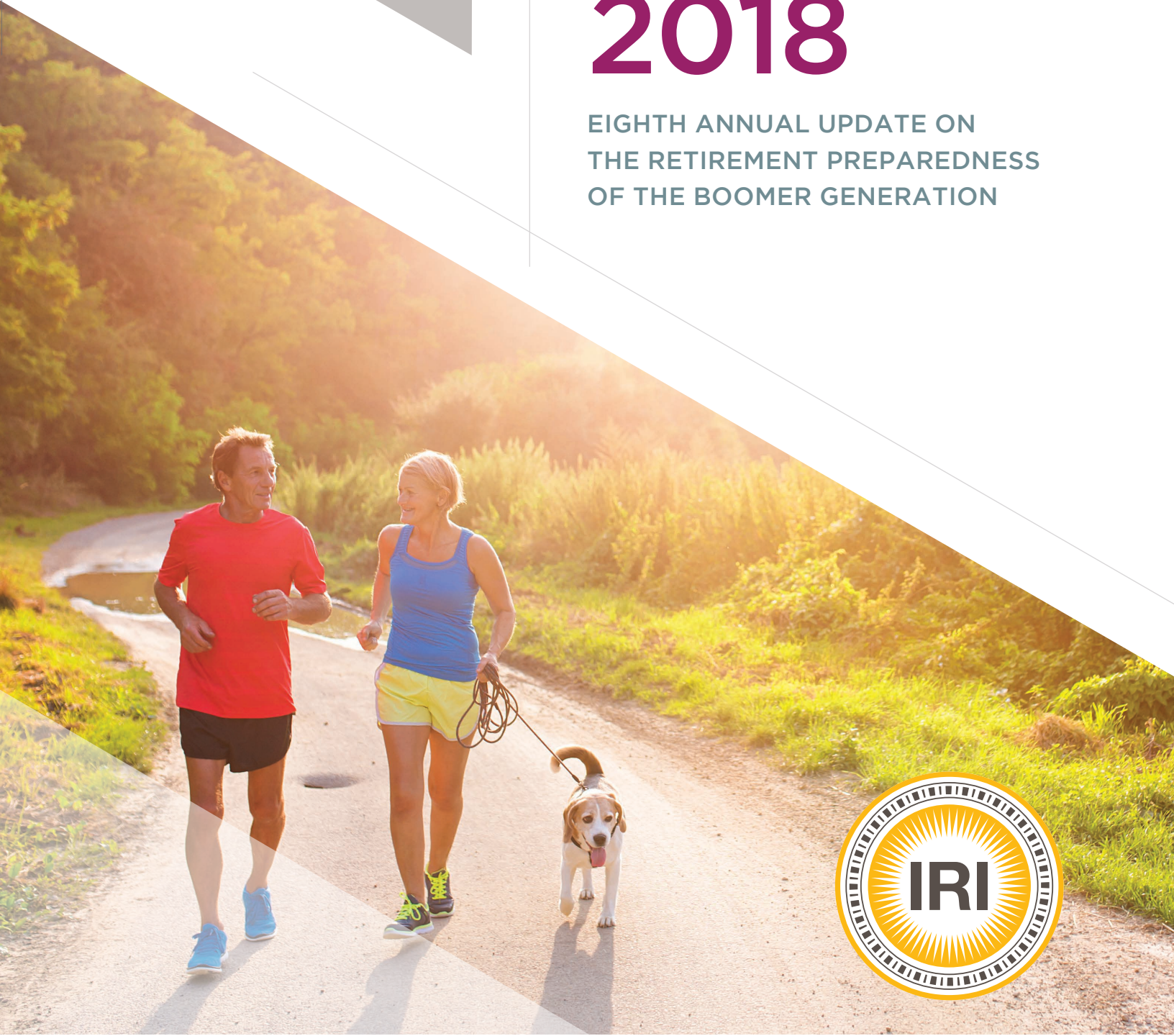


BOOMER EXPECTATIONS FOR RETIREMENT 2018

EIGHTH ANNUAL UPDATE ON
THE RETIREMENT PREPAREDNESS
OF THE BOOMER GENERATION



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.**

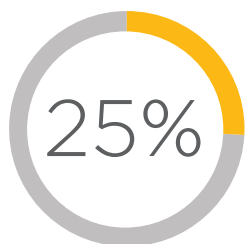
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OVERVIEW

IRI began the Baby Boomer research series in 2011, and on January 1 of that year the first Boomer turned 65. Around the same time, a statistic from Pew Research Center noted that 9,999 other Baby Boomers would turn 65 that January 1, and every day thereafter for the next 19 years. Assuming that statistic is accurate, approximately 26 million Boomers have turned 65 since the first IRI report on the retirement readiness of the Boomer generation was published, and another 50 million or so will follow over the next 10 years. Boomers will shape retirement in America for years to come, as they've shaped every other life stage they've passed through, their presence and sheer numbers altering the experience for those that follow in ways that may not be clear yet. One thing is certain: they will need financial resources to enjoy a dignified retirement, and guidance in how to efficiently use those resources to reach their goals. This year's Boomer study demonstrates yet again the marked difference between Boomers who have engaged financial professionals to help them build comprehensive and effective retirement plans, and those who have not.

5 THINGS TO KNOW ABOUT BOOMERS AND RETIREMENT READINESS



Only 25 percent of Baby Boomer are confident their savings will last throughout retirement.

7 in 10

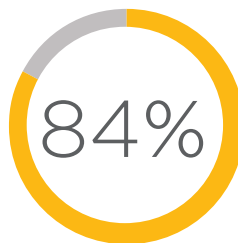


Seven in 10 Boomers say it is very important for retirement income to be guaranteed for life, yet only 14 percent plan to purchase an annuity with a portion of their 401(k) or IRA and only 3 percent have done it.

4 in 10



Four in 10 Boomers plan to withdraw from their 401(k) "as needed" to pay for their basic expenses, but only half as many (22 percent) consider their 401(k) to be a major source of retirement income.



Eighty-four percent of Boomers with financial advisors have had income from an annuity included in their financial plan by their advisor (43 percent), or their advisor has discussed using annuities for retirement income with them (41 percent).



MONTHLY GUARANTEED INCOME is the most important single trait Boomers look for in a retirement investment, ranked number one or number two in importance by

41 %



SUMMARY OF FINDINGS

- Overall life and economic satisfaction rose for the second straight year, with 55 percent of Boomers satisfied with how things are going in their lives versus 47 percent in 2017 and 43 percent in 2016.
- The percentage of Baby Boomers with retirement savings rose to 58 percent, from 54 percent in 2017. While significantly lower than earlier study years (in 2014 80 percent of Boomers indicated they had at least some money saved for retirement), an uptick may be indicative of more aggressive saving by employed Boomers.
- Among Boomers with retirement savings, 43 percent have \$250,000 or more saved, as compared to 32 percent having this level of savings in 2017. This was offset by the group with \$100,000 to \$250,000 saved dropping from 29 percent to 19 percent.
- Seven in 10 Boomers have \$5,000 or less in an emergency fund, creating risk that a significant unplanned expense could negatively impact their retirement or retirement preparedness. Fortunately, at the same time their credit card debt is low; six in 10 Boomers carry credit card balances of \$1,000 or less.
- Despite improving measures of retirement readiness, retirement confidence is still very low: only 25 percent of Boomers believe they will have enough money in retirement, and only 28 percent believe they are doing (or did) a good job financially preparing for retirement.
- Working with financial professionals continues to be highly correlated with retirement preparedness: 79 percent of Boomers who have a relationship with a financial professional have at least \$100,000 saved for retirement, versus only 48 percent of those who do not work with a financial professional.
- Annuity ownership is also an indicator of retirement readiness; 80 percent of annuity owners have at least \$100,000 saved for retirement, as compared to only 53 percent of non-owners.
- Eighty-four percent of Boomers who work with financial professionals report that their advisors have either included retirement income using annuities in their written financial plan (43 percent), or have discussed the use of annuities to provide retirement income with them (41 percent).
- Nine in 10 Boomers who work with financial professionals believe their advisor works in their best interest.



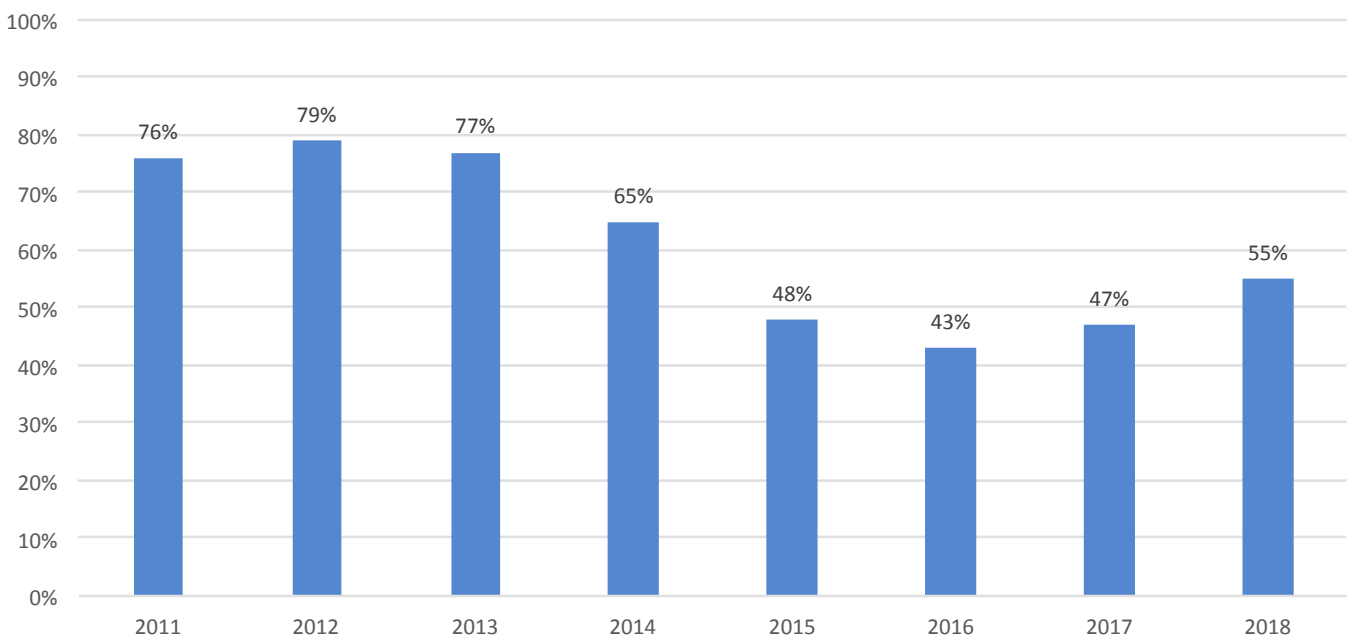
- Boomers are lacking in engagement with their 401(k) plans; 80 percent check their account balances on at least a quarterly basis, but more than one-half rarely or never rebalance their investments.
- Despite the prevalence of annuity strategies in retirement plans, the most common approach Boomers plan to take when using their 401(k) plans for income is to withdraw money as needed to pay expenses (38 percent). Only 14 percent say they plan to use a portion of their balance(s) to purchase a lifetime income annuity, and only 3 percent have done so.
- About one-half of Boomers have not taken any action regarding their defined contribution plans. Among those who have, the most common action (21 percent) is to have reviewed distribution options.
- Seven in 10 Boomers say it is very important for retirement income to be guaranteed for life, and eight in 10 Boomers believe that 401(k) plans should provide an option to take a portion of plan balances as guaranteed lifetime retirement income.
- Seven in 10 Boomers believe employers should be required by law to offer a 401(k) or similar defined contribution plan to employees.
- Forty-five percent of Boomers say they expect to receive a retirement pension from a private employer, but only 28 percent say that an employer pension represents a major source of retirement income. This puts pensions a distant second behind Social Security, which 69 percent of Boomers expect to be a major source of income during retirement.
- Only 22 percent of Boomers say their defined contribution plan represents a major source of retirement income.
- Despite modest retirement income expectations, 53 percent of Boomers expect to manage their basic expenses during retirement and have at least some money left over for travel and leisure activities.
- Changes to Social Security that may reduce their income (76 percent) and health care expenses (69 percent) are the top two concerns of Boomers regarding their later retirement years.
- Monthly guaranteed income is the most important single trait Boomers look for in a retirement investment, ranked number one or number two in importance by 41 percent. Rate of return is second with 37 percent ranking it one or two, followed by guarantee of principal at 34 percent.

REPORT AND EXHIBITS

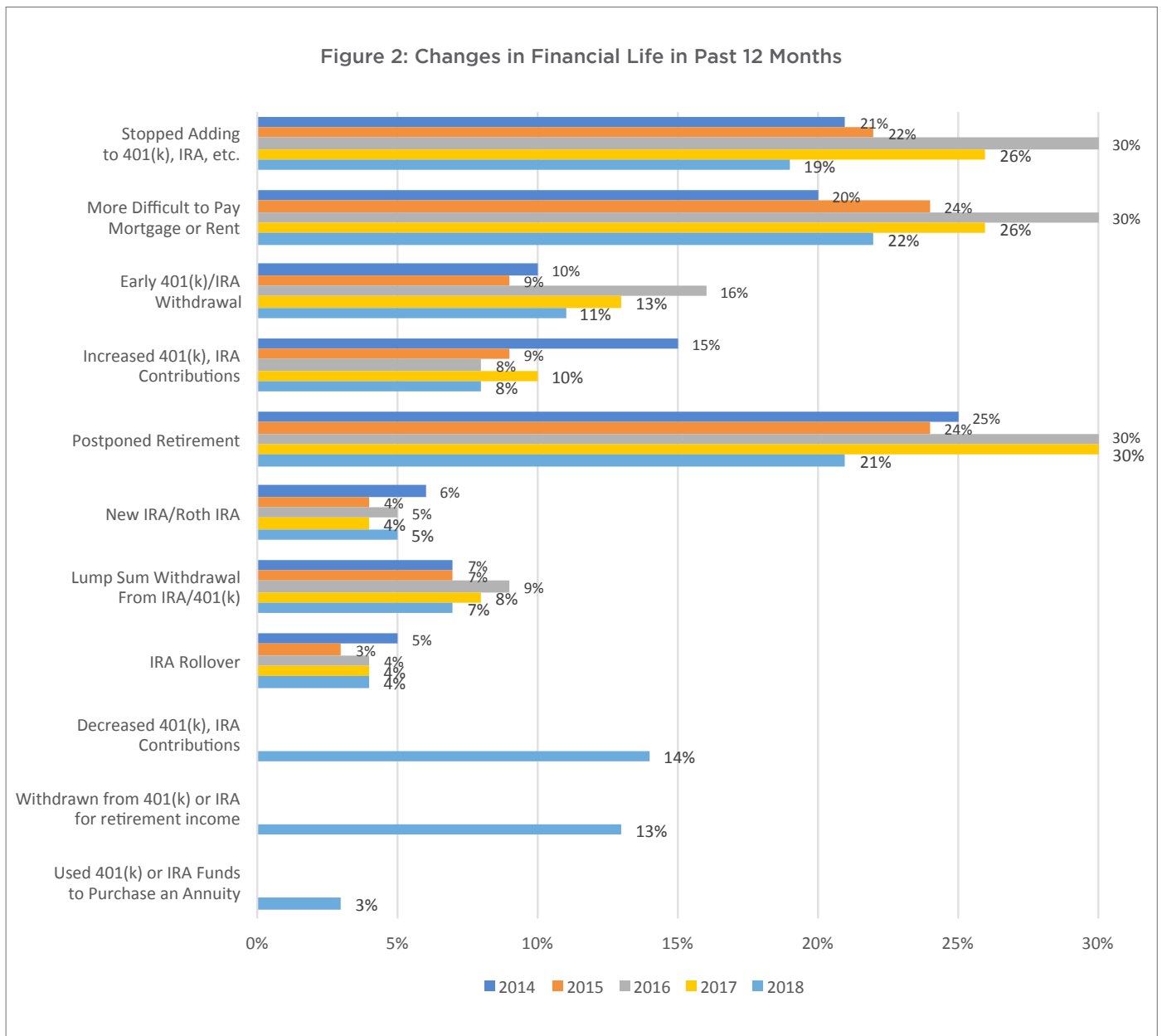
BOOMERS IN THE NOW

After declining in 2014, 2015, and 2016, the overall satisfaction Boomers feel regarding their financial lives improved in 2017 and again this year. **Figure 1** shows 55 percent of Boomers feeling satisfied with their lives, versus 47 percent last year and 43 percent in 2016. Interestingly, the percentage of Boomers feeling financially satisfied is just about the same as the percentage with retirement savings. This should not be surprising given the proximity of even the youngest Boomers to traditional retirement age – approaching the end of working life with little or nothing saved is not calculated to engender positive feelings about one’s finances.

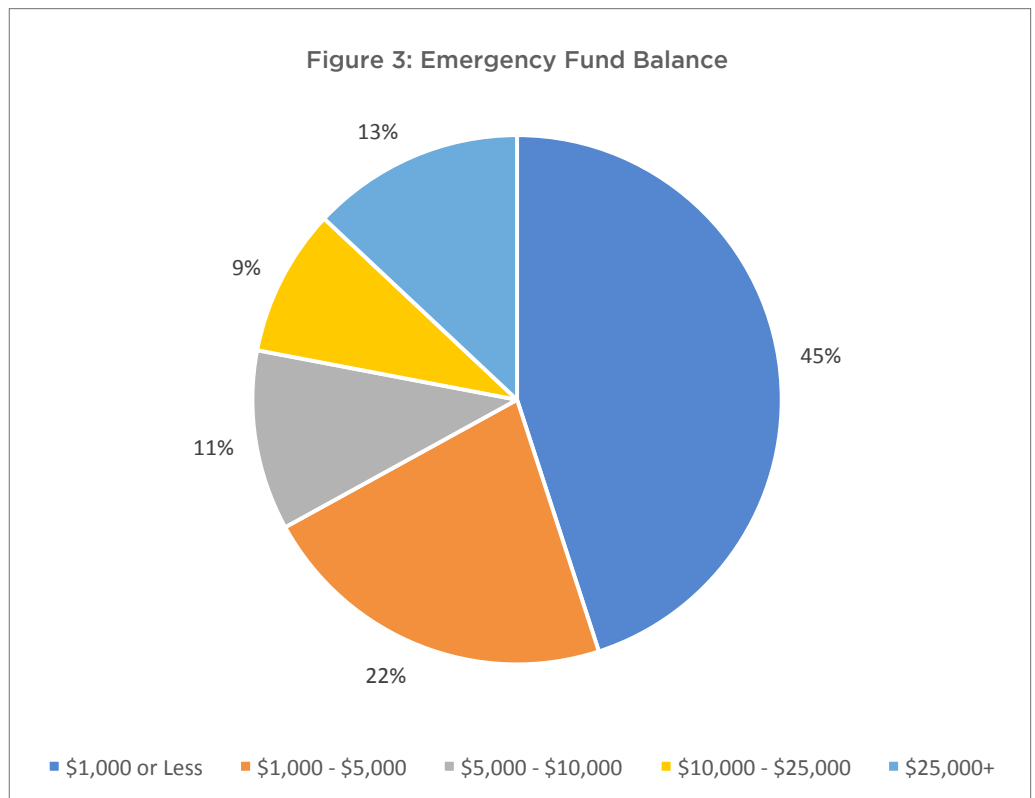
Figure 1: Life/Economic Satisfaction



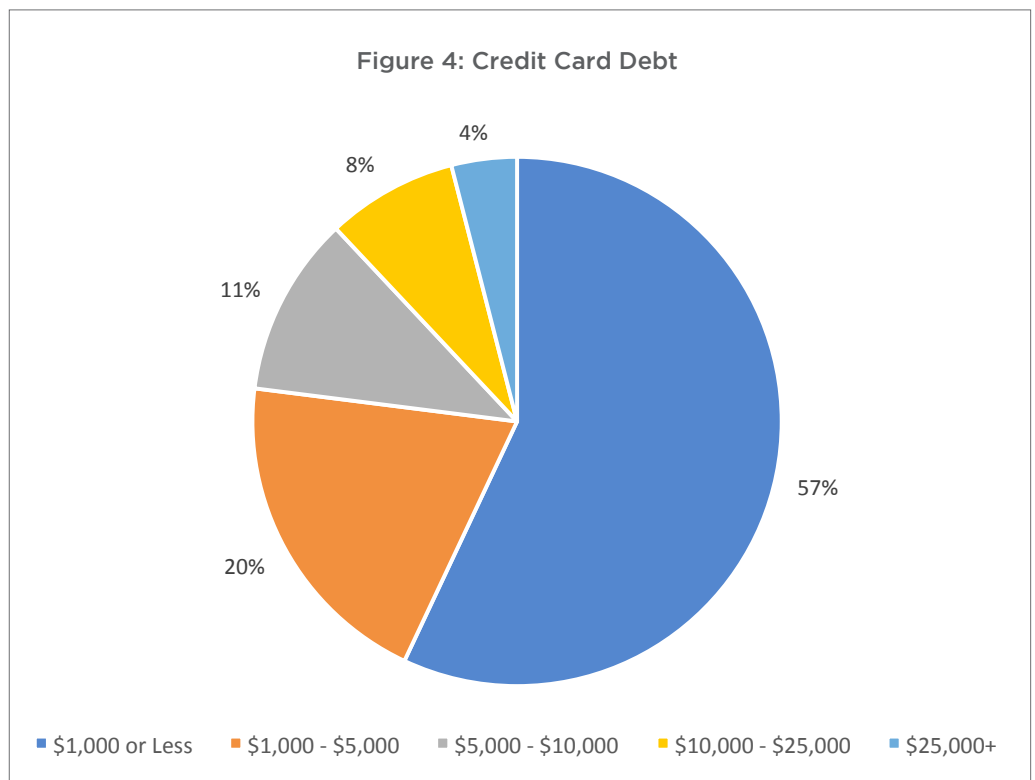
Despite almost one-half of Boomers feeling less than satisfied with their lives from an economic and financial standpoint, **Figure 2** shows that most empirical measures of financial health in the study improved in 2018 relative to 2017. Fewer Boomers suspended retirement account contributions, found it more difficult to pay mortgages or rents, or took early withdrawals from 401(k) or IRA accounts. New measures added this year include decreasing (as opposed to fully halting) 401(k) or IRA contributions, withdrawing funds as retirement income (increasingly important to monitor as the Boomers age), and whether funds in a 401(k) or IRA were used to purchase an annuity. This last measure will be interesting to trend over time, as the percentage saying they've engaged in such a transaction is currently far lower than the percentage who say they either plan to do so or would consider it.



Life can throw all manner of wrenches into the best laid plans. It is concerning that in **Figure 3** nearly seven in 10 Boomers maintain an emergency fund of \$5,000 or less; an expensive car or home repair, serious illness or job loss could rapidly exhaust a small fund, potentially forcing premature withdrawal from a retirement account or an increase in credit card debt.

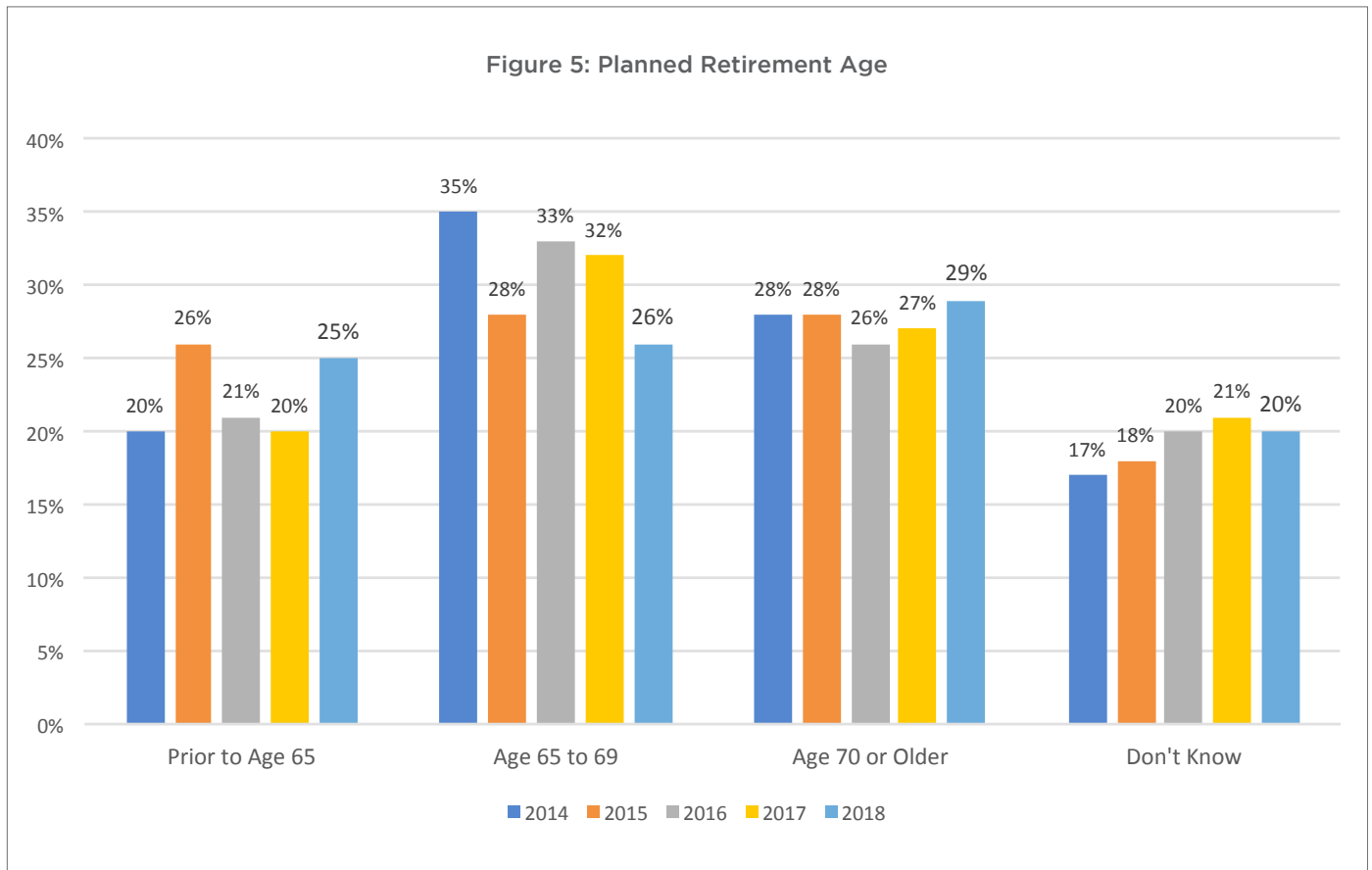


Fortunately, Boomers seem to be carrying very little revolving debt, with **Figure 4** showing six in 10 carrying balances of \$1,000 or less on their credit cards.

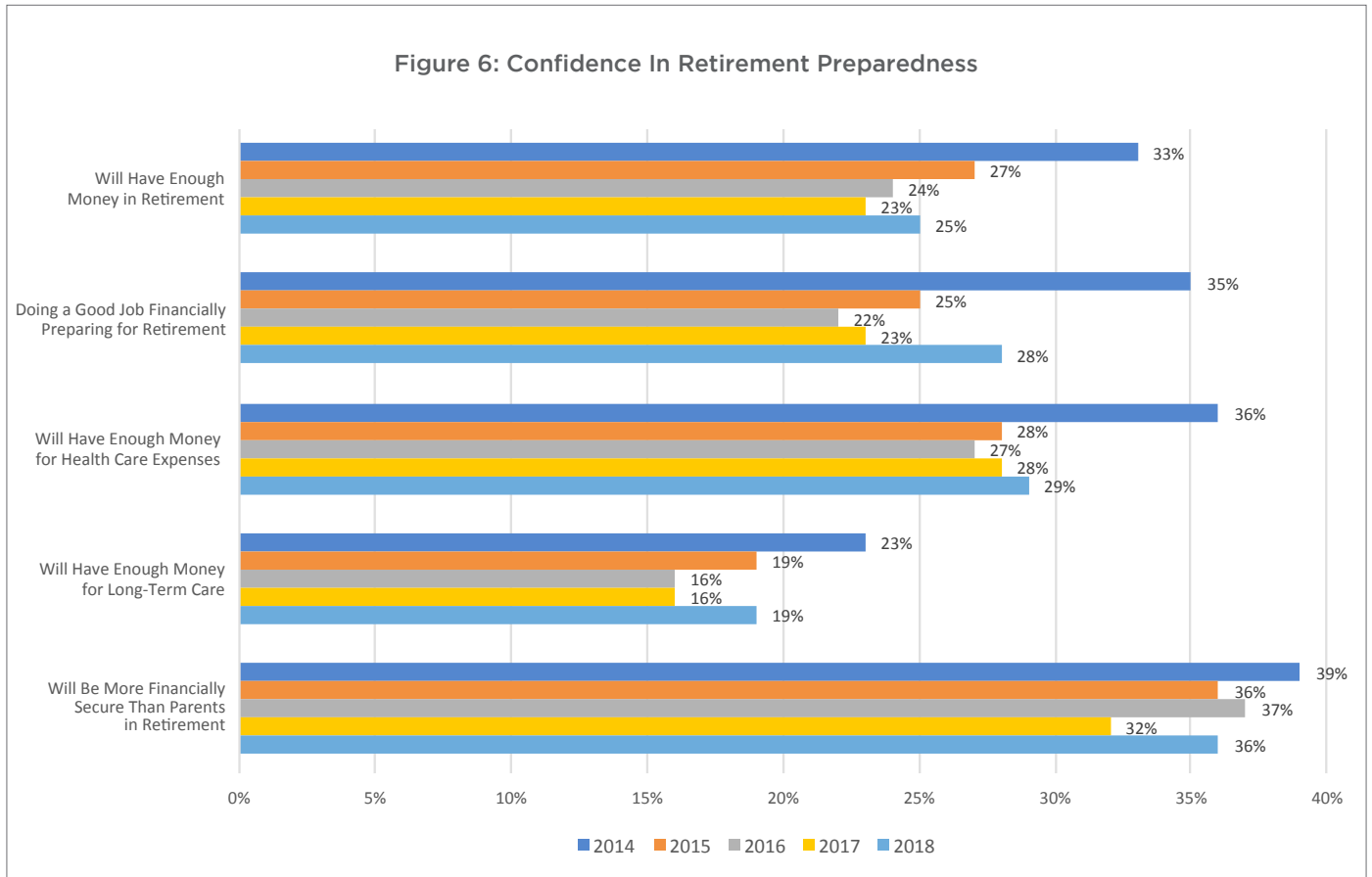


RETIREMENT SAVING, PREPARATION AND CONFIDENCE

The ages at which Boomers still in the workforce plan to retire have not shifted much in the past few years. The most significant change is the increase in those who plan to retire prior to age 65, which **Figure 5** shows grew from 20 percent of Boomers in 2017 to 25 percent in 2018. A small shift and given the state of savings and retirement confidence among Boomers it is more likely the increase is associated with non-voluntary retirement, such as for health reasons or impending loss of employment.



As in prior years, Boomers' confidence in their ability to navigate retirement, and in the effectiveness of their preparation, is low. **Figure 6** reveals that only one in four Boomers are confident they will have enough money to last throughout retirement or that they are doing (or did) a good job preparing financially for retirement, and only one-third believe they will be more financial secure in retirement than their parents. Boomers also display a low level of confidence in managing health related costs, with only 29 percent confident they can manage health care expenses, and fewer than one in five confident they will be able to pay for long-term care should they need it.



In **Figure 7** the lack of adequate retirement preparation among Boomers is brought into sharp relief. While 58 percent have retirement savings, up a bit from the past few years, only 38 percent have tried to calculate how much they need to save to successfully retire, and only one in four have consulted a financial professional. About one-half have added to their retirement savings in the past 12 months, which is in fact a positive finding as 43 percent of respondents classify themselves as fully retired and are far less likely than workers to continue contributing to retirement accounts.

Figure 7: Positive Retirement Planning Behaviors

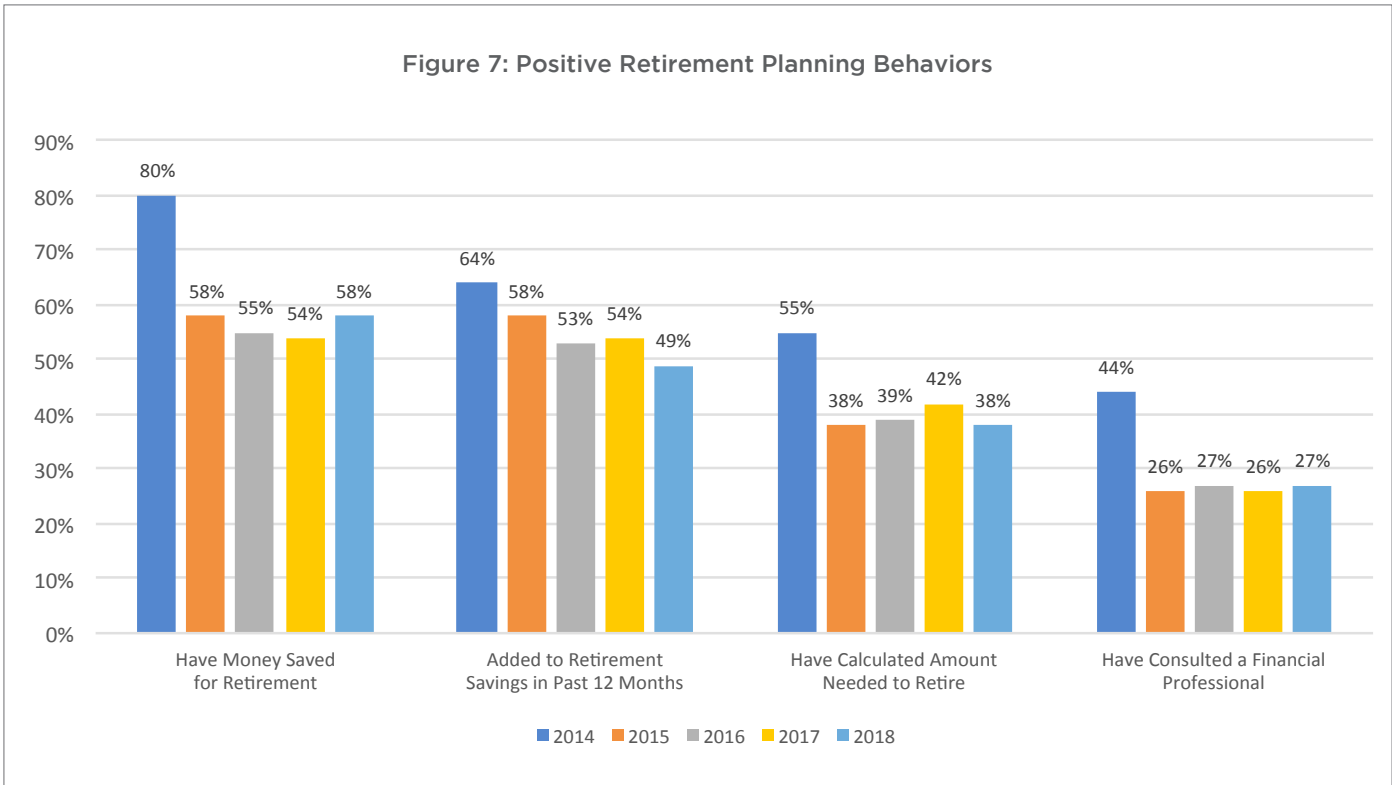


Figure 8 shows significant improvement in retirement account balances relative to the past few years. While the percentage of Boomers with less than \$100,000 saved is virtually unchanged from 2017, over four in 10 Boomers with retirement savings now have savings of \$250,000 or more versus less than one-third last year, as strong market performance helped propel many from the middle to the upper range of savings. The spike in the top category in 2014 is likely a statistical anomaly in the sample given the trends that have developed since.

Figure 8: Amount Saved for Retirement

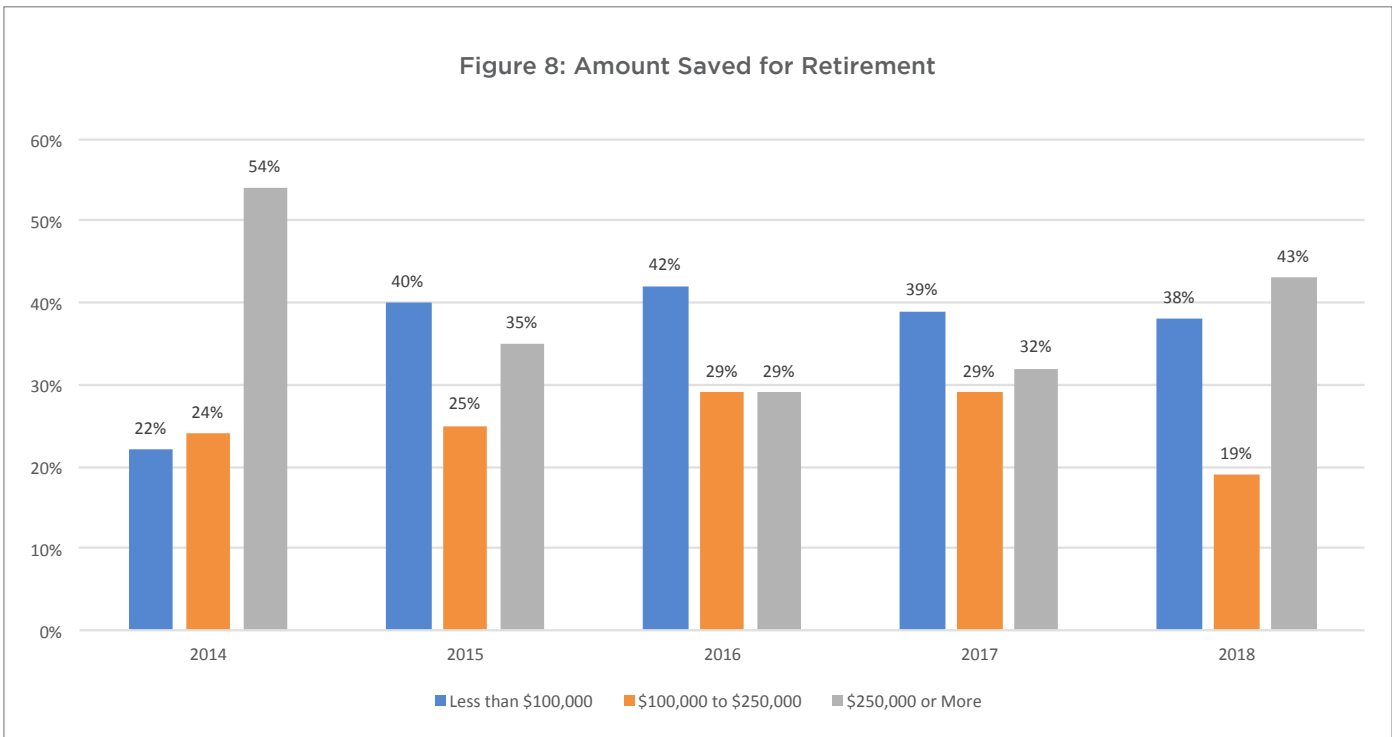
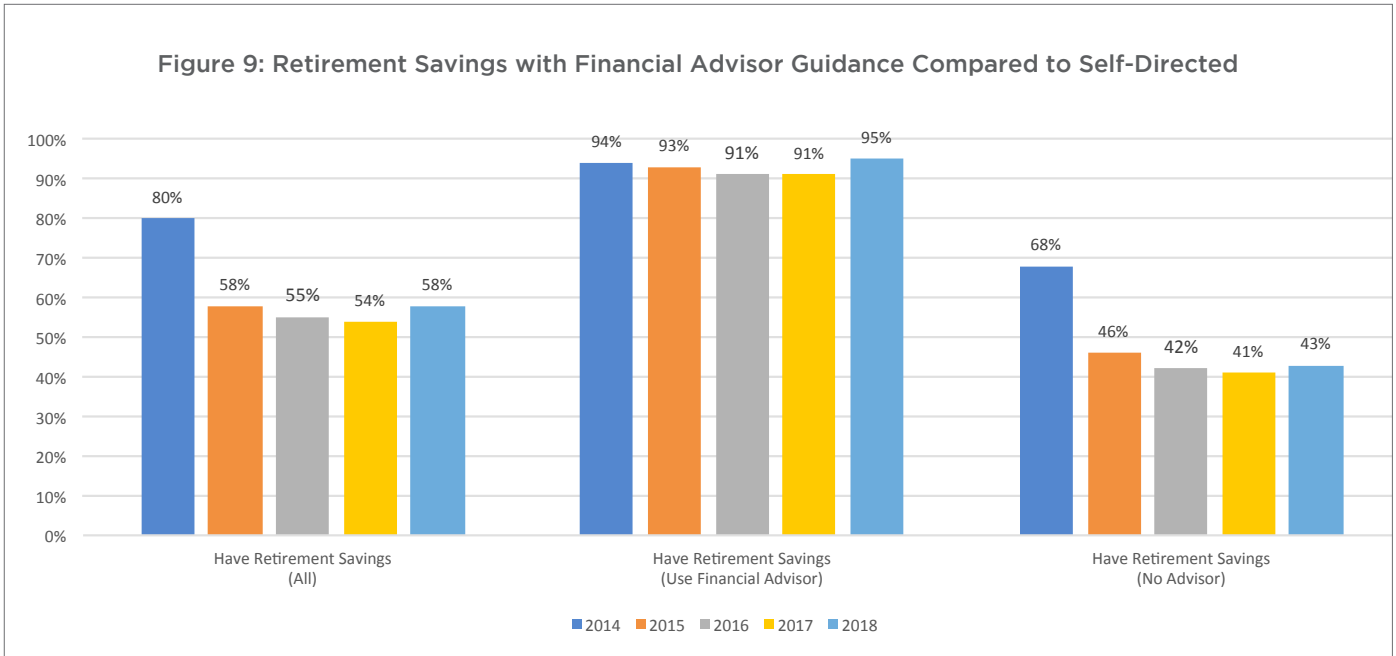
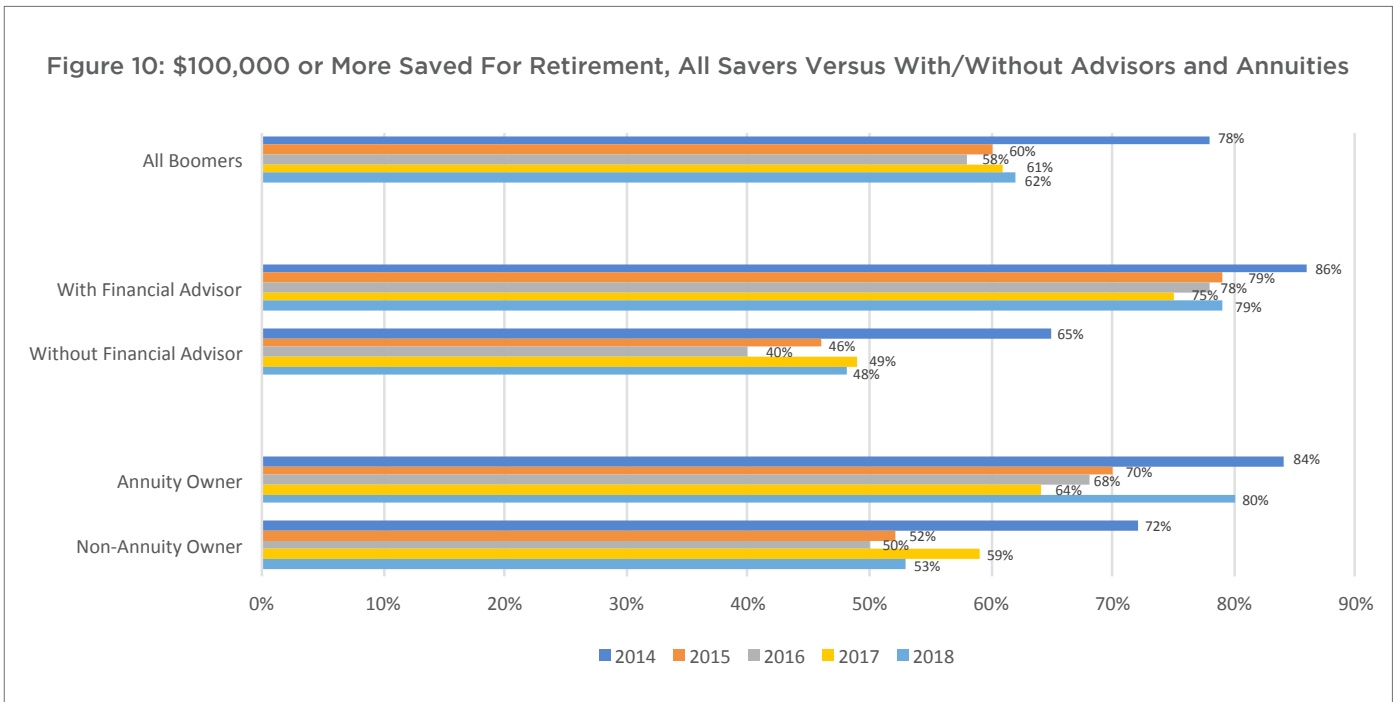


Figure 9 shows the intuitive relationship between retirement savings and working with a financial advisor. A Boomer with no retirement savings is far less likely to engage with a financial professional so one would expect this correlation.



Beyond Boomers being more likely to simply have retirement savings when they work with a financial professional, they are also much more likely to have higher levels of savings. In Figure 10, among all Boomers with retirement savings, 62 percent have saved \$100,000 or more. However, only 48 percent of Boomers have reached this level of savings on their own, while 79 percent of Boomers with financial advisors have retirement savings of at least \$100,000. Annuity ownership is also highly correlated with higher savings levels, with 80 percent of annuity owners having \$100,000 or more saved, versus 53 percent of non-annuity owners.



It is not surprising that those with savings are more likely to have a relationship with a financial professional, and that they have saved more. Financial advisors can help Boomers with many areas of their financial lives, but investing and retirement planning are the topics Boomers are mostly likely to say their advisors have discussed with them. In **Figure 11**, eight in 10 Boomers say their advisor has discussed retirement, and 69 percent have discussed investing. Beyond these two important topics the percentages fall dramatically, signaling an opportunity for advisors to engage more deeply with Boomer clients. Alternatively, information on these other topics may in many cases have been presented, but didn't "stick" in the client's mind, indicating an opportunity to improve communication and engagement. Hands-on exercises and gamification, for example, can help cement concepts that may be misunderstood or ignored when presented passively through discussion, brochures, or static website pages.

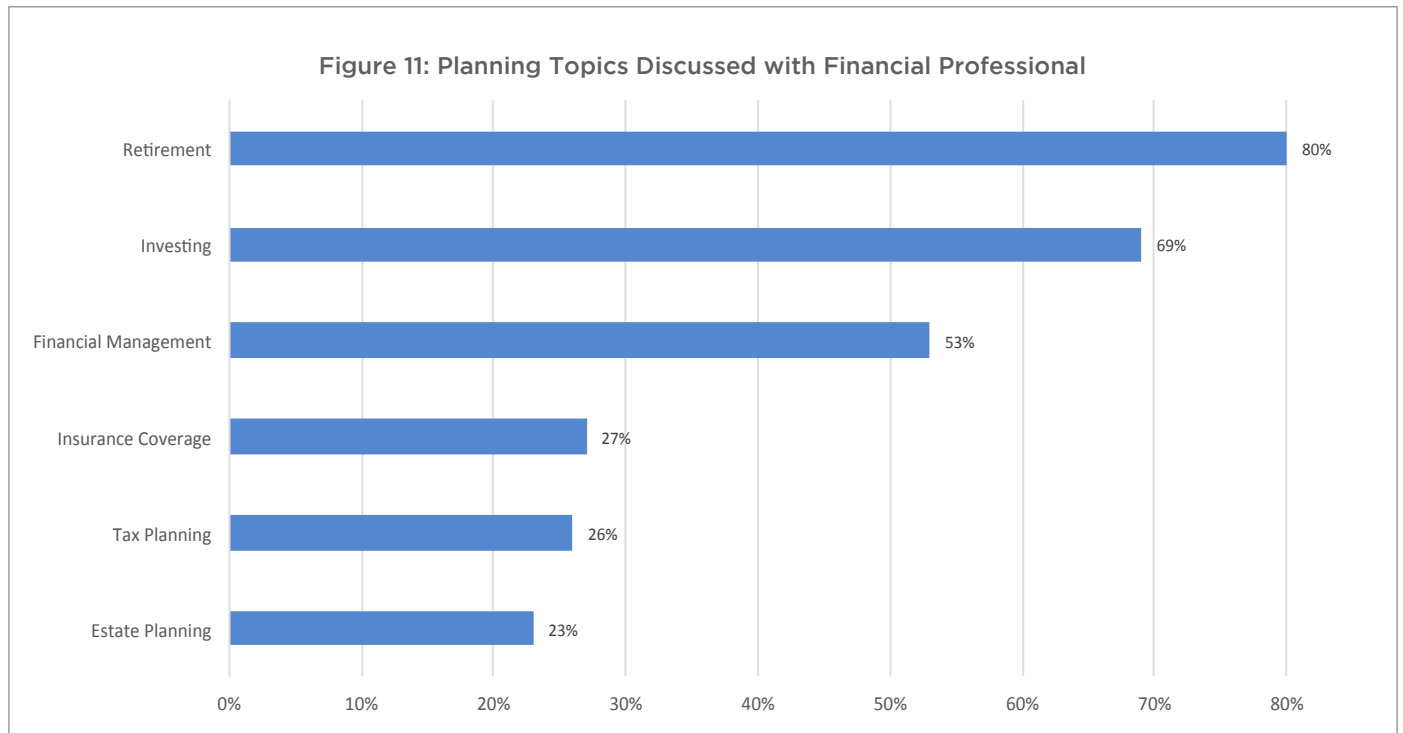
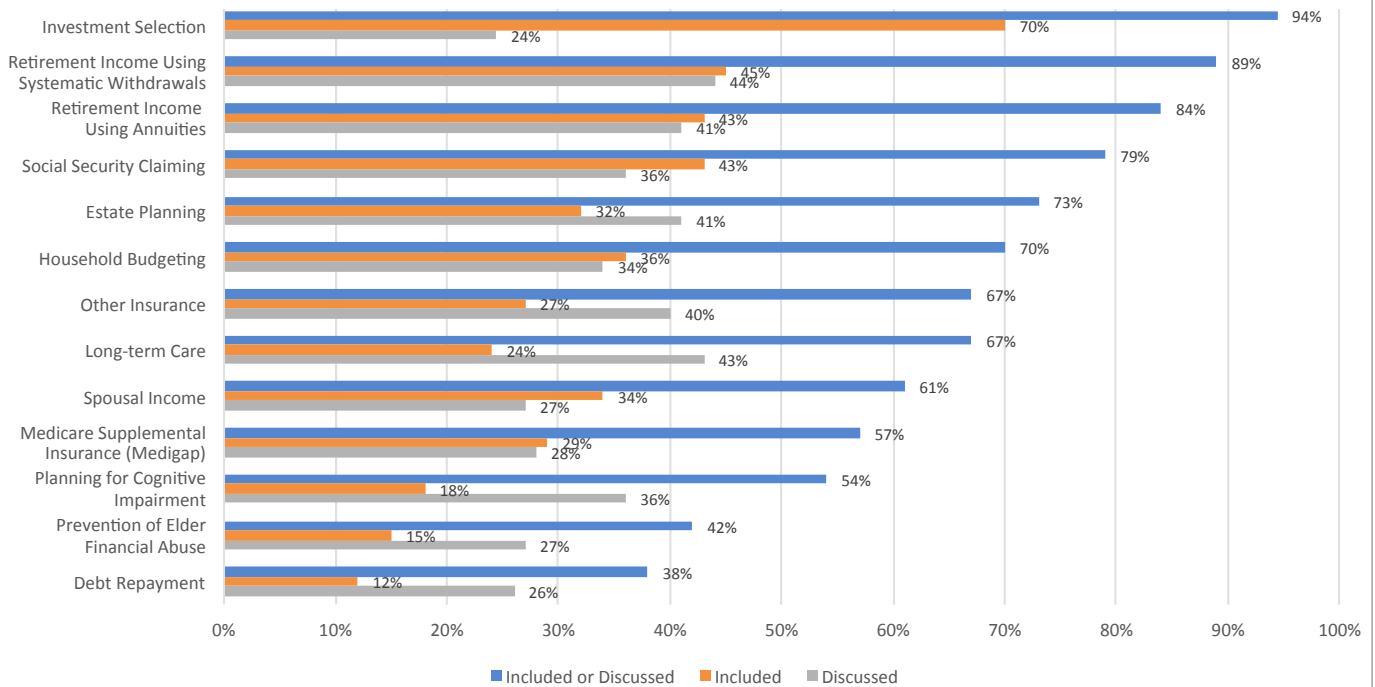


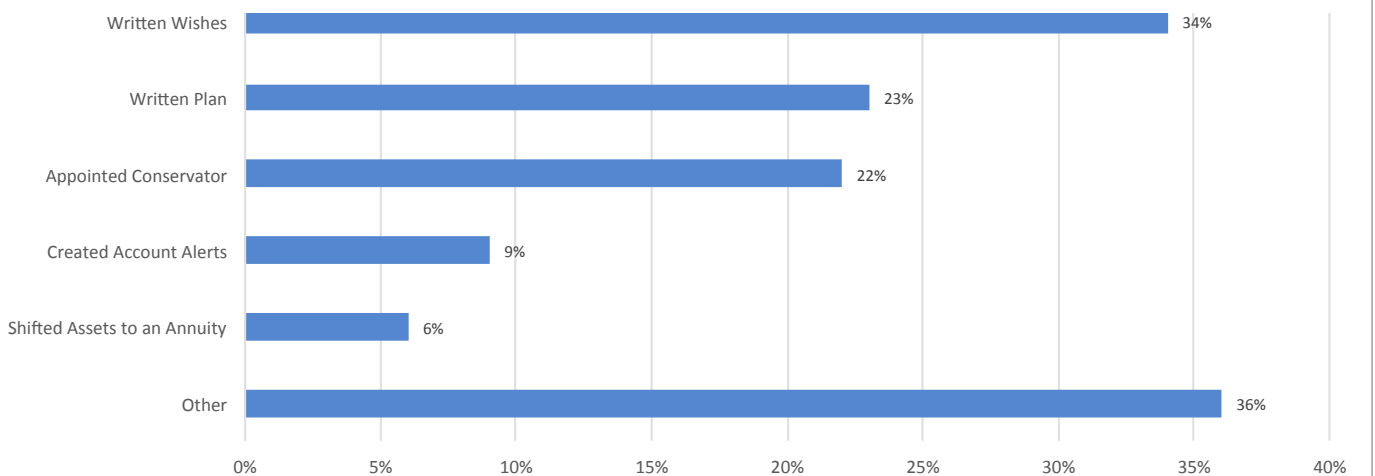
Figure 12 goes into detail about the specific planning areas Boomers say have either been included in the financial or retirement plan given to them by their advisors, or that their advisor has discussed with them. In addition to investment selection, which unsurprisingly is almost universal, 84 percent of Boomers who use advisors say their advisor has either given them a plan to use annuities for retirement income (43 percent), or discussed using annuities for income (41 percent). This falls just below systematic withdrawal, presented or discussed by 89 percent of advisors. Other aspects of retirement planning that are less "traditional," including supplemental Medicare insurance, long-term care planning, planning for the possibility of cognitive decline, and prevention of elder financial abuse are topics Boomers are much less likely to say their advisors have discussed. This is a real opportunity for advisors to add value for their clients, as planning for health care and long-term care expenses are key areas where Boomers have low confidence in their preparedness.

Figure 12: Retirement Planning Areas Included in Plan or Discussed by Advisor

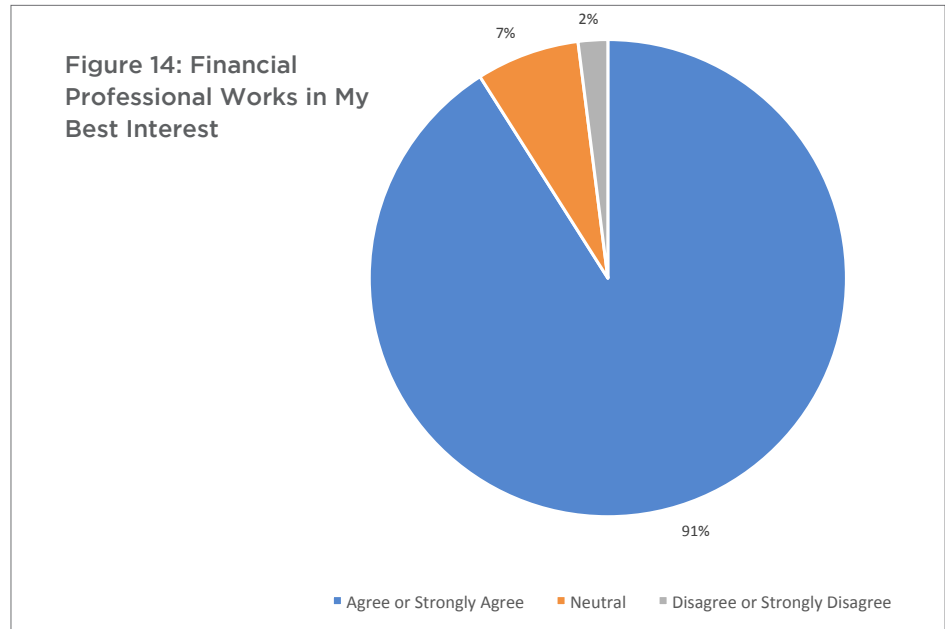


As an example of what Boomers have done to address some of these less straightforward aspects of retirement planning, **Figure 13** breaks down specific steps Boomers have taken to plan for the possibility that they may experience cognitive decline to an extent that they would need help managing their financial affairs. Relatively few have taken any steps to deal with this possibility, despite the increased risk of making serious financial mistakes or becoming a victim of a financial scam or fraud. One-third of Boomers say they have written down their wishes in the event they can no longer manage their affairs, but fewer than one in four have taken more concrete steps like creating a written plan for a trusted family member or friend to follow or appointing a conservator.

Figure 13: Steps Taken to Prepare for Possibility of Cognitive Decline

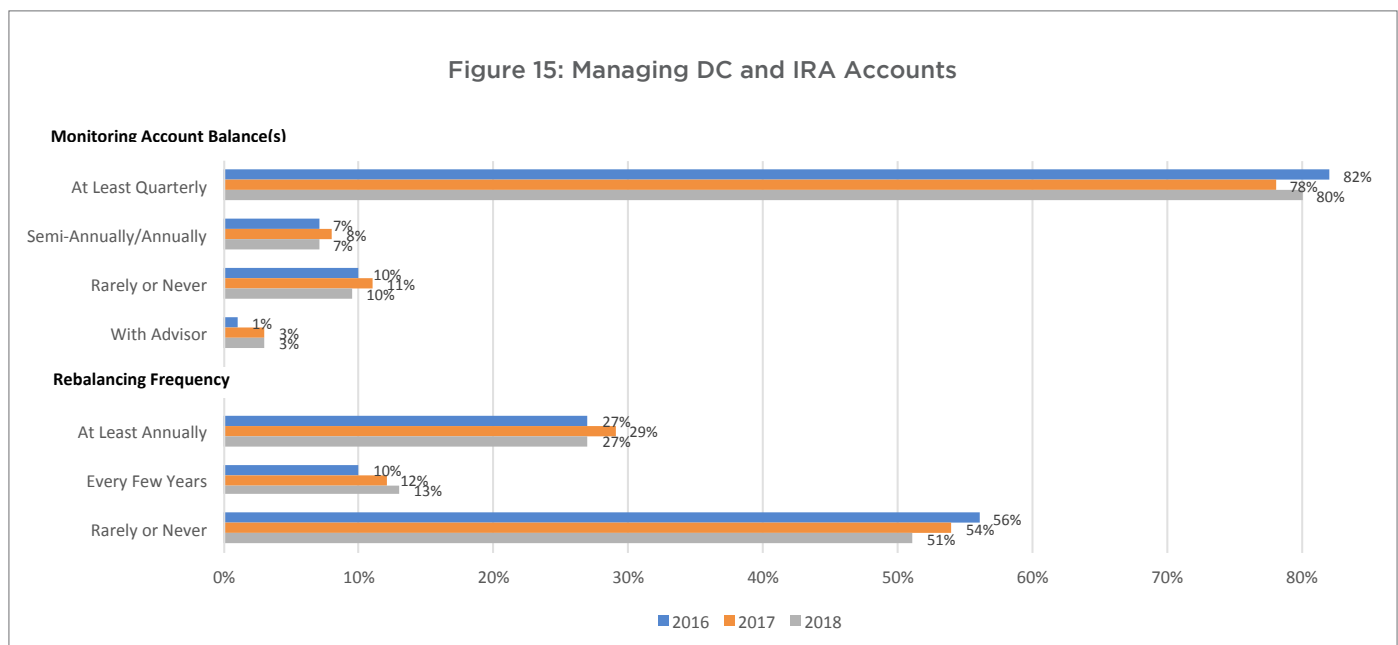


Reflecting the value that financial professionals provide to Boomers in or working toward retirement, **Figure 14** shows that they overwhelmingly believe that their advisors are working in their best interest.

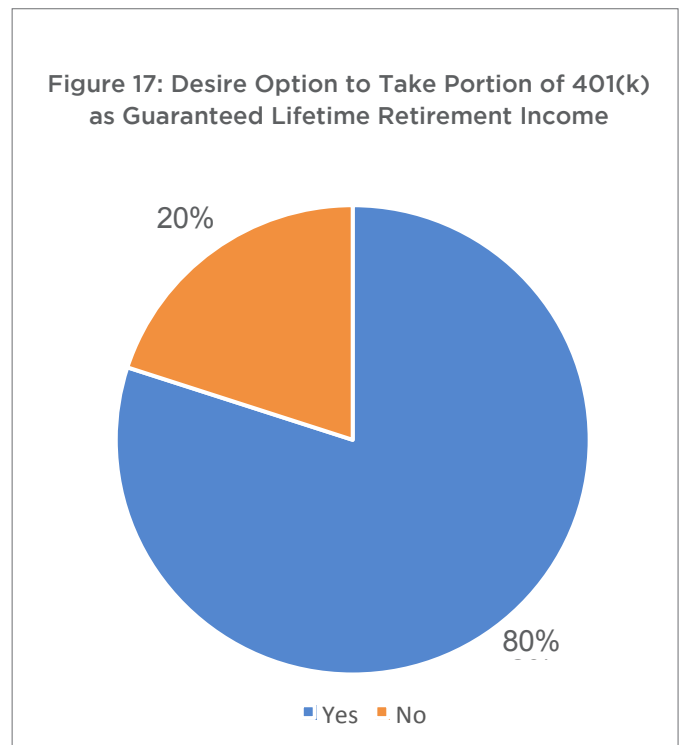
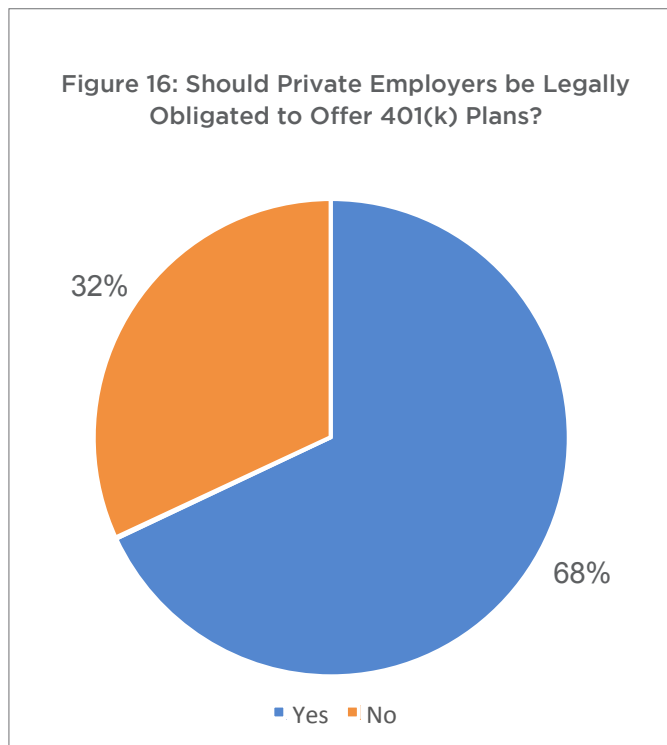


MANAGING AND OPTIMIZING RETIREMENT SAVINGS

Given the important role retirement savings is playing, or will play, in supplementing retirement income from other sources such as Social Security and pensions, it is important for Boomers to stay engaged with their retirement accounts, monitoring account balances and altering their investment allocation as they age, and/or their risk tolerance or financial situations change. Unfortunately, while **Figure 15** shows that 80 percent of Boomers say they check their retirement account balances on at least a quarterly basis (most likely because they receive a quarterly statement), fewer than one-third say they rebalance their investments on at least an annual basis, and 51 percent say they rarely or never rebalance. This can create risk in retirement portfolios, for example after an extended period of very strong equity market performance, as has been the case in recent years and especially recent months, a portfolio that was 60 percent equity and 40 percent fixed income might now be 80/20.

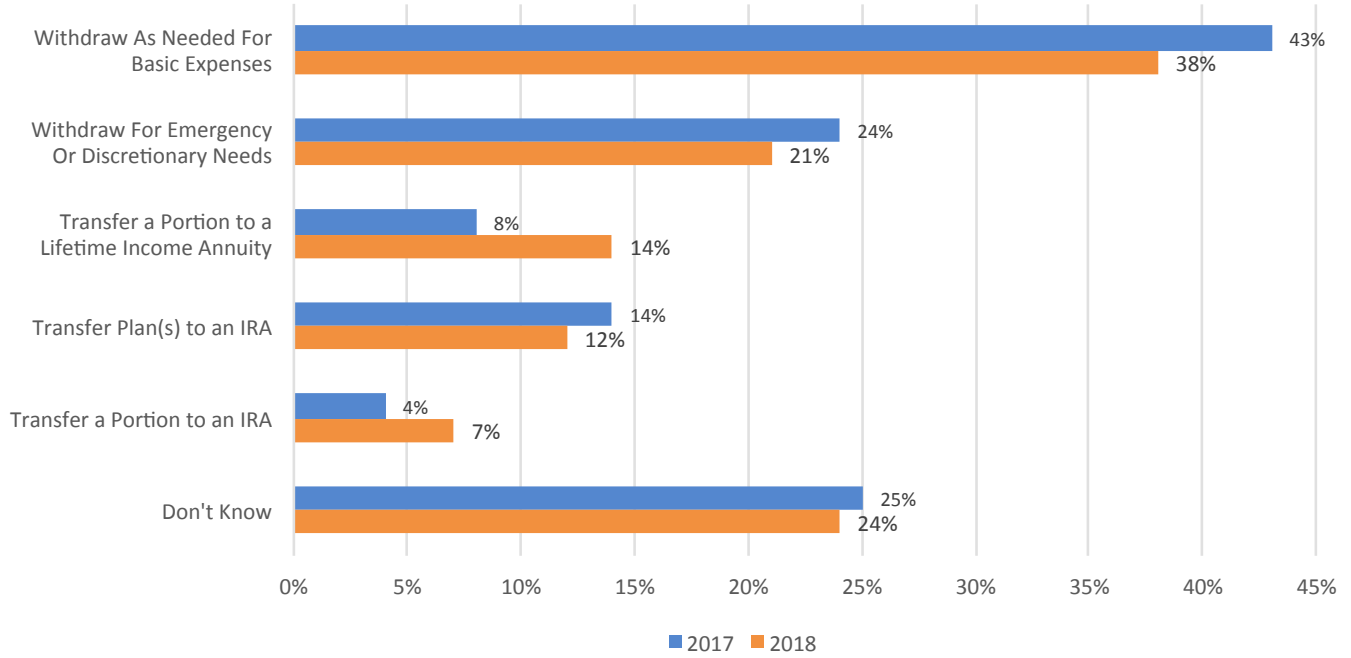


Despite sub-optimal engagement, employer sponsored defined contribution plans are an important part of the overall retirement picture for Boomers. So much so that in **Figures 16** and **17** most Boomers are shown to feel strongly that employers should be legally required to offer 401(k) plans to employees (68 percent), and that they should be offered an option in their plans to take a portion of their balance in the form of guaranteed lifetime income (80 percent).



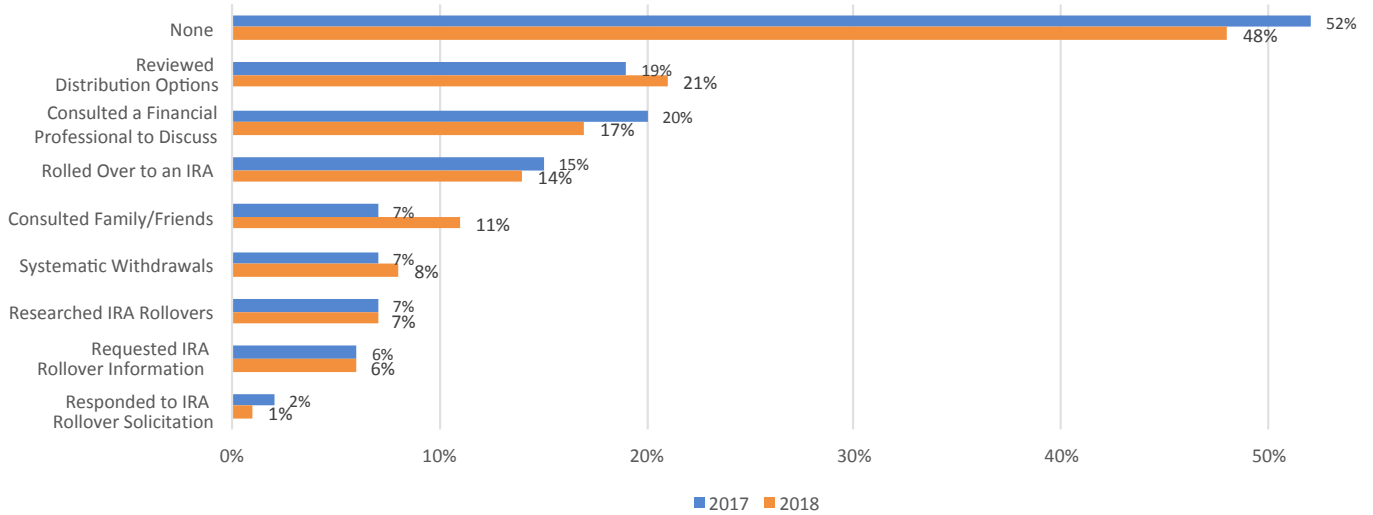
The ability to take a portion of their retirement plan balance as guaranteed lifetime income may save Boomers from becoming their own worst enemy when it comes to optimal use of the savings they worked a lifetime to accumulate. In **Figure 18**, Boomers were asked how they plan to use the money in their 401(k) plans during retirement. It is worrisome that while this has trended down a bit from 2017, four in 10 Boomers plan to simply withdraw funds on an “as needed” basis, which does not necessarily contemplate managing withdrawals to minimize the risk of running out of money before death, and one in four simply don’t know how they will access their savings. However, an encouraging development is the near doubling in the percentage of Boomers planning to use a portion of their balance to purchase a guaranteed lifetime income annuity, from 8 percent in 2017 to 14 percent this year. Still quite low but moving in the right direction for improving Boomers’ retirement security.

Figure 18: Plans for Using 401(k) Balance(s)

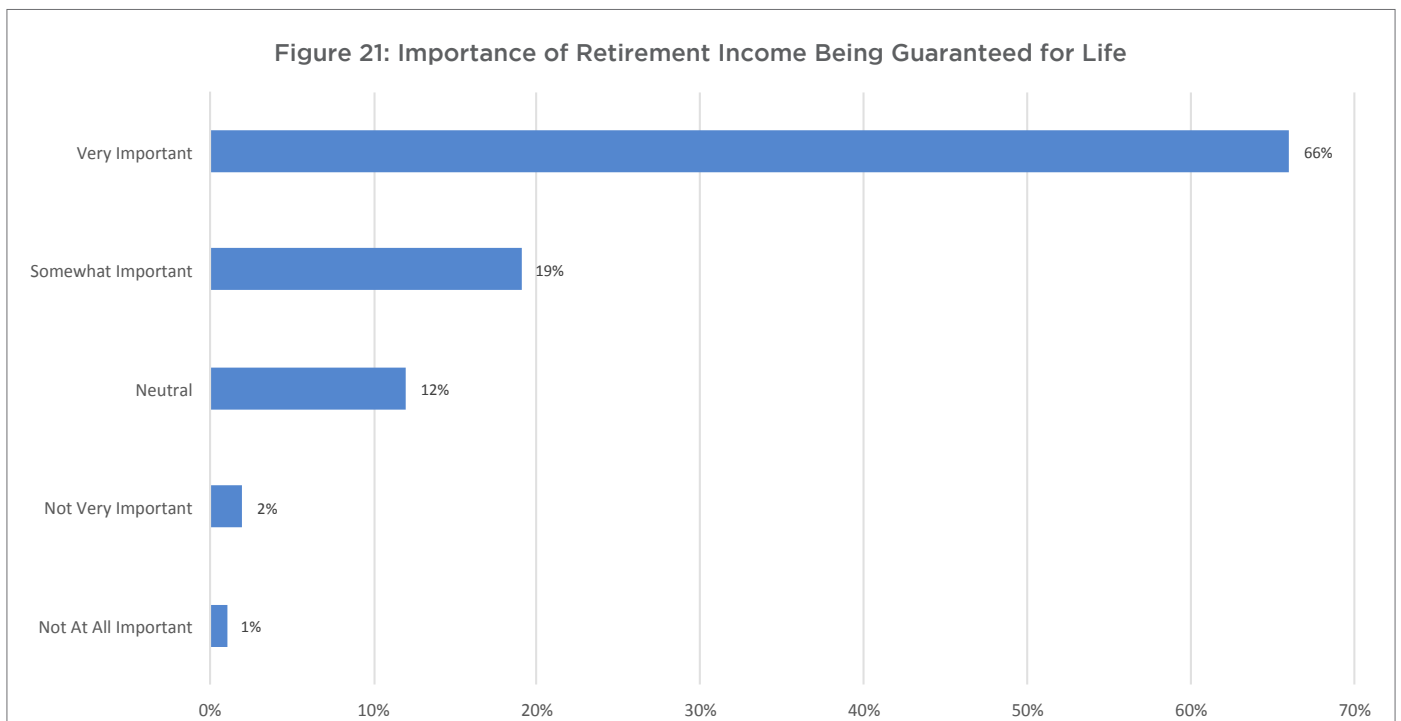
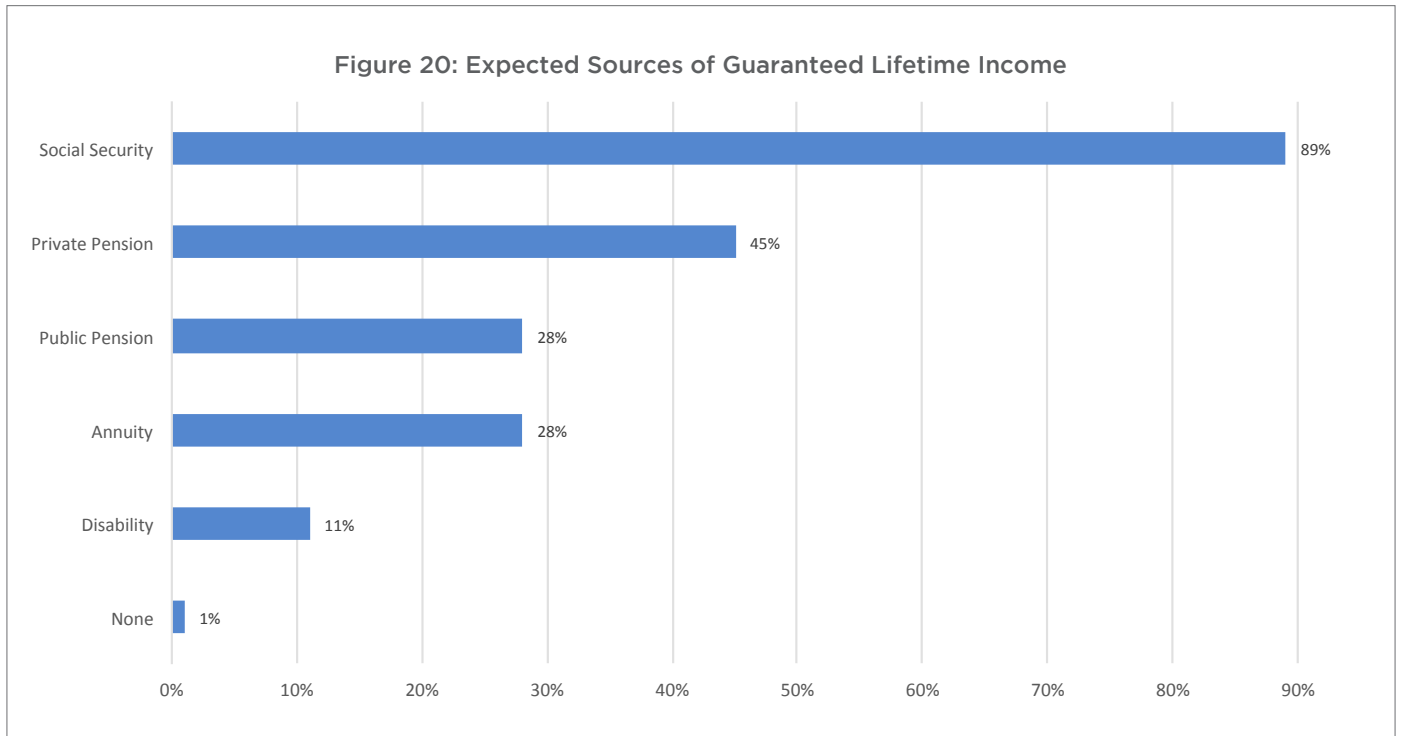


Intent is one thing, action another. **Figure 19** explores the steps Boomers have taken to use their savings, or even to find out how they would go about it. More than one-half of Boomers with employer sponsored retirement plans have done nothing. Encouragingly, however, for those that have investigated how they would go about tapping their financial resources in retirement consulting a financial professional is the second most common answer.

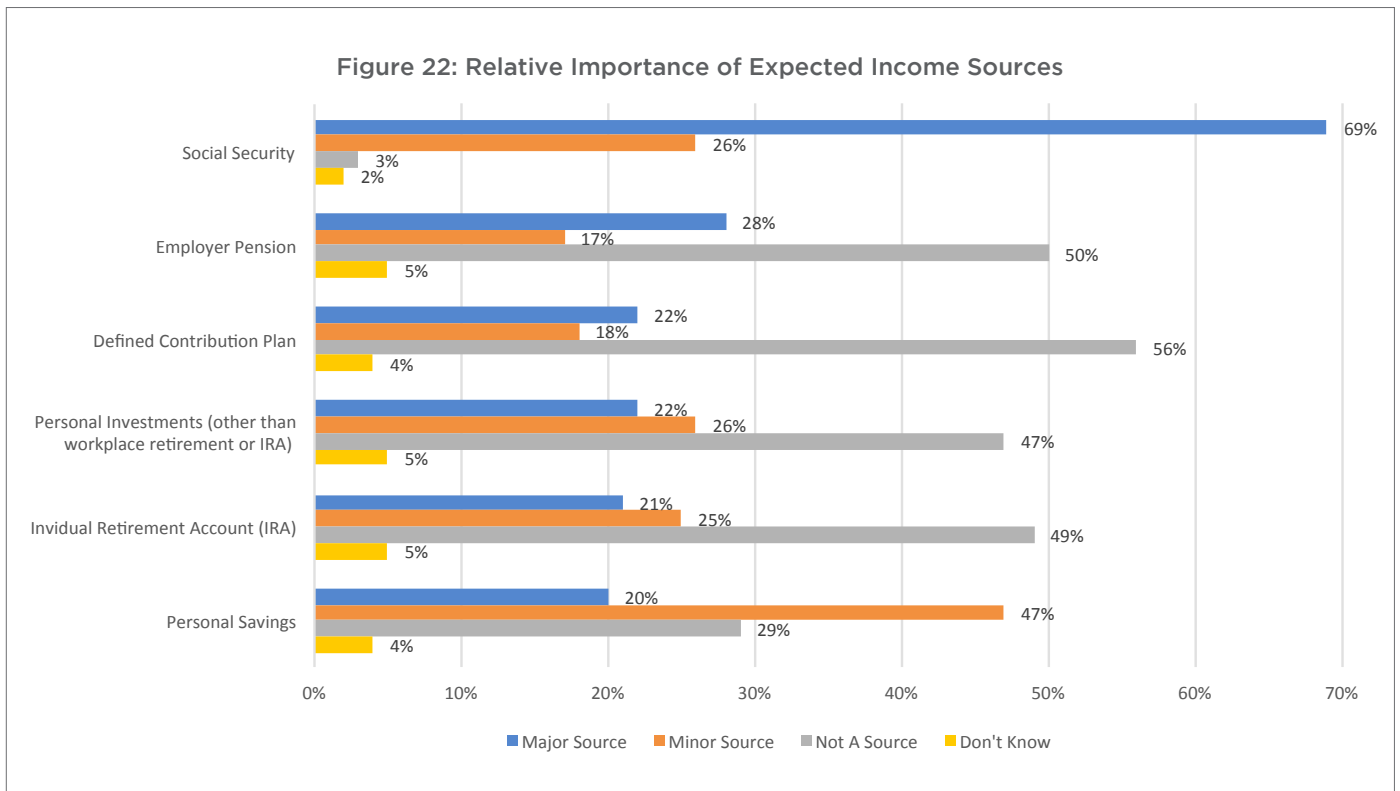
Figure 19: Actions Taken With Regard to Employer Sponsored Retirement Plans



In **Figure 20** Boomers identify their expected sources of income during retirement that is guaranteed to continue for their lifetimes. Unsurprisingly, Social Security is the most common, with nine in 10 Boomers expecting to receive benefits. Private pensions are the next most common, with 45 percent expecting income from a pension plan provided by their employer. Boomers and GenX are arguably the last two generations that will realize income from private pensions in significant numbers, as defined benefit plans are disappearing at a brisk pace. Over one in four also expect to receive lifetime income from an annuity, which reflects both the increase in Boomers' intent to purchase annuities expressed in **Figure 18**, and the importance to Boomers that retirement income be guaranteed for life shown in **Figure 21**.



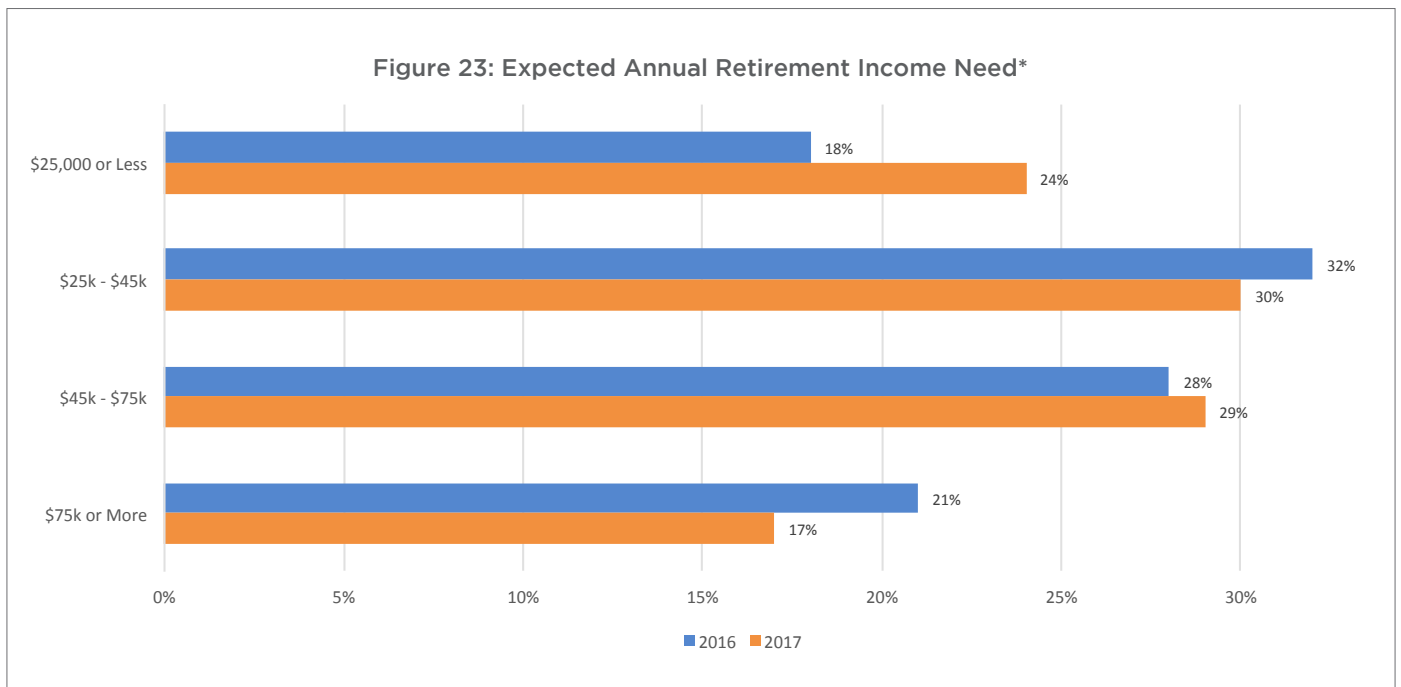
Whereas **Figure 20** shows where Boomers think their guaranteed lifetime retirement income will come from, **Figure 22** shows the relative importance of all their potential sources of income and whether they think each will be a major source of income, a minor source, or not a source of income at all. Interestingly, for example, while **Figure 20** shows 45 percent of Boomers expecting lifetime income from a private (employer provided) pension, only 28 percent consider the amount to be significant in terms of being a major component of their retirement income. Social Security, on the other hand, is expected to be a major source of income by seven in 10 Boomers. Defined contribution plans and IRAs are at the other end of the spectrum, with only about one in five looking at those financial assets as a significant source of income. There are many potential reasons for this outlook. Many may have low balances, insufficient to produce meaningful, ongoing income. Some may be loath to tap those resources for fear of depleting their accounts early in retirement. But as **Figure 18** shows, for many it may be a “withdraw as needed” mindset rather than a view of the plan balance as an income source. This is another opportunity for financial professionals to educate and illuminate, showing Boomers how their balances can generate income without fear of depletion by allocating a portion to a guaranteed lifetime annuity.



RETIREMENT EXPECTATIONS AND FEARS

Ultimately, all but the wealthiest Americans will be challenged with reconciling their expenses to their income when they fully retire from the workforce and adjusting the two such that they can maintain their standard of living no matter how long they might live. To that end, it is instructive to examine Boomers' expectations as to the income they think they will need and compare that to the income an average Boomer can expect.

Figure 23 shows that 46 percent of Boomers expect they will need \$45,000 (in current dollars) or more in annual retirement income. Ignoring inflation for simplicity and assuming the current average Social Security benefit of \$16,848¹, this means an individual would need to generate at least \$28,152 in annual income from a combination of pension benefits and retirement savings. At current rates, a life annuity paying \$28,152 in annual guaranteed lifetime income would cost approximately \$430,000², far more than most Boomers have saved. Of course, dual earning households will receive higher Social Security benefits, and for the fortunate few with meaningful pension income there will be less pressure to use savings. But, recall from **Figure 7** that only 38 percent of Boomers have tried to calculate the amount they need to have saved to retire; if they haven't tried to calculate how much they need to save, they likely have not calculated their annual income need, i.e. they are guessing.



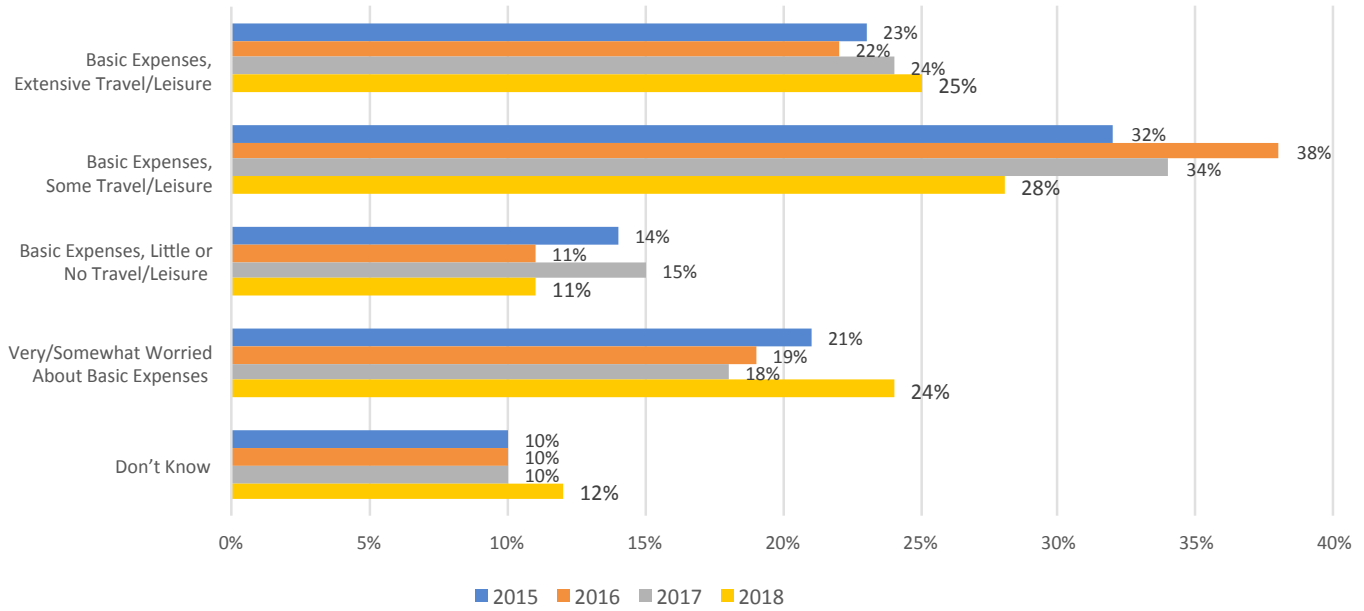
*2018 Dollars

¹ Social Security Administration

² www.immediateannuities.com

Despite an unencouraging tapestry of potential income sources and the lack of confidence in the adequacy of their retirement savings and preparedness, **Figure 24** shows that more than one-half of Boomers envision a retirement where they pay their bills and can travel and enjoy leisure activities, at least to some extent. With the youngest Boomers only 10 years away from being the last of the 10,000 daily 65th birthdays, they had better put pen to paper, or find financial advisors, if they want to realize this vision.

Figure 24: Budget Expectations in Retirement



Perhaps the single most treacherous wild card Boomers may face in retirement is the trajectory of their personal health care expenses. Some may spend relatively little, while others may face financial devastation. Contrary to what many believe, Medicare does not cover many expenses commonly incurred at older ages – hearing aids, vision care, and dental care to name a few. For a given individual, any of the responses in **Figure 25** may be the “correct” response as to the percentage of income health care will consume, with perhaps the majority falling into the 10 percent or less category. However, just as most houses will not burn down but any one of them may, it is a significant retirement risk that can be mitigated using Medicare supplemental insurance, long-term care insurance, Health Saving Accounts (HSAs), and lifestyle modification. Financial professionals are uniquely equipped to help those in and planning for retirement put plans and policies in place to manage the risk that health care related expenses pose to the best intended of retirement plans.

Figure 25: Estimate of Health Care Cost as a Percentage of Retirement Income

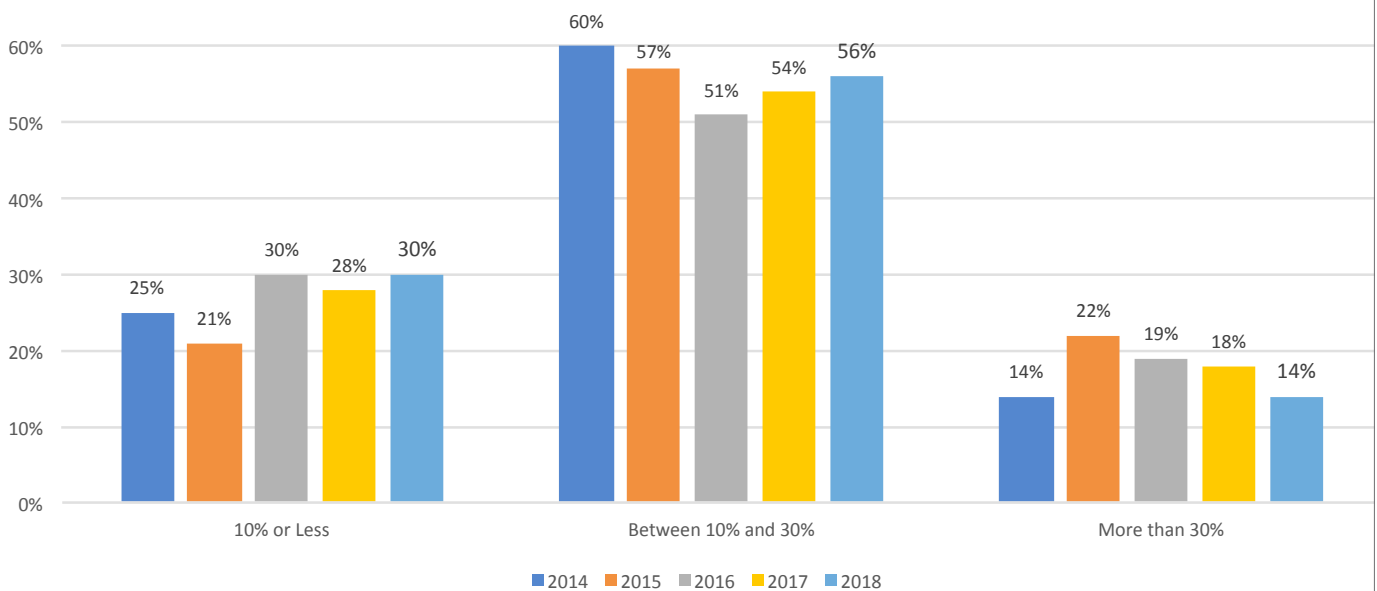
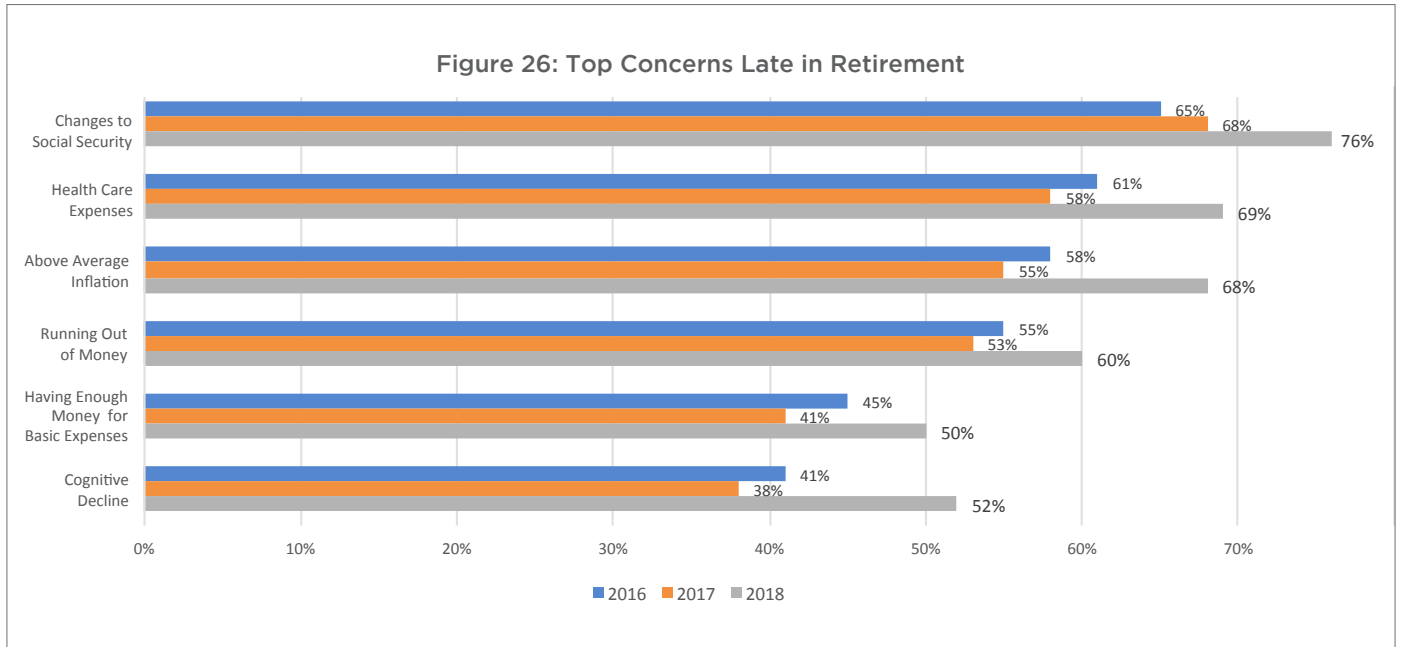
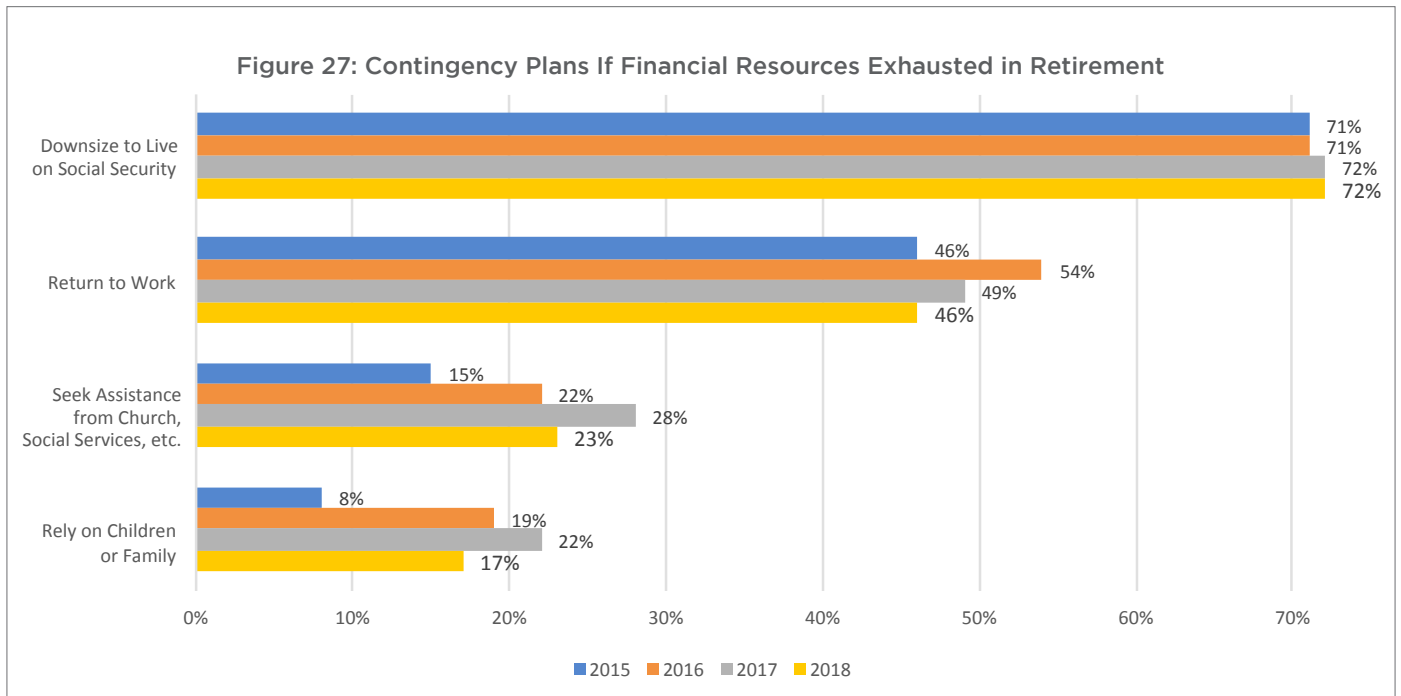


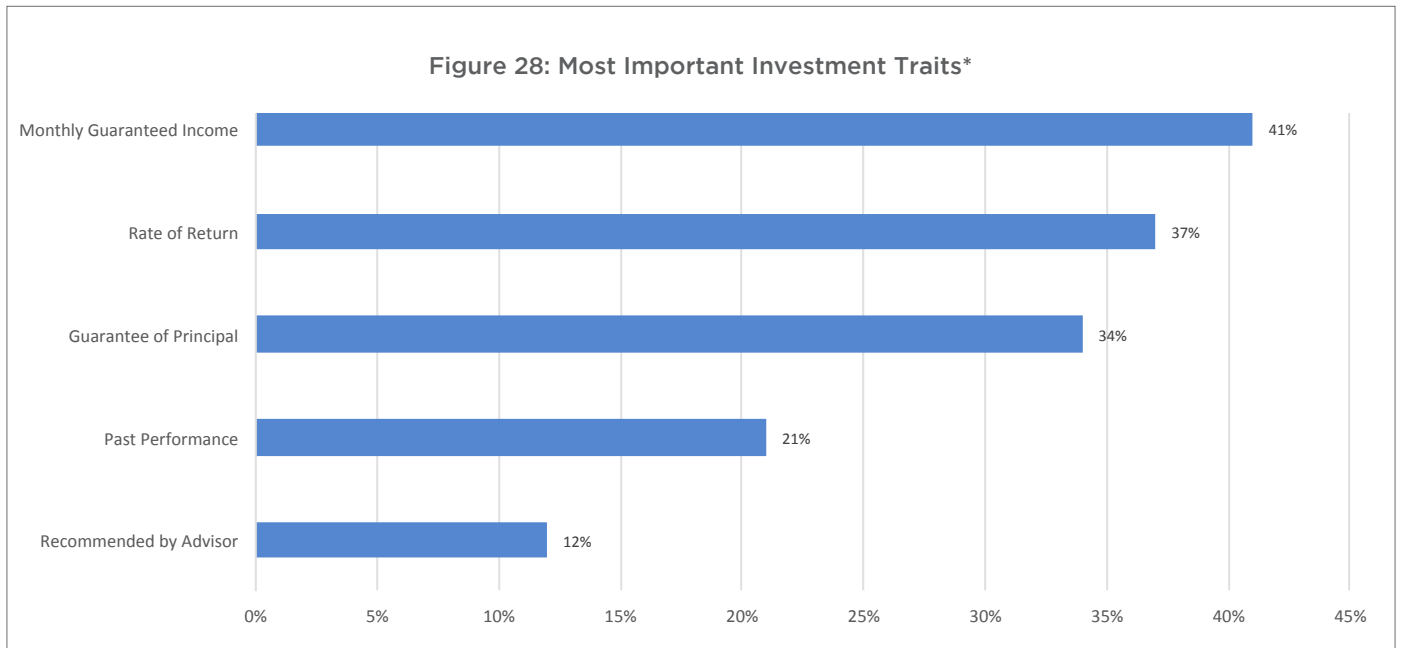
Figure 26 shows Boomers' top concerns as they contemplate their later retirement years. Naturally their top concerns are those eventualities which would threaten to destabilize their financial security, such as Social Security modifications that might lower the income they receive, incurring significant health care expenses, loss of purchasing power due to inflation, and of course running out of money.



It is an uncomfortable thing to contemplate, but what if the unthinkable were to occur and a Baby Boomer retiree ran out of money – what do they plan to do? **Figure 27** shows that most Boomers believe they would simply downsize so that they can get by on Social Security alone. Easy to say, but much harder to do; such downsizing may be quite drastic, resulting in substandard living conditions or the need to move in with adult children. The second most common answer, returning to the workforce, is also problematic as it assumes both the physical ability to do so, and the availability of employment.

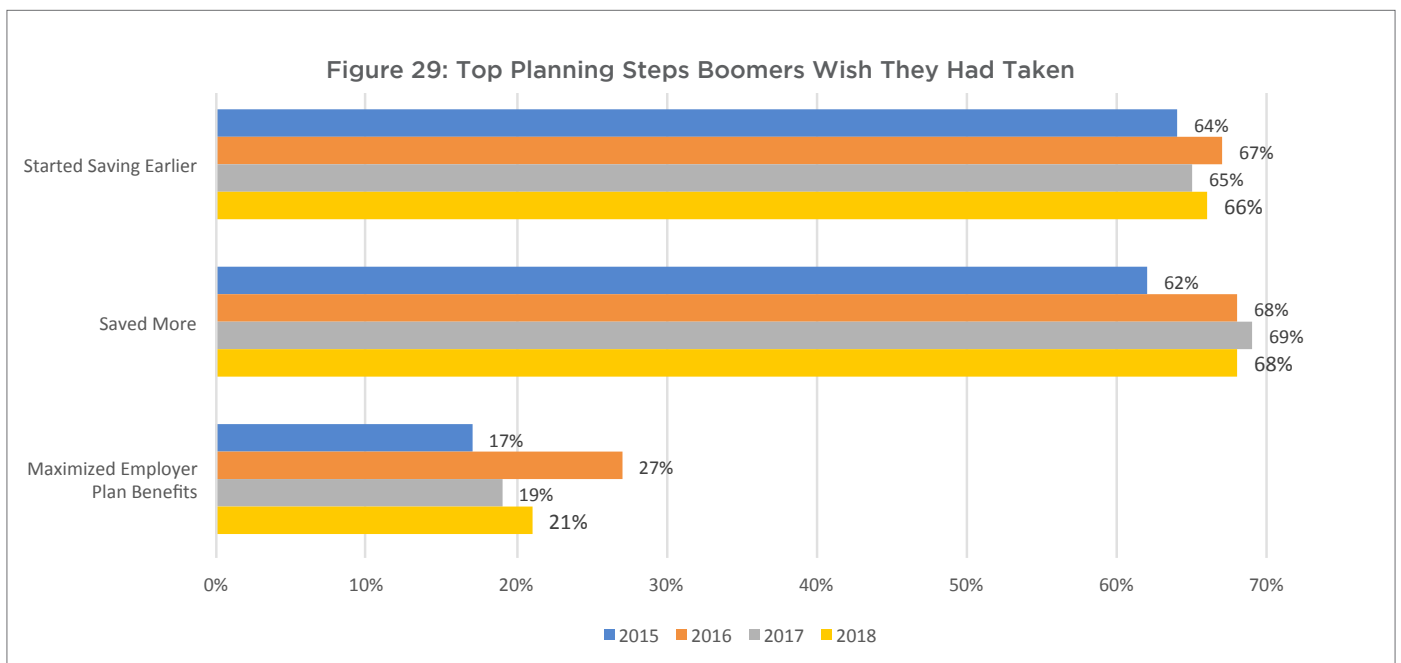


The thread that weaves through this eighth edition of the Baby Boomer study, and indeed through the prior studies, is the view of a generation that has done limited or no retirement planning, has not saved enough to confidently retire, is fearful of the financial risks they will face during retirement, and has little insight into how they will optimally utilize their financial resources during their retirement years. Therefore, it is not at all surprising to see in **Figure 28** that monthly, guaranteed income is the top trait that Boomers say they would look for in a retirement investment.



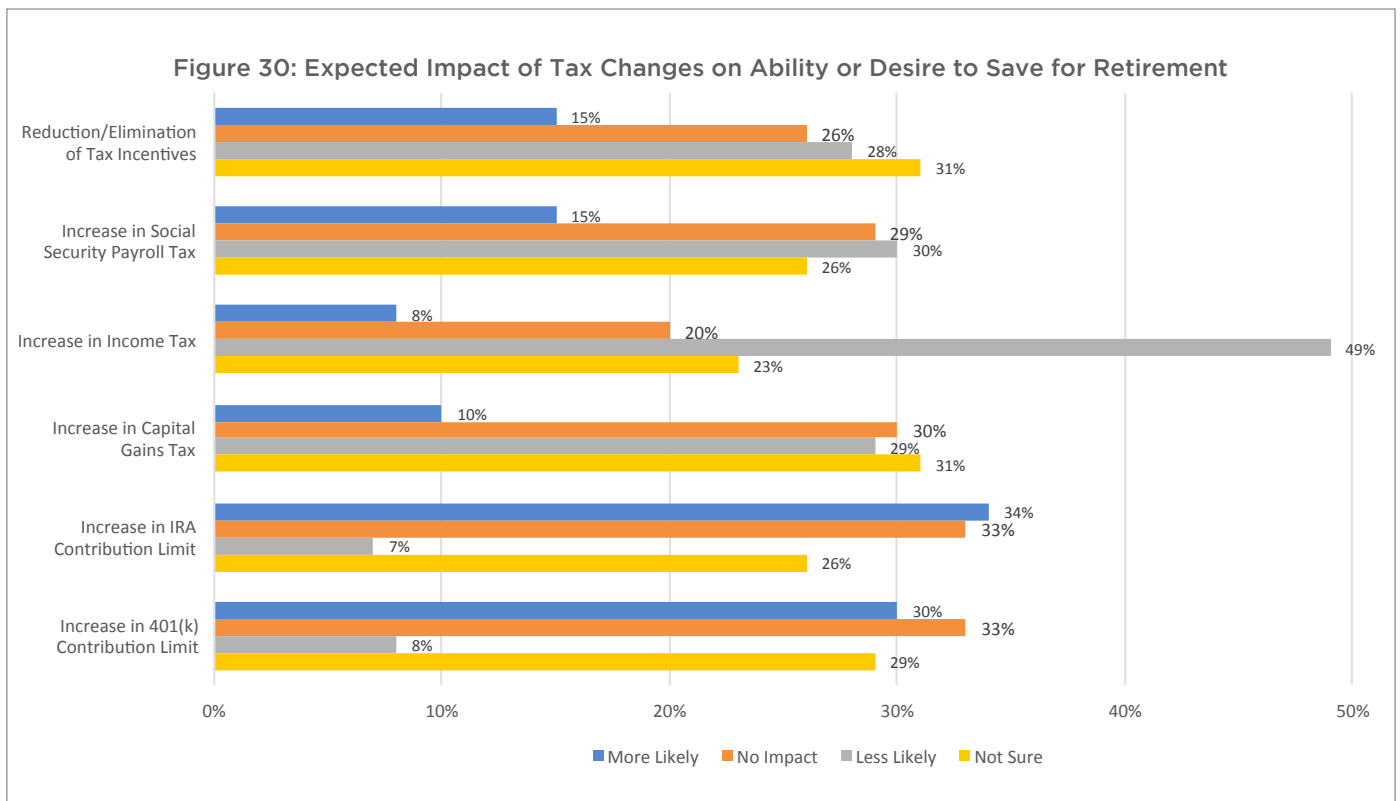
*Percentage ranking trait first or second in importance

As a last word on Boomers' outlook on retirement, and perhaps as a cautionary tale for the millions of GenXers and Millennials with much more time to prepare, **Figure 29** looks at the retirement planning steps Boomers wish they had taken – in other words, their regrets. The top answers are both simple and poignant: they wish they had started earlier, and they wish they had saved more. Millions of American workers can start today, if they haven't already, and saving more is just a foregone latte a day away.

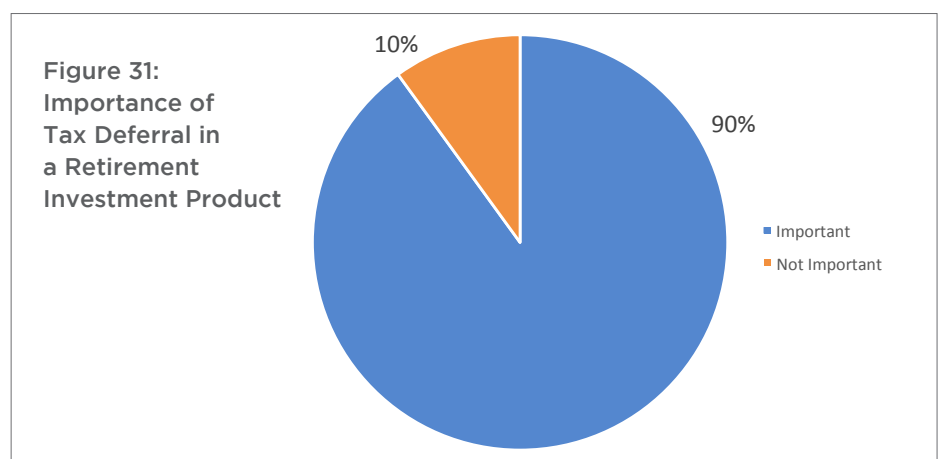


TAXES AND TAX DEFERRAL

Tax deferred and tax advantaged investing has been a cornerstone of retirement saving for decades. Beneficial tax policies can help promote retirement saving, while policies and changes that are perceived negatively or that constrict individuals' ability to save can damage the effort to better prepare Americans for a retirement that is likely to be longer than that of any previous generation. **Figure 30** shows the impact Boomers believe various potential changes to tax law would have on either their ability or desire to save for retirement. An increase in income taxes would be the most damaging, with 49 percent saying this would make them less likely to save for retirement, but in general tax increases or reductions in tax incentives to save, for example reducing or eliminating the deductibility of retirement plan contributions, hurt retirement saving, while positive changes such as increasing contribution limits drive higher saving rates.



Finally, and further emphasizing the importance of tax deferred investing, **Figure 31** shows that 9 in ten Boomers' consider tax deferral to be an important aspect of a retirement investment product.





CONCLUSION

Ten years from now, 76 million Baby Boomers will be age 65 or older. Will they fundamentally alter the workforce, finding or forming new or niche occupations to supplement their retirement income? Will they redefine the home, pioneering or expanding alternative arrangements like micro housing and communal living? Will they form huge ex-pat communities in foreign countries to take advantage of lower costs of living? Whatever happens over the years the Boomers are retirement-aged, it will almost certainly not be the retirement of the Silent Generation and will change in ways that may be difficult to imagine today. But whatever paths the Boomers take, financial security and sound retirement planning will clear the brush and facilitate the journey, and most need a lot of work, and assistance, to get there.

METHODOLOGY

The Insured Retirement Institute (IRI) commissioned Woelfel Research, Inc., to conduct a survey of individuals broadly defined as members of the Baby Boomer Generation. The research was conducted by means of internet interviews with 806 Americans ages 55 to 71. Data were weighted by age and gender to the 2016 American Community Survey. Data was collected from March 13 through March 16, 2018. The margin of error for the sample of 806 was $\pm 3.5\%$.



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