Insured Retirement Institute

Overcoming Barriers to Saving

How Boomers Can Get on the Path to Retirement Security

October 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 today to experience the vast resources of the Insured Retirement Institute for yourself.

The United States is facing a retirement savings shortfall. According to data from IRI, 22% of Baby Boomers report that they have no savings for retirement. Among those who stated they have savings for retirement, four out of 10 reported having less than $100,000 saved for retirement. According to a study by The Hartford, *Age of Opportunity: Americans Transitioning into Retirement*, one in three retirees state that if they could change just one aspect of their retirement it would be saving more money and being better prepared financially.

Auto features, automatic enrollment, default investment options, and auto-escalation of contributions are becoming more prevalent among employment-based retirement savings plans. While these features have increased retirement savings, a concern is that these passive efforts may not be enough to ensure individuals reach retirement with an adequate amount of savings. Individuals need to be more engaged in retirement planning. Seeking help from a financial advisor is a way individuals can become more proactive in their retirement planning. IRI data shows among Boomers who work with an advisor, 43% state they are extremely or very confident in having enough money to live comfortably throughout retirement years compared with 33% who have not worked with an advisor.

Over the past couple of decades, more of the responsibility of saving for retirement has increasingly fallen upon individuals. Additionally consumers recently have faced financial headwinds resulting from the financial crisis, the subsequent recession, and a slow economic recovery. Consequently, the current economic conditions have had a negative effect on Boomers' retirement saving behaviors. This report will examine some inhibitors to saving for retirement and how potential changes to tax policy can exacerbate these impediments. It will then explore how working with an advisor can help achieve desired levels of savings and how annuities can help as retirement savings vehicles.

Key Findings

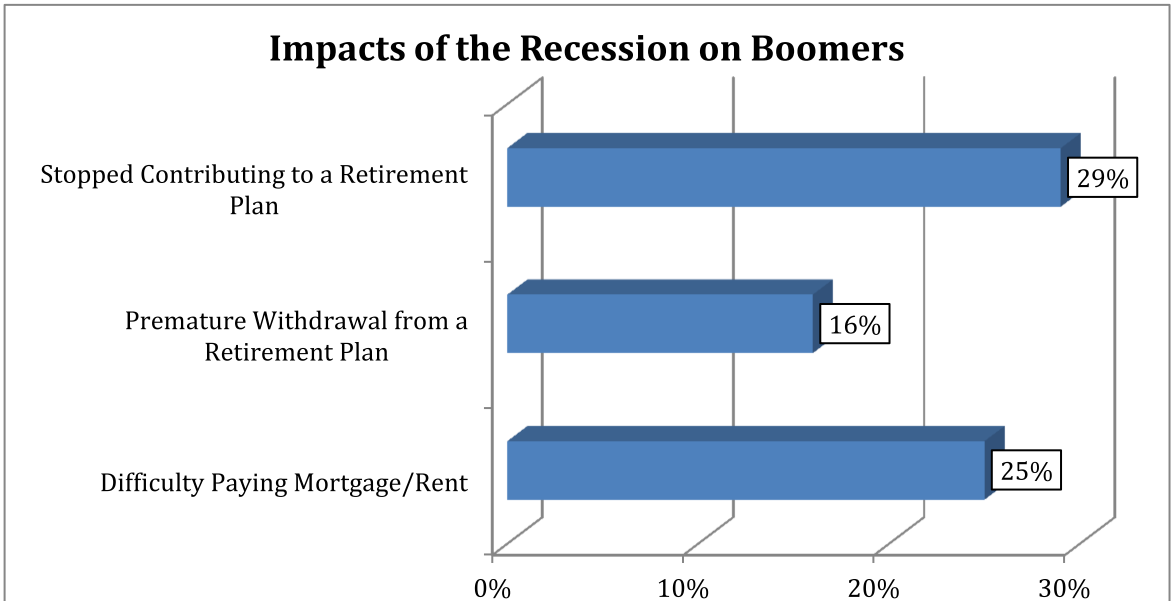
- Among Boomers who work with a financial advisor, 75% stated their advisor prepared a retirement plan.
- IRI found having a plan for retirement increases retirement confidence levels:
    - 45% of Boomers whose advisor prepared a retirement plan were extremely or very confident they will have enough money to live comfortably throughout retirement, compared with 32% of Boomers whose advisor did not prepare a retirement plan.
- Barriers remain. IRI found that 29% of Boomers have stopped contributing to a retirement plan and 25% have had difficulty paying the mortgage/rent in the past twelve months.
- Boomers need to stay focused on their plan and continue working with their advisor. According to an ING study, those who spent a lot of time with an advisor saved three times more than those who did not meet with an advisor.
- Concerning tax policy, IRI research shows the principal to follow is to do no harm. Tax increases will have a negative effect on Boomers' retirement savings. Fifty-four percent stated they would be less likely to save if federal income taxes increased and 39% stated they would be less likely to save if capital gains taxes increased.
- If tax deferral for growth within retirement plans is reduced or eliminated, one-quarter of Boomers would be less likely to save for retirement.

- In uncertain and volatile times, investors are looking at annuities as products that will provide safety for their hard-earned savings. A study by IRI and Cogent Research found 63% of investors stated that increased volatility makes them more likely to consider an annuity. In addition, 74% of financial advisors noted the volatility in financial markets makes it easier for them to sell annuities.
- 73% of annuity owners and 17% of non-annuity owners see annuities as a critical part of their overall retirement strategy, the IRI/Cogent Research study found.

Barriers to Increasing Savings

Impact of the Recession

The impact of the recession and slow recovery has had negative effects on the ability of Boomers to save for their retirement. This point is illustrated by IRI research, which found that 29% of Boomers stopped contributing to a retirement savings plan and 16% prematurely withdrew funds from a retirement savings plan. One reason Boomers may be prematurely tapping into their retirement savings is pressure to meet day-to-day financial obligations. IRI has found that 25% of Boomers reported that they had difficulty paying their mortgage or rent in the past 12 months.



Source: Insured Retirement Institute

These findings from IRI are corroborated by a study by ING, *Retirement Across the Ages: An ING Retirement Revealed Report*. The report found that among individuals ages 50 to 64, 33% identified having insufficient income as an inhibitor to saving and 20% identified debt as an inhibitor.

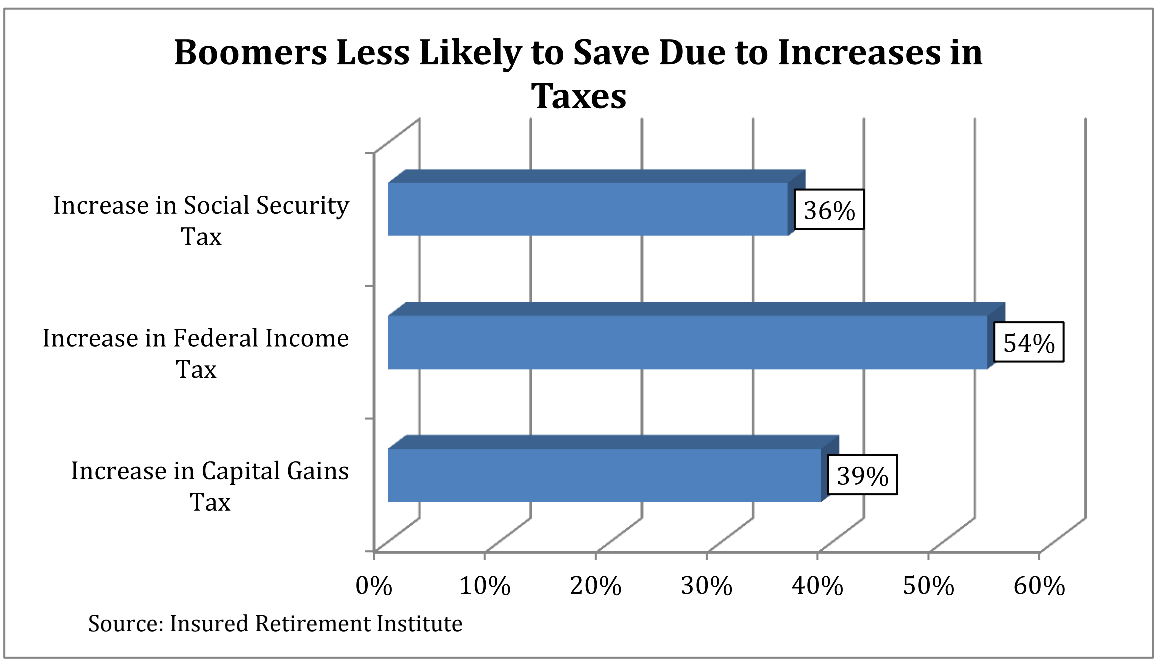
In addition to the impacts of the recession, potential changes to tax policy could have negative effects on Boomers saving for their retirement. As discussion grows on tax policy changes, two points of concern are tax increases, such as federal income tax, and reduction or the elimination of the tax deferral of growth within retirement savings plans. In the next section, this report will look at the potential impacts of those two proposed tax policy changes.

Tax Policy Considerations: Tax Increases

IRI surveyed Boomers on three points regarding tax increases: increase in federal income taxes, increase in Social Security taxes, and increase in capital gains taxes. In all three instances, IRI found these modifications to the tax code would have a negative impact on retirement saving behaviors.

Tax increases overall would have strong negative impacts on retirement saving behaviors with increases in federal income taxes having the most drastic effect on savings. Increases in Social Security taxes would have the least impact on Boomers' saving propensity. Still, more than one-third of Boomers reported that they would be less likely to save if the Social Security tax increases.

Increases in federal income taxes and capital gains taxes would have a stronger negative effect on Boomers' retirement saving behaviors. More than half of Boomers surveyed reported that they would be less likely to save if federal income taxes increased and 39% of Boomers would be less likely to save if capital gains taxes were to increase. A reason these tax increases would have such a negative effect on savings is that they would reduce the after-tax income of workers, putting additional stresses on already stressed family budgets.



Tax Policy Considerations: Tax Deferral on Growth within Retirement Savings

Other tax policy changes could include the reduction or elimination of the tax-deferred growth for retirement savings such as annuities. Nearly all retirement savings plans receive a tax deferral on growth, which is highly valued by savers. Previous IRI research, *Tax Policy and Middle Income Boomers: The Importance of Tax Deferral in Attaining Retirement Security*, provides detailed analysis of the importance of tax deferral for retirement savers. This report shows that tax deferral is deeply valued by Boomers with 44% stating it is very important when selecting a retirement savings product. In fact, IRI found that one-quarter of Boomers would be likely to save less if tax deferral of retirement savings was reduced or eliminated.

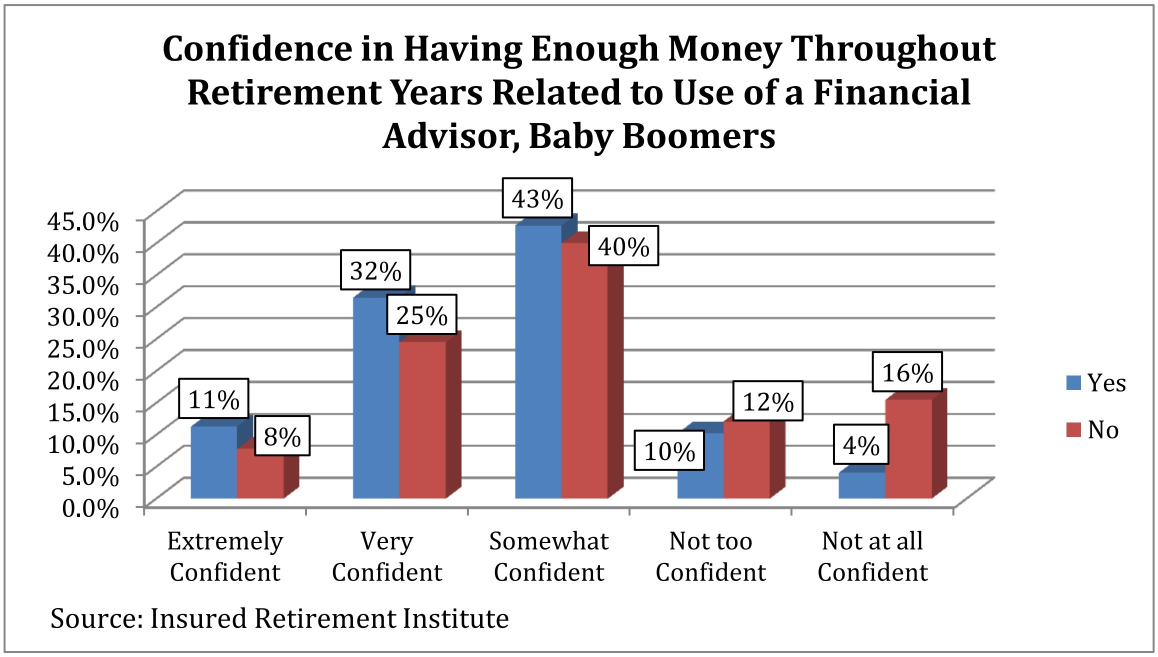
It must be noted that growth within retirement savings and annuities are tax deferred and not excluded. Deferral status is not equivalent to the exclusion associated with other tax expenditures, such as employment-based health insurance. As individuals begin to retire, distributions from retirement savings plans, such as annuities, are taxed and revenue will flow to the U.S. Treasury. Therefore, the removal of the tax-deferred status of these plans would not necessarily increase the tax revenue generated by the products. Yet, it would result in the reduced use of retirement savings products among the populations that have come to rely on them to help secure their financial future.

Overcoming These Barriers

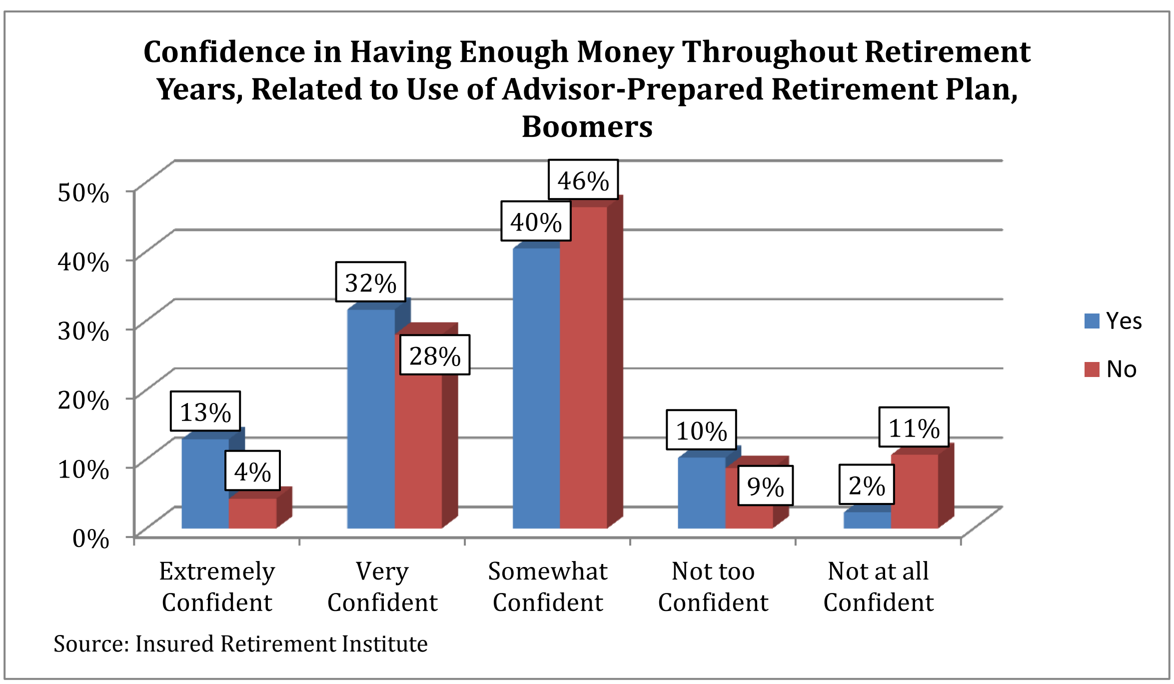
Individuals have various tools that can help them overcome these barriers. These include financial advisors, annual cost of living adjustments to retirement savings programs, and annuities as a retirement saving vehicle. Annuities possess unique qualities highly valued by today's consumers.

Working with Advisors

Can working with a financial advisor really make a difference in retirement saving behaviors? The answer to this question is an unqualified yes. IRI data shows working with a financial advisor has a definite positive impact on retirement confidence. Nearly 43% of Boomers who have consulted a financial advisor reported that they are very or extremely confident they will have enough money to live comfortably throughout retirement, compared with 33% who have not consulted a financial advisor.



This increased confidence from working with a financial advisor comes primarily through the preparation of a financial plan to achieve desired retirement goals. IRI found that among Boomers working with a financial advisor, 75% stated that the financial advisor prepared a retirement plan. Having a plan to achieve retirement goals makes a big difference. IRI found that 45% of Boomers whose financial advisor prepared a retirement plan were extremely or very confident they will have enough money to live comfortably throughout retirement, compared with 32% who stated their financial advisor did not prepare a plan.



Does this increased confidence from working with an advisor translate into increased savings? ING found in their *Working with an Advisor: Improved Retirement Savings, Financial Knowledge and Retirement Confidence* that the more time an individual spends with an advisor the more they are likely to save. Individuals who met once or twice with an advisor were found to save 1.5 times more for their retirement than those who did not consult an advisor. While those who spent a lot of time with an advisor saved three times as much as someone who did not meet with an advisor.

Cost-of-Living Adjustments

The tax code provides for dollar limitations on benefits and contributions under qualified retirement plans. Tax code section 415 requires the limits to be adjusted annually for cost-of-living increases. For example in 2013, the maximum amount an individual may contribute to a 401(k) plan is $17,500, an increase from $17,000 in 2012, and to an IRA is $5,500, an increase from $5,000 in 2012.

In its survey of Boomers, IRI found that the cost-of-living adjustments have a positive impact on retirement saving behaviors due to the ability to increase the amount of savings. Nearly 24% of Boomers would be likely to save more if the annual contribution limit for IRAs was increased and 28% of Boomers would be likely to save more if the contribution limit was increased for 401(k) plans.

Impact of Cost-of-Living Adjustments on Retirement Saving Behaviors, Boomers

Increase in the annual contribution limit for IRAs	
I would be more likely to save	24%
It would have no impact on my likelihood to save	56%
I would be less likely to save	12%
Not sure/refused	8%
Increase in the annual contribution limit for 401(k)s	
I would be more likely to save	28%
It would have no impact on my likelihood to save	46%
I would be less likely to save	16%
Not sure/refused	10%

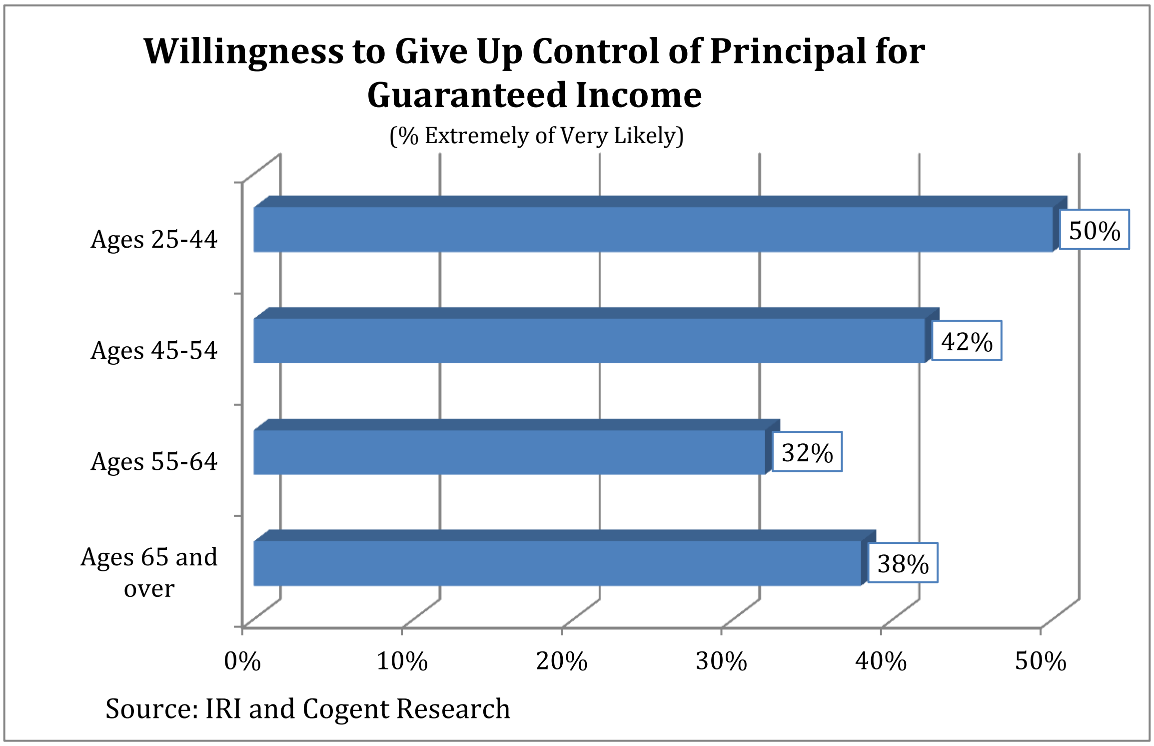
Source: Insured Retirement Institute

Annuities as Retirement Savings Product

As Boomers work with their financial advisor developing ways to save more for retirement, annuities are gaining more attention. Annuities possess some attributes, which other retirement savings products do not, including guaranteed income and principal protection. These attributes make annuities an attractive option for saving for retirement, particularly given today's uncertain financial markets.

From the onset of the financial crisis in fall of 2007, volatility has been a constant force in the world's financial markets. This continued volatility is having an impact on investors as they are seeking safer options for their retirement savings. Annuities offer guarantees and investors are taking note. In the IRI and Cogent Research study, *The Evolution of the Annuity Industry, 2012*, 63% of investors stated that the increased volatility in the financial markets makes them more likely to consider an annuity. This is an increase of 11 percentage points from 2011. Financial advisors surveyed for this study acknowledge that the volatility in financial markets makes it easier for them to sell annuities, stated by 74% of advisors in 2012.

A persistent myth about annuities is that consumers are unwilling to give up control of their principal. The IRI/Cogent Research study shows this is not the case for many consumers. Overall, 40% of consumers state they are extremely or very likely to give up control of some or the entire investment principal in exchange for guarantee of regular income payments that will never run out. What is striking is the high percentage, 50%, of young investors, those ages 25 to 44, who are willing to give up control of principal for guaranteed income.



The IRI/Cogent Research study also shows that 45% of annuity owners are extremely or very satisfied with their annuity. The bulk of annuity owners, 73%, see annuities as a critical part of their overall retirement strategy in 2012. This is up from 55% in 2011.

Conclusion

Achieving financial security in retirement is a desire for every American. Increasing savings is one of the best behaviors to engage in to achieve that goal. As this report shows, there are several barriers to increasing savings. Some of these barriers individuals are facing now, such as the impact of the financial crisis and subsequent recession. Others could emerge as a result of tax policy changes, such as tax increases and reduction or elimination of the tax deferral of growth within retirement savings plans.

As this report has found, help is available to individuals. A financial advisor can help develop a budget that incorporates retirement savings. IRI data show working with a financial advisor has a strong relationship to retirement confidence. While current tax law contains limits to the amount an individual can contribute to a retirement savings plan on a pre-tax basis, increasing those limits can have positive effects on retirement saving behaviors. In lieu of changes to contribution limits, many consumers may need to search for alternative vehicles to save for retirement. Annuities are gaining increased attention among investors as a retirement savings product. Part of the reason for this is continued volatility in the financial markets, which makes the guarantees of an annuity attractive.

Methodology

The Insured Retirement Institute commissioned Woelfel Research, Inc., to conduct a survey of Boomers approaching retirement or Boomers who have recently retired. The research was conducted by means of telephone interviews with Americans ages 50 to 66. Preliminary results are based on a sample of 503 individuals. 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 are weighted by age and gender to the 2010 United States Census. Data collection occurred during February and March 2012.

The Insured Retirement Institute partnered with Cogent Research to conduct a survey of investors and financial advisors. The research was conducted through an online survey instrument. Preliminary results are based on a sample of 475 individual investors and 312 financial advisors. Individual investors are at least 25 years old and share responsibility for making household financial investment decisions. The results are weighted to ensure investor populations are representative among key demographics. Financial advisors own their own book of business, manage at least $5M in assets under management (AUM), have at least one year of industry experience, and have an insurance license. The results are weighted to represent the population that makes up the IRI Financial Advisor database in terms of channel and AUM. The individual investor survey was conducted between May 14 and May 31, 2012. The financial advisor survey was conducted between July 19 and August 13, 2012.

Supporting data was derived from publicly available research from financial services companies The Hartford and ING.