



Insured Retirement Institute

# **Baby Boomers and Generation Xers**

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*Are They on Track to Reach Their Retirement Goals?*

***August 2012***

**About the Insured Retirement Institute:** The Insured Retirement Institute (IRI) is a not-for-profit organization that for twenty years has been a mainstay of service, commitment and collaboration within the insured retirement industry. Today, IRI is considered to be the authoritative source of all things pertaining to annuities, insured retirement strategies and retirement planning. IRI proudly leads a national consumer education coalition of nearly twenty organizations and is the only association that represents the entire supply chain of insured retirement strategies: Our members are the major insurers, asset managers, broker dealers, and more than 150,000 financial professionals. IRI exists to vigorously promote consumer confidence in the value and viability of insured retirement strategies, bringing together the interests of the industry, financial advisors and consumers under one umbrella. IRI's mission is to: encourage industry adherence to highest ethical principles; promote better understanding of the insured retirement value proposition; develop and promote best practice standards to improve value delivery; and advocate before public policy makers on critical issues affecting insured retirement strategies and the consumers that rely on their guarantees. Visit [www.IRIONline.org](http://www.IRIONline.org) today to experience the vast resources of the Insured Retirement Institute for yourself.

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## Overview

With the switch from defined benefit plans to defined contribution plans over recent decades, planning, saving and managing retirement has become the responsibility of individuals. Given the very difficult economic times of the past several years, how are members of the Baby Boom Generation and Generation X doing in terms of preparing for their retirement?

At first glance, IRI research shows members of both generations are satisfied with the way things are going in their lives today: 78.6% of Baby Boomers and 83.4% of Generation Xers. Yet in the past 12 months significant percentages of both generations reported that they: stopped adding money into a retirement savings plan (29.3% of Baby Boomers and 22.6% of Generation Xers); postponed plans to retire (20.9% of Baby Boomers and 17.1% of Generation Xers); and prematurely withdrew funds from a retirement plan (16.0% of Baby Boomers and 15.0% of Generation Xers).

This report will examine retirement preparations for both generations looking specifically at retirement planning behaviors and investment knowledge. The report will then explore if working with a financial advisor and if owning an annuity can have a positive impact on retirement preparation.

## Key Findings

- Retirement confidence is high for both generations; 76.2% of Baby Boomers and 78.2% of Generation Xers stated they were somewhat to extremely confident they will have enough money to live comfortably throughout their retirement years. Yet:
  - Only 51.4% of Baby Boomers and 40.7% of Generation Xers have calculated how much they will need in retirement savings.
  - 21.6% of Baby Boomers and 40.8% of Generation Xers have less than \$50,000 saved for retirement.
  - 21.7% of Baby Boomers and 27.8% of Generation Xers reported having no savings for retirement.
- Many members of both generations (40.8% of Baby Boomers and 45.1% of Generation Xers) report they are “not very” and “not at all” knowledgeable about investing in securities.
- Working with a financial advisor greatly increases retirement confidence. Among Baby Boomers who consulted with a financial advisor, 42.8% are extremely or very confident compared with 32.3% of those who did not. Among individuals in Generation X who consulted a financial advisor, 47.6% are extremely or very confident compared with 28.9% of those who did not.
- Those who have calculated their retirement savings needs have higher levels of confidence in meeting their retirement savings goals. Among Baby Boomers who completed the calculation, 44.2% are extremely or very confident compared with 29.0% of those who did not. Among individuals in Generation X who completed the calculation, 46.9% are extremely or very confident compared with 27.9% among those who did not.
- Annuity owners have higher levels of retirement confidence. Among Baby Boomers who own an annuity, 53.4% are extremely or very confident compared with 31.0% who do not. Among individuals in Generation X who own an annuity, 49.4% are extremely or very confident compared with 31.2% among those who do not.

- Annuity owners are more likely to engage in positive planning behaviors.
  - Completed a retirement savings need calculation – 69.6% of Baby Boomer and 60.4% of Generation X annuity owners compared with 44.3% of Baby Boomers and 34.0% of Generation Xers who do not own an annuity.
  - Consulted with a financial advisor – 73.7% of Baby Boomer and 62.3% of Generation X annuity owners compared with 34.8% of Baby Boomers and 29.7% of Generation Xers who do not own an annuity.

## Retirement Preparation

How confident are Baby Boomers and Generation Xers that they will have enough money to live comfortably throughout their retirement years? According to IRI research, 76.2% of Baby Boomers and 78.2% of Generation Xers stated they were somewhat to extremely confident they will have enough money to live comfortably throughout their retirement years.

### Confidence in Having Enough Money to Live Comfortably Throughout Retirement Years, Baby Boomers (2012) and Generation Xers (2011)

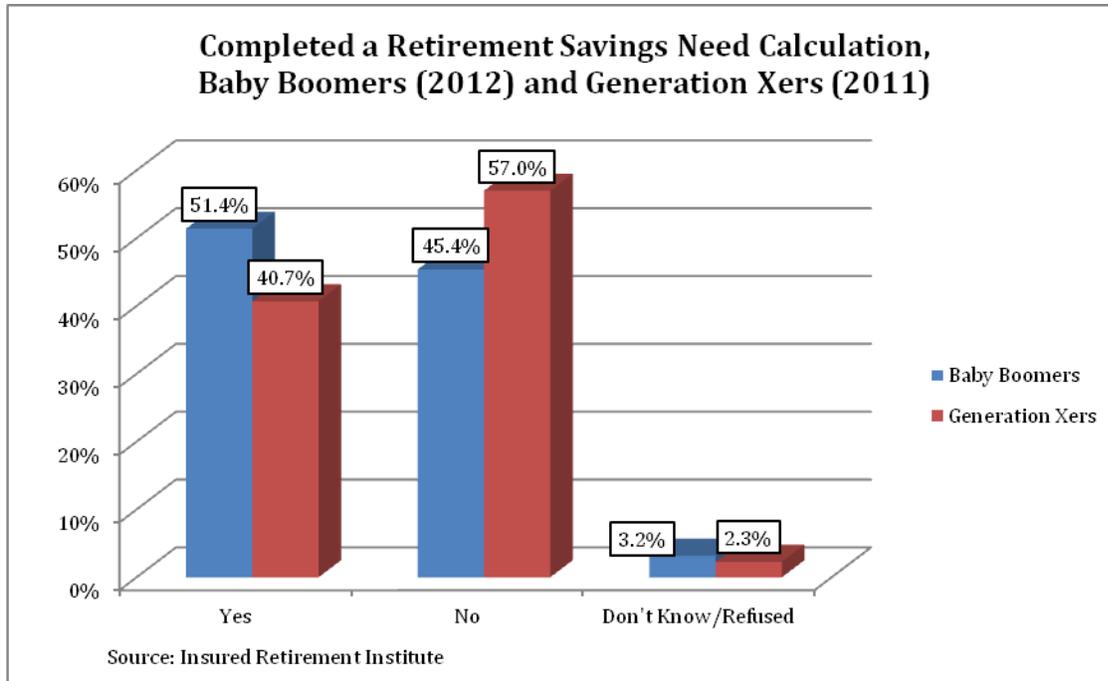
	Baby Boomers	Generation Xers
Extremely Confident	9.1%	8.0%
Very Confident	27.1%	27.2%
Somewhat Confident	40.0%	43.0%
Not Too Confident	10.9%	10.5%
Not at All Confident	10.0%	9.6%
Not Sure/Refused	2.9%	1.7%

Source: Insured Retirement Institute

While this high level of confidence is good news, are these individuals taking the actions necessary to back up that high level of confidence? In this section, we look at three areas in which an individual can take action to achieve their retirement goals: calculation of amount needed, the amount saved and the age of retirement.

#### *Calculation of Amount Needed*

The starting point in saving for retirement is to determine how much savings is needed for a comfortable retirement. According to IRI research, slightly more than half (51.4%) of Baby Boomers and less than half (40.7%) of Generation Xers have tried to calculate how much savings they will need for a comfortable retirement. But how can an individual be confident that they will have enough money to live comfortably throughout retirement years without knowing how much to save to achieve that goal?



### *Amount Saved for Retirement*

Roughly three-quarters of Baby Boomers (77.5%) and Generation Xers (71.8%) reported they have some level of savings for retirement. We would expect Baby Boomers to have more retirement savings than Generation Xers as they are older and have had more time to accumulate savings for retirement. IRI data show that, among those individuals who reported a dollar amount, 43.7% of Baby Boomers report having \$200,000 or more saved for retirement compared with 18.2% of Generation Xers.

Yet the data also show, among those who reported a dollar amount, 56.3% of Baby Boomers have less than \$200,000 in savings for retirement. In addition, 21.7% of Baby Boomers have no savings for retirement. This indicates a lack of sufficient savings for retirement when we consider that the surveyed Baby Boomer population, aged 50 to 66, is on the cusp of retirement.

The savings picture for Generation X is not promising either with 27.8% reporting no savings. Among those who reported a dollar amount, 81.8% have saved less than \$200,000. Yet, Generation Xers have an advantage over the Baby Boomers in that the surveyed population is aged 30 to 49, with more time to accumulate savings for retirement.

### **Amount Saved for Retirement, Baby Boomers (2012) and Generation Xers (2011)**

	Baby Boomers	Generation Xers
Less than \$50,000	21.6%	40.8%
\$50,000 to \$99,999	17.5%	24.9%
\$100,000 to \$199,999	17.2%	16.1%
\$200,000 or more	43.7%	18.2%

Source: Insured Retirement Institute

Note: Data presented here are representative of those individuals who provided a dollar amount for retirement savings.

### *Age of Retirement*

At what age an individual plans to stop working is a critical factor for retirement planning. For starting with that age, the individual will be relying on the savings accumulated throughout the working lifetime for the balance of their life. The longer an individual remains in the workforce, the more savings they will be able to accumulate.

Among Baby Boomers, 34.9% reported they plan to retire at age 66 or older. The corresponding figure for Generation Xers is 25.1%. Interestingly, 23.9% of Generation Xers reported they plan to retire at age 61 or younger. This will be harder to achieve for this group considering 57.0% have not tried to calculate how much savings they need and among those who reported a dollar amount for their retirement savings, 40.8% reported having less than \$50,000.

#### **Planned Age to Stop Working, Baby Boomers (2012) and Generation Xers (2011)**

	Baby Boomers	Generation Xers
Under 55	0.4%	7.4%
55	0.8%	4.5%
56-61	5.8%	12.0%
62	7.2%	4.9%
63-64	2.4%	6.1%
65	13.8%	16.1%
66-70	19.0%	12.3%
70 and older	15.9%	12.8%
Don't Know	30.8%	26.7%

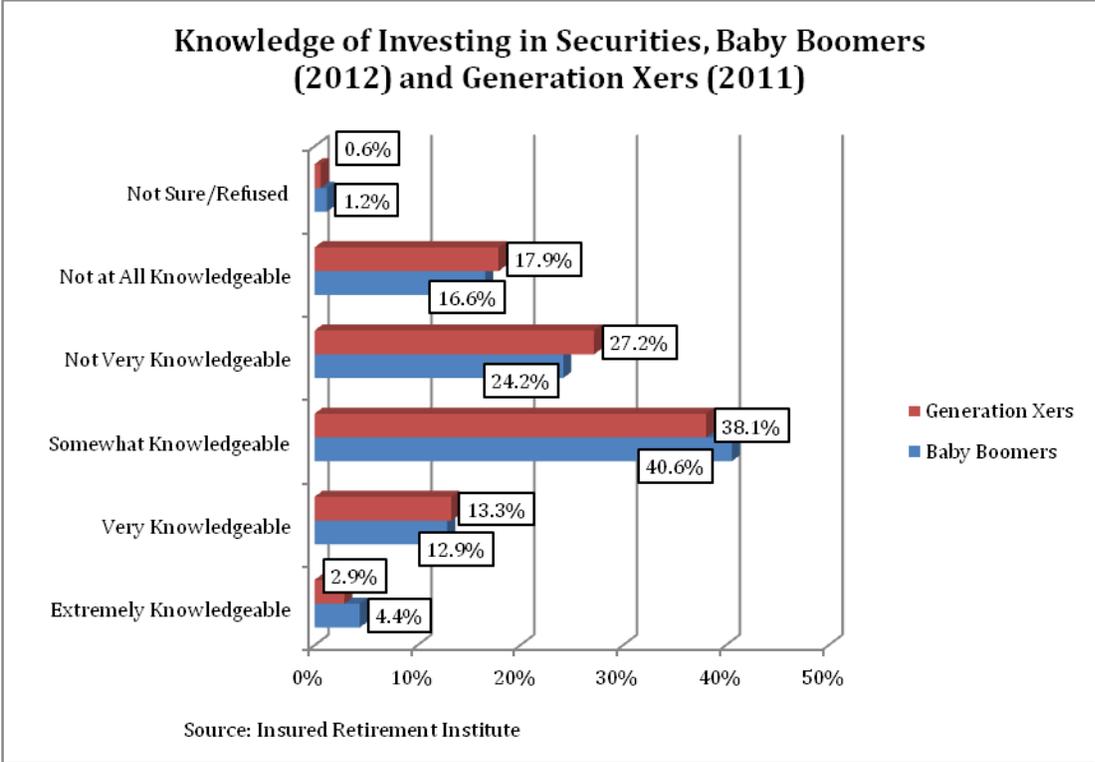
Source: Insured Retirement Institute

The data presented here on calculating retirement savings needs, amount saved, and planned age of retirement demonstrate that large numbers of Baby Boomers and Generation Xers may not have realistic retirement expectations.

### **Knowledge of Investing**

Retirement is arguably the longest-term financial goal for any individual. Because of the long length of time available to plan for retirement, individuals often may be asked to take on more investment risk to help their savings grow. In fact, by the time someone reaches retirement age, assuming the individual was saving consistently throughout the working career, most of the accumulated savings will be in investment earnings. This makes knowledge of investing critical to the retirement planning and saving processes. How do Baby Boomers and Generation Xers stack up on investing knowledge?

According to IRI research, 57.9% of Baby Boomers and 54.3% of Generation Xers report they are somewhat to extremely knowledgeable about investing. At first glance, those figures appear positive yet upon a deeper look the picture is gloomier. While a little over half of both generations report they are knowledgeable about investing, nearly half report they are not very or not at all knowledgeable. Among those who report they are knowledgeable, only 17.3% of Baby Boomers and 16.2% of Generation Xers report they are very or extremely knowledgeable.



When individuals were asked about their method of investing, the most common response was through a retirement plan: 37.2% of Baby Boomers and 43.4% of Generation Xers. About one-quarter of individuals in both generations, 27.9% of Baby Boomers and 23.1% of Generation Xers, report they do not invest at all.

**Method of Investing, Baby Boomers (2012) and Generation Xers (2011)**

	Baby Boomers	Generation Xers
Directly, Myself	23.5%	31.2%
Through a Retirement Plan	37.2%	43.4%
Through a Broker/Professional	37.4%	34.0%
Do Not Invest at All	27.9%	23.1%
Not Sure/Refused	4.1%	4.7%

Source: Insured Retirement Institute

The data presented here on retirement preparations and investment knowledge show individuals in both generations would benefit from the guidance that a financial advisor can provide. But are Baby Boomers and Generation Xers working with financial advisors?

**Working With a Financial Advisor**

As was shown above, Baby Boomers and Generation Xers are confident they will have enough money to live comfortably throughout their retirement years. Yet savings for retirement are low, knowledge of investing is lacking, and a significant percentage has not taken critical steps in the retirement planning process such as determining what level of savings are needed. On all of these points, a financial advisor can provide greatly needed assistance. In this section, we will show that working with an advisor has a positive impact on retirement planning behaviors.

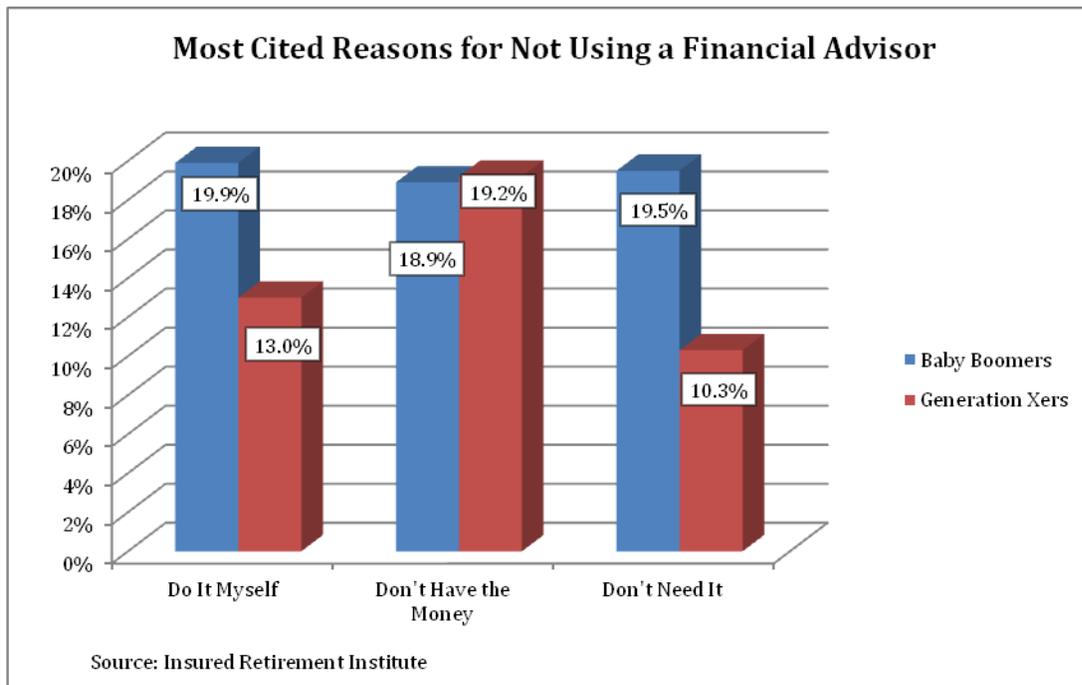
Are Baby Boomers and Generation Xers working with a financial advisor? IRI research shows that less than half of individuals in both generations have consulted with a financial advisor.

**Consulted a Financial Advisor, Baby Boomers (2012) and Generation Xers (2011)**

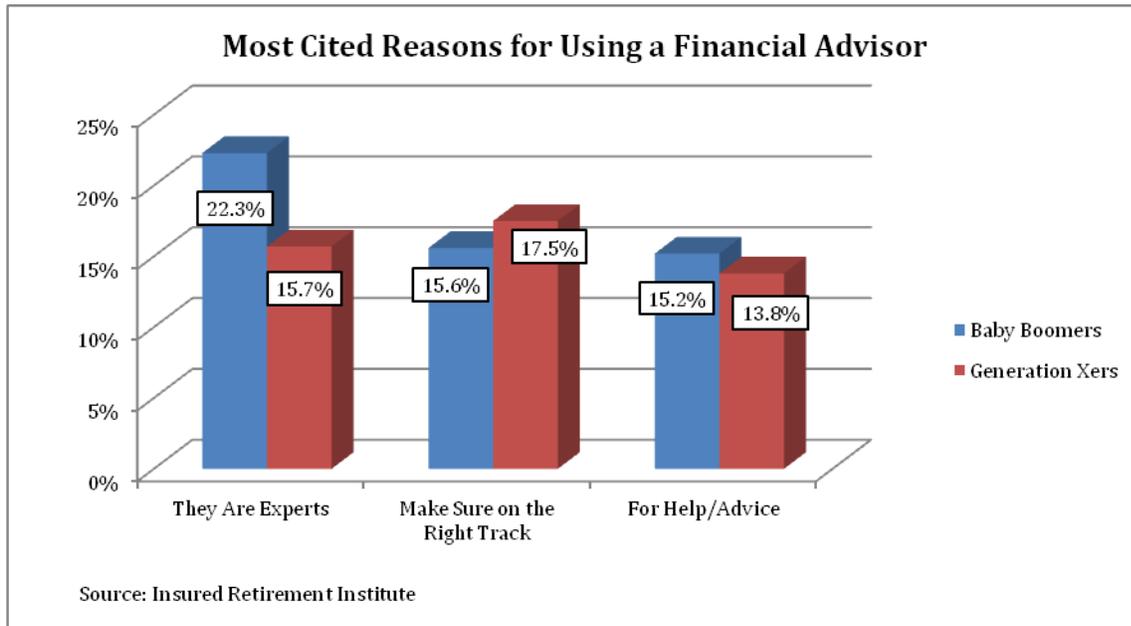
	Baby Boomers	Generation Xers
Yes	46.3%	37.0%
No	52.8%	62.5%

Source: Insured Retirement Institute

Of those individuals who reported they did not consult with a financial advisor, the most cited reasons were: do it myself, do not have the money, and don't need it.



Among those individuals who reported they consulted a financial advisor, the most cited reasons were that they: are experts, make sure I'm on the right track, and provide help/advice.



When comparing these reasons between those who have consulted an advisor with those who have not, we see that among those who have not consulted an advisor, many feel they can manage their retirement plans on their own. The question to ask is: does working with a financial advisor make a difference?

IRI cross-tabulated the confidence question (How confident are you that you will have enough money to live comfortably throughout your retirement years?) with two questions on financial advisors (Have you consulted a financial advisor? and Have you made a retirement savings need calculation?).

**Confidence in Having Enough Money to Live Comfortably Throughout Retirement Years by Those Who Consulted with a Financial Advisor, Baby Boomers (2012) and Generation Xers (2011)**

	Baby Boomers		Generation Xers	
	Yes	No	Yes	No
Extremely Confident	11.3%	7.8%	12.6%	5.5%
Very Confident	31.5%	24.5%	35.0%	23.4%
Somewhat Confident	42.8%	40.0%	42.5%	44.4%
Not Too Confident	10.2%	12.1%	6.5%	13.2%
Not at All Confident	4.1%	15.5%	3.4%	13.4%

Source: Insured Retirement Institute

Based on the results of these cross-tabulations working with a financial advisor has a definite positive impact on retirement confidence. Nearly 43% of Baby Boomers who consulted a financial advisor reported they are very or extremely confident they will have enough money to live comfortably throughout retirement compared with 32.3% who have not consulted a financial advisor. The spread between the two was larger for Generation X, with 47.6% very or extremely

confident among those who consulted a financial advisor compared with 28.9% who did not. Similar results were found when measuring the impact of doing a retirement savings need calculation on retirement confidence.

**Confidence in Having Enough Money to Live Comfortably Throughout Retirement Years by Those Who Made a Retirement Needs Calculation, Baby Boomers (2012) and Generation Xers (2011)**

	Baby Boomers		Generation Xers	
	Yes	No	Yes	No
Extremely Confident	11.8%	6.3%	11.4%	5.8%
Very Confident	32.4%	22.7%	35.5%	22.1%
Somewhat Confident	40.2%	42.9%	39.8%	46.2%
Not Too Confident	9.6%	13.1%	7.7%	12.9%
Not at All Confident	6.1%	15.1%	5.6%	12.9%

Source: Insured Retirement Institute

Taking necessary steps to plan for retirement and seeking professional advice can increase an individual’s chances of having a comfortable retirement. As will be shown in the next section, two of the most important traits of a retirement investment product for individuals in both generations—guaranteed income each month and funds that will not lose principal—are key characteristics of annuities. The next section will explore whether owning an annuity is correlated to positive retirement planning behavior.

**Annuity Ownership and Retirement Planning**

In the surveys of Baby Boomers and Generation Xers, IRI asked, what is the one most important trait of a retirement investment product? Rate of return was ranked number one for each generation, yet “guaranteed income each month” and “will not lose principal” were in the top five of reasons. Both of these traits are hallmarks of annuities. Considering the importance of these traits, individuals who are planning and investing for their retirement should consider annuities as part of their overall investment portfolio.

**Most Important Trait of a Retirement Investment Product, Baby Boomers (2012) and Generation Xers (2011)**

	Baby Boomers	Generation Xers
Rate of Return	18.5%	24.3%
Guaranteed Income Each Month	16.1%	18.7%
Recommended by Financial Advisor	15.1%	12.7%
Past Performance	13.3%	14.6%
Will Not Lose Principal	12.5%	11.4%
All of Above/Combination of Above	1.8%	1.5%
Not Sure/Refused	17.5%	12.7%

Source: Insured Retirement Institute

Does owning an annuity have a positive impact on retirement planning behaviors? IRI research shows that annuity owners in both generations are more confident that they will be able to achieve their retirement goals: 53.4% of Baby Boomers who own an annuity are extremely or very confident compared with 31.0% of Baby Boomers who do not own an annuity; among Generation Xers, the comparable figures are 49.4% versus 31.2%.

**Confidence in Having Enough Money to Live Comfortably Throughout Retirement Years, by Annuity Ownership, Baby Boomers (2012) and Generation Xers (2011)**

	Baby Boomers		Generation Xers	
	Yes	No	Yes	No
Extremely Confident	15.2%	6.7%	11.7%	7.2%
Very Confident	38.2%	24.3%	37.7%	24.0%
Somewhat Confident	40.6%	40.3%	40.9%	44.1%
Not Too Confident	3.2%	14.6%	7.8%	12.1%
Not at All Confident	2.8%	14.0%	1.9%	12.6%

Source: Insured Retirement Institute

Part of the explanation for why annuity owners have higher levels of retirement confidence is they are more likely to engage in positive retirement planning behaviors. Annuity owners are more likely do a retirement savings need calculation: 69.9% of Baby Boomer annuity owners versus 44.3% of Baby Boomers who do not own an annuity. Annuity owners are more likely to consult with a financial advisor: 73.7% of Baby Boomer annuity owners versus 34.8% of Baby Boomers who do not own an annuity. Data are comparable for Generation X on both points.

**Did a Retirement Savings Need Calculation, by Annuity Ownership, Baby Boomers (2012) and Generation Xers (2011)**

	Baby Boomers		Generation Xers	
	Yes	No	Yes	No
Did a Calculation	69.6%	44.3%	60.4%	34.0%
Did Not Do a Calculation	30.4%	55.5%	38.3%	65.3%

Source: Insured Retirement Institute

**Consulted a Financial Advisor, by Annuity Ownership, Baby Boomers (2012) and Generation Xers (2011)**

	Baby Boomers		Generation Xers	
	Yes	No	Yes	No
Consulted an Advisor	73.7%	34.8%	62.3%	29.7%
Did Not Consult an Advisor	27.6%	67.6%	37.7%	71.7%

Source: Insured Retirement Institute

**Conclusion**

This report has shown that the high levels of confidence in having a comfortable retirement among both generations (76.2% for Baby Boomers and 78.2% for Generation Xers) is not being supported by their actions. What we have seen is that nearly half of individuals in both generations have not figured out how much they need to save for a comfortable retirement. A significant percentage of individuals in both generations (21.7% of Baby Boomers and 27.8% of Generation Xers) report having no savings for retirement; and a sizeable percentage of individuals in both generations (40.8% of Baby Boomers and 45.1% of Generation X) state they are “not very” or “not at all” knowledgeable about investing in securities.

This is not a hopeless situation for these individuals. This report shows working with a financial advisor has positive impacts on retirement confidence. The retirement confidence among Baby

Boomers who state they are working with a financial advisor is 10.5 percentage points higher than among those who state they are not working with a financial advisor. Among Generation Xers, the gap is even higher at 18.7 percentage points. Similar results were found when measuring the impact of doing a retirement savings need calculation on retirement confidence.

Annuity ownership appears to have a positive correlation with retirement confidence and positive retirement planning behaviors. We are not saying that owning an annuity leads one to engage in positive planning behaviors but that annuity owners are more likely to engage in proper planning for their retirement. This indicates annuities could be the retirement savings vehicle of choice for planners.

Achieving retirement security may seem like a daunting task but it is not impossible. With proper planning, working with a financial advisor and saving, anyone can achieve a comfortable retirement.

### **Methodology**

Data in this report are drawn from two surveys.

The Insured Retirement Institute commissioned Woelfel Research, Inc., to conduct a survey of Boomers approaching retirement or who have recently retired. The research was conducted by means of telephone interviews with Americans aged 50 to 66. Preliminary results based on a sample of 503 individuals are presented. The sample was selected from a list of households in this age group, developed by Accudata, Inc., by compiling data from available sources such as motor vehicle records. Results were weighted by age and gender to the 2010 United States Census. Data were collected during February and March 2012.

The Insured Retirement Institute (IRI) commissioned Woelfel Research, Inc., to conduct a survey to determine how retirement is viewed by Generation X individuals in their 30s and 40s. The research was conducted by means of telephone interviews with 802 Americans aged 30 to 49. The sample was selected from a list of households in this age group, developed by Accudata, Inc., by compiling data from available sources such as motor vehicle records. Results were weighted by age and gender to the 2010 United States Census. Data were collected from November 10-22, 2011, and analyzed by IRI in December 2011. The margin of error for the sample of 802 was  $\pm 3.5\%$ .