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 40 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.
Introduction

It’s a rare week when there isn’t a new research or media report about the retirement crisis facing American workers— and there are usually several. Inadequate savings; poor (or no) planning; little understanding of the impact of rising health care costs, longevity, and inflation; over-reliance on, and misconceptions about, Social Security—the list goes on. Still, an internet search for stories on “buying a new car” yields 50 percent more articles than does a search on “planning for retirement”—current consumption wins out over securing the future.

Small wonder that the IRI report, “Boomer Expectations for Retirement 2016,” found that only 55 percent of Boomers have retirement savings, 59 percent see Social Security as a major source of income, and only 23 percent expect significant income from a defined contribution plan. Yet, 60 percent believe their income will cover basic expenses, and provide disposable income for travel and leisure. Those who enter retirement with no savings, no pensions and no income beyond Social Security will find it difficult to reconcile their expectations with their resources, and will likely need to continue working, if they are able, or be forced to accept a lower standard of living than they expect.

But what of those in retirement, and in particular those who had meaningful savings when they retired? This report examines the lifestyles, financial condition, experiences and expectations of Americans who have lived in retirement for several years, and who had at least $50,000 in investable assets when they retired. Overall, these retirees are doing quite well, but their story carries a few cautionary tales for future generations, especially pre-retired Baby Boomers and GenXers.

Overview

Current retirees, and specifically those who retired with more than a token amount of investable assets, appear to be in surprisingly good shape by a number of measures: financial assets, expenses, and health status. Moreover, their own assessments of their retirement lives is overall quite positive, and most feel that retirement is more or less as they expected—they don’t feel blindsided by unpleasant surprises, their outlooks are bright, and for the most part they don’t have regrets about their paths to retirement. However, there are some erosive factors in play that may negatively impact retirees in their later years, and their positive experiences and outlooks are anchored in a rapidly disappearing aspect of the American retirement experience: the defined benefit pension.
Key Observations

• Almost all study participants have current household income of $50,000 or more, compared to the national median family income for persons aged 65 and older of $43,000.

• Pensions provided at least 50 percent of total income for more than four in 10 retirees. A retiree would need to invest as much as $485,000 in a life-only annuity to replace this level of pension income. In contrast, currently only 24 percent of private-industry workers are covered by a defined benefit pension plan.

• About three in 10 retirees receive income from an annuity, with two-thirds of them receiving life or life-contingent payments.

• More than seven in 10 retirees who receive income from an annuity are very or somewhat satisfied with their annuity, more than any other investment type.

• Six in 10 retirees filed for Social Security prior to age 65, before their full-retirement age, significantly reducing monthly benefits.

• Fewer than 10 percent of retirees have worked, or planned to work, during retirement.

• More than half of retirees tried to estimate their retirement expenses prior to retiring.

• Nearly half of retirees consulted with a financial professional prior to retiring, but only 22 percent set a savings goal, and fewer than one in five established a written retirement plan.

• More than six in 10 retirees did not sell a home or relocate upon retiring.

• More than half of retirees say the reason they have withdrawn from retirement accounts is to satisfy Requirement Minimum Distribution (RMD) rules, the most common reason cited.

• Half of retirees in the survey have between $100,000 and $500,000 in investable assets (excluding real estate).

• Eight in 10 retirees feel their financial condition is as good, or better, than they expected it would be when they retired.

• Seven in 10 retirees are not too, or not at all, concerned about exhausting their financial resources during retirement.

• 40 percent of retirees with less than $100,000 in retirement savings are somewhat or very concerned about inflation, versus only 20 percent with savings of $100,000 or more.

• 40 percent of retirees have experienced a major health event, such as a heart attack or stroke. Of these retirees, seven in 10 say they incurred $5,000 or less in out-of-pocket costs.

• 25 percent of retirees have experienced a significant, non-medical negative event, such as a major home repair. Nearly half say they incurred $25,000 or more in out-of-pocket costs.

• Only one in three retirees planned for spousal income before or at the point of retirement. Now in retirement, as many as 90 percent have since made plans for spousal income.

• Two-thirds of retirees believe they have a less than 25 percent chance of needing long-term care services in retirement, compared to Department of Health & Human Services estimates that 70 percent of those turning 65 today will need such services.

• Six in 10 retirees incorrectly believe that Medicare will pay for long-term care services.
Planning and Preparation

Much like Baby Boomers and Generation X, the majority of whom are still in the work force, for the most part current retirees did not spend a significant amount of time and effort planning for retirement or setting goals. The two most common planning steps current retirees did undertake were estimating what their expenses might be in retirement, and consulting with a financial professional about their retirement. Relatively few set a specific savings goal, or developed a written retirement plan.
In terms of retirement timing, half retired when they planned, and about one in three retired earlier than planned. The latter compares to 46 percent of all workers who retire earlier than expected.1

**RETIREMENT TIMING**

- Retired When Planned: 50%
- Retired Earlier Than Planned: 32%
- Retired Later Than Planned: 8%
- Had No Plan: 10%

Housing costs are typically the largest component of a household budget, so it can make financial sense for some retirees, particularly those with grown children who may have more space than they need, to consider downsizing or relocating upon retiring. However, the majority of retirees – 63 percent – have not.

**DISPOSITION OF PRIMARY RESIDENCE AT RETIREMENT**

- Did Not Sell or Relocate: 63%
- Sold Home, Relocated: 23%
- Sold Home, Stayed in Area: 5%
- Did Not Sell, Relocated: 4%
- Did Not Own a Home: 4%
The 27 percent of retirees who did relocate upon retiring did so primarily for lifestyle reasons. Realizing a lower cost of living or moving closer to friends and family were cited by about a third, while quality or cost of medical care was a factor for relatively few respondents.

### REASONS FOR RELOCATING UPON RETIREMENT

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lifestyle (e.g. climate)</td>
<td>62%</td>
</tr>
<tr>
<td>Closer to Friends/Family</td>
<td>35%</td>
</tr>
<tr>
<td>Lower Cost of Living</td>
<td>30%</td>
</tr>
<tr>
<td>Other</td>
<td>13%</td>
</tr>
<tr>
<td>Quality of Medical Care</td>
<td>4%</td>
</tr>
<tr>
<td>Cost of Medical Care</td>
<td>2%</td>
</tr>
</tbody>
</table>

**Retirement Income**

With 92 percent of retirees in the survey claiming current household income of at least $50,000 per year, those who entered retirement with meaningful savings have somewhat higher income than the median family income of $43,000 for persons aged 65 and older.²

### TOTAL RETIREMENT INCOME

- **Less than $50,000/Don't Know**: 8%
- **Between $50,000 and $100,000**: 37%
- **Greater than $100,000**: 55%
Retirement income level is highly correlated with higher pre-retirement income. Pension benefits are generally set using a formula based on pre-retirement earnings, such as 60 percent of average annual income for the final five years of employment. Therefore, higher pre-retirement income means higher retirement income for those with pensions. And those with higher pre-retirement income seem to have saved more as well, with higher levels of investable assets in retirement also positively correlated with higher pre-retirement income.

And in fact, when we look at the components of their income, pensions are revealed to be the most substantial leg of the proverbial “three-legged stool,” made up of Social Security, pensions, and savings. Pensions represent at least 50 percent of total income for more than four in 10 retirees, compared to only 15 percent pointing to Social Security as the source of at least half their income. Employment and systematic withdrawals are minor sources of income, with eight in 10 and six in 10, respectively, having no regular income from these sources.

This raises a critical issue: a retired married couple aged 65 with income of $50,000 per year, $25,000 of which comes from a pension, would need to invest a substantial amount in an immediate, life-only annuity to replace that pension income. The table below shows how much might be required to replace $25,000 in pension income under various scenarios.

<table>
<thead>
<tr>
<th>Coverage</th>
<th>Amount to Invest</th>
<th>Annual Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male, Age 65, Life Income</td>
<td>$395,000</td>
<td>$24,948</td>
</tr>
<tr>
<td>Female, Age 65, Life Income</td>
<td>$425,000</td>
<td>$24,960</td>
</tr>
<tr>
<td>Couple, Age 65, Life Income</td>
<td>$485,000</td>
<td>$25,008</td>
</tr>
</tbody>
</table>
Six in 10 retirees did not have enough saved when they retired to make that purchase, which would have resulted in either significantly lower income from day one of their retirement years, or taking higher withdrawals from their savings and having a substantially increased risk of running out of money in their later years. The significance of pensions for this group cannot be overstated; without them, retirees would have a lower standard of living and/or be far less confident in their ability to sustain their savings in retirement. And future generations are far more likely to enter and live in retirement without the benefit of pension income: currently only 24 percent of private-sector workers participate in a defined benefit pension plan provided by their employers.\textsuperscript{4}

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|c|}
\hline
\textbf{Source} & \textbf{75\% or More} & \textbf{50\% to 75\%} & \textbf{25\% to 50\%} & \textbf{Less than 25\%} \\
\hline
Social Security & 13\% & 41\% & 35\% & 8\% \\
Pension & 14\% & 28\% & 24\% & 15\% & 19\% \\
Employment & 15\% & 77\% & \\
Systematic Withdrawals & 7\% & 26\% & 63\% & \\
\hline
\end{tabular}
\caption{Retirement Income by Source}
\end{table}

Despite 81 percent of current retirees having pension income, more than six in 10 filed for Social Security benefits prior to age 65. This is a bit stunning, as pension income and savings, for most, should have been sufficient to bridge the gap between retirement and realizing significantly higher Social Security benefits by filing later – current benefits increase 8 percent each year filing is delayed past full-retirement age, and future cost of living increases will be based on the higher amount.\textsuperscript{5} Possible reasons for this are the desire to obtain something from Social Security after paying into the system for many years, i.e. “if I wait I might die before collecting,” or simply not taking the time or lacking the knowledge to optimize income from all sources. In either case, this highlights the opportunity financial professionals have to provide significant value to their clients by incorporating Social Security claiming strategizing into the planning process.
Interestingly, while most retirees say that systematic withdrawals comprise very little of their income, many have taken withdrawals from their savings since retiring. In fact, 58 percent have taken withdrawals from defined contribution, IRA, savings or investment accounts, or other financial assets since retiring. Retirees take withdrawals from retirement savings for varied reasons, but more commonly do so on an “as needed” basis, as opposed to using retirement assets to create a steady paycheck as part of a systematic withdrawal plan.

By far the most common reason cited for withdrawing from retirement accounts is the need to satisfy Required Minimum Distribution (RMD) rules, indicating that other withdrawal activity is often insufficient to meet this requirement. After RMD withdrawals are large ticket items such as homes, cars, and boats, and vacation and other leisure activities. This points to the use of retirement accounts, for many, as a source of disposable income for their wants, rather than basic income for their needs.

Medical expenses rank much lower, as withdrawals occur more often for other unexpected expenses, such as home or auto repairs. For now, at least, Medicare and Medicare supplemental insurance seem to be largely covering the medical expenses of retirees. However, projections for future retirees are grim. A healthy 65-year-old couple retiring today can expect to incur more than $550,000 in health-related expenses during their lifetimes, including out-of-pocket costs and premiums for Medicare Parts B, D, and supplemental insurance.6

It is important to note again the significance of pension income to current retirees, which may be helping to cover many of these commonly experienced expenses. In its absence, withdrawals would likely be substantially higher, and future retirees are far less likely have pension income to meet such expenses.
Finally, 29 percent of current retirees are receiving annuity payments, with 67 percent receiving income on a lifetime basis, versus a fixed period. Older retirees are twice as likely to be receiving income from an annuity than younger retirees, suggesting annuity purchases may be occurring later to maximize income. This is directly at odds with how retirees are claiming Social Security benefits, perhaps because their annuity purchases are guided by professional advice, while they are making their own decisions regarding Social Security. Overall, more than seven in 10 retirees receiving annuity payments are very or somewhat satisfied with their annuities.
Retiree Savings and Investments

Of retirees with at least $50,000 in retirement savings, about half had between $100,000 and $500,000 in investable assets, excluding the value of real estate, when they retired.

Savings at Retirement

As noted earlier, relatively few retirees with meaningful savings have tapped those savings for regular income. Thanks to the low instance of withdrawal activity and several years of positive market performance, retirees are feeling pretty good about their financial condition and have mostly maintained or increased their levels of investable assets.

Current Financial Condition Versus Expectation

As noted earlier, relatively few retirees with meaningful savings have tapped those savings for regular income. Thanks to the low instance of withdrawal activity and several years of positive market performance, retirees are feeling pretty good about their financial condition and have mostly maintained or increased their levels of investable assets.
As one might expect, given their pensions, their experiences to date and the relative optimism with which they view their financial condition, about seven in 10 retirees are not too concerned, or not at all concerned, about running out of money in retirement. However, and also as might be expected, lower levels of retirement savings correlate with increased concern about exhausting financial resources. In fact, 40 percent of retirees with $50,000 to $99,999 in investible assets are concerned about exhausting their financial resources in retirement.

The satisfaction of retirees with their investments is rather variable. Given their historically low yields over the past several years, it is not surprising to see fixed-interest investments such as certificates of deposit (CDs) at the bottom of the list. Recent retirees are most satisfied with their IRA investments, securities and mutual funds held outside of their retirement accounts, and annuities. And as noted earlier, 72 percent of retirees currently receiving income payments from their annuities are very or somewhat satisfied, a higher level of satisfaction than they have with any other type of investment or financial asset they own.
While satisfaction with various investment types is variable, how retirees feel about the advice they’ve received is not – 58 percent of retirees have a relationship with a financial professional, and 93 percent of them say that the advice and guidance they have received has been effective. Among those who chose not to use a financial professional, the number one reason is that they believed they did not need one, or that they were capable of managing on their own. Other factors, such as cost or trust, were much less frequently cited.
Expectations, Realities and Change

It is clear that Americans who retired relatively recently, with substantial savings and pensions, feel good about their lives and their futures. However, those with a lower level of savings are a bit more negative about their experience with financial aspects of their lives. Most notably, four in 10 retirees with less than $100,000 in retirement savings say that the impact of inflation has been somewhat or much worse than they expected, as compared to one in five of those with $100,000 or more saved. Future generations with low or no savings, who are much less likely to have pension income, will feel these effects far more keenly.

ASPECTS OF FINANCIAL LIVES VERY/SOMewhat WORSE THAN EXPECTED

On the spending side, while the majority of current retirees have experienced expenses about at the level they expected, a meaningful number have been surprised by the cost of certain aspects of life in retirement.

EXPENSES VERY/SOMewhat GREATER THAN EXPECTED
It’s not too surprising to see that more than a third of retirees are finding that they spend more on travel and leisure than they expected – 58 percent of retirees in general have not budgeted for leisure activities. Again, with income levels bolstered by pensions, many retirees are likely better able to absorb costs for discretionary items without tapping into their savings. Thus while their travel and leisure expenses are higher than they anticipated, those higher costs are largely not translating into significant drawdowns of retirement accounts.

Insurance and taxes and medical expense surprises are more concerning. Unlike travel and leisure, such expenses are more difficult to reduce. When millions of Boomers – 56 million without pensions and 34 million without savings, by IRI estimates – enter retirement, they can stay home, but they’ll have to pay for taxes and insurance, and they’ll certainly have medical and emergency expenses.

Fortunately for current retirees, the majority have not been impacted by significant emergency and medical expenses. As retirees progress into their retirement years, as in their working years, change is inevitable. However, unlike during the “earned income” years, as homes and bodies age, retirees may find that repairing either is a more expensive proposition.

In addition to providing greater financial security and peace of mind in retirement, saving money also is good for one’s health – higher asset levels are correlated with better health, both at the point of and during retirement.
However, while most have not been significantly impacted financially by unexpected, negative events, health-related or otherwise, such events have occurred to many retirees, and in some cases have come with expensive bills. Out-of-pocket medical expenses are relatively common but manageable, and some current retirees also may have employer-provided retiree health care benefits to help offset these costs. Future retirees are far less likely to have such benefits. In fact, only 20 percent of organizations offered retiree health care benefits in 2016, down from 24 percent in 2012.8
Out-of-pocket costs also do not include premiums paid for Medicare, which are typically deducted from Social Security benefit payments. HealthView Services estimates health care costs will increase at a 5.1% annual rate, and a 65-year-old couple retiring in 2016 can expect to pay $7,725 per year for Medicare Parts B, D, and Supplemental Insurance. Therefore, future generations of retirees can expect both health insurance premiums and out-of-pocket costs for health events to consume a much larger share of household budgets.

Other unforeseen events such as major home repairs, while less common, have been more impactful to retirees from a financial standpoint. Of the 25 percent of retirees who have faced an unexpected, major expense, nearly half have incurred costs of $25,000 or more.

**Prevalence of Other Financial Events and Out-of-Pocket (OOP) Costs**

- **Unexpected Expense** (e.g., home repair, provide for a family member): 25%
- **OOP Cost = $5,000 or less**: 7%
- **OOP Cost = $5,000 to $25,000**: 47%
- **OOP Cost = $25,000+**: 46%

When retirees did face medical or other unexpected expenses, more than half were able to tap an emergency fund to meet those expenses, while 27 percent were forced to make unplanned withdrawals from retirement accounts. About one in five have used home equity to fund such expenses, but fewer than one in 10 have used revolving credit or service provider financing.

**Sources of Funds for Medical and Other Expenses**

- **Emergency Fund**: 52%
- **Withdrawal from Retirement Account**: 27%
- **Home Equity**: 16%
- **Other Method**: 15%
- **Revolving Credit**: 8%
- **Service Provider Financing**: 4%
- **Other Loan**: 2%
Most people enter retirement with at least some idea of how they plan to spend their time. Unsurprisingly, travel and leisure rank highly, despite the lack of specific planning or budgeting as noted earlier. This could be because such plans are modest and retirees feel they are well covered by their guaranteed sources of income, or because they don’t know how to go about it. Engaging in unpaid volunteer work also ranks high, far more so than working, whether because they want or need to work.

Regardless of how they choose to spend their time in retirement, it is evident that they are keeping busy. More than seven in 10 retirees say they are at least as active in retirement as they were before they retired, and a third are somewhat or much more active.
Contemplating the Future

Current retirees are more engaged in planning for contingencies than they were at the point of retirement, with more than 75 percent noting that they have made arrangements for spousal income, funeral and final expenses, and cognitive impairment. In contrast, at the point of retirement only a third had planned for spousal income, whereas nearly 90 percent have done so since retiring.

Retirees also have a good grasp on life expectancy, with their personal estimates coming pretty close to average lifespans at age 65. For example, a 65-year-old male can expect to live, on average, to age 84.3, and a 65-year-old female to age 86.6. By comparison, respondents aged 65-69 estimated a 78 percent chance of reaching age 85, a reasonable estimate. It is important that retirees not underestimate life expectancy, as doing so could potentially lead them to spend down assets too aggressively.
Still, while retirees are optimistic, and for the most part realistic, about their lifespans, they significantly underestimate the probability of needing long-term care. Two-thirds of retirees believe they have a less than 25 percent chance of being confined to a nursing home or needing the services of a licensed caregiver. In fact, while the duration and level of long-term care will vary from person to person, someone turning 65 today has almost a 70 percent chance of needing some type of long-term care service or support during their remaining years, a 37 percent chance of needing in-facility care, and a 35 percent chance of being confined to a nursing facility for at least one year.  

Retirees also are either misinformed about their options for funding long-term care, or very optimistic about the types of services they may require. On the bright side, 31 percent of retirees have long-term care insurance, and those with $250,000 or more saved are more likely than those with lower savings to have such coverage. On the other hand, at least six in 10 believe Medicare will cover nursing home confinement or skilled caregiver services. In fact, Medicare does not cover custodial care, or assistance with activities of daily living such as eating or bathing, which are the types of services generally referred to as long-term care services. Medicaid, conversely, which relatively few retirees believe they will use, does pay for custodial services, but only for individuals with limited income and assets. Also of concern is the percentage of retirees that plan to pay for long-term care services directly. For example, four in 10 retirees with retirement savings of less than $100,000 say they will pay out-of-pocket for long-term care, yet the median annual cost for a semi-private room in a nursing home is $82,125, and the median for a licensed home health aide is $45,760 a year.
Conclusion

For today’s retirees, it truly is all about income – specifically pension income. Pension income puts the retirees in this study significantly above the national average in terms of their total income, resulting in very little withdrawal stress on retirement portfolios. This has multiple benefits beyond simply not depleting savings. When retirees are able to use their savings on a selective, discretionary basis, they are more confident in the future, and are more likely to stay invested through periods of market volatility. Conversely, when a portfolio must be relied upon for income, fear of loss may lead to excess allocation to cash and highly liquid, low-yielding short-term fixed income funds and securities. Unfortunately, for future generations the prevalence of pensions has faded. In the future, closer to 80 percent will be without pension income. As Baby Boomers retire in greater numbers over the next decade or so, and GenXers begin to retire, financial professionals have a historic opportunity to help Americans create their own pensions, through Social Security optimization and the use of guaranteed lifetime income products and solutions, so they can enjoy the same security, lifestyles, confidence and positive outlooks as the participants in this study.
Methodology

The Insured Retirement Institute (IRI) commissioned Greenwald & Associates to conduct a survey of recently retired individuals. The research was conducted by means of online surveys completed by 806 Americans with investable assets of at least $50,000, between ages 65 and 80 and distributed between those five to nine years past retirement and 10-15 years past retirement. Data were weighted by asset level to reflect the sample universe. The survey was conducted from July 27 through August 10, 2016. The margin of error for the survey was ±3.7 percent.

References

3 Immediate Annuities. https://www.immediateannuities.com/
9 Social Security Administration. https://www.ssa.gov/planners/lifeexpectancy.html