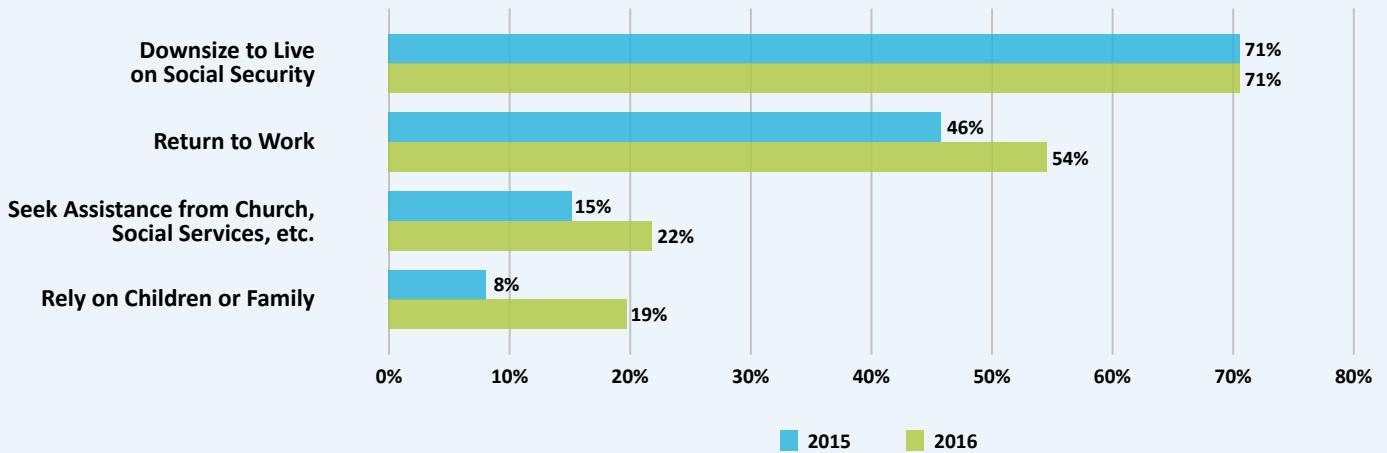


To put the savings shortfall in context, \$250,000 would provide a male retiring at age 65 with \$16,656 in guaranteed lifetime income each year⁶, a bit more than half of the gap between the average Social Security benefit of \$16,092⁷ and actual current annual expenses for a retiree age 65-74 of \$46,757⁸. A balance of \$100,000 would provide only \$6,660 in annual income⁹, or about one-fifth of the shortfall.

	\$250,000 Balance	\$100,000 Balance
Average Social Security Benefit	\$16,092	\$16,092
Average Annual Retiree Expenditures	\$46,757	\$46,757
Income Gap	(\$30,665)	(\$30,665)
Guaranteed Annual Lifetime Income	\$16,656	\$6,660
Unfunded Annual Income Shortfall	(\$14,009)	(\$24,005)

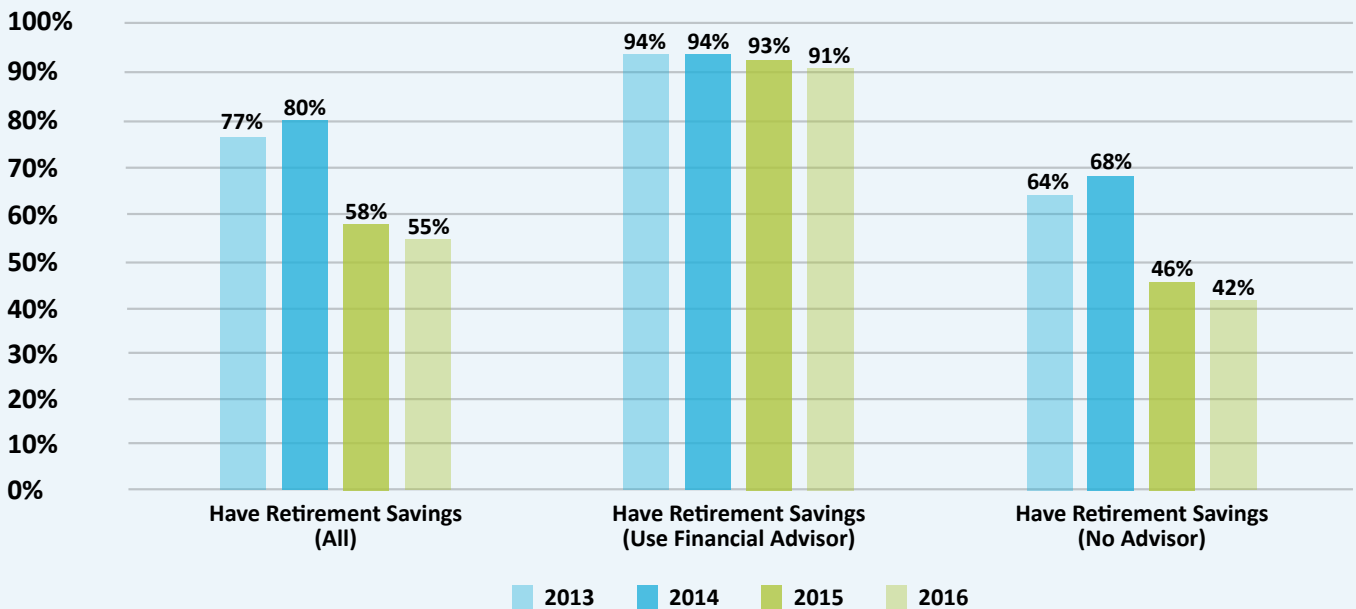
In light of data on elder spending, average Social Security payments, and the widespread lack of sufficient savings to close the gap between the two, many Boomers, especially those who reach their late 80s and beyond, will likely exhaust their personal financial resources. In that event, seven in 10 Boomers say they would downsize to the point where they would be able to subsist solely on Social Security, while a bit more than half say they would return to work, if able. Far fewer say they would seek assistance, either from children, other family, church, or social services. Downsizing and returning to work are admirable choices that reflect a sense of personal responsibility, but may be difficult in practice. For example, returning to work will require both the ability and opportunity to do so.

Contingency Plans If Financial Resources Exhausted in Retirement

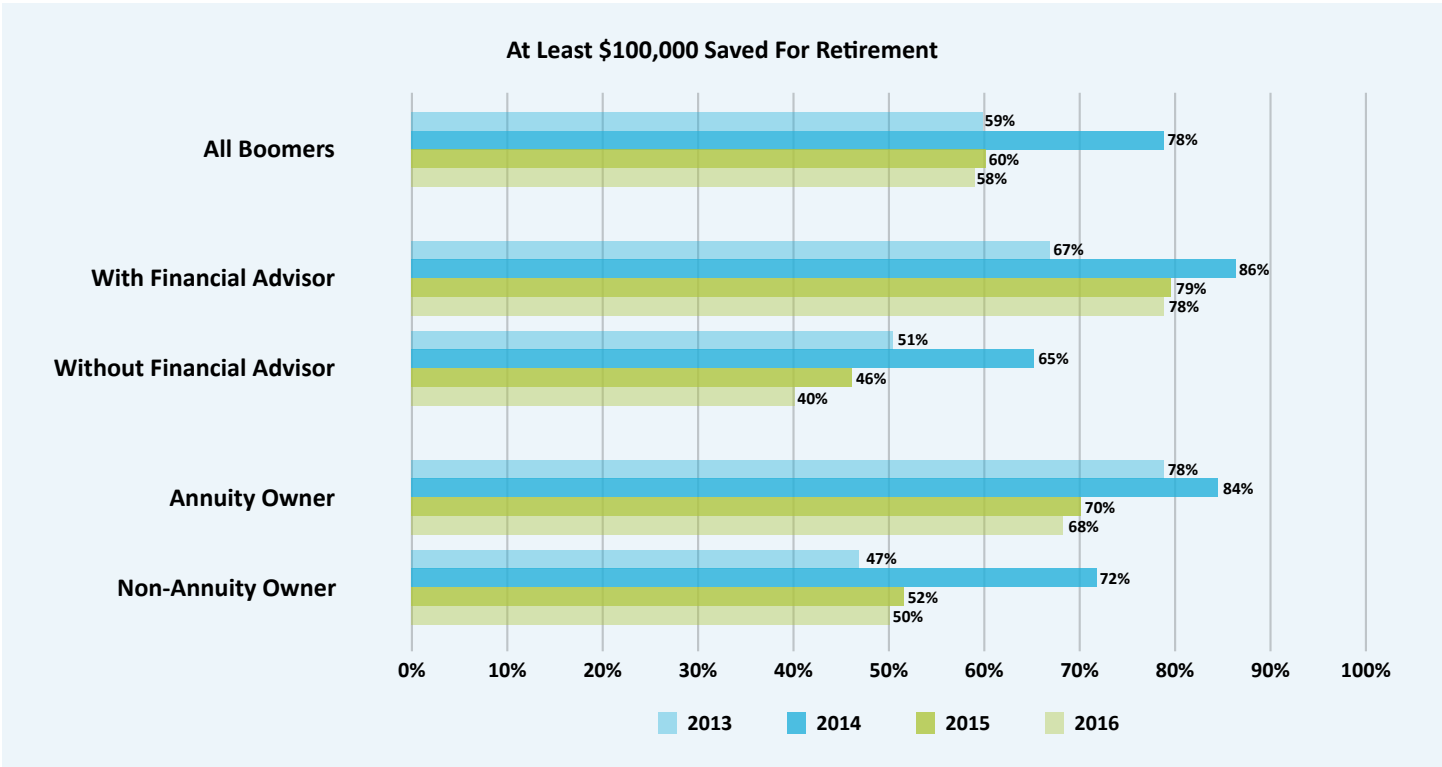


Boomers who have taken positive steps toward planning for retirement, such as engaging financial professionals and purchasing retirement income products such as annuities, are better prepared for retirement as they are more likely to have saved and to have saved more. Nine in 10 Boomers who work with financial professionals have retirement savings, and this has changed very little across study years. In contrast, those who do not use advisors are more likely than ever to say they have nothing saved for retirement.

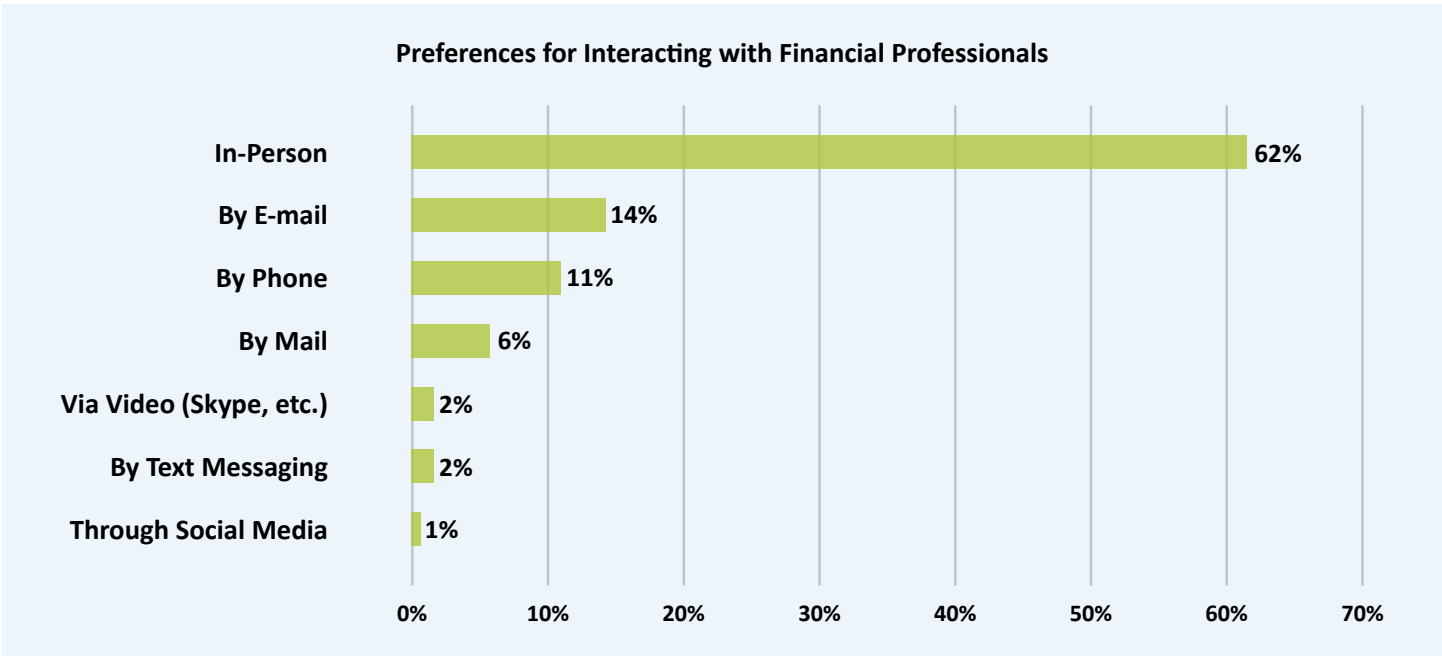
Retirement Savings: Working With Financial Advisors Compared to Self-Directed



While overall only 58 percent of Boomers with retirement savings have at least \$100,000 saved for retirement, 78 percent of those who work with financial professionals, and 68 percent of those who own annuities, have saved at least this much.

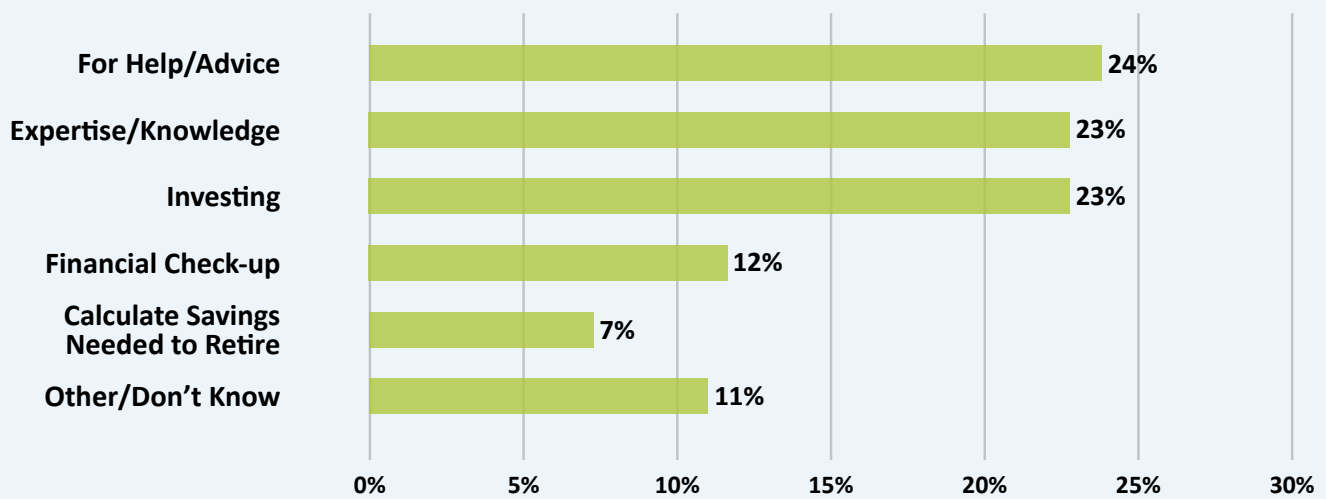


Financial professionals should be aware of both the reasons Boomers seek their assistance, and the manner in which they prefer to be engaged. Six in 10 Boomers want to meet with the financial advisor in-person, either in the advisor’s office or in their own homes.



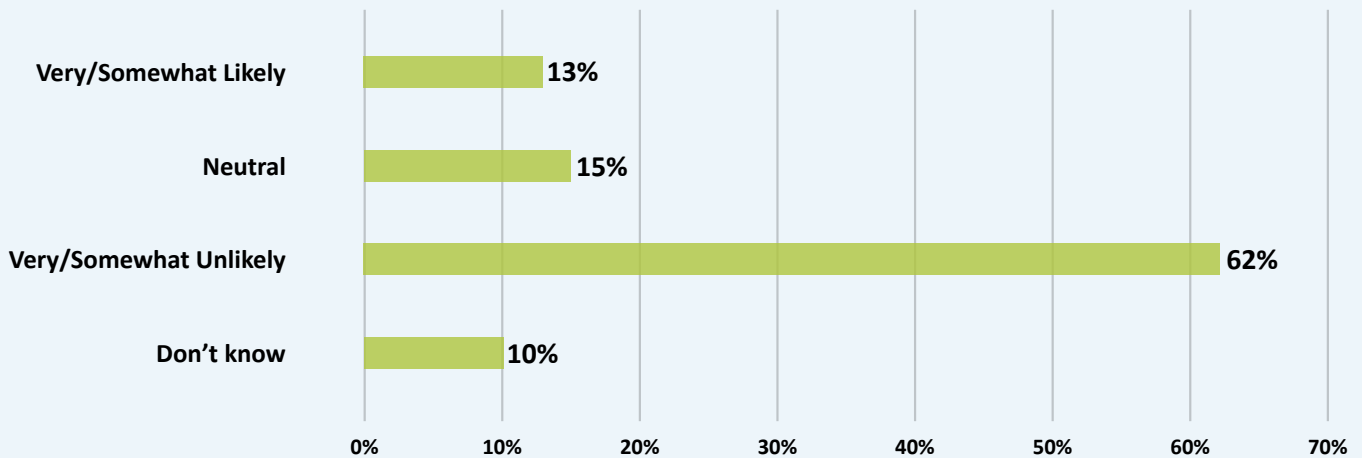
As far as the “why” of engaging financial professionals, Boomers are pretty much evenly split among generally seeking help or advice, seeking out advisors specifically because of their knowledge and expertise, and pointedly seeking help with investing. Calculating the savings they need to retire, rather oddly, ranks low on the list. This could be because Boomers are so close to retirement they don’t think advisors can help them with this, or because they have a goal in mind already. Again, this is an opportunity to educate Boomers on the help a financial professional can provide.

Reasons for Consulting A Financial Advisor



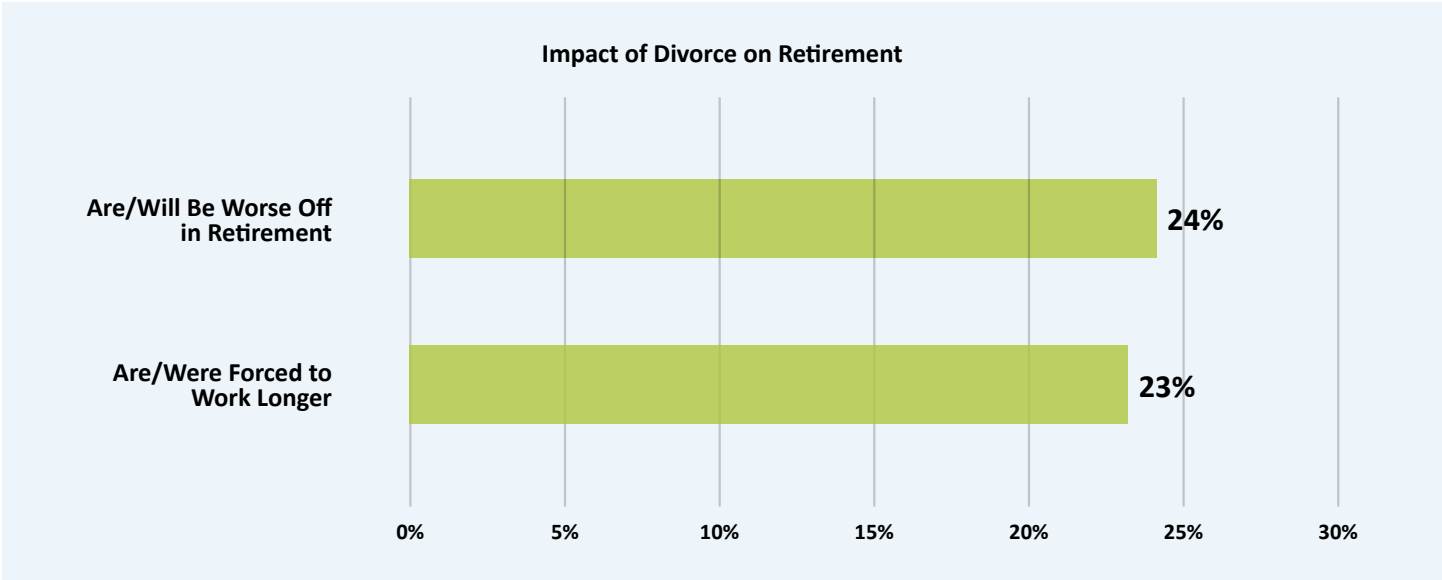
Robo-advisors, software that invests and rebalances clients' assets based on goals and risk tolerance, is rapidly growing. Consulting firm A.K. Kearney projects that robo-advisors will manage \$2.2 trillion in assets by the year 2020, but what do Boomers think about them? Perhaps not too surprisingly given their preference for meeting with advisors in person, Boomers do not express a preference for automated advice, with more than six in 10 either very or somewhat unlikely to use a robo-advice solution.

Likelihood of Using a Robo-Advisor

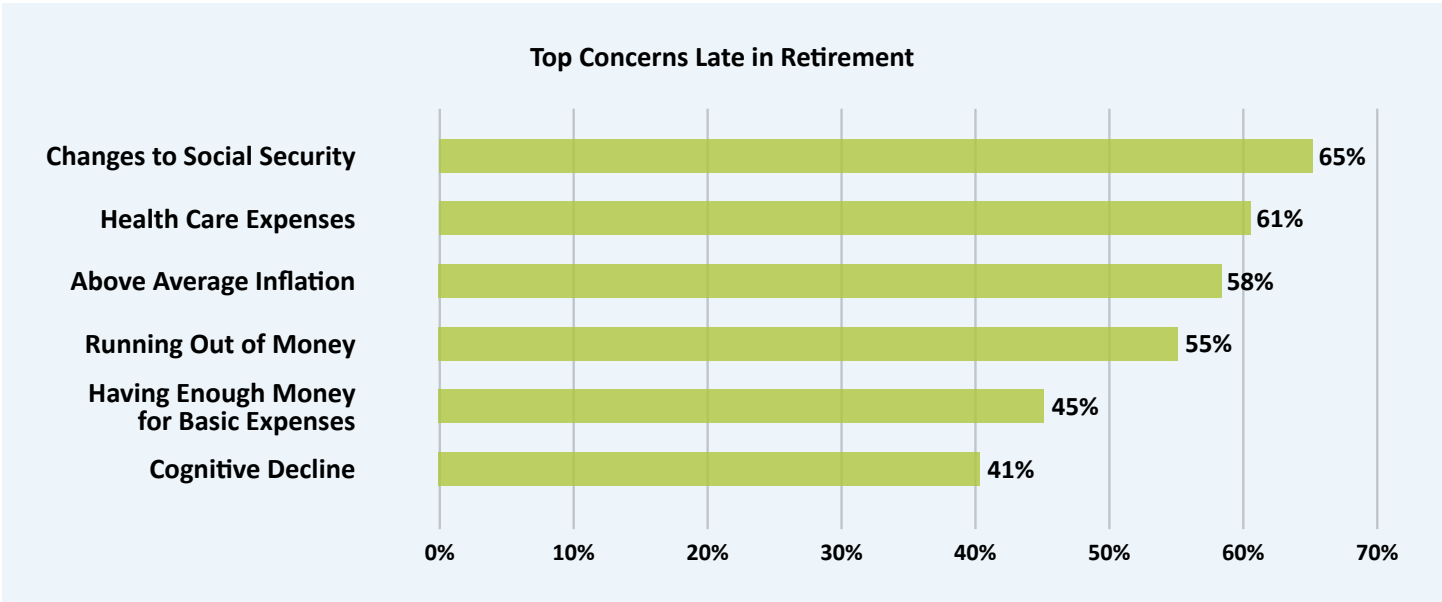


OTHER RETIREMENT CONSIDERATIONS

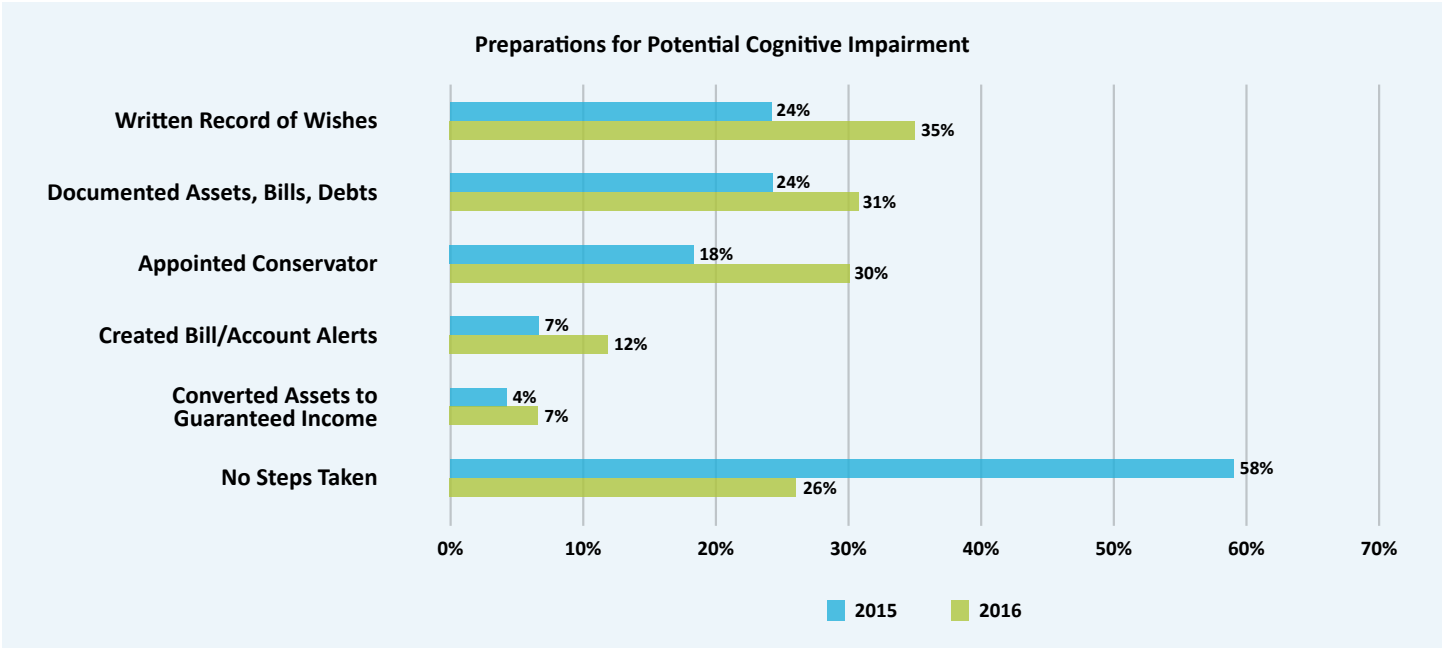
About one in four divorced Boomers are, or expect to be, worse off in retirement than if they had remained married. A similar number have, or had, to work longer than they had planned.



When thinking about retirement in their 80s and beyond, Boomers are most worried about changes to Social Security, as indicated by 65 percent of Boomers. This additionally reinforces the importance many Boomers place on Social Security in the absence of other income sources. Other major concerns for Boomers are health care expenses (61 percent), high inflation (58 percent), and running out of money (55 percent).



Nearly three in four Boomers have taken at least some action to plan for cognitive impairment, versus 42 percent last year, a significant improvement. However, the most common action is the least concrete “making a written record of wishes.” Certainly this is preferred over having no instructions for relatives, friends, or advisors to follow, but inherently more variable in completeness and effectiveness than the less often cited “documented assets” or “appointed a conservator.”



CONCLUSION

Despite falling measures of confidence and low or no savings among many, Baby Boomers who have saved have demonstrated that leveraging the knowledge and expertise of financial professionals is strongly correlated with significantly improved retirement readiness, and ultimately a higher probability of being able to enjoy and maintain a desired standard of living throughout what, for many, is likely to be a long retirement. Unfortunately, many Boomers who haven't planned and haven't saved will face tough choices in the years ahead. Staying healthy and able to work may be the best prescription that can be written for Boomers who are past their prime earning years and unable to save, while for the youngest the time is now to tighten budgets, save as much as possible and tap into the resources that can help them navigate a course to a successful retirement.

METHODOLOGY

The Insured Retirement Institute (IRI) commissioned Woelfel Research, Inc. to conduct a survey of individuals broadly defined as members of the Baby Boom Generation. The research was conducted by means of internet interviews with 800 Americans aged 53 to 69. Data were weighted by age and gender to the 2014 American Community Survey. Data was collected from February 9 through February 11, 2016. The margin of error for the sample of 800 was $\pm 3.5\%$.

REFERENCES


- 1 "Planning for Health Care: How Excellent Health and Longevity Impact Retirement Income Planning" – IRI, 2014
- 2 Society of Actuaries 2012 Individual Annuitant Mortality Table
- 3 2014 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplemental Medical Insurance Trust Funds
- 4 Social Security Administration
- 5 Bureau of Labor Statistics Consumer Expenditure Survey, 2013
- 6 Annuity quote generated using www.immediateannuities.com
- 7 Social Security Administration
- 8 Bureau of Labor Statistics Consumer Expenditure Survey, 2013
- 9 Annuity quote generated using www.immediateannuities.com



Insured Retirement Institute

202-469-3000 | 202-469-3030 (fax)
membership@irionline.org | myirionline.org

 @irionline

 facebook.com/insured.retirement.institute