Insured Retirement Institute

Boomer Expectations for Retirement

How Attitudes about Retirement Savings and Income Impact Overall Retirement Strategies

April 2011

Overview

January 1, 2011 marked a turning point in the retirement industry, as the first of the Baby Boomers attained age 65, long considered the traditional age for retirement. The statistics are well-known: an average of 7,000 Americans per day will turn 65 during 2011, beginning a Retirement Boom involving an estimated 79 million individuals between now and the year 2029. With retirement on the horizon for so many, the Insured Retirement Institute (IRI) conducted exclusive research on the preparations Boomers are making to maximize their financial health during this next phase of their lifetimes.

In this report, we share a key portion of this research—the identification of the expectations Boomers have for their retirement years. We first discuss the impact of the recession of 2008-2009, followed by an analysis of the age at which Baby Boomers expect to retire, and their anticipated sources of income during retirement. We conclude with a discussion of the role of annuities in overall retirement confidence. Our research targeted Boomers born between 1946 and 1960, a population that will attain ages 50 through 65 during 2011.

Key Findings and Analysis

- The recent recession has had a significant impact on Boomers' thoughts on retirement savings and income. Nearly half of the survey respondents related that recent economic changes made it more difficult for them to pay for essential items, and one-third stopped contributing to a 401(k), IRA, or other retirement accounts.
- More than one-third of pre-retirees indicated that they did not know the age at which they would retire.
    - Three out of 10 Boomers who are uncertain as to when they will retire cited concern about having sufficient assets as a top issue.
- Many Boomers expect to work during retirement. More than half (57%) of pre-retirees expect that pay received from employment during retirement will represent a source of income.
- While two-thirds (61%) of Boomers indentified a specific age at which they plan to stop work completely, nearly a quarter of them chose an age that does not make them eligible for full Social Security benefits.
- 41% of Boomers view Social Security as a major income source during retirement, while 43% stated that it will only provide a minor source of retirement income.
- Only one-third of Boomers expect personal savings and investments to play a major role in generating retirement income, a statistic that is consistent between younger and older Boomers and indicates a strong addressable market for individual retirement products.
- Boomers who own annuities have a higher confidence in retirement expectations, with 9 out of 10 believing they are doing a good job preparing financially for retirement.

Factors Impacting Retirement Income Expectations

Before exploring the expectations that most Boomers have for their retirement years, it is worthwhile to recognize the key factors that influence their reasoning.

Not surprisingly, the economic recession was a substantial contributing factor to pre-retirees' thoughts on retirement savings and income. Nearly half of the survey respondents related that recent economic changes made it more difficult for them to pay for essential items, such as food, gasoline, and medication. Approximately one-quarter found it more difficult to pay their mortgage or rent. This realization of the basic costs of living was a reality check as to the importance of a steady, guaranteed income in retirement.

Additionally, the recession had a severe impact on retirement savings. One-third of respondents stopped putting money into a 401(k), IRA, or other retirement account. And, 20% prematurely withdrew funds from those accounts, further impacting their future retirement assets. It is not surprising, therefore, that one-quarter of respondents postponed plans to retire, a topic we will cover in the next section.

Impact of Recent Economic Changes	
Everyday Living Expenses	
Found it more difficult to pay for essential items (such as food, gas, medicine)	48%
Found it more difficult to pay mortgage or rent	27%
Retirement Planning	
Stopped putting money into a 401(k), IRA, or other retirement account	32%
Postponed plans to retire	24%
Prematurely withdrew funds from 401(k), IRA, or other investments	20%
Source: Insured Retirement Institute	

Leaving a legacy is also of paramount importance to today's pre-retirees. Nearly two-thirds of respondents indicated that it was very important or somewhat important to them to leave an inheritance to their loved ones. Interestingly, Boomers do not expect this to work both ways. More than 70% do not expect income from inheritances will play a role in providing for their own retirement security, and 80% do not expect to rely on support from their adult children. In other words, Boomers want to be self-reliant while, at the same time, not be a burden on their children and also have additional assets to bequeath to them.

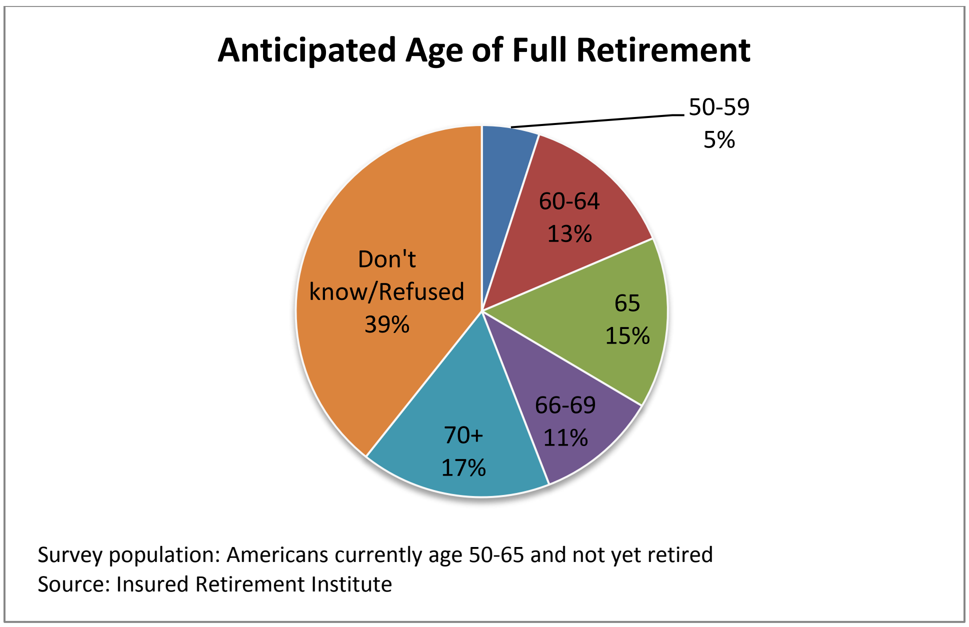
Even with these factors as a backdrop, many Boomers are lost when it comes to retirement planning, even if some don't admit to it. Just 54% have tried to determine how much money they need to save by the time they retire, and 55% do not have a financial planner. Among the reasons for not having a financial planner include the belief that one is not needed for this purpose or they prefer to handle their own finances. As we will see in the sections that follow, admitted uncertainties pertaining to several aspects of retirement and retirement income is a significant addressable opportunity for financial planners.

Anticipated Retirement Age

Many of today's Boomers do not know when they can expect to retire, or have a conventional age in mind for when they do.

Keeping With Tradition

Approximately two-thirds (61%) of respondents identified a specific age at which they plan to stop working completely, the most common of which was age 65 (15% of respondents). Most respondents expect to retire in their 60s (39% of the total sample), while 17% anticipate working into their 70s and beyond. Just 5% of respondents expect to retire in their 50s. (The exhibit below groups these figures by age ranges for ease of presentation.)



Breaking out these results down further shows that survey respondents who specified an exact age most often selected 65 (15%) or 62 (8%), consistent with the traditional eligibility ages for Social Security normal and early retirement benefits, respectively. This is intriguing as the Social Security normal retirement age for those in our sample (born from 1946 and 1960) is between 66 and 67, indicating that pre-retirees are unaware of this fact, are tied to traditional ideas about the timing of retirement, or are using the normal retirement ages of their pension plans as the key impetus.

Age to Receive Full Social Security Benefits		
Year of Birth	Full (Normal) Retirement Age	Earliest Retirement Age (Reduced Benefit)
1943 – 1954	66	62
1955	66 and 2 months	62
1956	66 and 4 months	62
1957	66 and 6 months	62
1958	66 and 8 months	62
1959	66 and 10 months	62
1960 and later	67	62
Source: Social Security Administration		

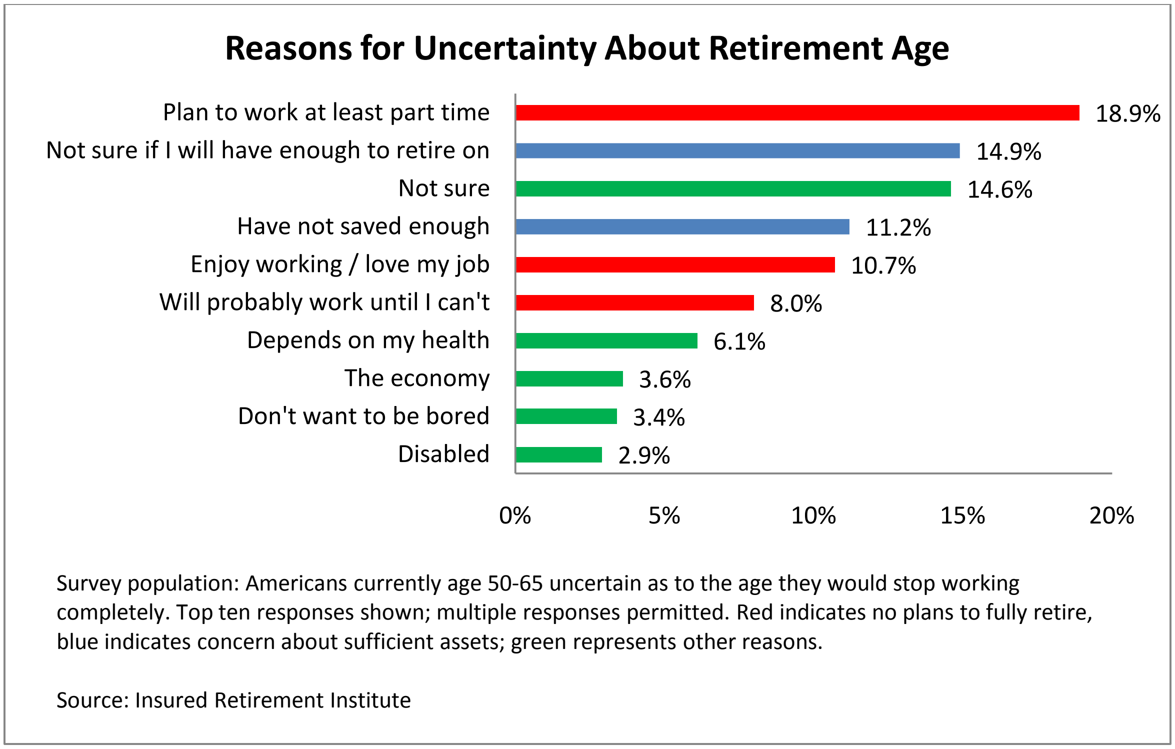
The selection of age 65 was fairly consistent within the demographic cohorts studied (current age, gender, and pre-retirement income level), with two exceptions. Not surprisingly, respondents who were within five years of age 65 were far less likely to see themselves retiring that soon—14% expect to retire at age 66 (apparently realizing their actual age to receive full Social Security retirement benefits), while another 14% expect to work into their 70s.

Also, those in lower income brackets are less likely to anticipate retirement at age 65. Just 8% of respondents who presently earn less than $30,000 annually expect to retire at 65 (while 12% expect to work until after age 70), compared to 20% of those earning more than $75,000. As we will note in a later section of this report, those in higher income segments are the most likely to rely on employer-sponsored retirement plans and personal investments, making the once-standard retirement age more of a reality.

We also observe that a substantial number of respondents (11%) chose the combined category of "older than 70." This was most common among the oldest cohort (14% of those age 60-65) and those in lower pre-retirement income brackets.

Uncertainty Prevalent

As the data shows, there is considerable uncertainty regarding the age at which pre-retirees expect to stop working—if at all. More than one-third (39%) of pre-retirees indicated they did not know the age at which they would retire, a figure that was fairly consistent between age groups, gender, and level of pre-retirement income.



Of those who are uncertain about their retirement age, the most common reasons cited in freeform responses were that they expect to work at least part time (19%), have not saved enough (11%), are not sure they will have enough money on which to retire (15%), enjoy working (11%), or have no plans to stop working during their lifetimes (8%).

Viewed another way, 41% of those who are uncertain about their retirement age expect to continue (or have continued) to work during retirement, whether they cut their hours to part-time, they own a business, or simply because they like their jobs. This is most prominent among individuals ages 60-65, males, and those with pre-retirement household incomes of at least $75,000. Not only do they expect to work during retirement, a modest number expect employment earnings to represent a significant source of income. Among all survey respondents—including those who specified a year they expect to retire—16% rated employment earnings during retirement a major source of future income.

Concern about having sufficient assets on which to retire was cited by 27% of respondents who were uncertain as to when they will retire. This statistic includes individuals who are not sure if they will have enough money on which to retire as well as those (to a small degree) who do not know if Social Security will be available to them. This overall total is most prominent among those with household incomes of less than $30,000, respondents between ages 50-54, and females.

Interestingly, 15% of respondents did not know why they could not estimate a retirement age. Not surprisingly, individuals in their late 50s were the most likely to admit this uncertainty, while those in their early 60s were the least likely. Those with lower incomes were also, on average, more uncertain as to the reason they could not peg a retirement date, although uncertainty extended to 13% of respondents with at least $75,000 in pre-retirement income.

Sources of Income in Retirement

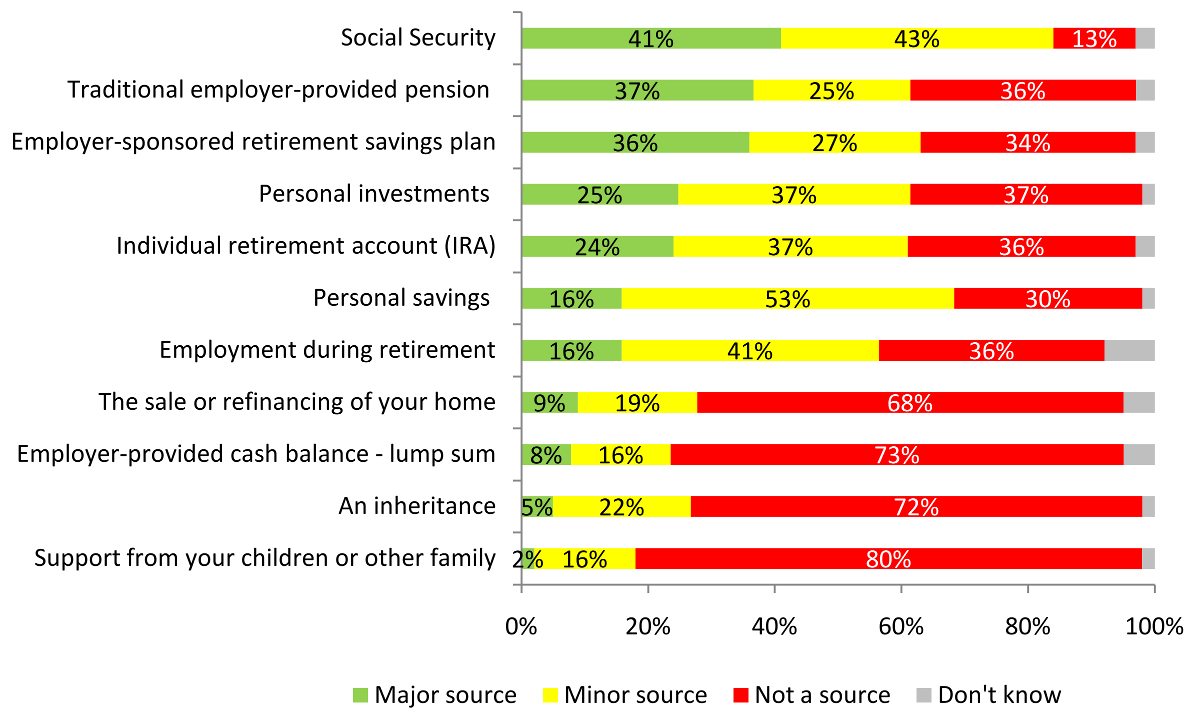
The classic three-legged stool is still viewed as the base for providing retirement income, as the top expected sources of retirement income per survey respondents are Social Security, employer plans (both defined contribution and defined benefit) and, to a lesser degree, personal investments (including certificates of deposits, stocks, bonds, mutual funds, and annuities) and IRAs.

Today's pre-retirees are most likely to cite Social Security and employer-sponsored plans as key income components during retirement. Social Security is the most prominent, noted as a key source of income by 41% of respondents. Traditional pension plans (defined benefit) and employer-sponsored savings plans (such as 401(k)) are expected to be major sources of income by 37% and 36% of respondents, respectively. It is interesting to note that the top two retirement income sources—Social Security and defined benefit plans—are the only ones (other than annuities) that provide a guaranteed stream of income for life.

The third leg of the stool isn't as promising—and this is an area for improvement, especially as younger Baby Boomers are less certain of relying on employer or government benefits than their older counterparts. Only 25% of respondents consider personal investments (bonds, stocks, mutual funds, and annuities) as major sources of retirement income. Individual retirement accounts (IRAs) are viewed similarly. As we will see below, this is fairly consistent between age groups.

IRI also contends that a fourth leg of the stool is emerging, largely the result of working after retirement. Our data shows that 16% of pre-retirees expect that pay received from employment during retirement will represent a major source of retirement income, and 41% consider post-retirement employment a minor source of future income. And, as noted earlier, nearly 20% of pre-retirees who do not have a specific retirement age in mind expect to work at least part-time during their golden years. This is a trend that we will continue to monitor.

Expected Sources of Income in Retirement



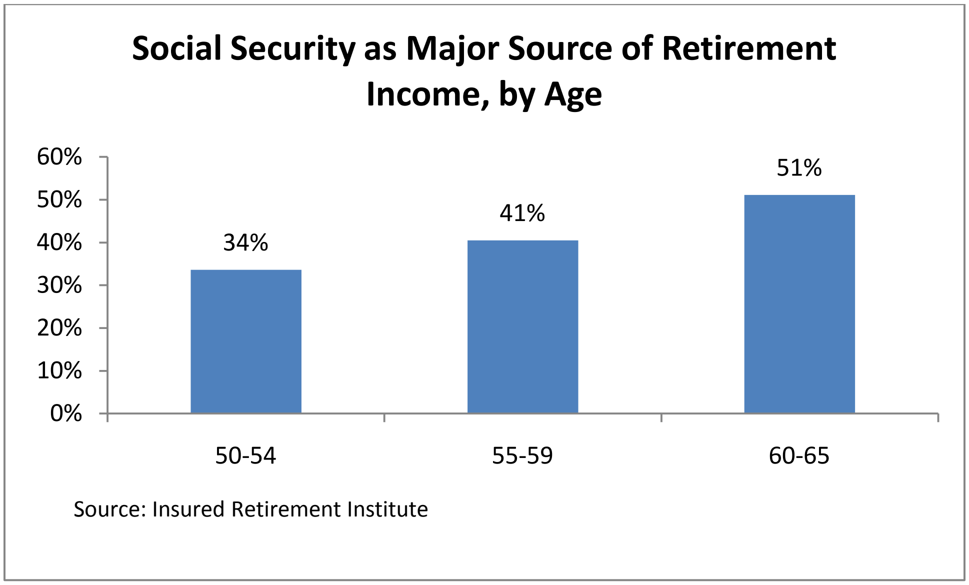
Personal investments include CDs, mutual funds, bonds, stocks, stock options, or annuities, not investments in a work-related retirement plan or IRA.
Personal savings refer to money in a non-investment savings bank account.
Definitions were provided for employer-sponsor retirement savings plan (such as a 401(k)) and traditional employer-provided pension (pays a set amount each month for life in retirement).

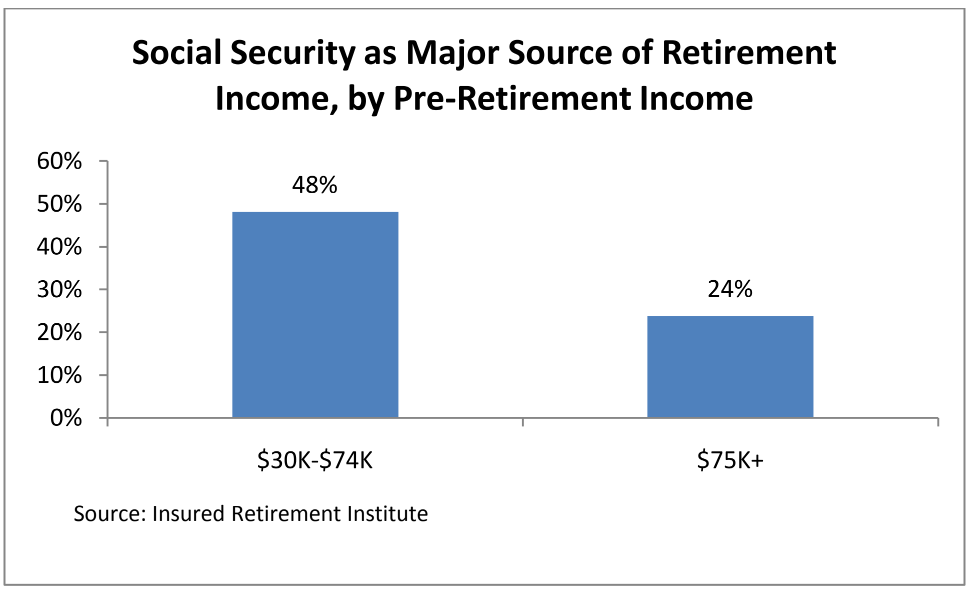
Survey population: Americans currently age 50-65.
Source: Insured Retirement Institute

Our research also included analyses of retirement income sources by various demographic segments. As expected, the dependence upon Social Security, defined benefit plans, and employer-sponsored savings plans varies by age and income level. However, there is little to no difference between demographic groups with respect to personal savings.

Social Security

Social Security remains the most common expected source of future retirement income. Overall, 41% of Americans currently age 50-65 expect Social Security to comprise a major portion of their future retirement income. Interestingly, a slightly larger contingent (43%) view Social Security as a minor income source during retirement. Not surprisingly, the anticipated role of Social Security increases with age and decreases with household income level. Still, it is the most common expected source of income among most demographic segments.

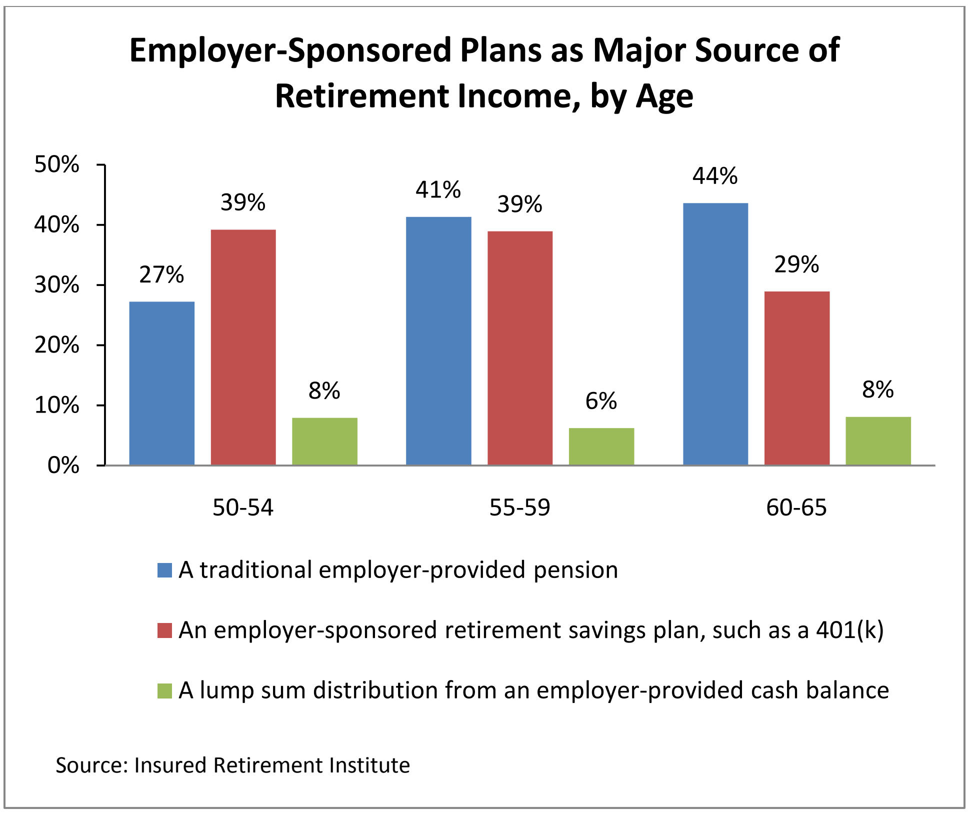


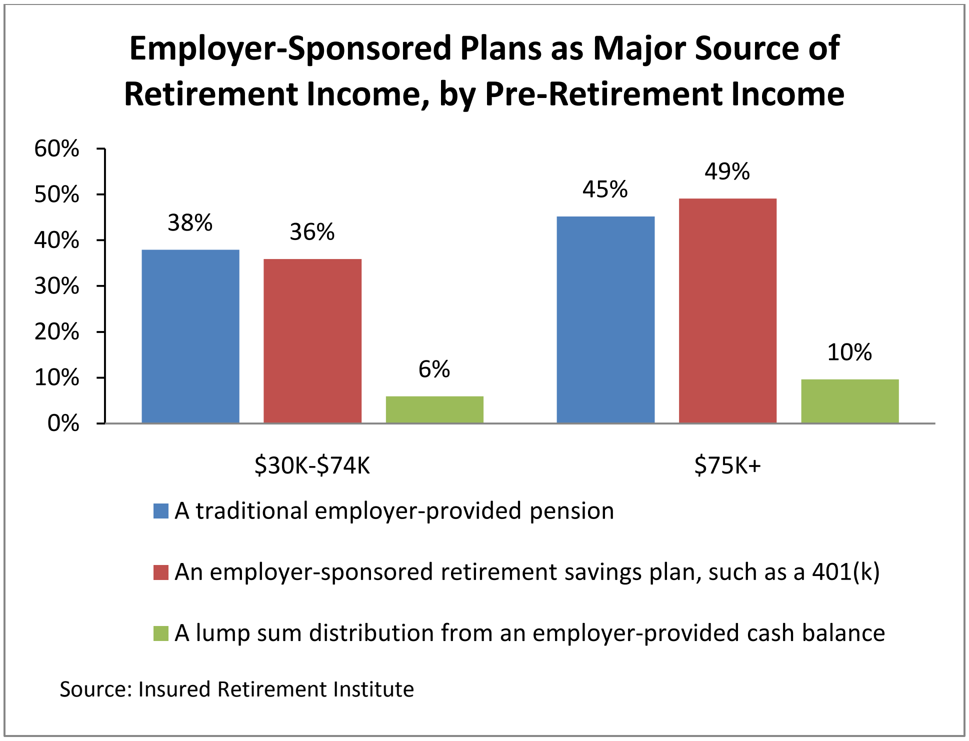


Employer-Sponsored Retirement Plans

Defined benefit plans are considered probable major retirement income sources by 37% of respondents. Still, roughly the same percentage anticipate that defined benefit plans will not be an income source for them, representing the shift that has occurred away from these plans in the past couple of decades. As is the case with Social Security, the anticipated reliance on defined benefit plans is greatest among older employees and those in lower income segments. Baby Boomers aged 55-59 expect to be equally dependent on Social Security and defined benefit plans as major sources of retirement income.

Employer-sponsored retirement savings plans, such as 401(k) plans, are also expected to play a significant role in providing retirement income, as noted by 36% of survey respondents. 401(k) plans reign in younger and more affluent households. Nearly half (49%) of households with pre-retirement income of at least $75,000 expect employer-sponsored retirement savings plans to be a major source of retirement income, compared to 36% of those in the $30,000 to $75,000 range. Yet, these plans do not provide an income as a default, underscoring the need for education on methods to generate a sustainable retirement income from long-term savings.





Personal Savings and Investments

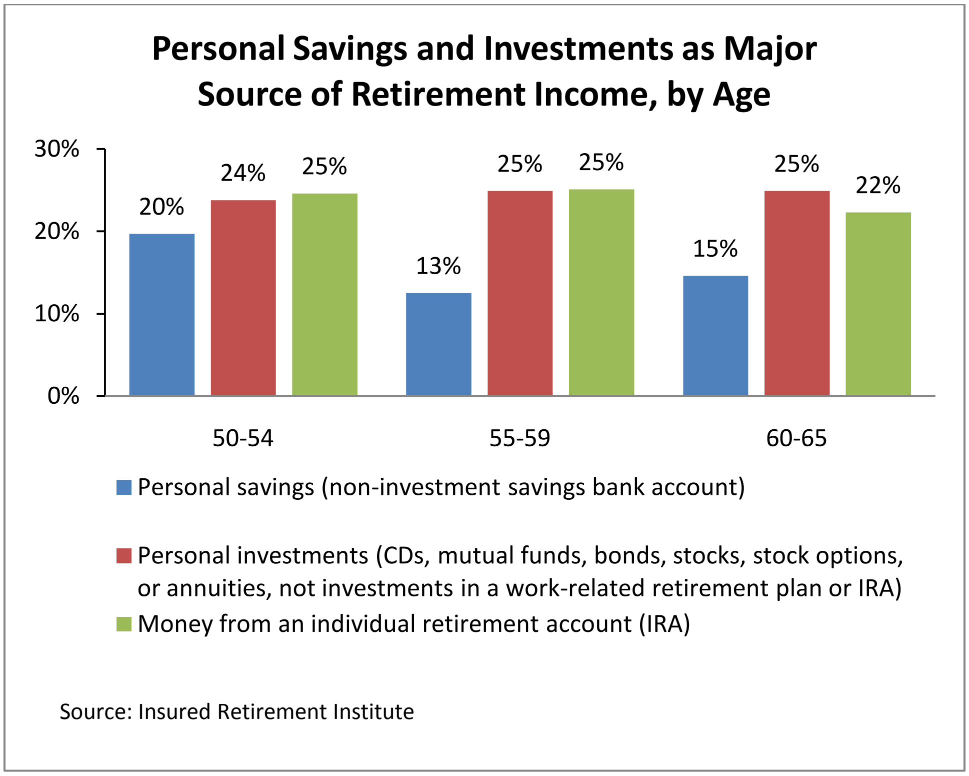
The importance of personal investment and savings—the third leg of the traditional retirement stool—does not vary significantly by age. There is some difference when segmenting by pre-retirement income level, yet IRI believes these results to be too close for comfort.

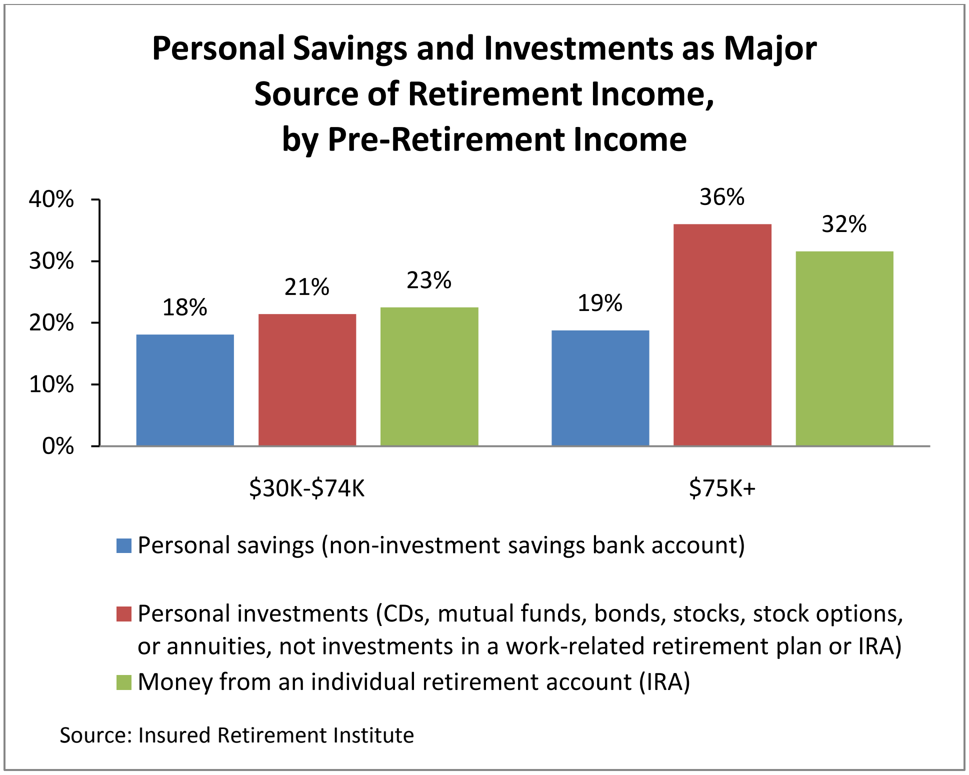
The role of personal savings (such as a non-investment bank savings account) is viewed as major by approximately 15% of Boomers currently in late 50s and early 60s. Younger Boomers have a slightly higher expectation for the use of personal savings in their retirement years (20% expect this to be a major source), likely a consequence of the economic recession that decimated many of their non-guaranteed accounts.

The role of personal investments (stocks, bonds, mutual funds and annuities) and IRAs are viewed as major by approximately one-third of respondents across all age groups. This is disconcerting as current age clearly influences Boomers' expectations of Social Security and defined benefit plans, yet younger Boomers are not counting on personal savings and investments to make up the shortfall. Some might argue that younger Boomers expect to rely on contributory plans, such as 401(k)s, yet the numbers in the previous section do not show a substantial difference.

Differences arise, however, when segmenting by pre-retirement income level. Boomers presently earning more than $75,000 per year already expect personal investments to represent a significant portion of retirement income. Yet, IRI contends that this will not be enough. As we saw earlier, only 24% of this cohort expects to rely on social security as a major source of retirement income, and

45% on defined benefit plans. Yet, as 49% expect their 401(k) plans to play a significant role, this is a group that is very comfortable with investing. As such, this group represents a significant opportunity for advisors to provide education on converting retirement savings to a guaranteed retirement income, regardless of the ages of their clients.



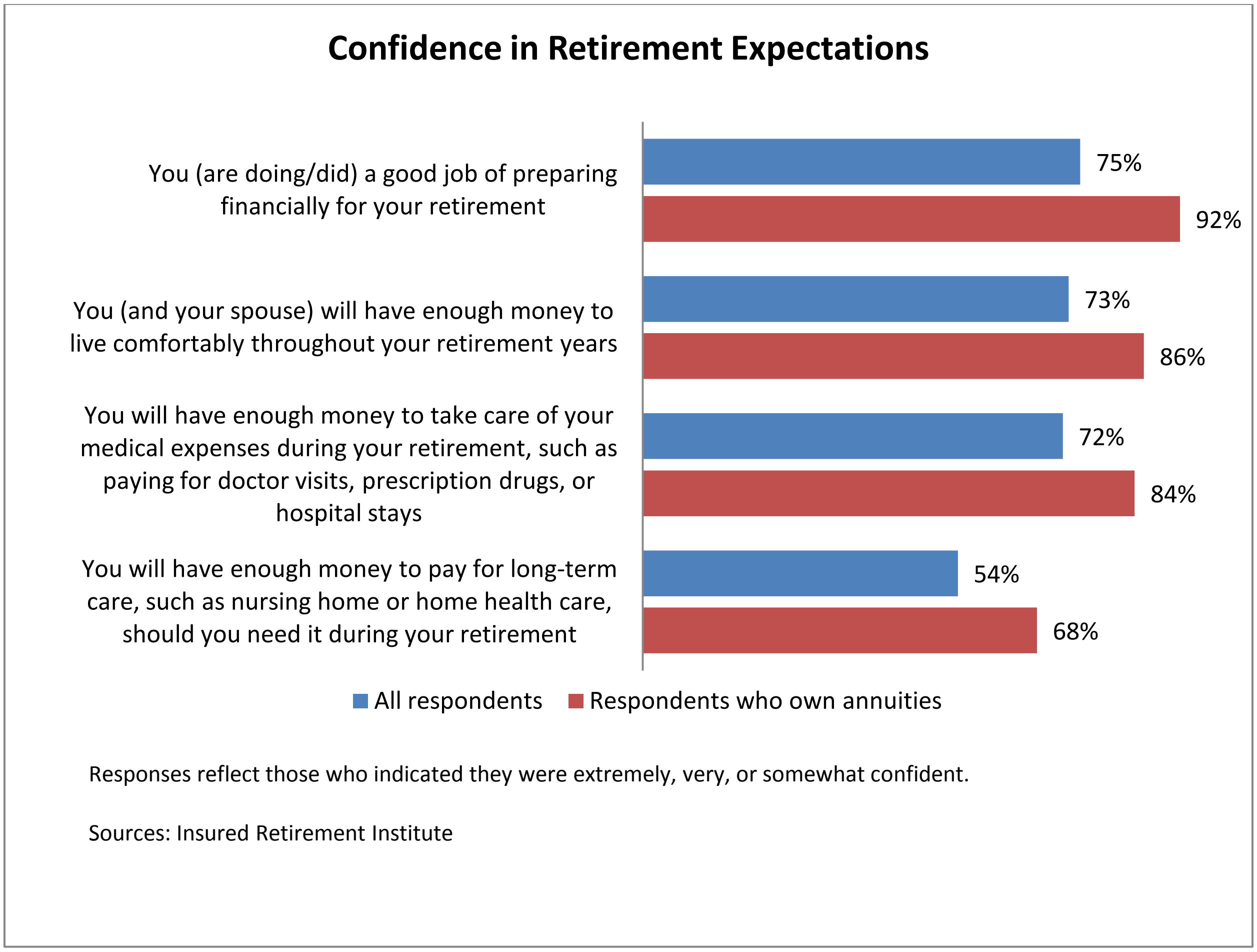


Role of Insured Retirement Solutions

As the role of the two most prominent anticipated sources of income—Social Security and defined benefit plans—are expected to decline in future years, advisors and Boomers need to seek another means to supplement retirement savings with long-term, guaranteed income. One product that frequently arises in consideration is the annuity.

On the whole, approximately three-quarters of respondents indicated they were extremely, very, or somewhat confident in taking care of medical expenses, having prepared well financially, and having enough money to live comfortably. An area in which they are less confident is having enough money for long term care, with 54% responding in the affirmative.

However, respondents who own annuities are far more optimistic about reaching their retirement income goals. Just over one-quarter (28%) of survey respondents own annuities. Of these, 92% believe they have done a good job preparing for retirement, compared to 75% of the general population. And, 86% expect to have enough money to live comfortably during retirement, versus 73% for the entire sample. Even expectations for funding long term care needs are higher among annuity owners at 78%.



These results show that annuities, in addition to providing guaranteed lifetime income and principal protection, also provide Boomers with peace of mind for their retirement years. Additionally, depending upon the payout option selected, annuities also offer beneficiary protection, an element that is of high importance to a majority of Boomers. It is important to note that annuity holders should not be complacent—there is little difference compared to the general population in the percentage of annuity holders who cannot pinpoint a retirement age, and just as many plan to work during retirement. Yet, despite recent recessionary pressures, Boomers who own annuities remain highly confident about being prepared for retirement.

Still, there are significant challenges in encouraging Boomers to consider annuities. First, as mentioned earlier, younger Boomers are no more likely than older Boomers to invest in retirement accounts outside of their employer-sponsored plans. Second, only 36% of Boomers earning more than $75,000 annually expect to rely on personal investments as a major portion of their retirement income portfolios. Additionally, less than half of Baby Boomers do not presently use a financial planner, and will therefore not have access to the tools they need to determine if an annuity is right for them.

Conclusion

In their expectations for retirement, Boomers have many unanswered questions. Boomers need guidance in selecting a retirement date, and in increasing personal savings, especially with anticipated declines in the roles that Social Security and defined benefit plans—two guaranteed retirement income sources. This, along with post-recessionary concerns about principal protection, the desire to leave a legacy, and the need for retirement confidence underscore a significant need for individual retirement investments that offer guarantees, such as annuities.

Yet, the Boomer population is not homogenous, and advisors must recognize these differences when preparing retirement income plans for their clients. Older Boomers expect to rely on Social Security and defined benefit plans, and are somewhat open to personal investments. They are also the group most likely to consider working beyond age 70. Younger Boomers are more concerned about having sufficient assets on which to retire, but expect to rely on personal investments to the same extent as their older counterparts—a disconnect that must be addressed.

Boomers in middle income categories (currently earning between $30,000 and $75,000 per year) expect to rely on Social Security to a large degree. They are somewhat open to personal investments. Prior IRI research shows that this segment of the population represents more than 40% of current annuity owners. Although they are uncertain as to when they will retire, they expect to use their 401(k) balances to a large degree. Tying this together with their willingness to consider annuities may be a good strategy for some Boomers in this group.

Boomers in higher income categories expect to rely more on personal investments than Social Security as a source of income in retirement, although Social Security and defined benefit plans still dominate. More than one-third of current annuity owners have a household income exceeding $75,000, indicating a promising market for annuities in this income group, especially given the reliance on personal investments that they anticipate for their retirement years. However, this reliance on a relative basis is still rather low. An illustration of the guarantees and peace of mind provided by annuities may help to increase this number, and decrease uncertainties around retirement income planning.

Methodology

The Insured Retirement Institute (IRI) commissioned Woelfel Research, Inc. to conduct a survey of individuals approaching retirement or who have recently retired. The research was conducted by means of telephone interviews with 801 adult Americans aged 50-65. 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 2005-2009 American Community Survey population from the United States Census Bureau. Data was collected from February 18-22, 2011, and analyzed and cross-referenced by IRI in March 2011. The margin of error for the sample of 801 was ±3.5%.