INTRODUCTION

In September 2016, IRI published “It’s All About the Income,” the first in a research series on Americans age 65 to 85, who have been retired between five and 15 years and had at least $100,000 in investable assets when they retired.

The goal of the series is to examine the retirement experience of those individuals who have been living in retirement for a meaningful amount of time, and develop a deeper understanding of the underpinnings of their retirement security: the risks they have encountered, are worried about, and may face; how well they have prepared, and where their preparations are weak; and finally, how their experience can help guide the preparations of future generations of retirees. As reported in the 2016 inaugural study, pension income is a significant component of retirees’ financial and overall security – in 2018 this continues to be true, with important implications for current and future generations of active and retired American workers. This year’s report will look at how guaranteed income, be it Social Security, pension, or annuities, is the rebar that strengthens the road to and through retirement.

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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FIVE THINGS TO KNOW ABOUT RETIREES

This report provides a variety of useful and informative findings regarding the experience of today’s retirees in America. Here are five of the most important, critical to understanding the retirement landscape today, and to imagining and preparing for the retirement of tomorrow.

**64%**

64% of retirees receive 25% or more of their income from an employer pension

**8 in 10**

Eight in 10 retirees receiving lifetime income from an annuity are very or somewhat satisfied with their annuity.

**6 in 10**

More than six in 10 retirees work with a financial advisor

**16%**

Only 16 percent of retirees count on Social Security for 50 percent or more of their income

**25%**

ONLY 25% OF RETIREES believes they are likely to need long-term care, versus a probability of 68% of needing care for those age 65 and older

WHAT THIS REPORT COVERS

- **SOURCES OF INCOME** - where do retirees get their money?
- **RETIREMENT PREPARATION & EXPECTATIONS** - how well did today’s retirees prepare for retirement?
- **LIVING IN RETIREMENT** - how are retirees’ plans holding up?
- **RETIREMENT CHALLENGES** - to what extent are retirees aware of, and protected against, retirement risks?
- **CONCLUSION** - Lessons for Future Retirees
More than nine in 10 retirees are collecting Social Security benefits. Of those who are not, about half are eligible but have not yet filed. Of the 81 percent who are married or living with a domestic partner, 84 percent say their spouses are also collecting Social Security. In 2018, the average married couple receiving Social Security benefits receives $28,080 per year. Figure 1 shows most retirees receiving substantially more income than the average Social Security benefit, with more than one-third claiming total household annual income of $100,000 or more.
Figure 2 further shows that relatively few retirees have taken a significant “pay cut” since retiring; more than four in 10 say their income is either the same or has increased, while about one-third have seen a 25 percent reduction in income. Only 21 percent have seen their income decrease by one-half or more.

With only 7 percent of retirees receiving less than $50,000 in annual household income, and the majority with annual income at or near pre-retirement levels, clearly most retirees are tapping other sources of income to supplement their Social Security benefits. Further, 58 percent filed for Social Security prior to age 65, with only 10 percent having filed at age 67 or later. One-third of retirees filed between ages 65 and 69; the older among this group may have filed at full retirement age, but very few current retirees have maximized their benefits by waiting until age 70 to begin receiving payments.
Figure 3 shows that while Social Security is indeed a cornerstone of retirement, almost half of retirees say it accounts for less than 25% of their household income, and only 16 percent say it accounts for 50 percent or more. However, the instance of pension income among current retirees is striking – 81 percent receive at least some income from a pension, 64 percent depend on a pension for at least 25 percent of their income, and 40 percent for 50% or more of their retirement income. Income from a Systematic Withdrawal Plan (SWiP) is much less common than either Social Security or pension income, with almost six in 10 not taking regular income from retirement savings in an IRA, 401(k), or other investments. And full- or part-time employment plays only a minor role for most, with 73 percent receiving no income from employment and only 4 percent saying employment accounts for 50 percent or more. It is important to note that this is not broadly an indication of employment being desired but not found – of those retirees not receiving any income from employment, only 15 percent have ever looked for paying work since retiring from a full-time occupation.
Eight in 10 retirees had a balance in a defined contribution (DC) plan when they retired, and 58 percent of those with DC plans transferred their balance to an IRA account when they retired. About 70 percent of retirees have taken withdrawals. Figure 4 breaks down withdrawals by frequency.

Figure 4: Withdrawal Frequency

<table>
<thead>
<tr>
<th>Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>18%</td>
</tr>
<tr>
<td>Systematic</td>
<td>39%</td>
</tr>
<tr>
<td>Irregular</td>
<td>24%</td>
</tr>
<tr>
<td>Both</td>
<td>15%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
</tr>
</tbody>
</table>

More than one-half of retirees who retired with a defined contribution plan are either solely taking systematic withdrawals from their balances in those plans (39 percent) or are taking both systematic withdrawals and taking other withdrawals, with true systematic withdrawals coming primarily from the IRAs those balances were rolled into, as most DC plans do not offer SWiPs. Two-thirds of those taking some type of withdrawals did not begin taking those withdrawals until some time after they retired, rather than starting immediately upon retirement. An interesting finding is that only 27 percent of retirees are taking withdrawals based on a written retirement plan. The lack of a formal plan may be a factor in the timing of withdrawals, but as Figure 5 shows, the most common reason for “systematic” withdrawals is the need to satisfy the Required Minimum Distribution (RMD) rule – since this represents the calculation of a specific amount each year, they are part of total income, but may be reinvested in non-qualified plans if not needed to meet expenses. While respondents classified such withdrawals as “systematic,” they are of course distinctly different from a SWiP and would be able to be taken directly from a DC plan.
Since the bulk of systematic withdrawals are taken to satisfy RMD requirements, it should be expected that withdrawal percentages would be varied, given a range of ages and therefore a range of RMD calculations, which are based on life expectancy. Figure 6 shows this is exactly what is observed in the survey data, with most annual withdrawals at 6 percent or less, but a few at higher percentages.

Figure 6: Systematic Withdrawal Percentages

<table>
<thead>
<tr>
<th>Percentage Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1%</td>
<td>15%</td>
</tr>
<tr>
<td>1% to 3%</td>
<td>24%</td>
</tr>
<tr>
<td>4% to 6%</td>
<td>27%</td>
</tr>
<tr>
<td>7% to 8%</td>
<td>6%</td>
</tr>
<tr>
<td>9% to 10%</td>
<td>7%</td>
</tr>
<tr>
<td>More than 10%</td>
<td>4%</td>
</tr>
<tr>
<td>Don't know</td>
<td>17%</td>
</tr>
</tbody>
</table>
Also supporting the notion that withdrawals are more forced than planned, most retirees report that their withdrawals are either in accordance with their expectations or are less than they expected. Figure 7 shows how this breaks down.

Finally, when it comes to income, retirees are not currently depending on annuities in great measure. Figure 8 shows that while one-third own an annuity, only 15 percent say they are receiving lifetime income payments. While this is unsurprising given that most current retirees have pension income to supplement Social Security, future generations of retirees are far less likely to have pensions: only 17 percent of American Workers are covered by a defined benefit pension plan.²
Retirees seem to be well covered regarding income. The absence of a widespread need to supplement income with systematic withdrawals or annuities indicates that most are finding that the combination of Social Security and pension income is enough to cover their expenses. This section will examine their preparedness for retirement, and how well situated they are to withstand expense shocks during retirement.

Figure 9 shows that one-half of retirees who had at least $100,000 saved at the point of retirement also had less than $500,000 in retirement savings, with about one in four retiring with less than $250,000. Interestingly, both the lowest and highest response categories increased a combined 10 percent, while the three middle savings ranges dropped a total of 10 percent. Individual retirement experiences are of course highly variable, with everything from investment returns to medical expenses potentially contributing to the growth or reduction of retirement savings. However, it is encouraging to see a bit more shift into the $1 million plus category than into the under $100,000 group. It is very likely pension income is playing an important role in helping retirees preserve their investable assets. Future generations, such as the baby boomers, are less likely to have pensions and less likely to have substantial retirement savings; for example, only four in 10 Boomers with savings have saved at least $250,000.

Figure 9: Savings at Point of Retirement Versus Today

Social Security, pension income, and retirement savings. With most having a measure of financial security as a backdrop, how did they want to experience retirement at the point of retirement, and how has that changed since they retired? Figure 10 reflects responses when retirees were asked to select the three most important things they wanted to experience at the point they retired, and the three things that are most important to them now. While most of the shifts in importance are relatively small, remaining active and spending time with family become significantly more important as they spend several years in retirement.
IRI research consistently shows a correlation between retirement preparedness and having a relationship with a financial advisor. For example, 79 percent of baby boomers with a financial advisor have at least $100,000 saved for retirement, versus only 48 percent of those who do not work with an advisor. Figure 11 examines the prevalence of advisor relationships among retirees, showing that 72 percent of retirees who retired with at least $100,000 in investable assets either have or had a financial advisor, and 63 percent currently maintain a relationship with one. Very few, only 9 percent, had a financial advisor before retiring but chose not to use the services of an advisor during retirement, indicating that the relationship continues to provide value after retirement.
Figure 12 is quite interesting but requires a bit of context. Retirees who have, or had, a relationship with a financial advisor were asked whether they thought their financial situation would currently be better, worse, or unchanged had they not used an advisor. Retirees who have never used the services of a financial advisor were asked the same question. What is striking is the extent to which those who have never worked with a financial advisor believe that their financial situation would not be any better if they had used an advisor, versus the two-thirds of those who have or had that relationship believing they would be financially worse off.

Those who don’t use an advisor are most likely to believe that they simply add no value, whereas those who have experience with an advisor are most likely to hold a conviction that the absence of that advisor would have had a material, negative impact on their wealth. In many, perhaps most, cases this conviction may be grounded in specific instances where the advisor recommended a course of action that benefitted the individual, versus another course of action that would have been detrimental to their financial well-being. Further validating this analysis, 67 percent of those who have never used an advisor cited “able to do my own planning and investing” as the reason they chose not to work with a financial advisor.

66 percent of retirees believe they would be financially worse off without their advisors.
In an environment where defined benefit pension plans are rapidly becoming a thing of the past, the insured retirement industry exists to provide solutions for pre-retirees to accumulate financial wealth prior to retirement, and convert that wealth into sustainable, lifetime income during retirement. In developing and marketing these solutions, it is critical to understand how Americans in retirement perceive their lives – their successes, the way retirement might differ from their expectations, and their satisfaction with their investments, savings vehicles and other solutions.

To begin with, Figure 13 shows how financial realities in retirement compare to expectations at the point of retirement.

Except for inflation, measures such as the extent to which retirees have not had to tap into savings, the ability to alter spending as necessary to avoid increasing withdrawals from savings, and the ability to make sound financial decisions have all been as retirees expected when they entered retirement or have been somewhat or much better than their expectations. Even inflation, though cited as worse than expected by one in four retirees, does not seem to be a significant issue. Finding employment is a concern of few retirees, as most have not sought it.
While current retirees do not appear to have a significant need to use their savings for regular income, the most likely reason for them to tap into their savings, as noted earlier, is to satisfy RMD rules. However, some are using their savings for discretionary spending, such as the purchase of a car or boat, and non-discretionary spending, for example to cover medical or other unplanned expenses. Figure 14 details some of their uses of retirement savings. The instances of withdrawals being taken to pay medical expenses are notable for being under 10 percent. Future retirees are likely to be more heavily burdened by medical expenses and are acutely aware of it; 69 percent of baby boomers are concerned about incurring significant medical expenses in their later retirement years.  

![Figure 14: Expenses Paid Using Withdrawals from Retirement Savings](image)

“Retiring and moving to Florida” is a bit of a cliché in the United States, but according to Figure 15 most retirees have stayed put.

More than six in 10 retirees continue to live in the same house in which they retired, while only one in four sold a home and purchased a smaller one to reduce expenses. With 43 percent of retirees continuing to realize the same or higher income after retirement, selling a home and relocating to a smaller residence may be less of an imperative for current retirees. This is unlikely to be the reality for future generations of retirees. Not only will pensions be less prevalent, but it is very likely that a higher percentage of future retirees will carry mortgage balances into retirement, and that those mortgages will be more burdensome. Fannie Mae found in a 2017 study that older Boomers were more likely to carry a mortgage into retirement in 2015 than were members of the silent generation the same age in 2000, and those mortgages will tend to be more of a financial burden. Historically, a house in the United States cost three to four times median annual household income; this ratio increased to five during the housing bubble of the 2000s and is currently about 4.5.  

6
Many, if not most, retirees would have observed their parents navigating retirement – in fact some younger retirees may still have parents living late into retirement. **Figure 16** shows current retirees feeling that they are more financially secure in retirement than are/were their parents.

In addition to feeling more secure than they think their parents are or were, most retirees feel more secure now than when they retired. More than one-half believe they are better off financially now than at the point of retirement, while 36 percent say they are about as well off now as when they retired.

63% of retirees remained in their home after retiring.

72% of retirees believe they are more secure in retirement than their parents.
Finally, how do retirees feel about the investment vehicles they use for their retirement savings? Since most are maintaining or growing their investable assets, and have been for many years, their satisfaction levels should be instructive for those currently saving for retirement. Figure 17 looks at how they feel about various types of investment and savings vehicles.

Retirees report the highest levels of satisfaction with their ownership of IRAs, stocks/bonds/mutual funds not held in an IRA, and DC plans such as 401(k)s. Savings accounts, cash value life insurance, and hard assets such as gold are at the other end of the spectrum (dissatisfaction with savings accounts is no doubt rooted in years of historically low interest rates). Annuities rate quite well in terms of retirees’ satisfaction, especially among retirees receiving guaranteed lifetime income payments, 79 percent of whom are very or somewhat satisfied with their annuities, on par with IRAs, stocks, bonds mutual funds, and 401(k) plans.

**Figure 17: Satisfaction with Investments**

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Very/Somewhat Satisfied</th>
<th>Neutral</th>
<th>Very/Somewhat Unsatisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Retirement Account (IRA)</td>
<td>80%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock, bonds, mutual funds (not in IRA)</td>
<td>79%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annuities - Receiving Lifetime Income</td>
<td>79%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>401(k)</td>
<td>77%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real estate/rental property</td>
<td>73%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annuities - Not Receiving Lifetime Income</td>
<td>63%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business ownership interest</td>
<td>55%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings accounts/CDs</td>
<td>50%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash value life insurance</td>
<td>48%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hard assets (e.g. gold)</td>
<td>46%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Eight in 10 annuity owners receiving lifetime income payments are very/somewhat satisfied with their annuities.
RETIREMENT CHALLENGES

How simple retirement would be if it consisted of nothing but known quantities – how much expenses might increase, what expenses might be incurred (major medical issue? wrecked car? flooded basement?) and their costs, and even the date of one’s death (though admittedly few would seek to acquire that information were it available). The reality, of course, is that retirement contains just as much of the unforeseen as one’s working life, with a critical difference: after a major financial blow at age 35, most people have 30 or more working years ahead to mitigate the impact. At age 70, 80, or 90 time and earned income are in short supply.

Retirees need to protect themselves by engaging in comprehensive planning, ensuring they (and their spouses or partners if they have them) have reliable sources of income throughout retirement, no matter how long that might last. They also need to be adequately insured against risks such as unexpected medical or other expenses, the possibility of needing long-term care, and the potential to experience cognitive decline, which can make older retirees more susceptible to financial exploitation.

Figure 18 looks at the extent to which retirees have prepared for some common events and contingencies, through the lens of whether they work with a financial advisor.

Most retirees have taken commonly understood planning steps, such as planning for the continuation of income for the second spouse upon the first spouse’s death and arranging for the payment of funeral and other final expenses. Looking at less well understood (but just as important) planning steps, such as having a plan in place for dealing with cognitive decline or purchasing long-term care insurance, retirees working with financial advisors are more likely to have taken these steps.

Figure 18: Contingency Planning

- **Income plan for spouse at death**: 87% (Has Advisor), 84% (Does Not Have Advisor)
- **Plan for funeral and final expenses**: 71% (Has Advisor), 70% (Does Not Have Advisor)
- **Plan for cognitive decline**: 58% (Has Advisor), 73% (Does Not Have Advisor)
- **Has long-term care insurance**: 32% (Has Advisor), 22% (Does Not Have Advisor)

*Decline rates for long-term care insurance range from 22% to 44% based on age, and coverage can be too expensive for many consumers, contributing to a low purchase instance.‌*
Financial advisors can help retirees, and those planning for retirement, understand their risks and the solutions available to mitigate those risks. Americans are woefully underinformed when it comes to understanding retirement risks like the potential to need long-term care, and how that care will be paid for if it is needed. There is a 68 percent chance that someone age 65 or older will become disabled in at least two activities of daily living (bathing, feeding, dressing, transference, and continence) or suffer cognitive decline and need long-term care. In Figures 19 and 20, retirees vastly underestimate their risk of needing long-term care services and are quite misinformed as to how one pays for such care.

Figure 20: Sources of Payment for Long-term Care Costs

- **Out of pocket**: 62%
- **Medicare**: 61%
- **Long-term care insurance**: 28%
- **Medicaid**: 11%
- **Other**: 12%

Figure 20 is troubling, as most retirees do not have the financial resources to pay for long-term care, and Medicare does not cover long-term care services. The 2018 median national cost for a semi-private nursing home room is $85,775 annually. Women need care for an average of 3.7 years, men need care for an average of 2.2 years, and 20 percent will need care for longer than five years. The risk of exhausting financial assets due to a long-term care event is quite real, and underappreciated.
Other than long-term care, financial shocks during retirement can commonly occur as the result of a significant health event, such as a heart attack or stroke, or a large unplanned expense, such as a major home repair. Figure 21 shows the prevalence among retirees of such financial shocks, and Figure 22 shows the financial impact.

Figure 21: Incurred Significant Medical or Other Unexpected Expense

- Significant Unexpected Expense: 76% (Yes) and 24% (No)
- Serious Health Event: 71% (Yes) and 29% (No)

Figure 22: Financial Impact of Medical and Other Expenses

- Less than $1,000: 0% (Medical) and 27% (Other)
- $1,000 to $10,000: 23% (Medical) and 46% (Other)
- $10,000 to $25,000: 21% (Medical) and 35% (Other)
- $25,000 or More: 6% (Medical) and 42% (Other)
As mentioned, financial exploitation is a very real concern for retirees, and even those who have not been diagnosed with dementia or Alzheimer’s, or who exhibit overt signs of cognitive decline, become more vulnerable as they age. A 2011 study conducted by Texas Tech University found that test scores on financial matters such as investments and insurance fall about 2 percent each year starting after age 60, dropping from 59 percent correct for those in their 60s to 30 percent for those 80 and older. **Figure 23** shows that four in 10 retirees either themselves have experienced successful or attempted financial exploitation, or have a family member or friend who has had such an experience. And while most attempts are reported to be either unsuccessful or result in relatively small amounts lost, one in 10 lost more than $1,000, and half of those lost more than $5,000. This problem can be expected to grow significantly over the next decade, and become more financially devastating, as the number of retirees swells and those in retirement are more dependent on their savings to meet expenses.

![Figure 23: Retiree Experience with Financial Exploitation](image)
CONCLUSION

LESSONS FOR FUTURE RETIREES

This report presents many findings, exploring the retirement income, retirement expectations, planning, and risk management of current retirees with a level of investable assets that represents some effort expended toward preparing for retirement. The report focuses on these retirees because they are what future retirees that can create their own lifetime income streams, or “personal pensions,” will look like – absent the high instance of pensions. With only 17 percent of private sector workers covered by a defined benefit pension, the onus will be on the individual to plan for a secure and dignified retirement. Over 40 percent of Baby Boomers have no retirement savings at all, and only 25 percent are confident they will have enough money to last throughout retirement. In addition to pension income, a significant factor in the success of current retirees is their relationships with financial advisors. This is true in both their perception, as retirees feel they have achieved greater financial success as a result of working with an advisor, and their experience, as those working with advisors are more likely to have taken concretes steps to prepare for, and protect against, retirement risks such as cognitive decline. Current workers should consult with financial professionals to, among other important steps, come up with a plan for retirement, including savings goals and how adequate, lifetime income will be created and sustained throughout retirement.
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 820 Americans with investable assets of at least $50,000, between ages 65 and 85 and distributed between those 5-9 years out from retirement and 10-15 years out from retirement. All findings are based on the 717 survey participants with at least $100,000 in investable assets. Data were weighted by asset level to reflect the sample universe. The survey was conducted from in August 2018. The margin of error for the survey was 33.7 percent.

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