

Boomer Expectations for Retirement 2015

Fifth Annual Update on the Retirement Preparedness of the Boomer Generation



April 2015

About the Insured Retirement Institute:

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.



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OVERVIEW

Each year the Insured Retirement Institute (IRI) conducts a survey to measure the retirement preparedness of the Boomer generation. This report, the fifth in the series, summarizes the results of the 2015 survey and analyzes key changes over the past five years.

As Baby Boomers age, and as more members of the cohort are either in or very near retirement, the survey responses are changing. For an increasing number of Boomers, especially those that have not taken steps to plan effectively, retirement reality is not aligning with retirement expectations.

Overall satisfaction fell considerably in this year's study, following a significant decline last year. However, respondents who have taken steps to prepare for retirement, such as working with financial advisors, calculating retirement goals, purchasing retirement income products such as annuities, and developing retirement plans report much higher levels of overall economic satisfaction and retirement preparedness. As we'll see in the detailed study results, Boomers who have prepared, and have realistic expectations, for retirement are much more likely to report overall satisfaction, confidence in their retirement readiness, and progress toward a secure retirement.

KEY OBSERVATIONS

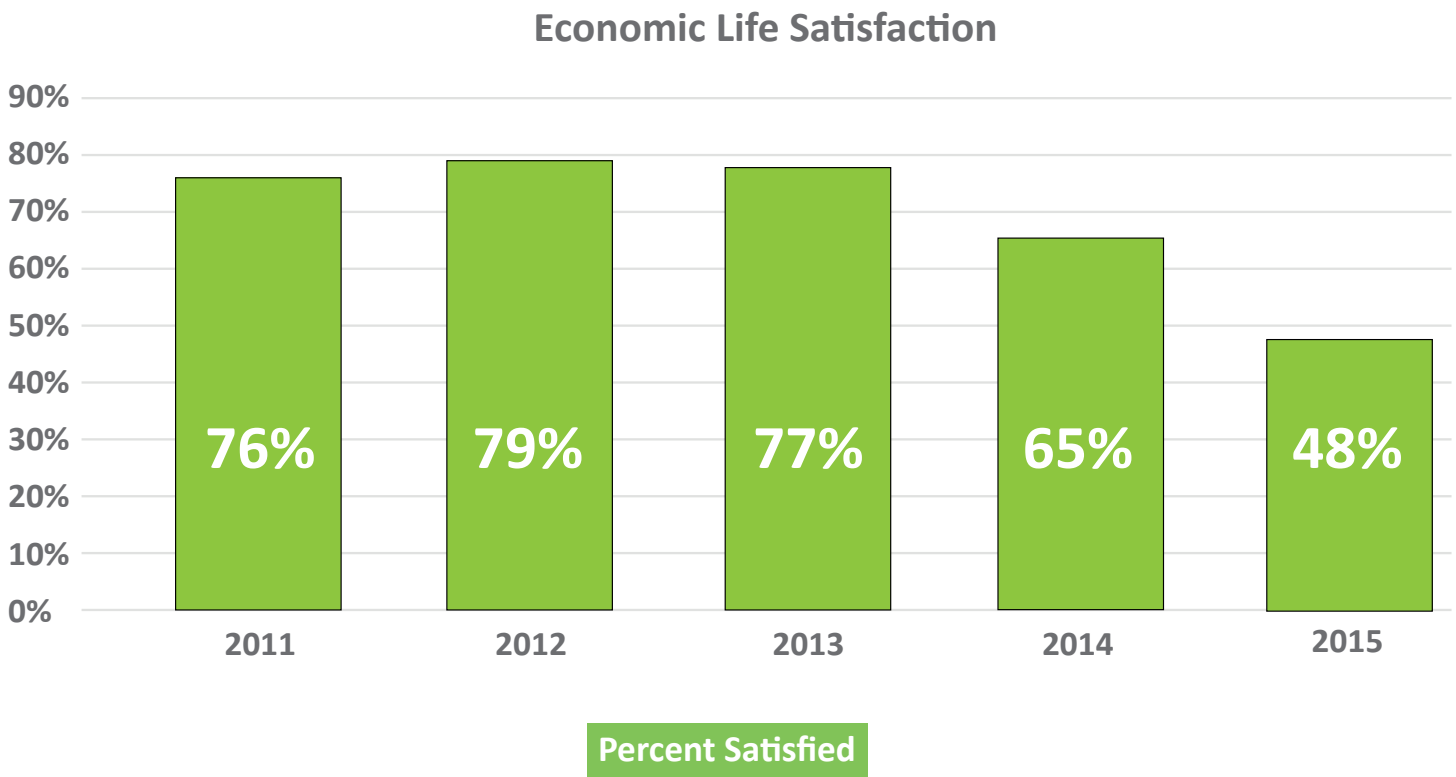
- Overall economic satisfaction among Boomers dropped precipitously in 2015, to 48% from 65% in 2014 and further down from 76% in 2011.
- The decline in overall satisfaction was more pronounced among retirees, plunging to 45% from 72% in 2014, versus 53% of working Boomers feeling satisfied compared to 60% in 2014. These results suggest there may be widespread dissatisfaction developing among Boomers as large numbers of them transition into their pre-retirement and retirement years.
- Only six in 10 Boomers report having money saved for retirement, down sharply from prior years when approximately eight in 10 had retirement savings.
- A significant number of Boomers continue to struggle financially; in the past 12 months:
 - Almost one-quarter of Boomers reported that they have had difficulty in paying their mortgage or rent.
 - 19% of working Boomers stopped contributing to a retirement account such as a 401(k) or IRA.
 - 24% of Boomers postponed plans to retire.
- The percentage of Boomers feeling extremely or very confident they will have enough money to last throughout retirement has declined significantly, to 27% of Boomers in 2015 from almost four in 10 in 2011.

- Boomers are feeling less confident in their abilities to meet future financial obligations, leading to changes in their plans and priorities:
 - 19% of Boomers are extremely or very confident they will have enough money to pay for higher education costs for their children, down from 34% in 2014 but about the same as in 2012, when this question was first asked.
 - 28% of Boomers are extremely or very confident they will have enough money to pay their medical expenses in retirement, down from 37% in 2011.
 - More than one-third of working Boomers (36%) plan to retire at age 70 or later, significantly higher than the one in five (19%) that planned to retire at or after age 70 in 2011.
 - Less than half of Boomers believe it is somewhat or very important to leave an inheritance for their loved ones, down from 62% in 2011.
 - One in five Boomers (18%) are uncertain when they might retire, and three-quarters of them cite not having saved enough or being unsure they will have enough to retire on as the reason for their uncertainty, compared to almost four in 10 (39%) that were unsure of their retirement age in 2011. Among Boomers who work with advisors, however, only one in 20 are unsure of their retirement age.
 - One in five Boomers are extremely or very confident they will have enough money to pay for long-term care in retirement, down from about one-quarter in prior study years.
- Yet at the same time, many Boomers with smaller retirement savings may have unrealistic retirement expectations:
 - Four out of 10 Boomers with less than \$250,000 saved for retirement and no private pension believe they will be able to pay for their basic needs and medical expenses in retirement, and have at least some money left over for travel and/or other leisure activities. This may be unrealistic for those who are unable to reduce expenses or who experience significant medical costs.
 - More than one-third of Boomers believe they will be more comfortable in retirement than their parents, despite only about one in four expecting a defined benefit or defined contribution plan to be a major source of income.
- Boomers who work with advisors are more satisfied, and the gap is widening:
 - In 2015, seven in 10 Boomers (68%) who work with an advisor are extremely or very satisfied with the way things are going in their lives, versus only four in 10 (42%) of those who do not work with an advisor.
 - In 2014, about four in 10 Boomers working with an advisor were satisfied, as were six in 10 not working with an advisor.
- Boomers who work with advisors are planners: seven in ten have tried to calculate the savings they will need to live comfortably in retirement, while less than three in 10 of those who do not work with advisors have tried to calculate needed retirement savings.
- Boomers who work with advisors are better prepared for retirement, which suggests that Boomers who are thinking about and taking steps to plan for retirement are far more likely to seek both the advice and the financial products they need to achieve success.
 - More than 90% of Boomers who work with advisors have money saved for retirement.
 - Less than half of Boomers who do not work with advisors and/or do not own annuities have money saved for retirement.
 - More than eight in 10 Boomers that work with advisors feel they are better prepared for retirement because they work with a financial professional.
- Rebalancing of a retirement plan's asset allocation is a good measurement of long-term engagement with retirement plans. Boomers who work with an advisor are more likely to rebalance their portfolios: 43% of Boomers who work with an advisor rebalance their portfolio once a year compared with 24% who do not work with an advisor.

- Annuity ownership is highly correlated with retirement planning, retirement readiness, and positive retirement expectations.
 - Over nine in 10 Boomers who own annuities have money saved for retirement; less than half of Boomers who do not own annuities have retirement savings.
 - Eight in 10 Boomers who own annuities expect their money to last throughout retirement, and to have at least some disposable income for travel and leisure, compared to less than half of those who do not own annuities.
 - More than six in 10 Boomers have calculated the amount they think they will need to have saved to retire, versus less than one-third of non-annuity owners.
 - More than six in 10 annuity owner Boomers have consulted a financial advisor to help them prepare for retirement; fewer than two in 10 non-annuity owners have taken this step.
- Boomers have work to do with regard to preparing for the possibility of declines in cognitive function; only four in 10 Boomers have taken steps to ensure their affairs are managed in the event they are unable to effectively manage things themselves.

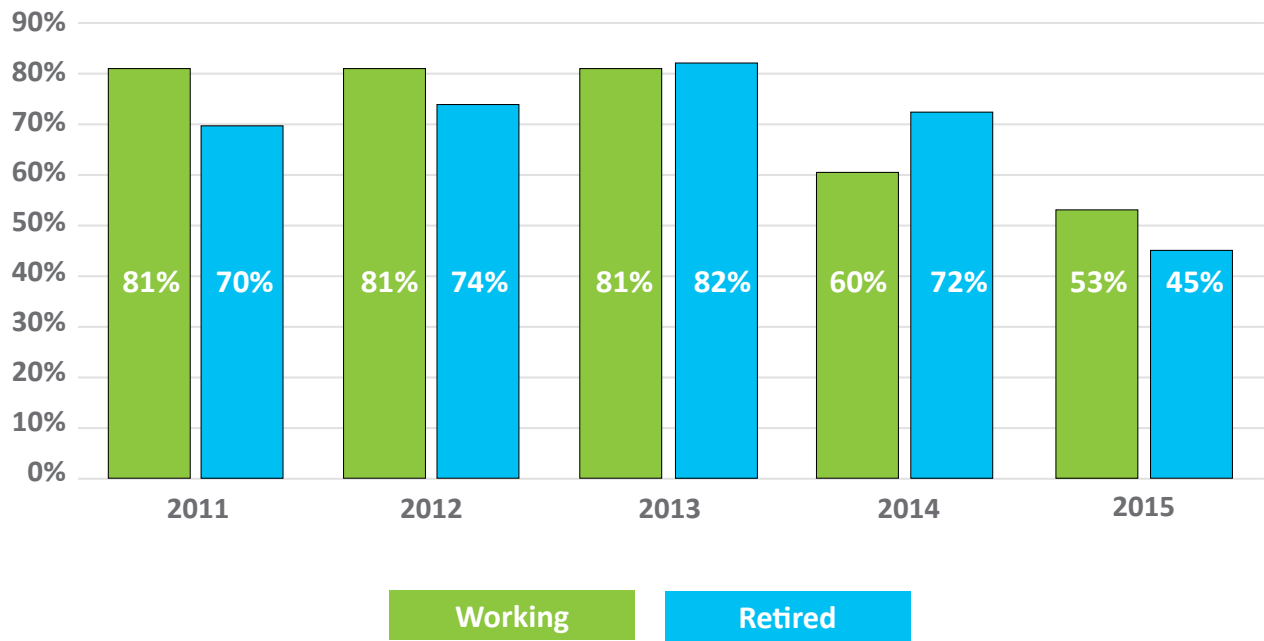
ECONOMIC LIFE SATISFACTION

Measurements of Boomers' overall life satisfaction from an economic standpoint have declined since 2011 and reached a new low of 48% in 2015.



The drop in overall satisfaction is more pronounced among retirees, only 45% of whom reported feeling satisfied overall with the way things are going in their lives from an economic standpoint, down significantly from prior years. The drop in satisfaction among working Boomers was less pronounced relative to 2014, though still much lower than in earlier years.

Economic Life Satisfaction



The extent to which Boomers have adequate savings for retirement directly correlates with their overall economic satisfaction. Just as fewer Boomers, both working and retired, report that they do not feel satisfied with their lives from an economic standpoint, fewer report having saved anything at all for retirement.

Have Money Saved For Retirement

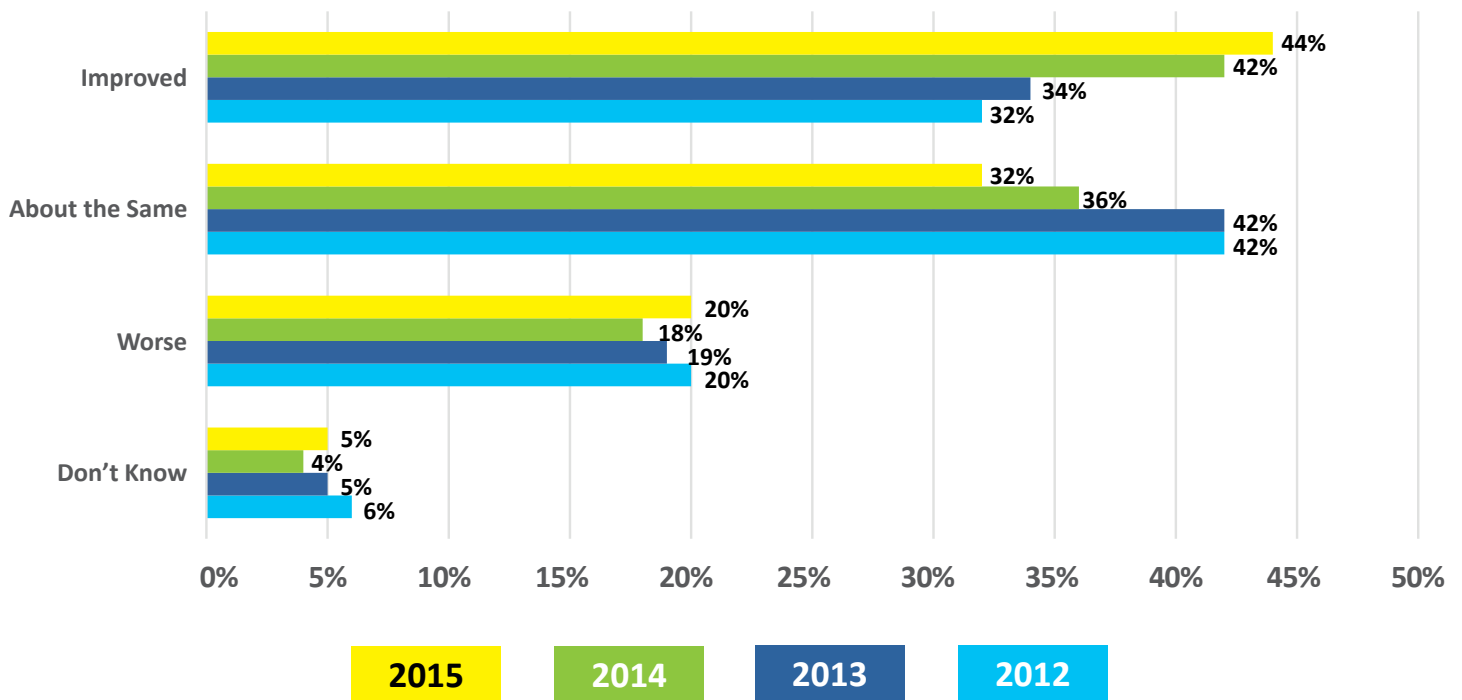


In 2011 more than eight in 10 working Boomers, and seven in 10 of those that had retired, reported having money saved for retirement. In 2015, seven in 10 working Boomers have retirement savings, but half of retired Boomers rely upon Social Security and other sources of income, such as private pensions, if they have them. Given the drop in savings rates and heightened awareness of the complexities of retirement from public focus on issues such as the long-term financial challenges facing Social Security and increasing health care costs, it is not surprising to see a drop in overall economic satisfaction as an increasing percentage of Boomers move into their pre-retirement and retirement years.

FINANCIAL OUTLOOK: NEAR TERM AND LONG TERM

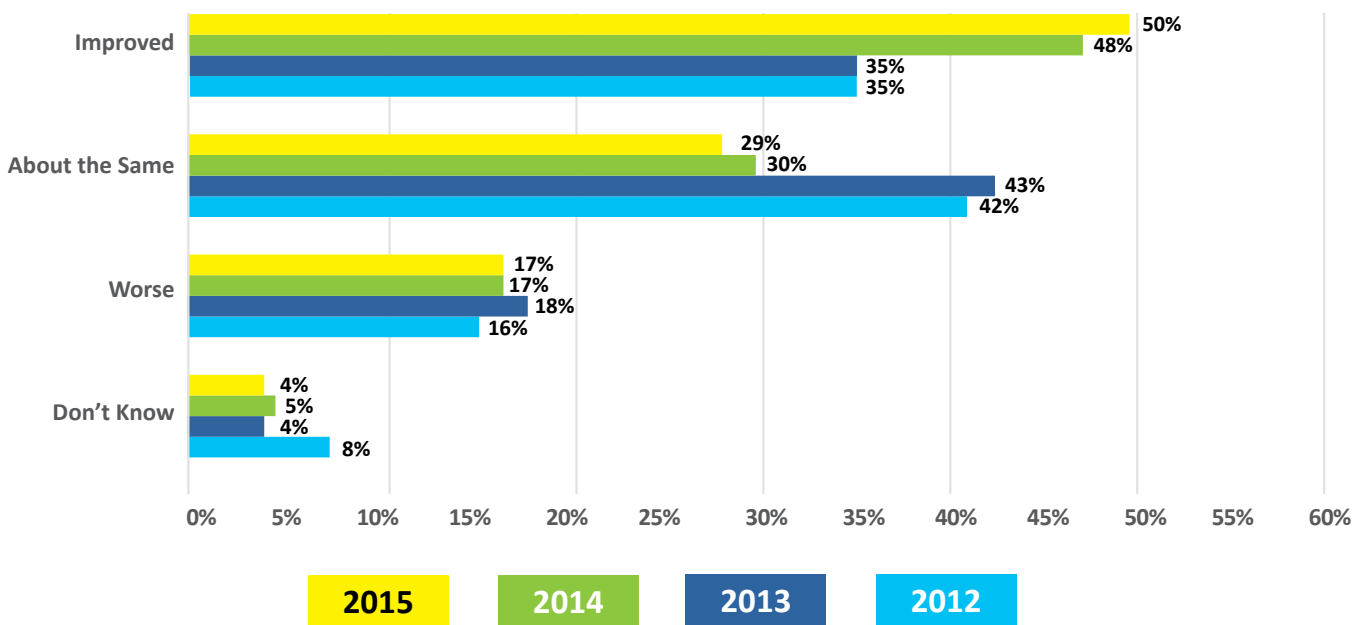
Despite the drop in economic satisfaction, Boomers are somewhat more optimistic. 44% believe their financial situations in five years will be somewhat or greatly improved, as compared to 32% when this question was first asked in 2012. In 2012, more than six in 10 Boomers believed their financial situation would be the same or worse in five years, versus just over half believing that today. So while there has been a shift toward greater short-to-medium term optimism, half of Boomers still view the next five years as status quo at best.

Financial Situation in Five Years: All Boomers

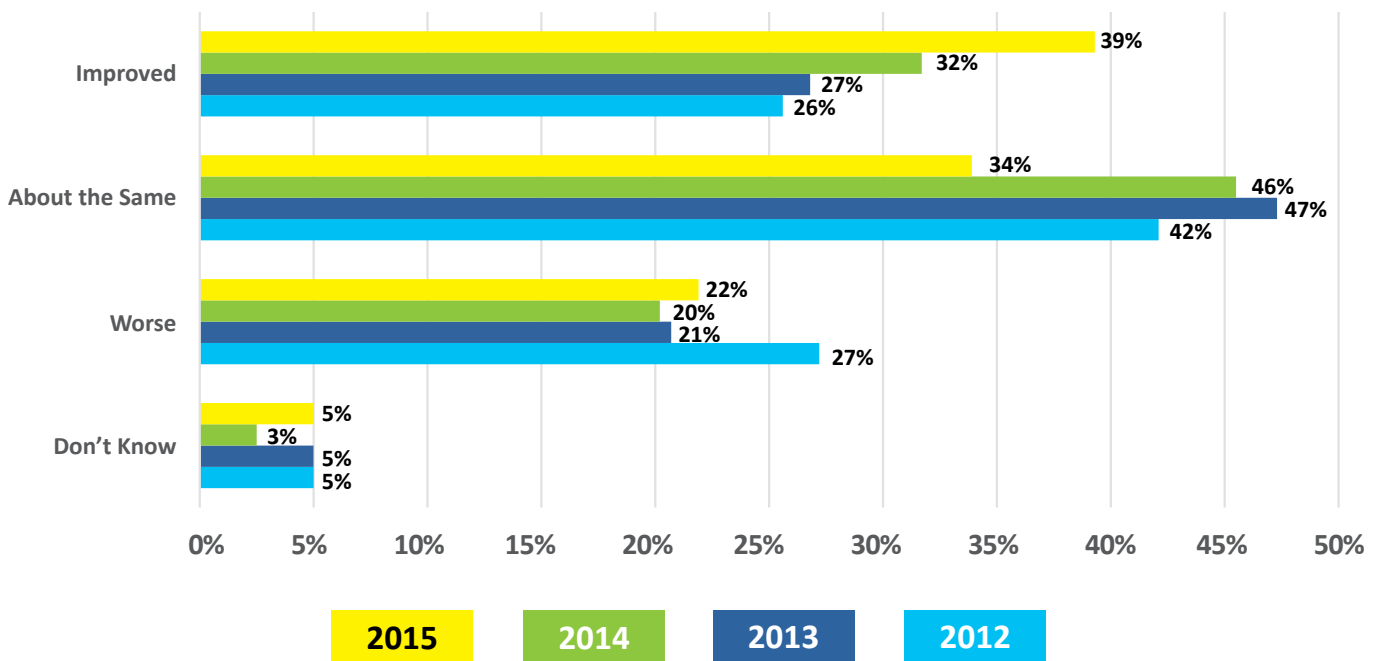


However, working Boomers are more optimistic than retired Boomers. Eight in 10 working Boomers believe they will be at least as well off in five years, and half believe their financial situations will improve. Retired Boomers feel a little less hopeful, with only seven in 10 believing things will be the same or better financially, and only about four in 10 envisioning improvement.

Financial Situation in Five Years: Working Boomers

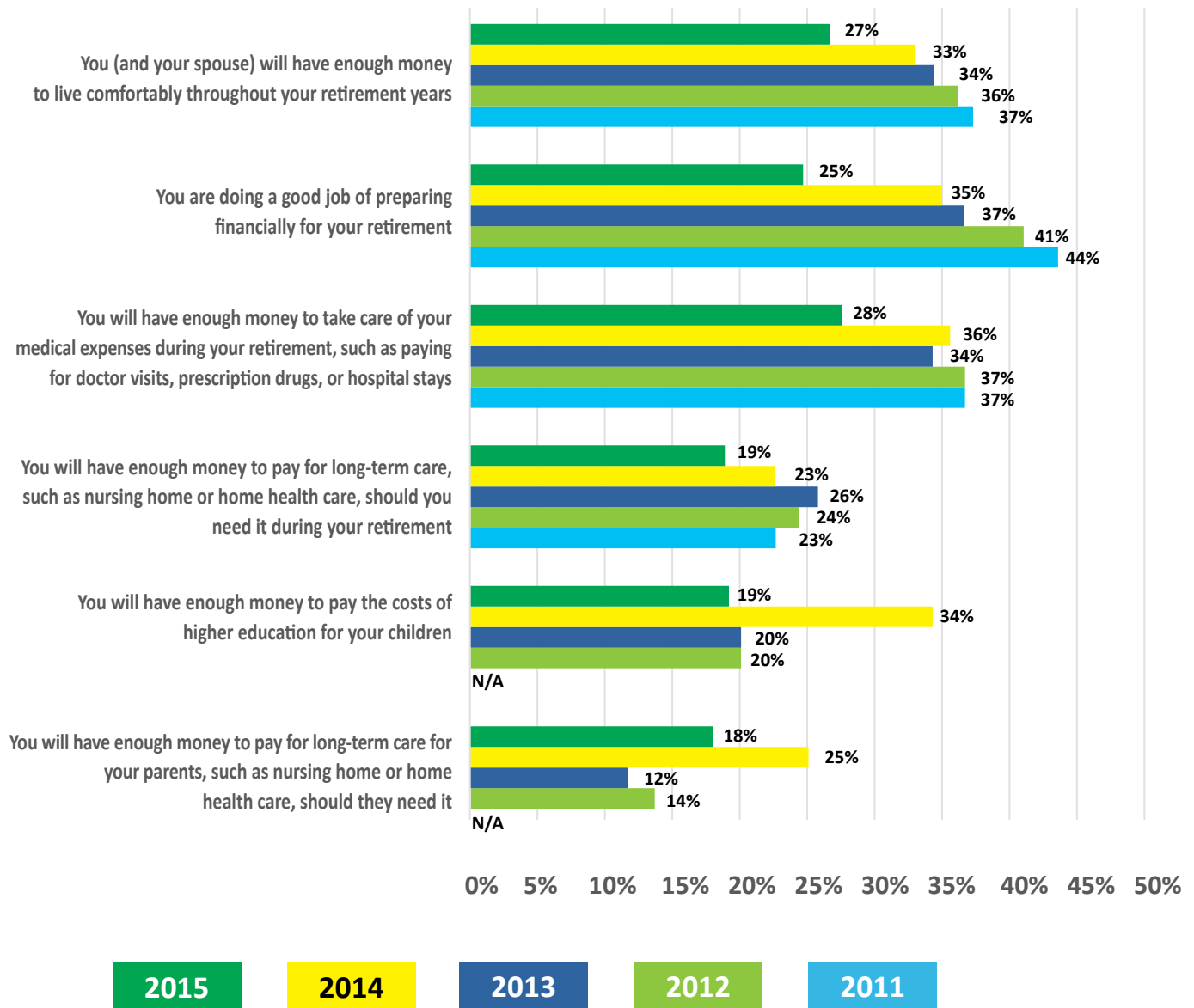


Financial Situation in Five Years: Retired Boomers



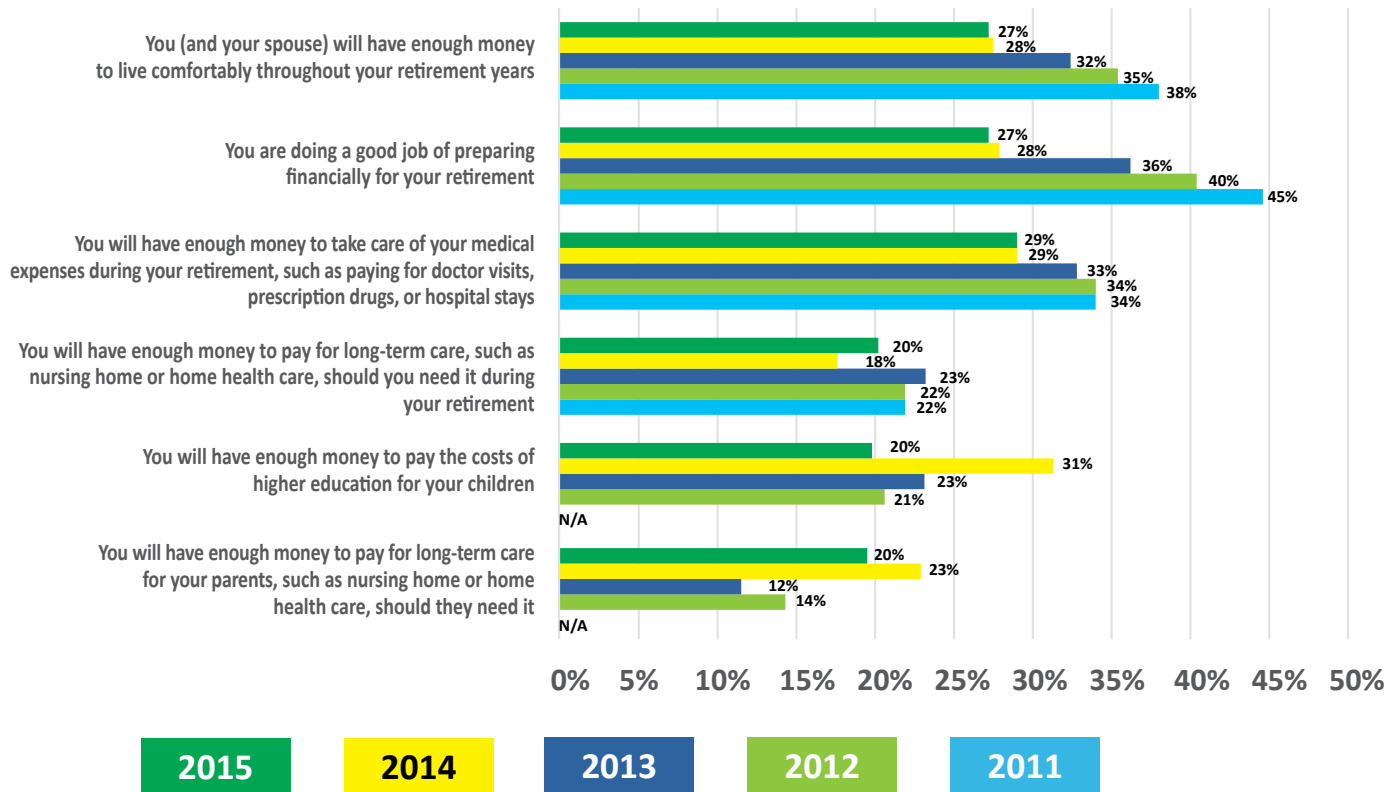
But while many Boomers are feeling confident in the relatively short term, as a group they have less confidence than in prior study years about how well they are prepared for critical financial aspects of retirement.

Extremely or Very Confident in Aspects of Retirement: All Boomers

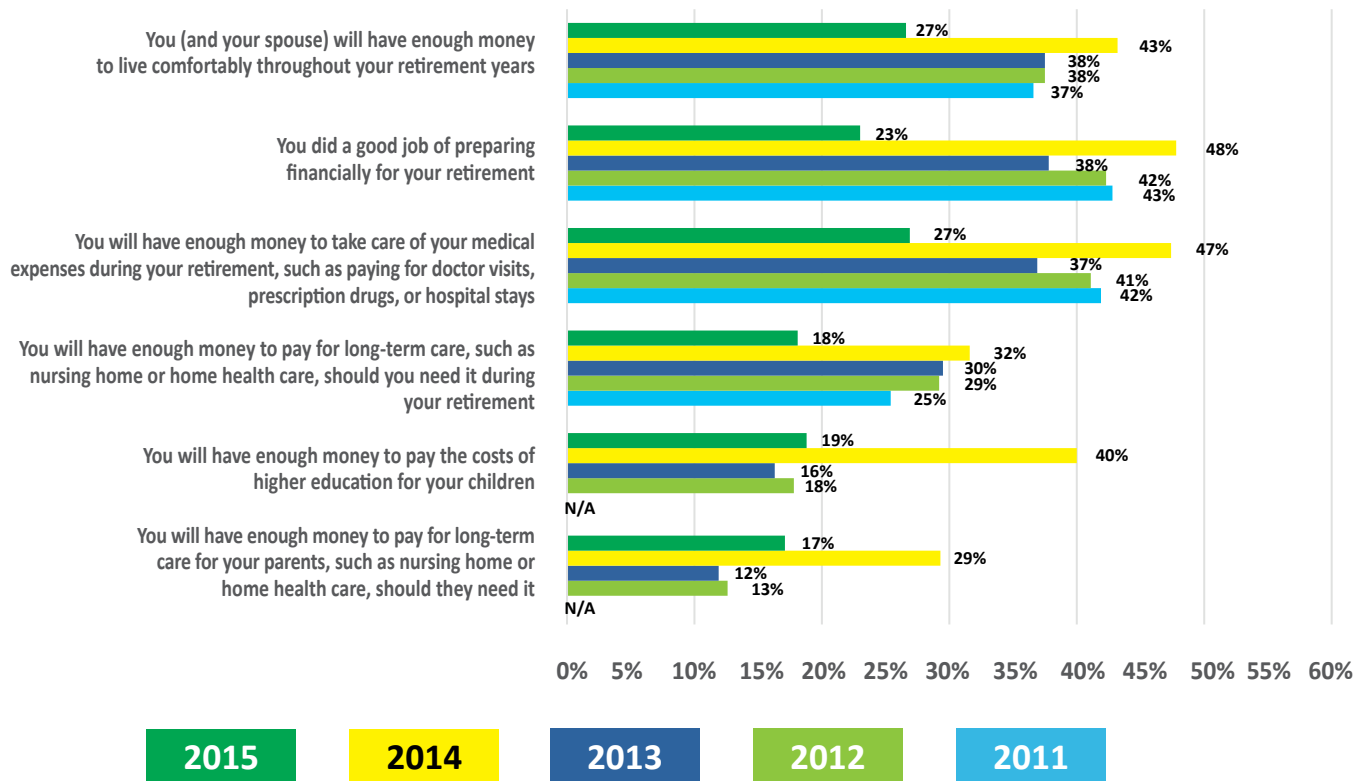


Both working and retired Boomers have the same level of confidence in their expectations of having enough money to live comfortably throughout their retirement years, with only a quarter being extremely or very confident their retirement assets will produce sufficient income as compared to nearly four in 10 in 2011. Regarding others aspects of retirement, both working and retired Boomers are also generally less confident than they were five years ago, and in areas where costs are increasing faster than the general rate of inflation, namely education and health care, they show the least confidence. As they move closer to, and into, retirement, Boomers are clearly becoming less confident in their abilities to meet their many and growing financial obligations.

Extremely or Very Confident in Aspects of Retirement: Working Boomers



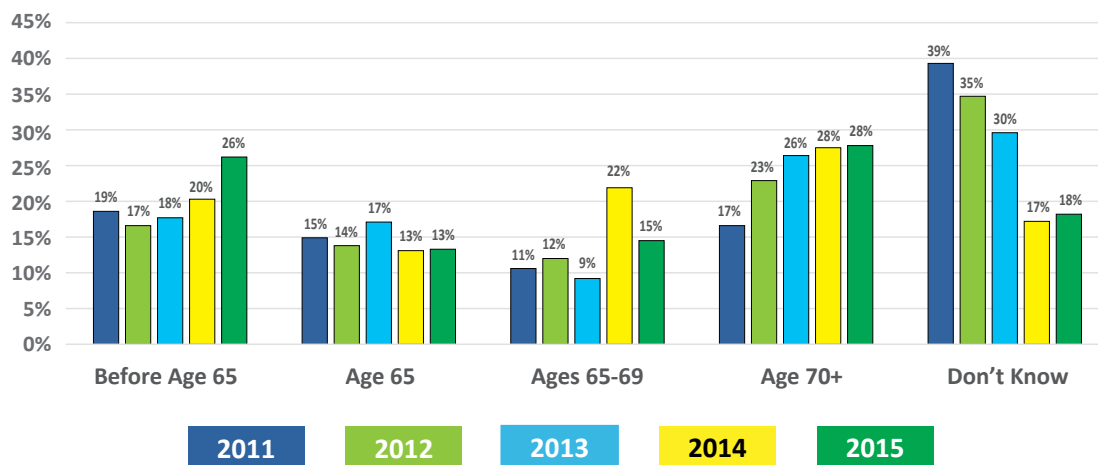
Extremely or Very Confident in Aspects of Retirement: Retired Boomers



RETIREMENT PLANNING

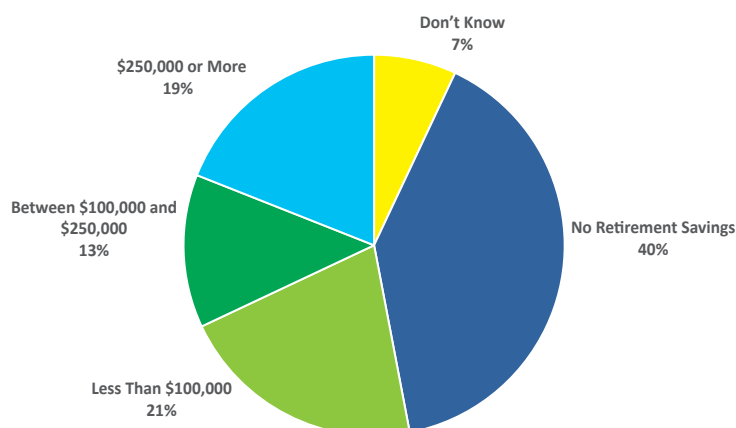
With respect to retirement age, overall the trend has been toward retiring later, with more working Boomers planning to retire after age 65 than in the early years of the study and a steady increase in the percentage that plan to retire at age 70 or later. Retiring at or after age 67 allows Boomers to maximize their Social Security benefits, as well affording additional years to realize higher earned income, add to retirement savings, and potentially take advantage of employer-provided or subsidized health care. The number of working Boomers who don't know when they plan to retire has dropped significantly, from more than one in three in 2011 to one in 10 today. The implication is that as Boomers age and decide on an expected retirement age, they are expecting to retire later than age 65, and in many cases at age 70 or later.

Expected Retirement Age



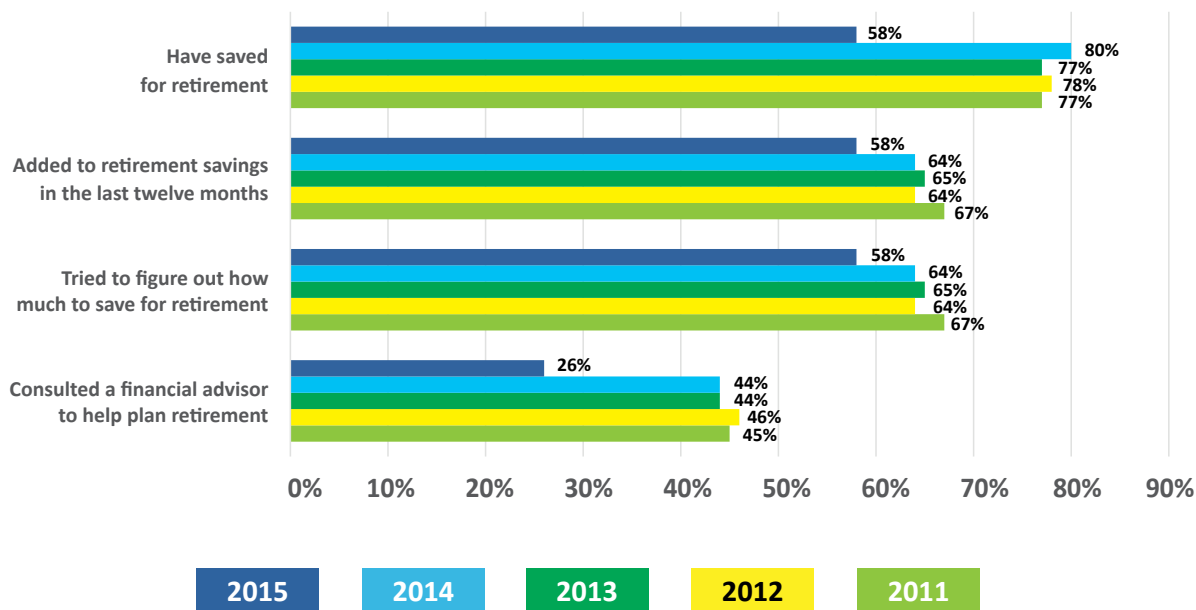
There are likely multiple factors behind these trends. As Boomers age and larger numbers of the cohort enter their retirement and pre-retirement years, and retirement becomes more proximate, they may be feeling less sure of themselves with regard to their readiness. Headline news about retirement issues can be less than favorable, often focusing on uncertainty with regard to the future of Social Security and increasing health care costs, potentially influencing how Boomers feel about the adequacy of their own preparations. At the same time, other news reports are telling Boomers about medical advancements that will lengthen their lives – great news in the abstract, but living longer carries its own set of financial challenges and can make retirement savings seem that much smaller and less adequate. As Boomers try to figure out a retirement strategy that takes all of these things into account, many of them are no doubt uncertain as to how to best use their assets to generate sustainable lifetime income, further eroding confidence. And given the current state of their retirement savings, a degree of trepidation seems well warranted; almost half of Boomers have no retirement savings or do not know how much they have saved for retirement, about a third have \$100,000 or more saved, and only one in five have savings of \$250,000 or more.

Current Retirement Savings



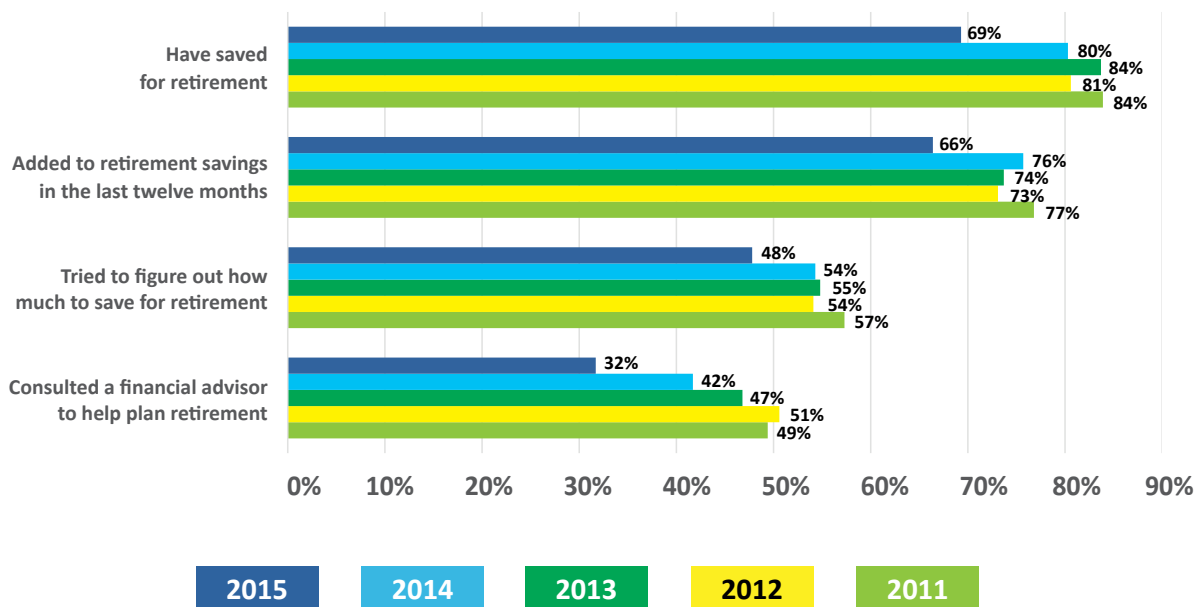
Interestingly, while the percentage of Boomers expecting their financial security in retirement to be at least equal to that of their parents has remained relatively static over the five years of this study, the percentages of Boomers reporting that they have added to their retirement savings, consulted a financial advisor, or tried to figure out the savings they need to retire have dropped considerably.

Retirement Savings and Planning: All Boomers

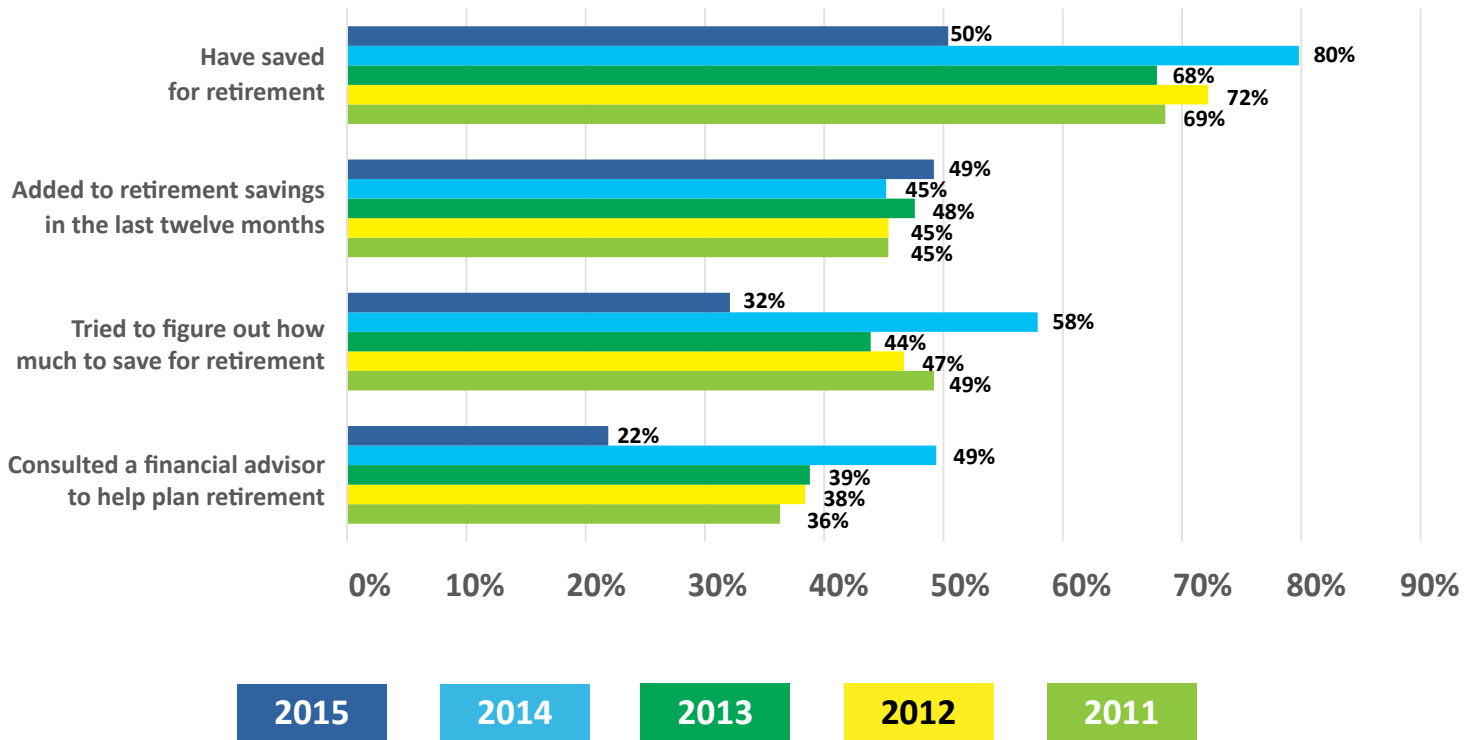


Those Boomers that are still in the workforce, however, are more likely to have saved for retirement, with seven in 10 having retirement savings and almost seven in 10 adding to those savings in the past 12 months, though these figures are down from 2011 when about eight in 10 working Boomers had retirement savings, and added to those savings. Even less encouraging, only half of retired Boomers have money saved for retirement, down from eight in 10 last year and seven in 10 five years ago. Other measures of saving and planning among Boomers, such as whether they have calculated how much to save or consulted a financial advisor, have also dropped among both working and retired Boomers since 2011.

Retirement Savings and Planning: Working Boomers

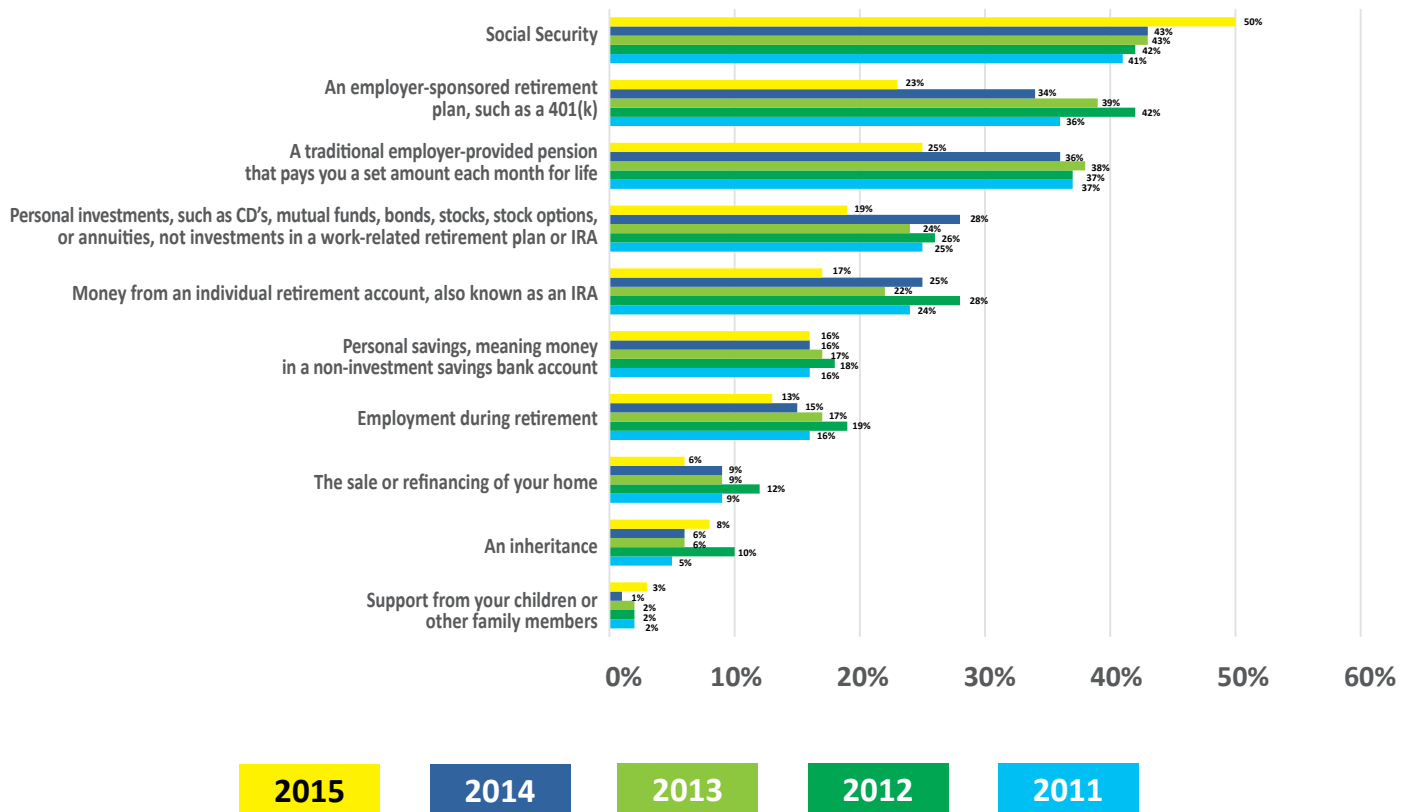


Retirement Savings and Planning: Retired Boomers



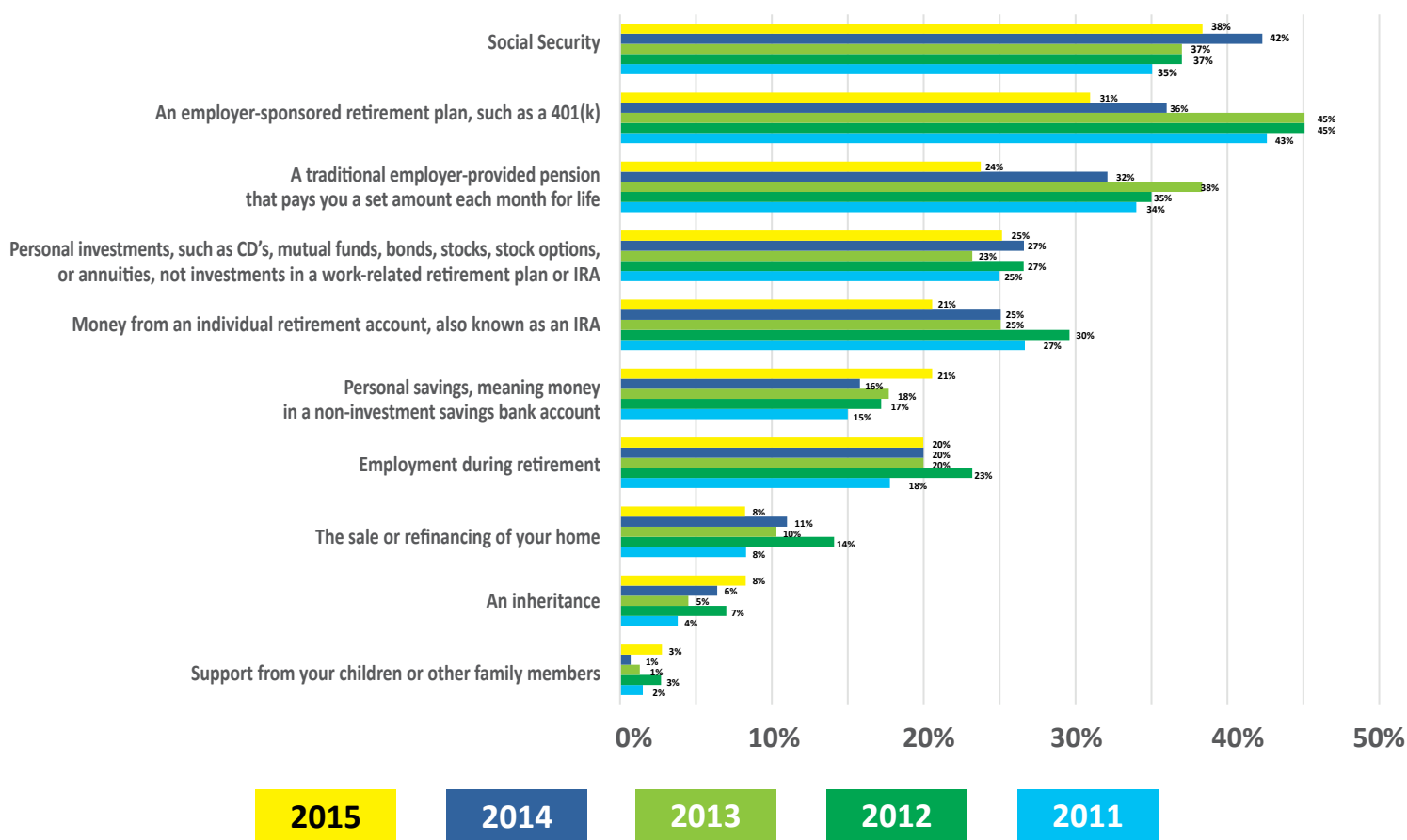
At the same time, more Boomers cite Social Security as a major source of retirement income than in the past, and fewer are planning to rely on defined contribution or defined benefit plans.

Major Sources of Income During Retirement



Working Boomers are far less likely than retired Boomers to view Social Security as a major source of income. Fewer than four in 10 expect Social Security to make up a key component of income, about the same as in prior study years, as compared to nearly six in 10 retired Boomers, up from half of retired Boomers in 2011. Still, Social Security is cited as the most common major source of income among working Boomers. And yet, they are more likely to expect retirement income to come from multiple sources; working Boomers are less likely than in prior years to indicate any one category as a major source of income, with the exception of personal savings. The lower instance of expected reliance on Social Security among working Boomers may indicate waning confidence in that system given projections of current benefits, whereas the higher reliance on Social Security of the broader group, which has grown from half of Boomers in 2011 to six in 10 in 2015, may reflect the retirement reality that larger numbers of Boomer retirees are experiencing. Once retired, they are finding that Social Security is a cornerstone and that other sources of income play a relatively minor role. This is hardly surprising given that only half of retired Boomers in 2015 have money saved for retirement.

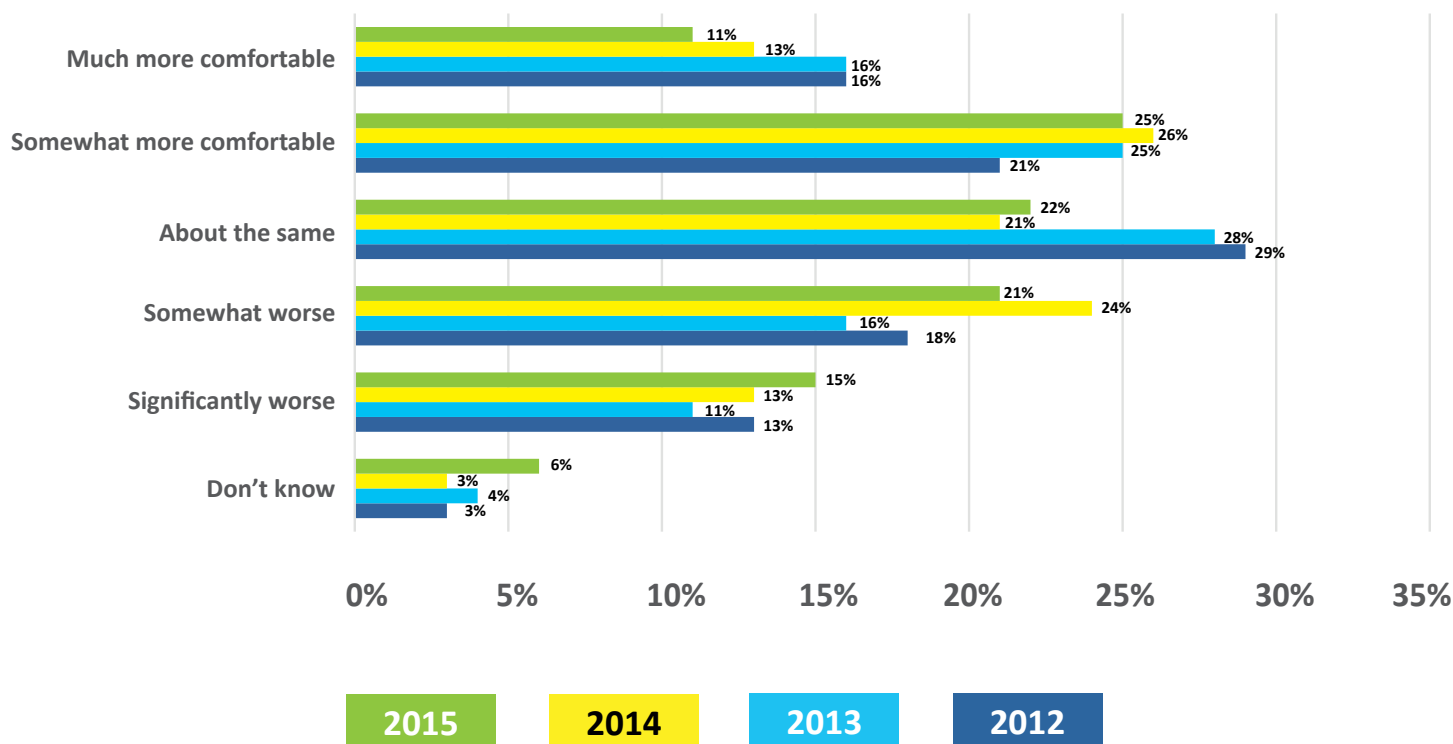
Major Sources of Income During Retirement: Working Boomers



RETIREMENT EXPECTATIONS

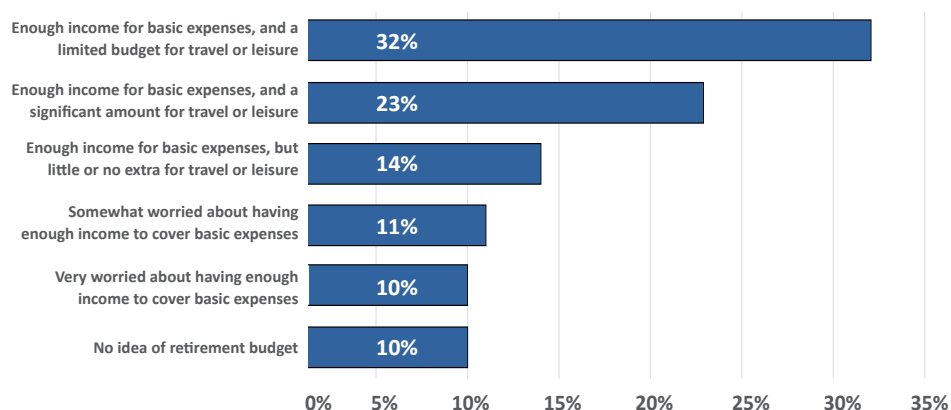
Given increased reliance on Social Security, the level of retirement savings reported by Boomers, and their relatively low confidence in the financial aspects of retirement, one might reasonably conclude that they have low expectations as to how they will live and how comfortable they will be in retirement. However, Boomers are still relatively sanguine about retirement, and their expectations regarding their financial security in retirement have not changed much. Almost half believe their financial security in retirement will be about the same as, or better than, their parents, and more than one-third believe they will be more comfortable in retirement than their parents.

Financial Security in Retirement, Compared to Parents



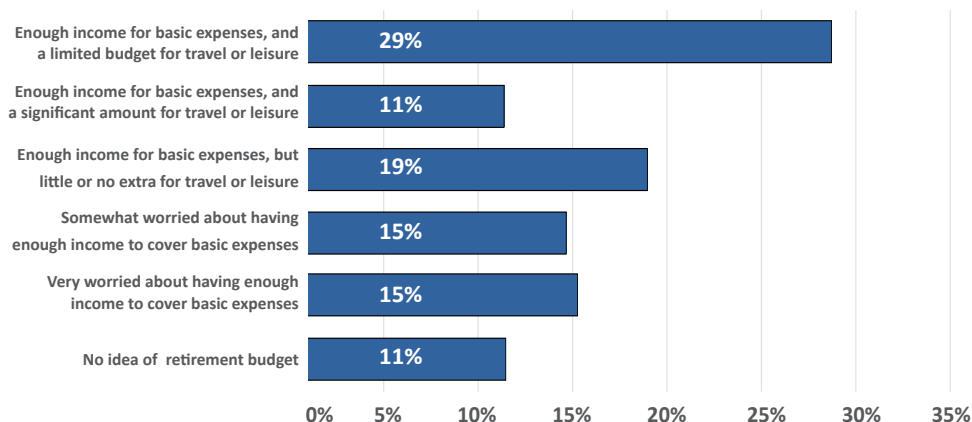
In a similar regard, and again despite large numbers of them having small (or no) nest eggs, more than half of Boomers imagine a retirement where they have income sufficient to cover basic living and health care expenses, but also at least some budget for travel and leisure activities.

Retirement Budget Expectations



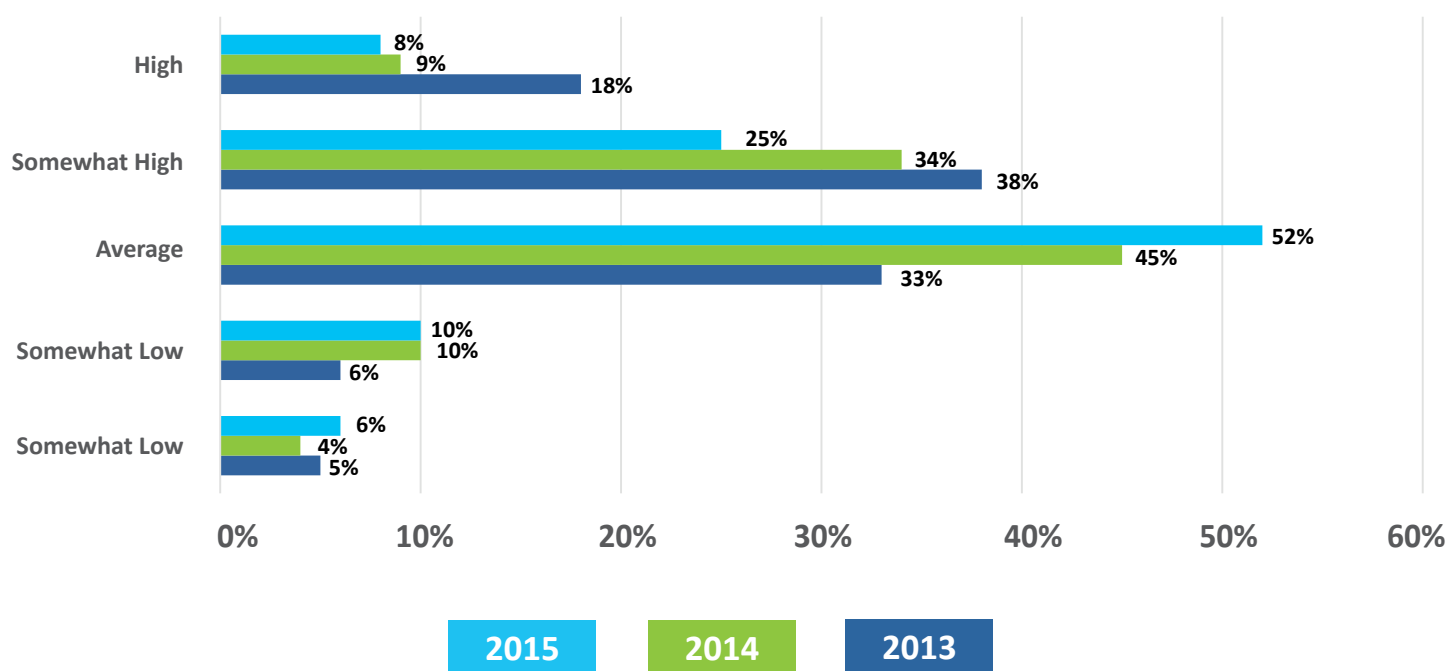
Further, when looking at only those Boomers with less than \$250,000 saved and no defined benefit plan – in other words those who will be primarily reliant upon Social Security as their main source of income – lifestyle expectations are bit less optimistic, but still likely beyond what their limited resources will support.

Retirement Budget Expectations

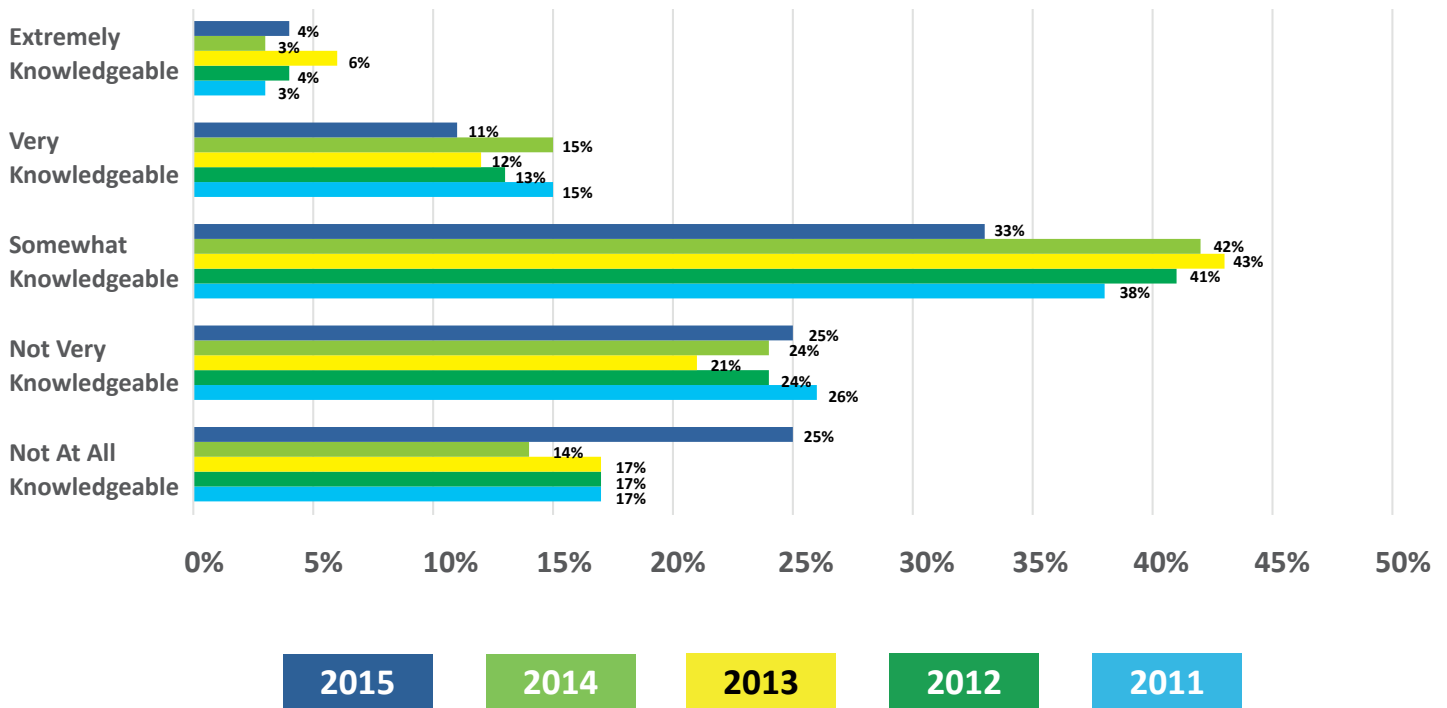


So when looking at the overall preparedness and expectations of the Boomer generation, there is evidence to suggest that many members of this cohort lack an understanding of the financial aspects of retirement, for example the amount of income they can expect to generate from limited resources and the potential impact of health care costs, and rose colored glasses with regard to the lifestyle they can realistically sustain during retirement. Using current interest rate and mortality assumptions, a \$100,000 retirement plan balance would produce lifetime income of approximately \$450 per month for a 65 year-old couple; important supplemental income to be sure, but very likely needed for basic expenses and/or health care expenses rather than travel. Unsurprisingly then, the survey tells us that Boomers largely do not feel they have high levels of financial or investing knowledge, and significantly more cite their financial knowledge as only “average” than in past study years. This may in part result from being faced with the complexity of trying to determine how to generate retirement income versus the relative simplicity of accumulation.

Financial Knowledge



Knowledge of Investing

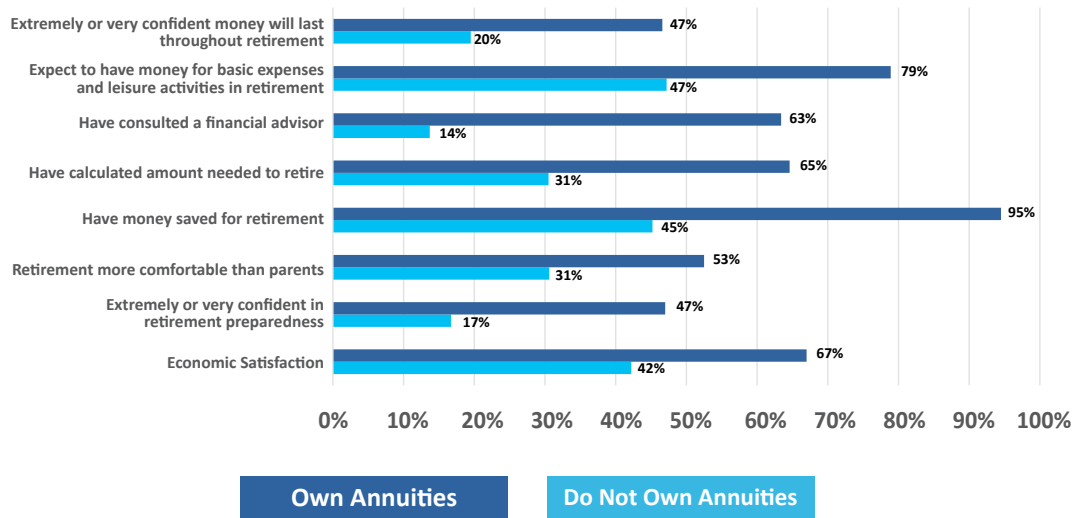


So as a group Boomers are economically less satisfied than in prior study years, more worried about the financial aspects of retirement, less prepared in terms of savings, and yet paradoxically they mostly expect to be at least as comfortable in retirement as their parents and to enjoy some level of travel and leisure in retirement in addition to having enough money for basic needs. At an individual level there are many factors that can explain these results: expectation of paying off a mortgage, realizing a significant gain when selling a primary residence and downsizing, inheritance, relocation to a less expensive part of the country, etc. But in terms of preparedness and awareness, those Boomers who own annuities or work with financial advisors have a more positive outlook, have saved more, are far more likely to indicate that they have taken steps to help ensure a successful retirement, and have more realistic expectations.

ANNUITY OWNERSHIP

Ownership of annuities is correlated with an increased level of retirement preparedness. Boomers who have made the decision to purchase financial products specifically oriented toward retirement income are more likely to have taken positive steps to prepare for retirement, such as saving money for retirement, calculating the amount they will need to retire, and consulting financial advisors. Boomers who own annuities are much more likely – by more than two-fold – to feel extremely or very confident that their money will last throughout retirement, compared to Boomers without annuities. Boomers who own annuities also feel more economically satisfied, are better prepared for retirement, expect to be able to cover their basic expenses as well as enjoy leisure activities, and are confident they will have sustainable income throughout their retirement years.

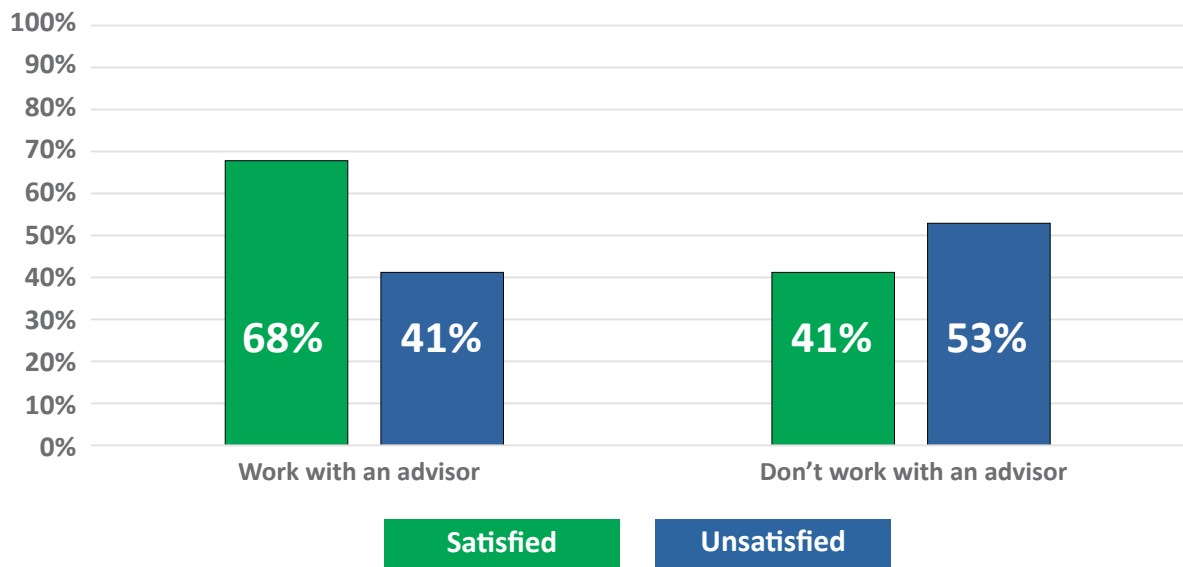
Retirement Preparedness and Expectations by Annuity Ownership



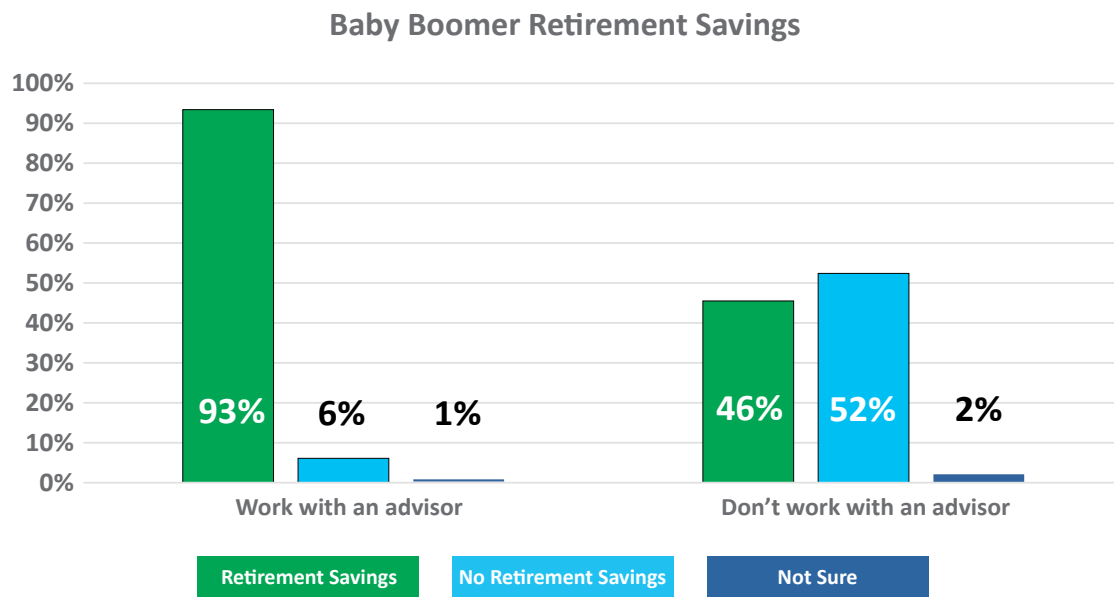
THE BENEFITS OF USING FINANCIAL ADVISORS

Almost seven in 10 Boomers who work with financial advisors are satisfied with the way their lives are going from an economic standpoint, versus four in 10 who do not have a relationship with a financial advisor.

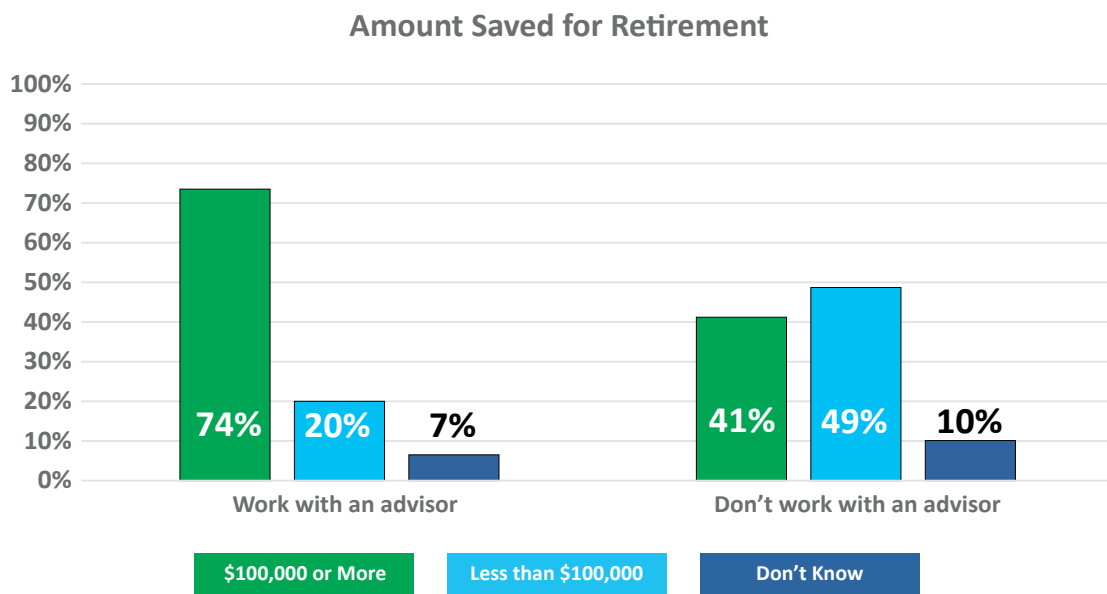
Economic Life Satisfaction



Examining other aspects of the retirement preparedness of Boomers who work with financial advisors versus those who do not provides insight into the variance in economic satisfaction. Boomers who work with financial advisors are far more likely to have money saved for retirement, with more than nine in 10 Boomers who work with advisors having money saved specifically for retirement versus less than half of Boomers who do not use advisors.

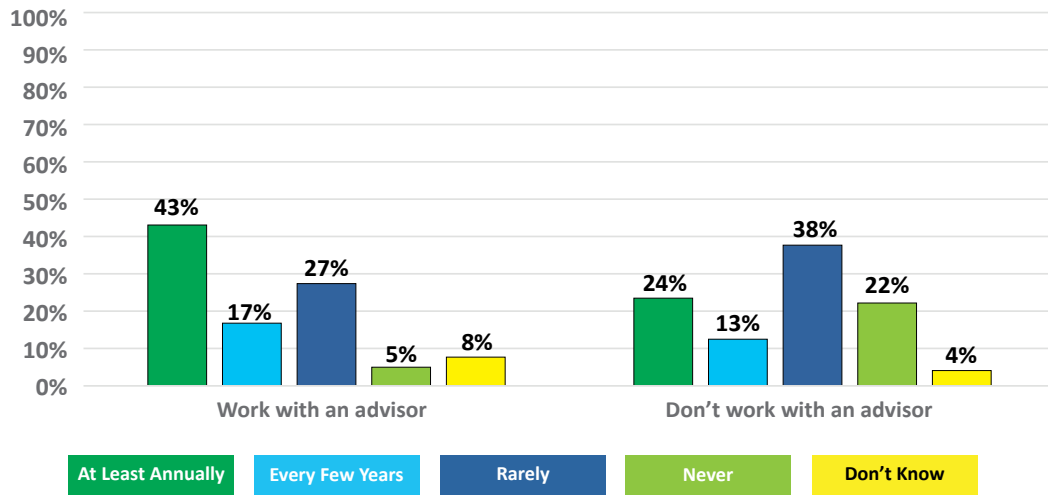


Among Boomers who have saved for retirement, those who work with financial advisors are almost twice as likely to have saved at least \$100,000, and those who do not work with advisors are more than twice as likely to have saved less than \$100,000.



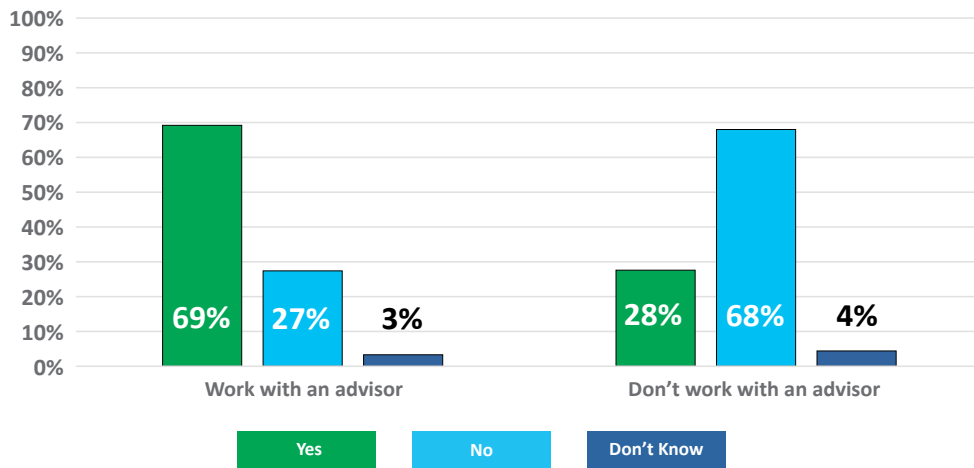
How frequently investments are rebalanced to ensure alignment with goals and risk tolerance is a good proxy for how engaged individuals are with the management of their portfolios. More than four in 10 Boomers with financial advisors rebalance their investments at least annually and six in 10 do so at least every few years, as compared to less than one-quarter of Boomers without advisors rebalancing annually and less than one-third at least every few years. Without rebalancing, investment portfolios can become misaligned with investment goals, for example by having more exposure to risk assets and loss potential than an individual is able or willing to tolerate when close to or in retirement.

Frequency of Rebalancing Investments



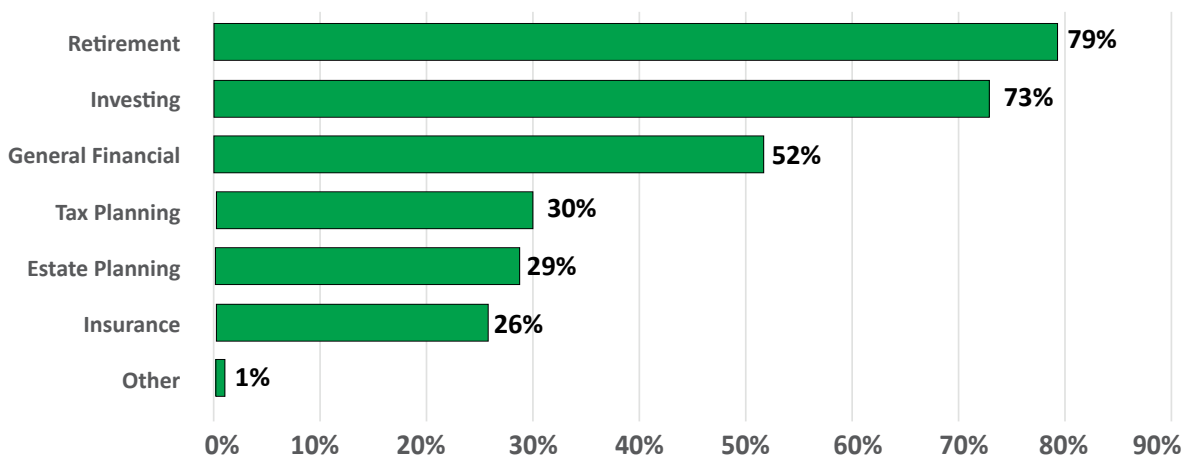
Among Boomers there is a direct relationship between the use of a financial advisor and the likelihood that an amount of savings needed to retire has been calculated. Almost seven in 10 of those who work with a financial advisor have done such a calculation, and about the same percentage of those who do not work with an advisor have not.

Have Calculated Savings Needed to Retire

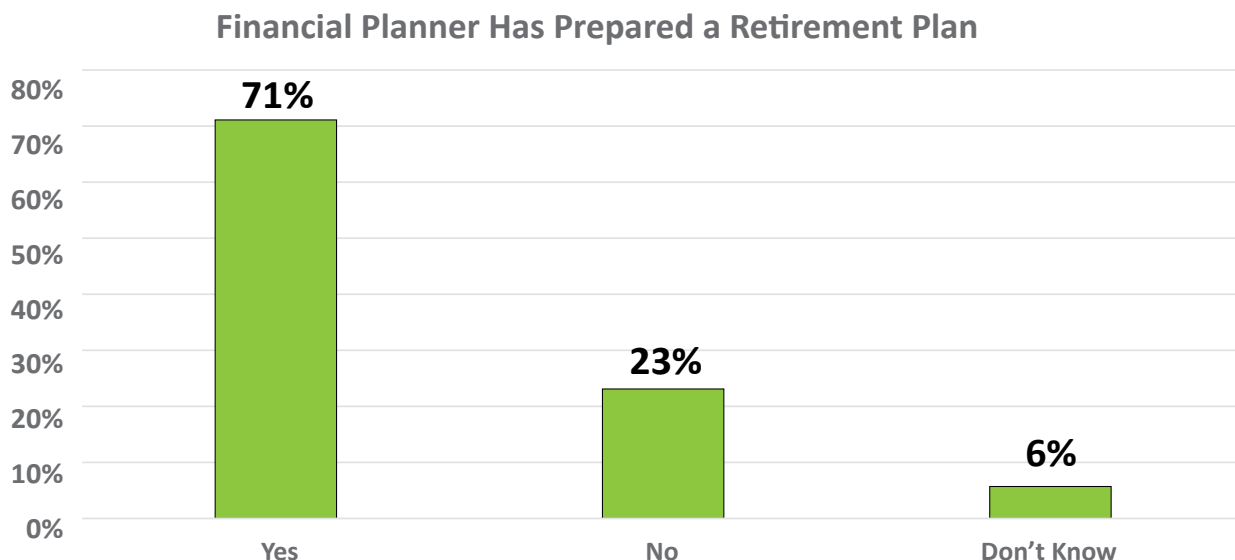


It should not be surprising, then, that when Boomers are asked which areas of their financial lives they consult with financial advisors about, retirement and investing are by far the most common responses.

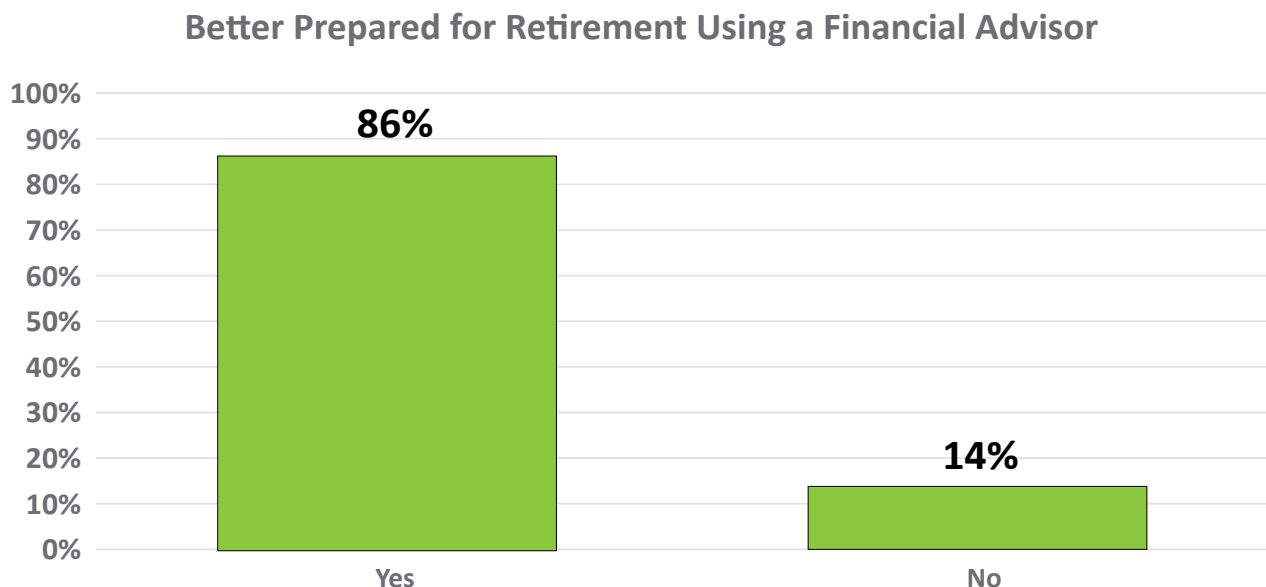
Area of Consultation with Financial Planners



With almost eight in 10 Boomers who work with a financial advisor stating that they consult with their advisors about retirement, it follows that a similar percentage would indicate that their advisors have prepared retirement plans for them. Those that have not had a retirement plan prepared may be do-it-yourselfers with regard to their retirement planning, yet still use a financial advisor for investment guidance.



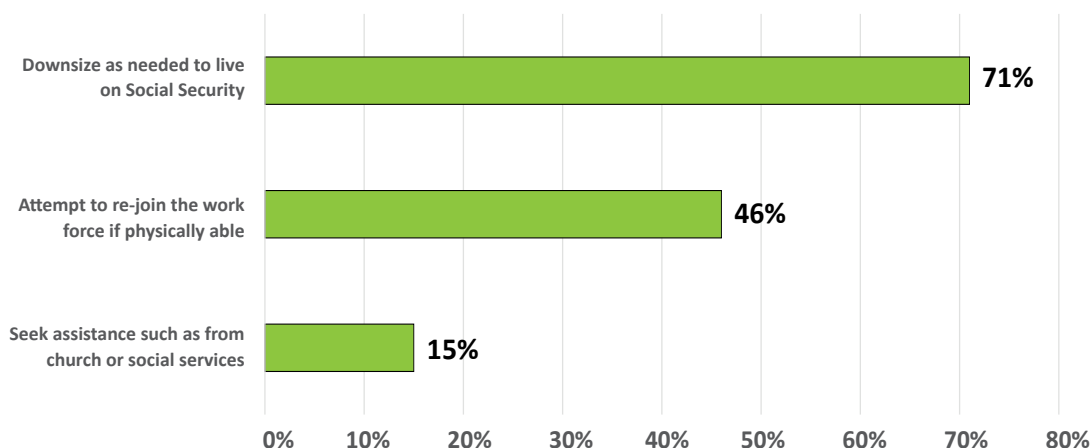
Finally, when Boomers who use financial advisors are asked simply whether they feel they are better prepared for retirement as a result of working with an advisor, almost nine in 10 answer in the affirmative.



PLANNING FOR NEGATIVE OUTCOMES

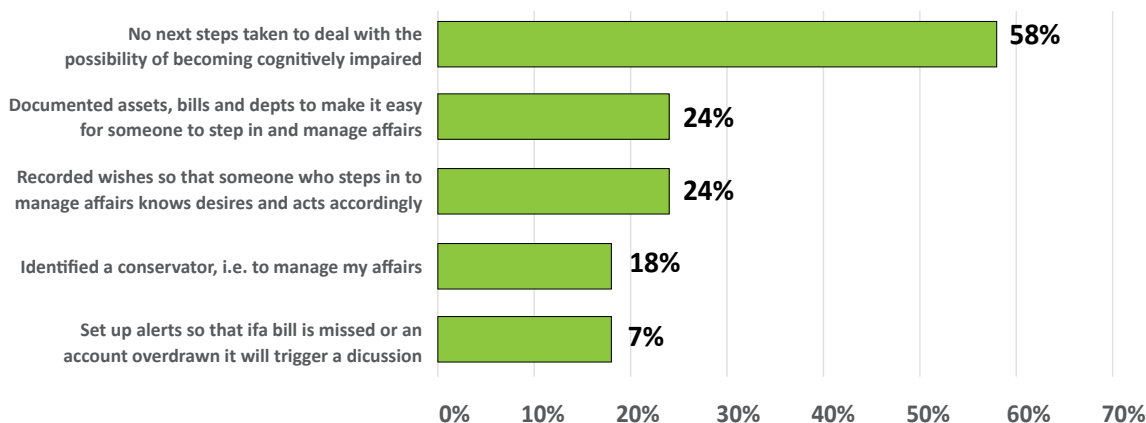
Boomers who have not saved enough for retirement may ultimately have only Social Security as a source of income; indeed, some may even begin retirement with no significant source of income beyond Social Security. When asked what they plan to do should this become a reality, most Boomers plan to find a way to survive on Social Security alone, and/or attempt to rejoin the work force.

What Do Boomers Plan To Do if They Run Out of Money in Retirement?



Some Boomers may eventually face cognitive impairment, yet few have taken any specific steps to prepare for the possibility. This is an area where Boomers need to improve significantly, as the potential for making poor financial decisions rises with cognitive declines. Annuity ownership can play an important role in such planning by converting investable assets into guaranteed income.

What Steps Have Boomers Taken to Plan for Cognitive Impairment?



CONCLUSION

As a group, the Baby Boomer generation is feeling less confident in their prospects and preparations for a secure retirement, and are more concerned about specific aspects of retirement such as medical expenses, children's educations, and long term care. Paradoxically, however, many believe they will enjoy a more secure retirement than their parents did, and even those with relatively little saved for retirement and no pensions expect to enjoy travel and leisure activities in retirement in addition to paying for their basic needs and medical costs. While this may be unrealistic for many, the study finds that Boomers who work with financial advisors, and those who own annuities, are far more likely to have set goals, to have saved (and saved more) for retirement, and to feel both more economically satisfied currently and better prepared for retirement.

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 internet interviews with 803 adult Americans aged 52 to 68. Data were weighted by age and gender. Data was collected from January 29 through January 31, 2015. The margin of error for the sample of 803 was $\pm 3.5\%$.



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