Boomer Expectations for Retirement 2012

Annual Update on Retirement Preparedness of the Boomer Generation

April 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 to advocate before public policymakers 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.

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Overview

Every year, the Insured Retirement Institute (IRI) conducts a survey to measure the retirement preparedness of the Boomer generation. This report, the second in our annual series, summarizes the results of our 2012 survey and, where applicable, analyzes the key changes that have transpired in the past year.

Among the key findings of last year’s research was that the recession had a significant impact on Boomers’ thoughts on retirement savings and income—nearly half found it difficult to pay for essential items, one-third stopped contributing to a 401(k) or other retirement account, and that more than half of Boomers expected to work at least part-time during retirement. This year, we delved deeper into the underlying concerns and learned that many Boomers are not optimistic that their own personal economic situations will improve any time soon. This will, in turn, continue to impact their financial preparedness for their post-retirement years.

Our current survey targeted Boomers who were born between 1946 and 1961, a population that had attained ages 50 through 66 as of the beginning of 2012.

Key Observations

- Boomers continue to have concerns about the economy, both in the long and short-term.
  - Six in ten Boomers (62%) believe that their personal financial situation will be the same or worse five years from now.
  - The majority of Boomers (60%) believe their financial security in retirement will be about the same or worse than that of their parents.
- Nearly three quarters (72%) of single boomers are not confident they will have enough money to live comfortably throughout their retirement years, compared to 60% of married Boomers.
- Boomers expect to rely more on post-retirement employment to supplement their financial income.
  - Approximately two-thirds (64%) expect wages from post-retirement earnings to be a source of income, up from 57% last year.
  - More than one-third (35%) of Boomers expect to retire after age 66, including 23% who expect to work into their 70s, an increase over last year’s survey.
- We are beginning to see the rising influence of defined-contribution plans as retirement income vehicles.
  - 42% of Boomers expect defined-contribution plans to provide a major source of retirement income, up from 36% last year and equaling the percentage of Boomers who expect to rely heavily on Social Security.
  - Only 37% of Boomers expect to rely significantly on defined-benefit plans in retirement.
Sources of Income in Retirement

The traditional three-legged stool is still viewed by Boomers as the base for providing retirement income, yet we are now beginning to see a change in the relative importance of each component.

![Expected Sources of Income in Retirement, 2012](image)

Survey population: Americans currently age 50-66.
Source: Insured Retirement Institute
Social Security remains the most common expected source of future retirement income. Overall, 42% of Boomers expect Social Security to comprise a major portion of future income, unchanged from last year. Nearly half (46%) anticipate a minor role for Social Security as a retirement income source, similar to last year’s assessment. Not surprisingly, the expected reliance on Social Security is positively correlated with age—53% of Boomers in their 60s expect Social Security to comprise a major portion of their retirement income, while the corresponding figure for Boomers in their early 50s is 32%.

![Social Security as Expected Source of Retirement Income, 2012](chart)

Also unchanged is the percentage of Boomers (37%) who expect a significant reliance on traditional employer-sponsored pension plans (defined-benefit plans). Yet, the percentage of Boomers who expect that defined-benefit plans will not be a source of retirement income for them has jumped from 36% to 42%. Again, the influence of younger Boomers can be felt, as nearly one-half of Boomers in their 50s expect no noticeable income from defined-benefit plans during their retirement.
While the decline of the influence of defined-benefit plans has been tracked for some time, it has become notable in the past year as defined-contribution plans are making more of a mark. Defined contribution plans, or employer-sponsored retirement savings plans—are expected to provide a major source of retirement income by 42% of Boomers, surpassing defined benefit plans as a source of retirement income on which Boomers expect to rely. Additionally, the percentage of Boomers who expect to rely heavily on defined-benefit plans for retirement income is the same as those who expect to rely heavily on Social Security.
Boomers who will rely on defined-contribution plans in retirement will have more options as to how to take income, thanks to an announcement by the U.S. Treasury in February 2012. The Treasury’s Proposed Guidance Package on Retirement Income calls for partial annuitization options from retirement plans, including the use of longevity annuities. This announcement was a huge and welcomed step, as it addresses and facilitates the use of lifetime-income options during retirement, filling a gap left by the decline in defined-benefit plans.

The data reflects a need for more education and support on personal savings and investments, the third leg of the traditional retirement stool. One-quarter of Boomers expect to rely on this component for retirement income, a level that will be insufficient to support future retirement needs. As we are already seeing the decline of defined-benefit plans as a major, anticipated source of retirement income, the role of personal investments will need to increase in prominence in the near future.
Instead, Boomers expect to rely more on post-retirement employment to supplement their financial income. Approximately two-thirds (64%) expect wages from post-retirement earnings to be a source of income, up from 57% last year. As we will see in the next section of the report, this is a trend that is expected to gain momentum in the coming years.
When Will Boomers Retire?

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 (35%) 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.

Still, one key difference from last year’s survey is that more Boomers (35%) expect to retire after age 66, including 23% who expect to work into their 70s. The corresponding figures for last year’s survey were 28% and 17%, respectively. While survey respondents who specified an exact age most often selected 65 (14%) or 62 (7%), consistent with the previously traditional eligibility ages for Social Security normal and early retirement benefits respectively, this year’s results come closer to recognizing that the Social Security normal retirement age for those in our sample (born from 1946 and 1961) is between 66 and 67.

Most importantly, the overall data shows us that retirement is not a specific point in time. Of those who expressed uncertainty about their future retirement age, 16% expected to work at least part-time after leaving their current employment; another 10% enjoy working or “plan to work until I can’t.” Of course, this does not separate those who want to work from those who need to work. Yet, it does illustrate the importance of planning for a lifetime rather than for one static point in time.

Lack of Retirement Confidence

Boomers continue to have concerns about the economy, both in the long and short-term. Six in ten Boomers (62%) believe that their personal financial situation will be the same or worse five years from now. Additionally, the majority of Boomers (60%) believe their financial security in retirement will be about the same or worse than that of their parents.
Yet, this optimism does not define fully Boomers’ attitudes toward retirement nor the preparations they are making for their golden years. Earlier, the research showed how defined contribution plans were gaining in prominence as a source of future retirement income, surpassing that of defined benefits and approaching that of Social Security. However, when asked if they would be likely to contribute more to their 401(k) plans, as well as IRAs, should Internal Revenue Code limits on contributions should be lifted, only one-quarter responded in the affirmative. Combined with
another finding noted above, that Boomers do not expect to rely on individual investments, could very well lead to a shortfall in their retirement years. According to our 2012 survey, only 46% of Boomers have consulted a financial advisor to help plan for retirement.

Even so, many Boomers are confident that they are on the right track for retirement savings, as roughly 4 in 10 are extremely or very confident in their likelihood of having enough money to cover basic needs in retirement. However, there are still concerns pertaining to the costs of long-term care. More than three-quarters of Boomers are not confident in their ability to cover long-term care expenses for themselves, and more than 85% have limited confidence as to providing their parents with financial assistance for long-term care assistance.
Another area of concern is the cost of health care during retirement. Although close to two-thirds of Boomers anticipate difficulty in covering these expenses, several studies reflect that these costs are higher than anticipated, including the IRI report, *Health Care Expenses and Retirement Income: How Escalating Costs Impact Retirement Savings*. Among the key findings were that a healthy 65-year-old male can expect cumulative health care expenses, including premiums, to approach $370,000 through the remainder of his lifetime. The corresponding figure for women is at least $417,000, a difference of 13%. Therefore, it is imperative that health expense planning is incorporated into every retirement security plan.
Boomers in Need

This report has focused on the retirement expectations of Boomers, in general. It is important to note, however, that IRI research consistently shows two demographic groups that are less prepared with regard to retirement planning: middle-income Boomers and Boomers who are not married. While most Boomers report a higher level of confidence than they did last year, these two cohorts are the exceptions in several areas.

Middle-income Boomers

IRI defines middle-income Boomers as those earning between $30,000 and $75,000 annually. Among the key findings of our 2011 report, Middle-Income Boomers and Retirement: Tapping the Significant and Underserved Middle-Income Market, were that middle-income Boomers have the financial resources to prepare for retirement (70% are homeowners with median stock holdings from $9,000-$13,000), yet have numerous concerns about retirement. Our 2012 survey showed the following trends for middle-income Boomers:

- 70% of middle-income Boomers are not very confident about having enough money to live comfortably throughout their retirement years.
- 55% of middle-income Boomers have not tried to determine the amount of money they will need to save for retirement (compared to 49% last year).
- 48% of middle-income households do not expect personal investments to be a source of income during retirement (compared to 40% last year)
- 40% of middle-income households stopped putting money into a 401(k), IRA or other retirement account (compared to 37% last year)

Additionally, most middle-income Boomers can expect to receive an inheritance during their lifetimes, increasing assets by at least 30% of their current wealth. Therefore, middle-income Boomers will need guidance in incorporating a relatively large inflow into their retirement portfolios.

Unmarried Boomers

Marital status is a significant factor in the need for retirement income advice, particularly in the women’s market. IRI first analyzed this trend in the report, Women, Retirement, and Advisors, where it was noted that unmarried women were far less likely than married women to determine the amount of money they will need for retirement, contact a financial planner, and have confidence in their preparations for retirement. In our 2012 survey, we noted the following trends for Boomers (both male and female) who are widowed, divorced, separated, or never married:

- 72% of unmarried Boomers are not confident they will have enough money to live comfortably throughout their retirement years, compared to 60% of married Boomers.
• 38% of unmarried Boomers expect their financial security in retirement to be worse than that of their parents, compared to 26% of married Boomers.

• 21% of unmarried Boomers had to prematurely withdraw funds from their 401(k) IRA, or other retirement investments, compared to 14% of married Boomers.

**Conclusion**

Retirement is not an age, but an ongoing stage of life. As such, retirement preparation is essential for every American, most urgently for the Baby Boomer Generation. While most Boomers are reporting that their financial situation has improved over the past year, many still have a way to go in planning for a financially secure retirement.

The expectation of most Boomers is that they will not be adequately prepared to cover their expenses during retirement. A growing number of Boomers expect to work during their retirement years in order to supplement their income. Nearly two-thirds are not confident about having enough money in retirement to cover their medical expenses, and three-quarters do not feel prepared for future long-term care costs.

Boomers are open to insured retirement income strategies. Guaranteed income and principal protection rate highly among the traits Boomers seek in a retirement investment. Nearly one-third already own annuities. One challenge, however, is to impress upon Boomers the importance of investing for their retirement outside of plans offered through the workplace. Fewer than half of Boomers have consulted a financial planner, a number that must increase in order for more Boomers to be prepared financially for retirement and the ongoing expenses they will incur.

**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 803 adult Americans aged 50-66. 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 26 through March 12, 2012. The margin of error for the sample of 803 was ±3.5%.