



Aligning Retirement Expectations with Financial Resources

IRI Retirement Readiness Research Series





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About This Report

The findings in this report are based on responses to an online survey conducted in November 2021. Survey responses came from 2,004 Americans, half of whom are workers 15 or fewer years from planned retirement age and half of whom have been retired for at least five years. All survey respondents have at least \$100,000 in retirement savings, not including the value of real estate. The exhibits and commentary in this report compare the responses of near-retirees and recent retirees to examine differences in retirement income sources and approaches, financial confidence, investment product preferences and biases, and attitudes and expectations regarding retirement.

The report is divided into four sections:

- Section 1: Retirement Status and Expectations
- Section 2: Factors Impacting Retirement Confidence
- Section 3: Investing Preferences and Biases
- Section 4: Working with Financial Advisors

Appendix A is a full description of the survey methodology, Appendix B provides demographic information about the survey respondents, and Appendix C includes the full text of an in-depth question on annuity products by structure. Commentary is provided throughout to highlight areas of interest and offer context for responses.

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Key Findings

1 Tomorrow's Retirees Less Secure than Today's



Pensions Disappearing

46% of near-retirees do not expect pension income, compared to only 23% of retirees.



Worry About Income

Only 40% of near-retirees think Social Security and pension will provide enough income, versus 65% of retirees.



Health Care is a Worrisome Variable

80% of pre-retirees are concerned about the cost of health care and long-term care during retirement.

2 Financial Advisors are Highly Valued

70% believe financial advisors are trustworthy.

53% want to obtain product information from an advisor (top answer).

58% want financial advisors to select products but explain them thoroughly, versus DIY or having the advisor exercise full discretion.

3 Annuities by Nature, Not by Name

45%

Likely to purchase an annuity when described by name.

87%

Likely to purchase an annuity when described by features.

64%

Would purchase a guaranteed lifetime withdrawal benefit, which is only available as an annuity benefit.

SECTION 1

Retirement Status and Expectations

Section 1: Retirement Status and Expectations

American workers nearing retirement and the retired alike have under saved relative to their real or perceived needs, and are worried they may not have enough savings and income to cover their expenses in retirement.



60%

are worried or do not believe income will cover expenses during retirement



51%

have saved less than **\$500,000**



36%

believe SS and pension will cover retirement expenses

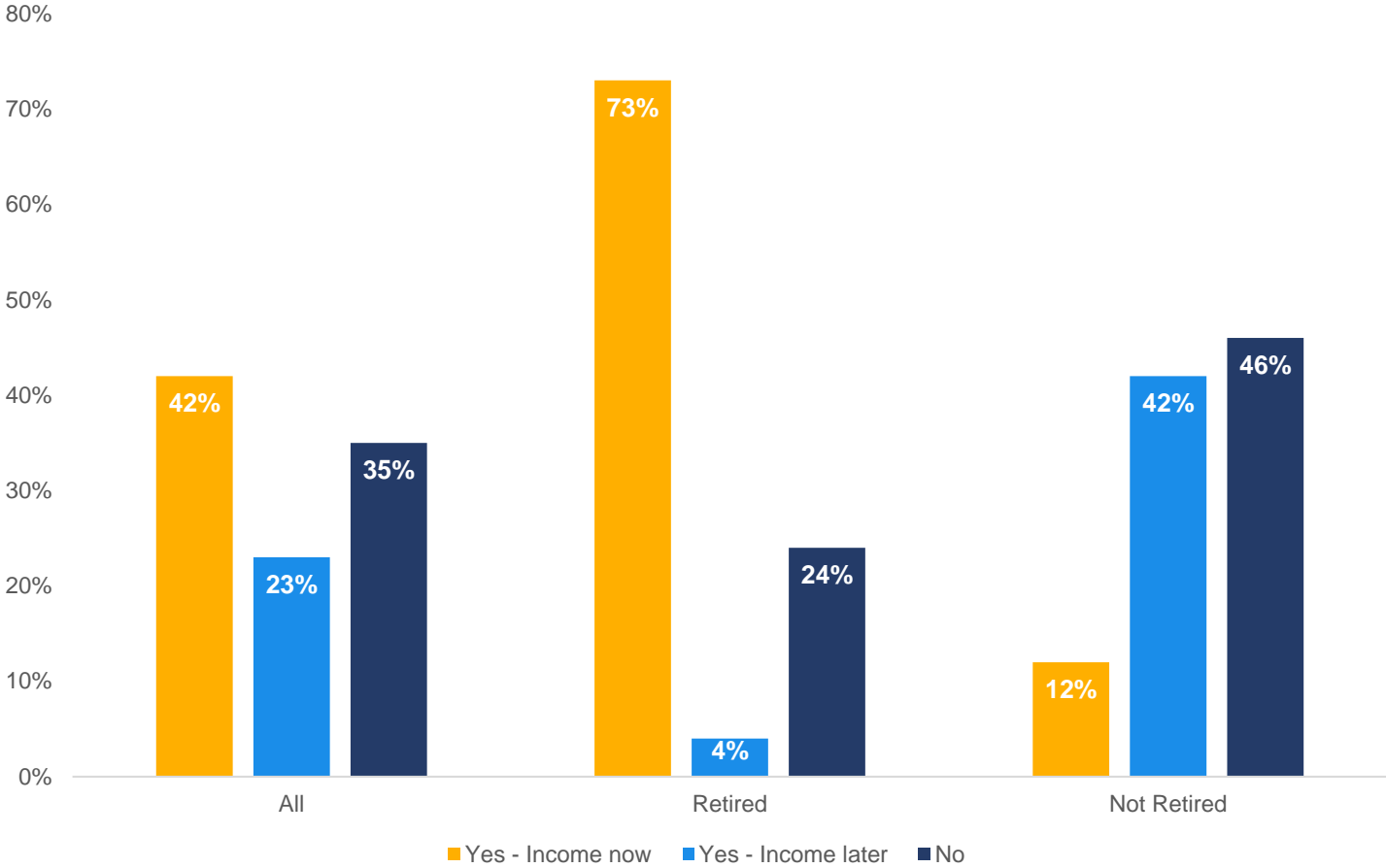


43%

believe retirement savings will be sufficient

Pensions Less Prevalent Among Workers Than Retirees

Receiving or Expecting a Retirement Pension (n=2,004)

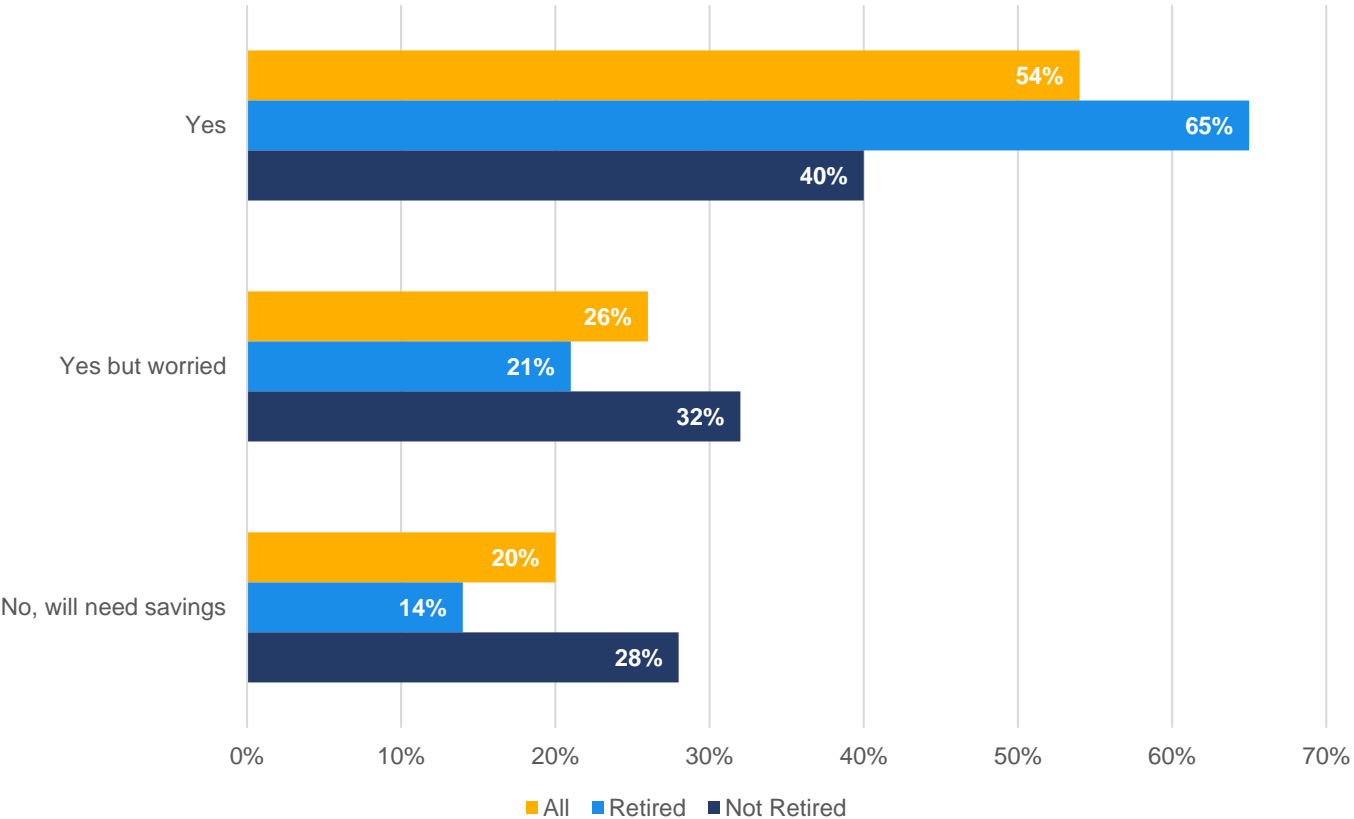


Overall, 65 percent of respondents say they have an employer provided pension. This drops to 54 percent among current employed Americans approaching retirement, while a whopping 77 percent of retirees say they have pensions. However, it is critical to note that the Bureau of Labor Statistics (BLS) paints a starkly different picture. BLS data shows that only 16 percent of private sector workers have access to defined benefit pension plans today. About one in four survey respondents is employed in either education or government, where pensions are still relatively common, which likely accounts for some of the disparity. But it is also likely that many respondents incorrectly believe that a defined contribution plan like a 401(k) is equivalent to a pension and therefore answered in the affirmative. It is important for workers and retirees alike to understand how a defined contribution plan can provide income during retirement, and its limitations.

Q. Do you (and your spouse, if married) have a pension (a monthly payment for life from an employer which, like Social Security, you cannot withdraw more from or "cash in") from a government job, military service, or a private employer?

Workers More Worried About Insufficient Retirement Income

Confidence in Income Covering Expenses in Retirement (n=2,004)



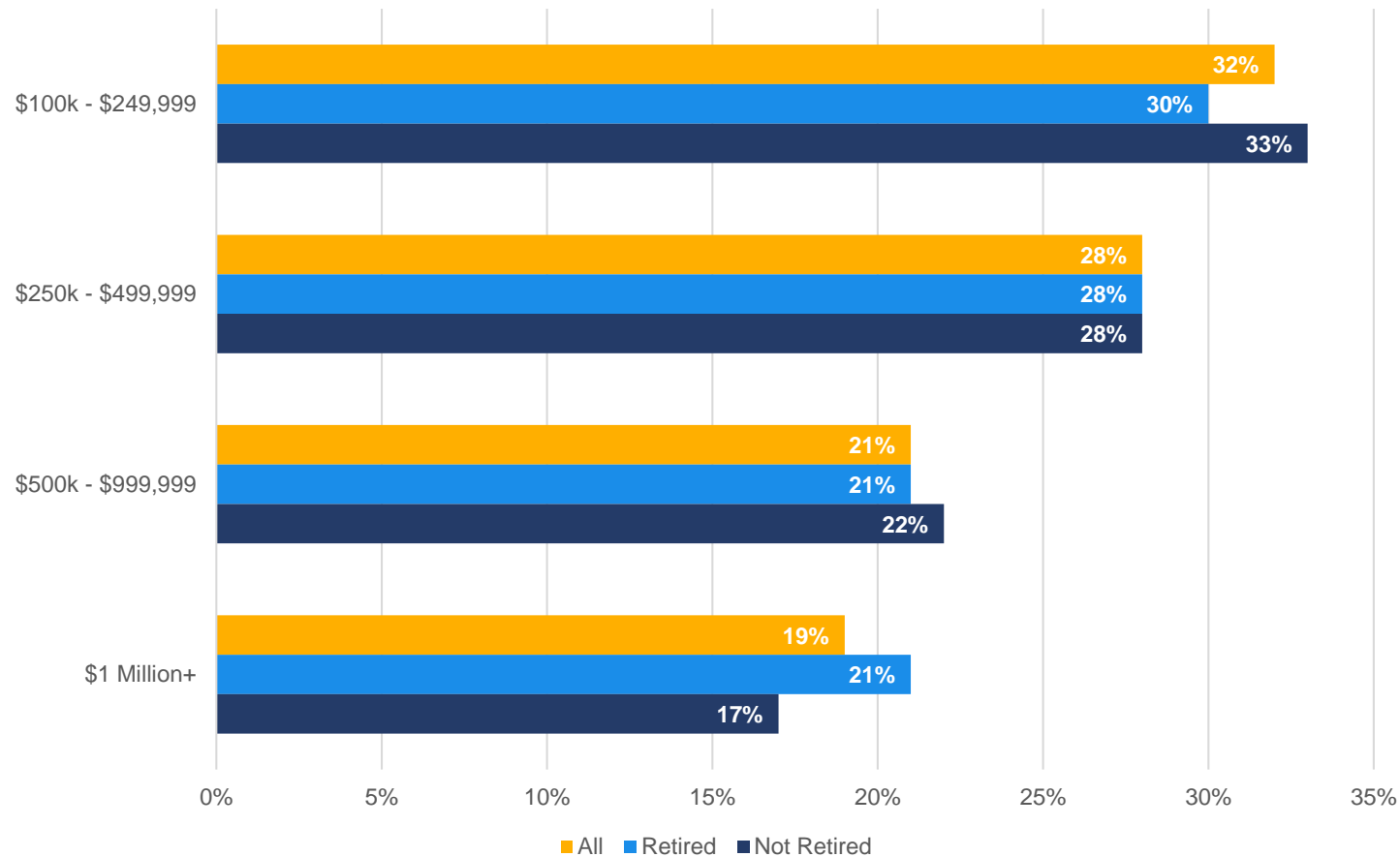
Six-in-10 working Americans are either worried that Social Security and any pension income they receive will not be sufficient to cover their expenses during retirement (32 percent) or believe they will need their savings to supplement that income (28 percent). Retirees are somewhat more confident in their ability to live on their guaranteed sources of income without tapping into their savings, likely due to a combination of the higher instance of pensions and adjustments made to align expense to income.

Both cohorts indicate large numbers of Americans not feeling confident they will have enough income to manage their expenses during retirement.

Q. Do you think your current or expected income from a pension, combined with Social Security, is or will be enough to cover your (and your spouse's, if married) expenses during retirement?

They Have Saved for Retirement – But Enough?

Total Retirement Savings (n=2,004)



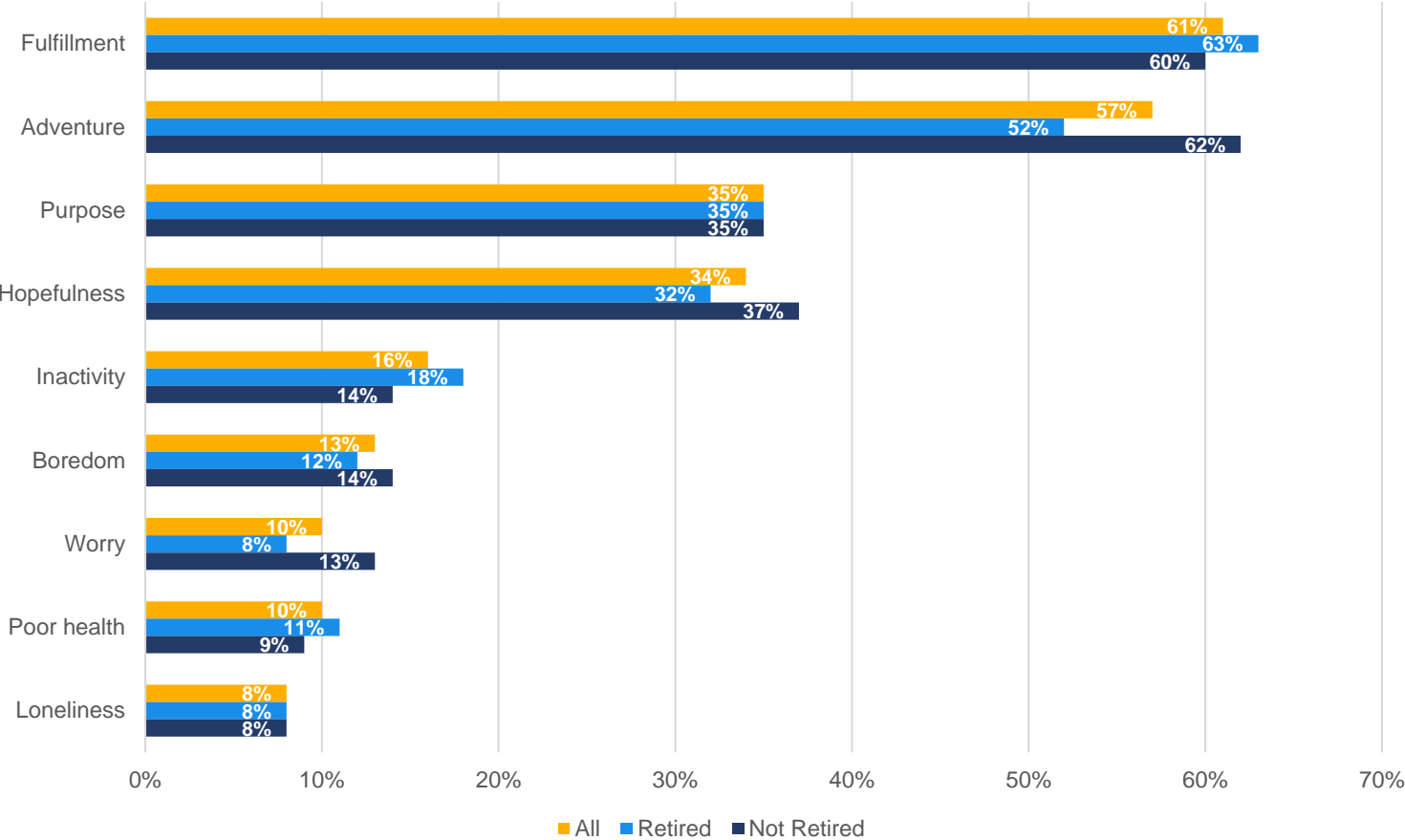
Survey respondents have at least \$100,000 in retirement savings and are either retired or in the latter part of their working lives. Yet, six in 10 near-retirees have less than \$500,000 in retirement savings, and one-third have less than \$250,000.

While it is important for anyone to build and maintain an investment portfolio that addresses multiple financial risks — longevity, sequence of returns, inflation, and market risks — it is especially important that those with limited financial resources needed to cover retirement expenses allocate those resources in a way that maximizes income and minimizes these risks, which can eat away at savings and ultimately result in a severely compromised standard of living if not properly managed.

Q. How much do you currently have saved for retirement (include balances in 401(k), IRA, ROTH IRA and other tax-qualified retirement accounts and after-tax accounts and investments such as savings accounts and CDs (DO NOT include the value of real estate)?

Despite Concerns, Retirement = Positive Emotions

Retirement Word Association (n=2,004)

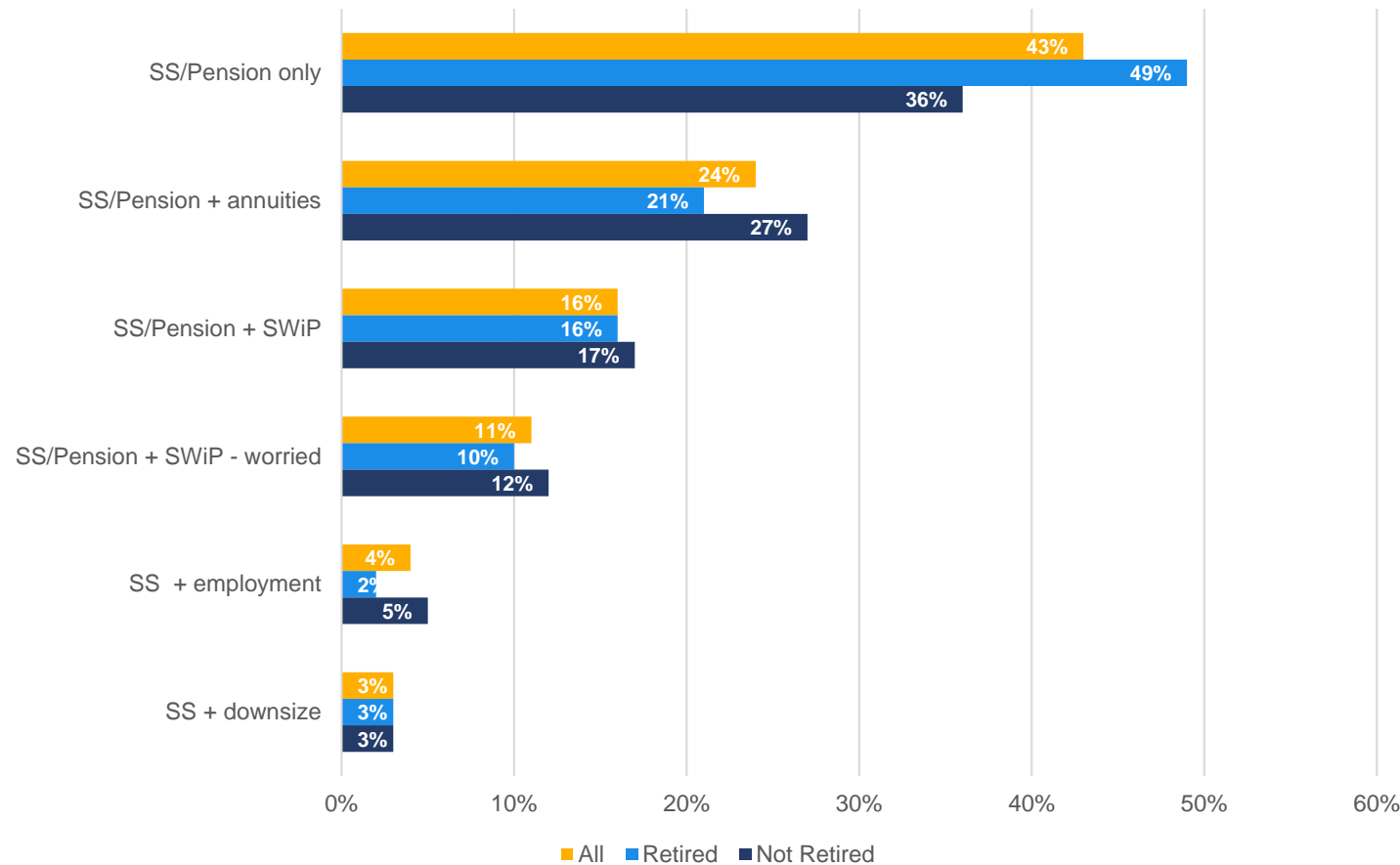


Presented with a series of words and phrases that could be associated with the experience of living in retirement, both retired and near-retired respondents overwhelmingly selected the options with a positive connotation. Further, the two most selected answers, by a significant margin, could reasonably be interpreted as having a financial component. “Fulfillment” suggests the realization of a dream, which may involve some cost to achieve if that dream is to become a scratch golfer, or little to no cost if that dream is to perfect one’s playing of an instrument. “Adventure,” on the other hand, suggests an investment in experiences — travel, learning and applying new skills, etc. In either case, financial worries would surely detract from the retirement experience Americans seek.

Q. Which of the following words do you associate with retiring or being retired? Select all that apply.

Annuities > Systematic Withdrawals?

Sources of Funds for Retirement Expenses (n=2,004)



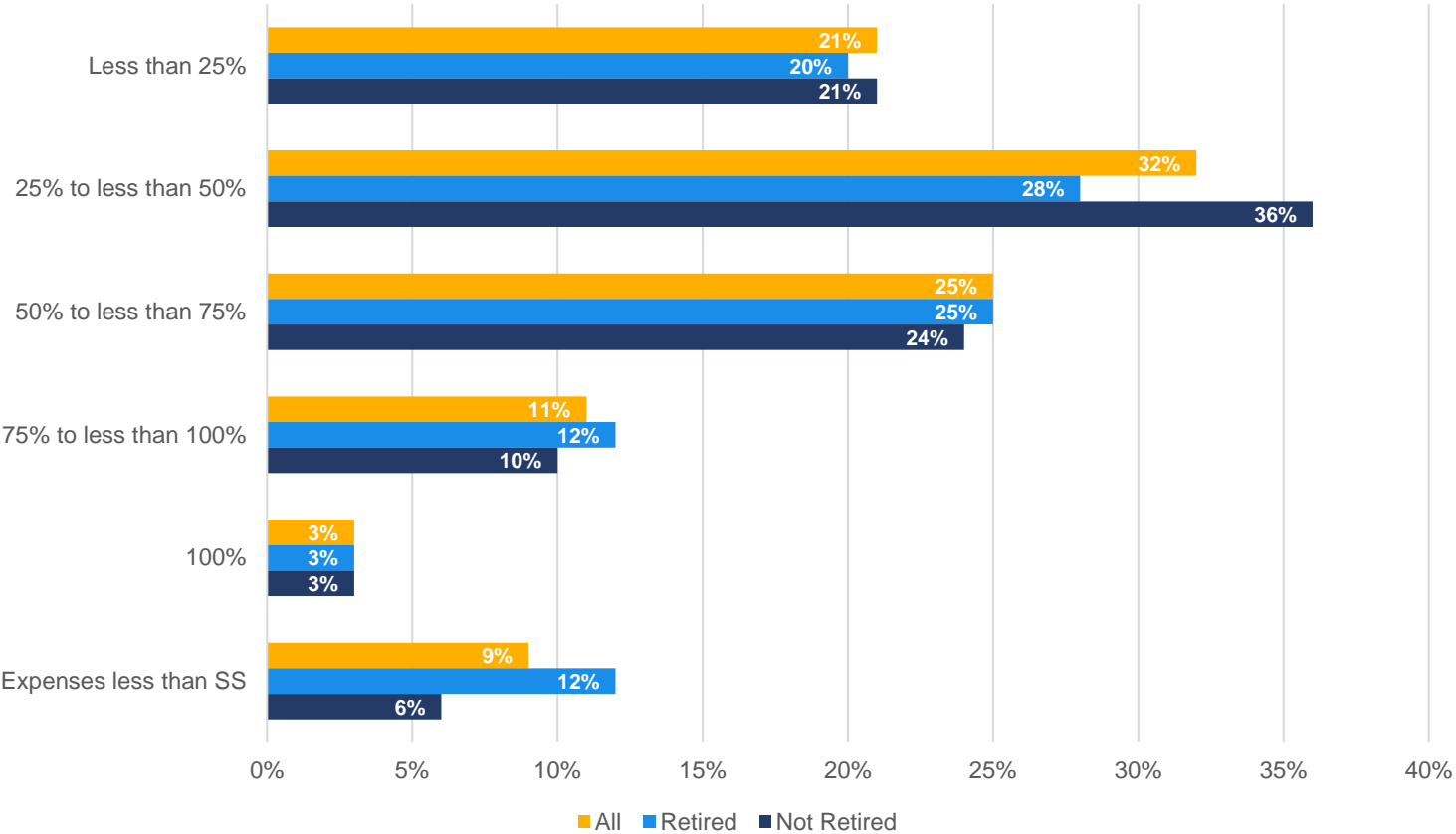
Only about one-third of near-retirees plan to rely solely on Social Security (SS) and income from any pension to which they may be entitled to cover their expenses during retirement.

Interestingly, about the same number of near-retirees plan to use annuities to generate supplemental income during retirement (27 percent) as plan to use a systematic withdrawal (SWiP) approach (29 percent). However, a significant percentage of those planning to use a SWiP said they are worried they could run out of money during retirement by using this approach. Very few plan to seek employment or downsize.

Q. Which of these statements MOST accurately reflects how you (and your spouse, if married) imagine paying your expenses during retirement? (See appendix C for the full statements presented to respondents).

Social Security Alone Will Not Get it Done

Percentage of Retirement Expenses Covered by Social Security (n=2,004)



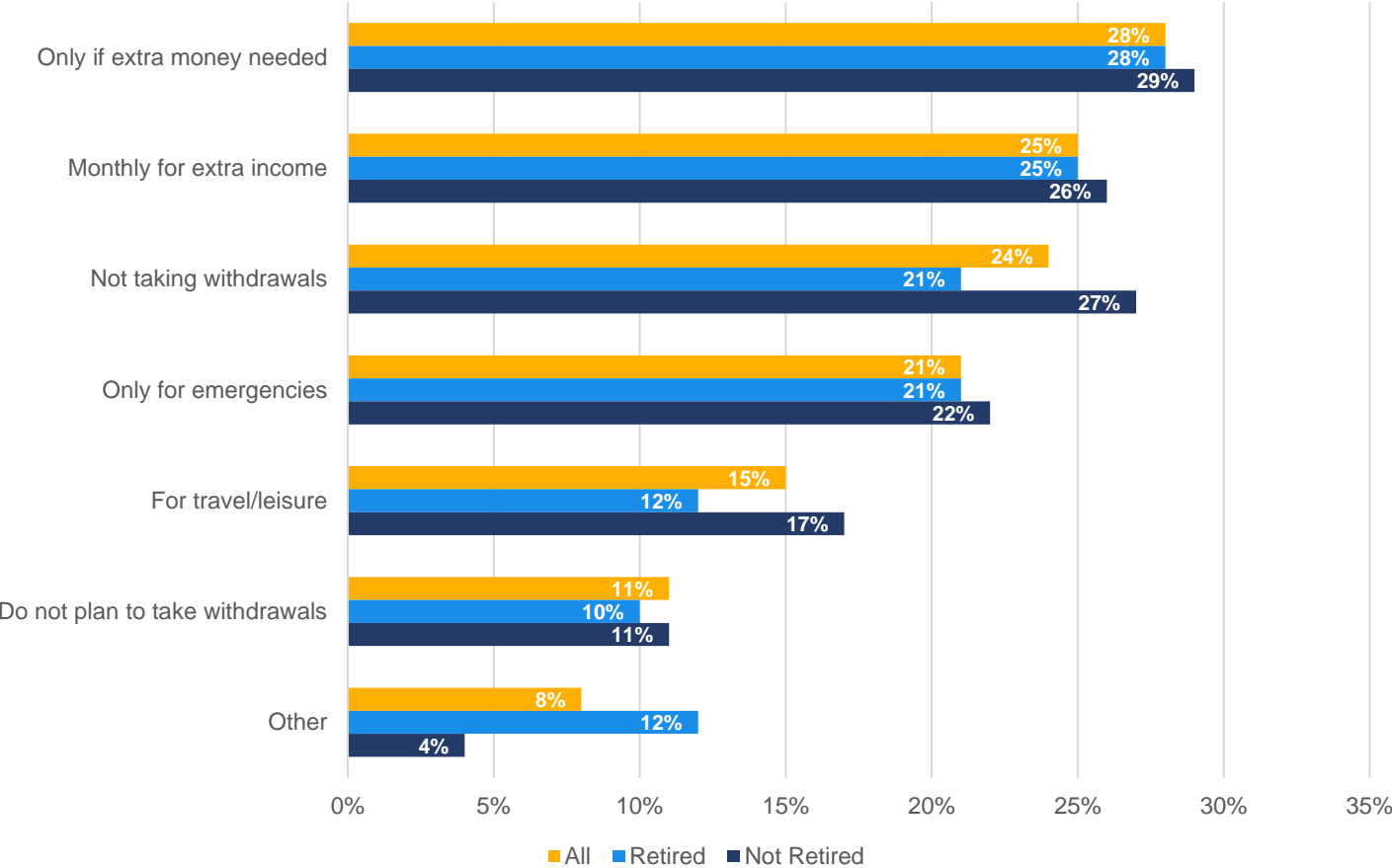
Unsurprisingly, retirees and near-retirees largely expect Social Security to cover less than half of their retirement expenses. A small percentage believe they can live on Social Security alone or even below what Social Security provides, but this may not hold true over the long term given the increasing impact of Medicare premium deductions from Social Security benefits.

More than half of near-retirees believe they will need more than twice what Social Security provides to make ends meet. For those without pensions, this will require the generation of substantial income from retirement savings. Assuming a Social Security benefit of \$2,000 a month for a married couple, generating that same \$2,000 using a 4 percent withdrawal rate would require retirement savings of \$600,000 — which less than four in 10 have saved.

Q. Approximately what percentage of your (and your spouse's, if married) monthly expenses does Social Security cover, or how much do you expect it to cover?

But They Won't Use Savings for Regular Income?

Current or Planned Use of Retirement Savings (n=2,004)

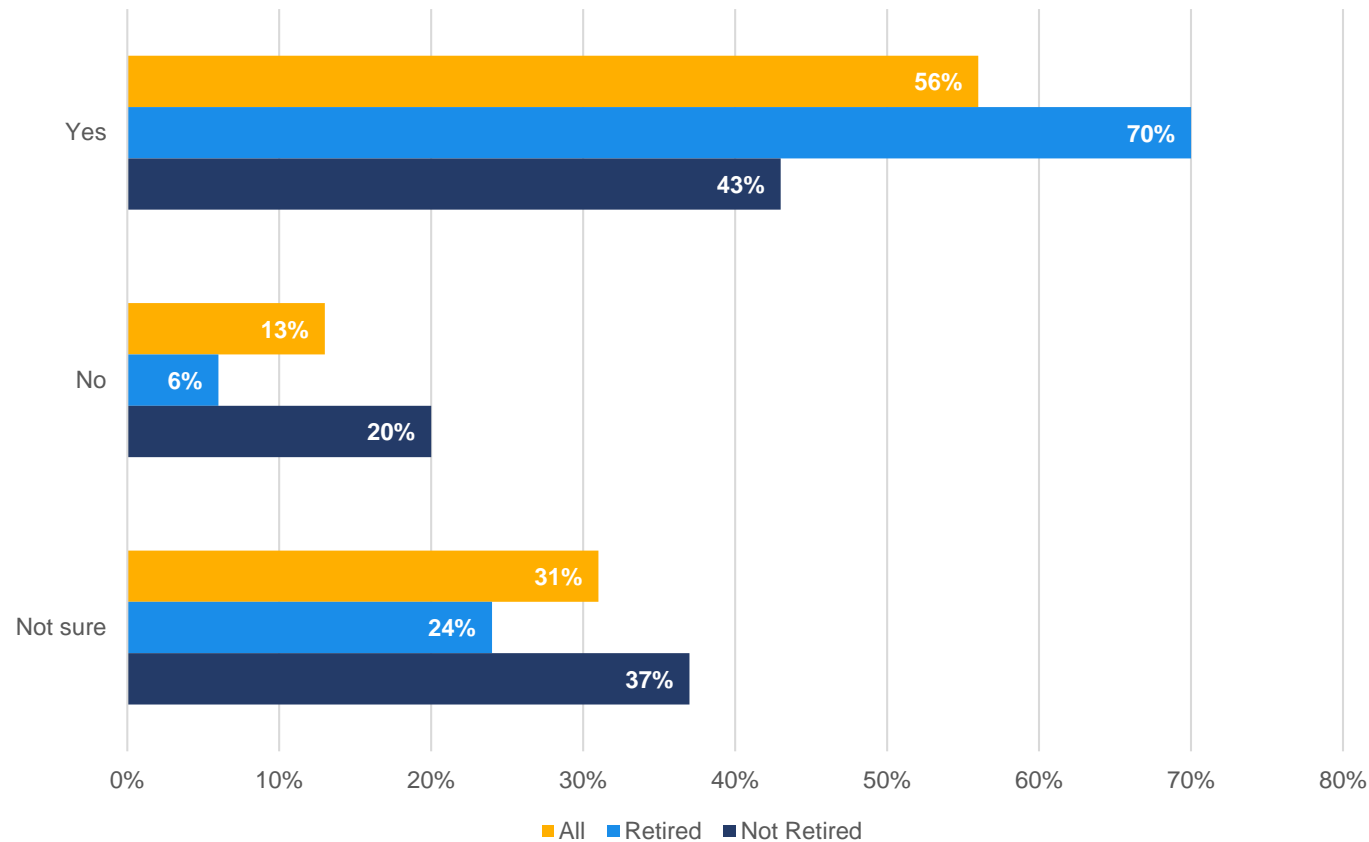


The interesting finding here is how few plan to use their savings to generate sustainable, monthly income to pay for ongoing expenses. Despite six in 10 either believing Social Security and any pension won't be enough, or planning to use their savings for income, only 26 percent plan to use a disciplined approach by taking regular monthly income from savings (via a SWiP as noted earlier). Haphazard, "when I need money" approaches such as only withdrawing for emergencies or only when a little extra is needed are more commonly selected approaches, as is not touching savings at all. "As needed" spending of savings increases the probability of running out of money sooner than anticipated — broke lottery winners can attest to that reality.

Q. How are you (and/or your spouse if married) taking (or how do you plan to take) withdrawals from your retirement accounts? Select all that apply.

Not Enough Saved? Or Not Enough Planning?

Enough Money to Feel Secure Throughout Retirement (n=2,004)



Most retirees seem confident about their savings being sufficient to provide what they need throughout their retirement years. It is quite a different story with workers nearing retirement — only 43 percent feel they have saved sufficiently, with more either feeling they have not or feeling unsure.

Lack of confidence in the ability to navigate retirement may in some cases be driven by inadequate savings — after all, fully one-third of workers late in their careers have saved less than \$250,000. However, for others this lack of confidence may be attributable to the absence of a clear strategy for generating sustainable, lifetime income from financial resources. The next section of this report will explore retirement fears — and factors associated with retirement confidence.

SECTION 2

Factors Impacting Retirement Confidence

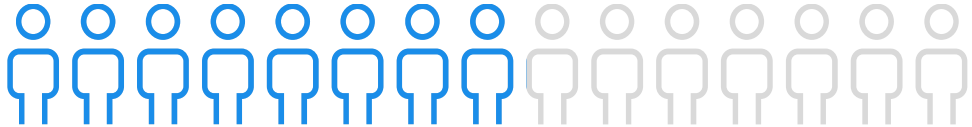
Section 2: Factors Impacting Retirement Confidence

Workers nearing retirement are worried about expenses related to the need for long-term care and health care in retirement. This worry is tied to inadequate savings; greater savings is the top factor that most directly relates to feeling more secure in retirement, and near-retirees would choose to save a 25 percent increase in income over any other use. Guaranteed lifetime income falls just below savings as the means to achieve retirement security.



80%

of workers are worried about long-term care and health care in retirement



54%

of near-retirees would save a 25% increase in income



70%

of near-retirees would feel more retirement security with more savings

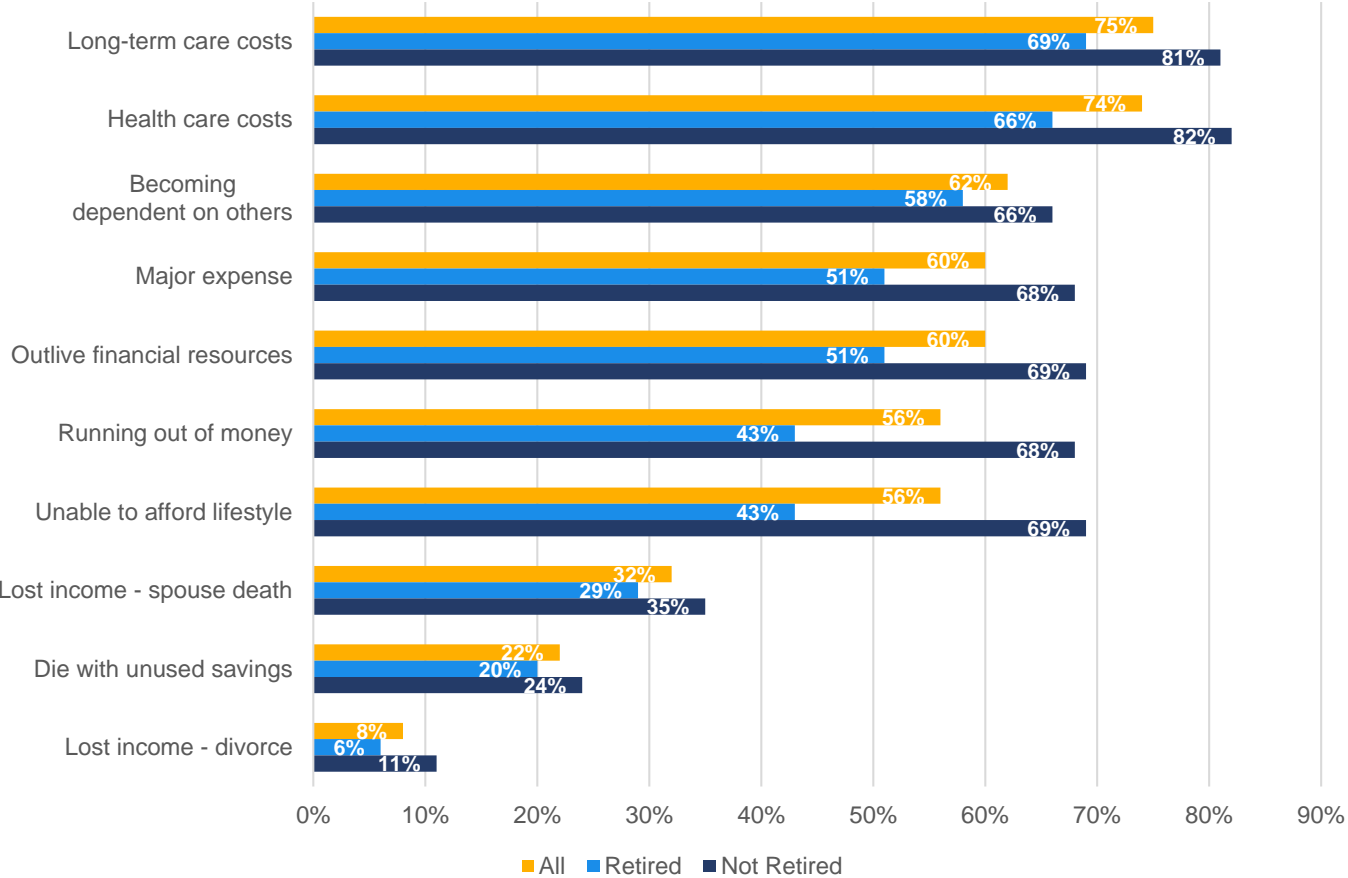


66%

of retirees would feel more retirement security with more guaranteed lifetime income

Long-term Care and Health Care Loom Large

Retirement Fears (Very or Somewhat Worried, n=2,004)

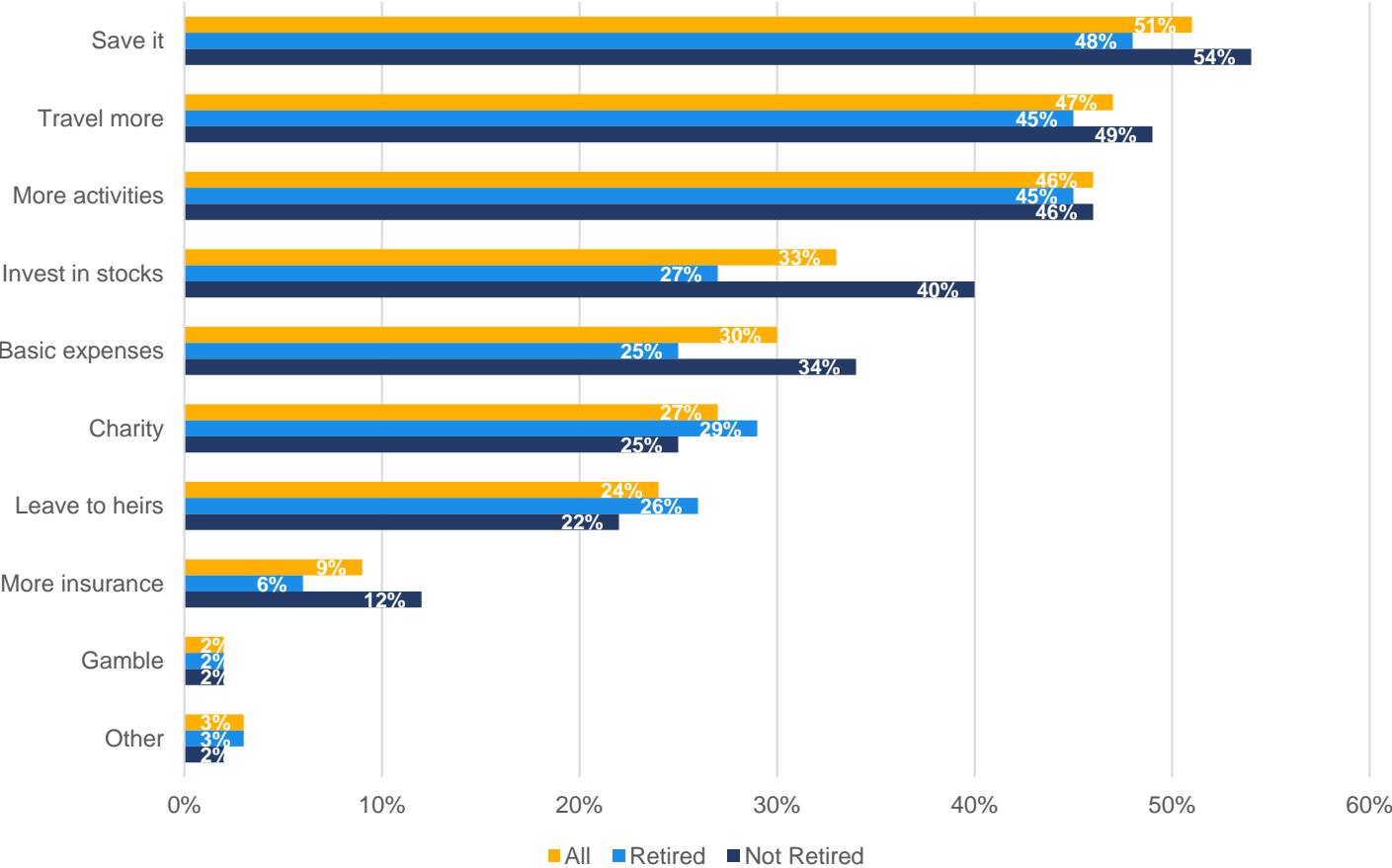


Both retirees and near-retirees are more worried about the potential impact of expenses associated with long-term care and health care (i.e., major illness) than with other retirement pitfalls. However, among near retirees the differences are not quite so stark — almost as many are concerned about having to change their lifestyles as are concerned about long-term care, whereas retirees are far more worried about long-term care than lifestyle. Perhaps this can be assigned to proximity and relationships — it is more likely that someone in his or her retirement years has seen a friend experience the need for long-term care and the associated financial strain. In sum, the possibility of outliving financial resources or experiencing a crushing financial setback due to unforeseen events is a significant worry.

Q. How worried are you about each of the following events that may occur during your retirement years?

Most Would Save a Significant Increase in Income...

Expected Use of a 25% Increase in Income (n=2,004)



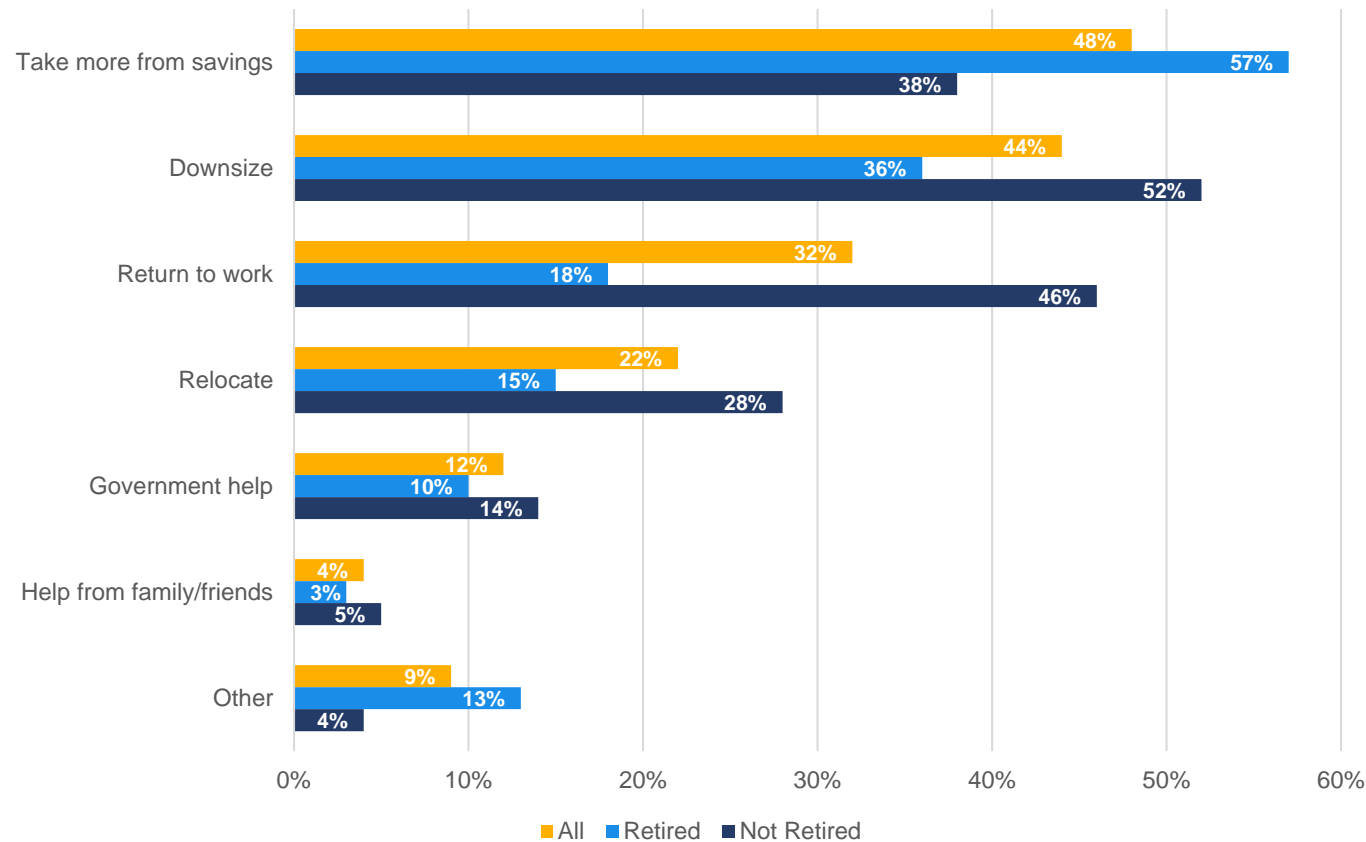
Given the fears facing retirees and near-retirees, it is both encouraging and unsurprising that the most common response to the disposition of a 25 percent increase in income would be to save it for a rainy day. Very close behind however, is the desire to use such a windfall for travel or to engage in more activities.

An active, vibrant retirement is the vision of most of today’s workforce as they approach the end of their working years — and financial security is the key to enabling that dream to be realized.

Q. If your income suddenly increased by 25% and you knew it would last as long as you lived, what would you do with it? Select all that apply.

...But Would Draw From Savings to Maintain Lifestyle

Expected Actions Given a 25% Income Reduction or Expense Increase (n=2,004)



Conversely, if income were to suddenly be reduced by 25 percent, or expenses increased by that amount, retirees would tend to take more from savings, whereas near-retirees are more likely to say they would downsize.

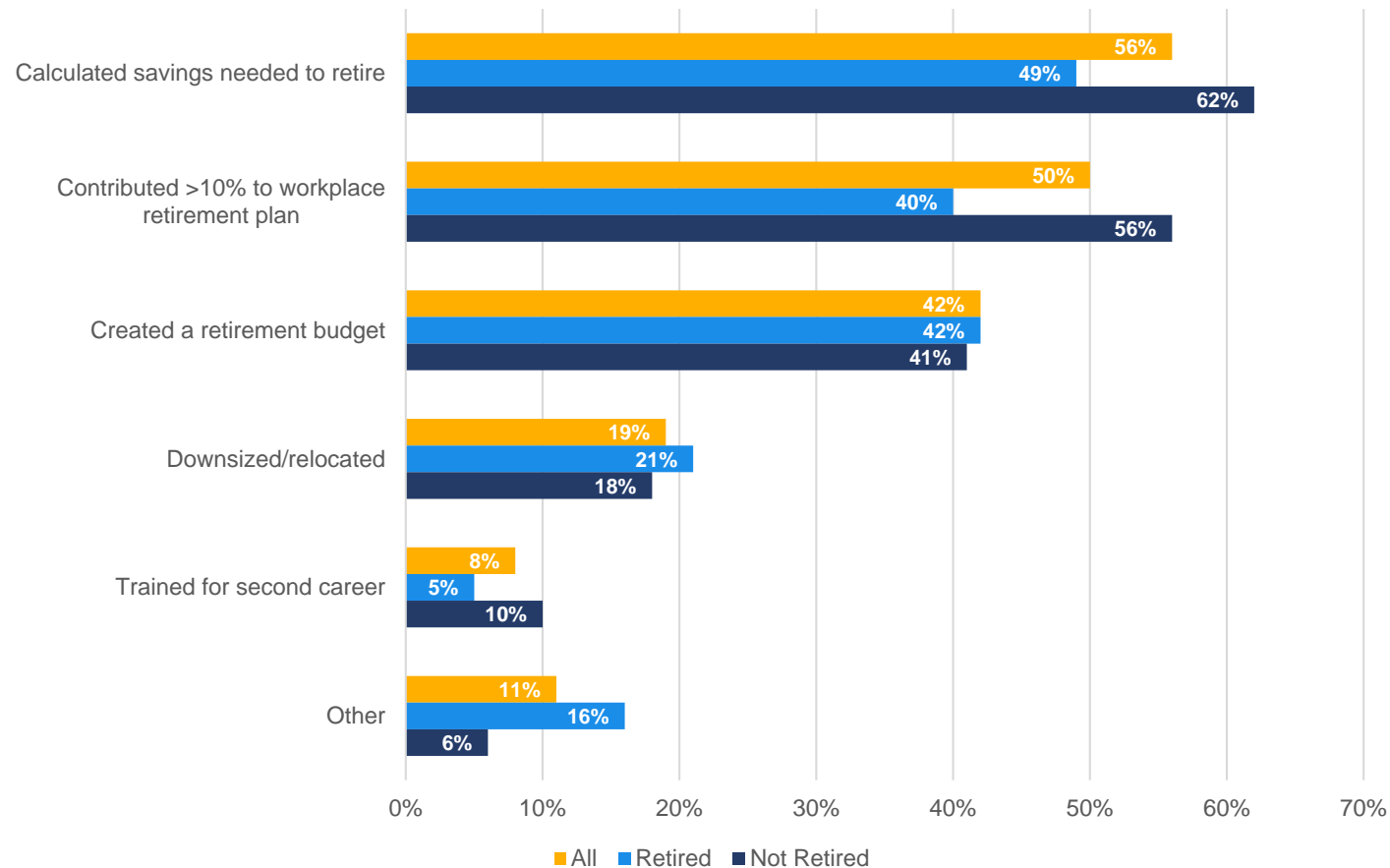
Several things can be inferred here. Retirees may be more likely to say they would draw from savings because they have good pensions and are not drawing much, if anything, from savings today, whereas those not retired would be fearful of completely draining what they perceive to be savings already inadequate for retirement. And retirees may be less likely to say they would downsize because they already have, or because the thought is unpleasant and proximate, whereas it feels more hypothetical to someone years away from such a decision.

The conclusion here is that lifestyles are sticky, and it is better to have the planning done and the pieces in place to weather the storms rather than being forced to make unpalatable decisions under duress.

Q. If your retirement income was reduced by 25%, or your expenses increased by 25%, what would you do? Select all that apply.

Moving Beyond “Rules of Thumb”

Retirement Planning Steps Taken (n=2,004)



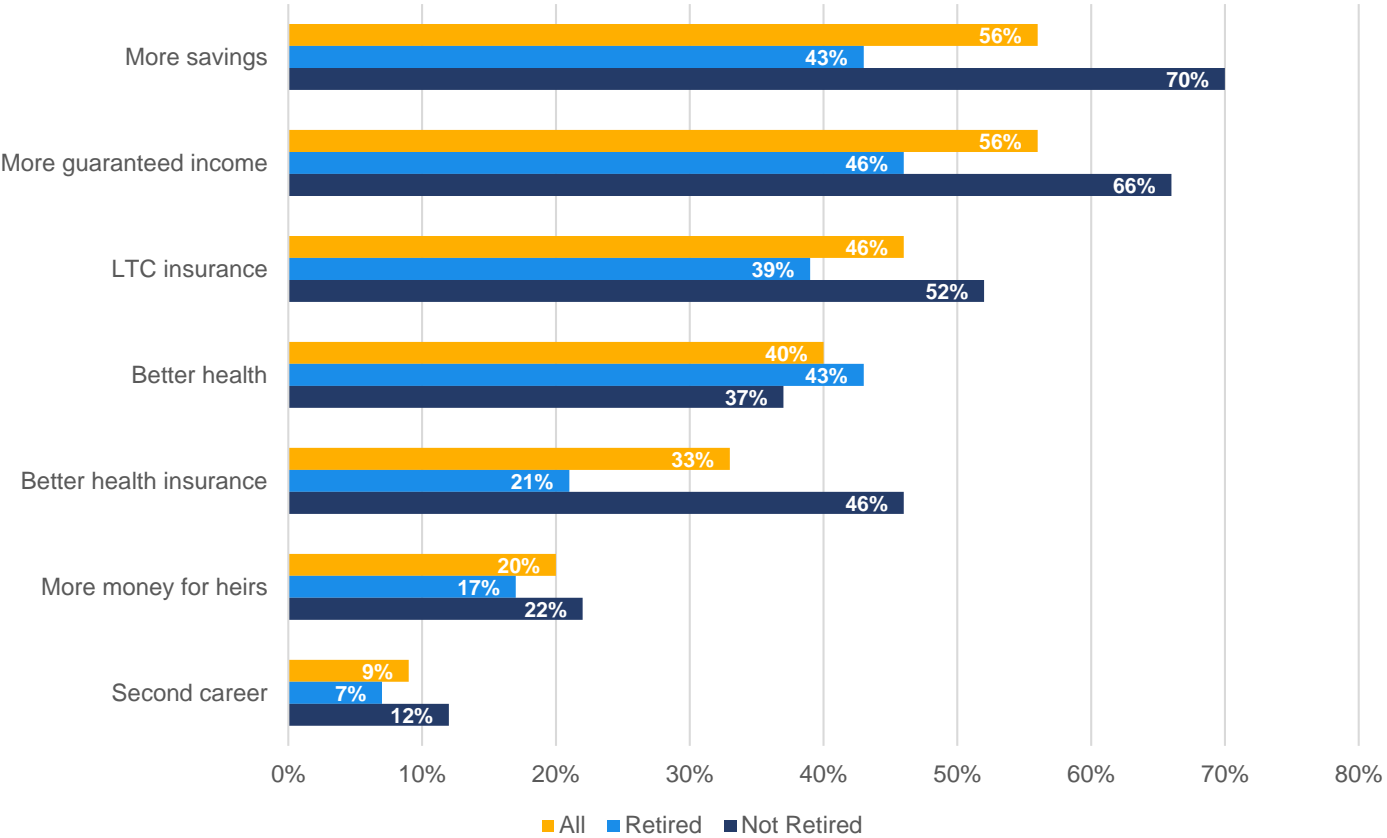
Far more Americans say they have calculated how much they need (or needed) to be able to retire than have created a budget for retirement income and expenses. The implication is that many have simply followed a “rule of thumb,” such as trying to accumulate savings of eight times annual salary by age 60. A retirement budget that considers whether a mortgage will still be paid after retiring, whether there will be employment income, and an estimate of basic living expenses and medical expenses would provide a far more accurate picture of savings needed.

Additionally, a retirement budget can consider how retirement savings would potentially be invested; if a portion is allocated to an annuity providing guaranteed lifetime income less savings may be required to achieve a given level of income.

Q. Which of the following retirement planning steps did you take to ensure you (and your spouse if married) would have adequate income throughout retirement? Select all that apply.

More Savings, More Income Increase Peace of Mind

Factors That Would Increase Feelings of Retirement Security (n=2,004)



Particularly among near retirees still in the workforce, feeling more secure about retirements is strongly tied to having more in retirement savings and having a higher level of guaranteed income. This is perhaps intuitive, but it is worth noting that long-term care (LTC) insurance and better health insurance, which both directly address the top two retirement fears noted early, were chosen far less frequently. An inference from these findings may be that while insurance more efficiently mitigates such risks, money and the bank and regular income feel more tangible and have a greater impact on Americans’ overall feeling of being financially secure in retirement.

Being able to leave money for heirs or having skills to engage in a second career are distant considerations when contemplating retirement security.

Q. Which of the following would make you feel more secure about your retirement, or expected retirement? Select all that apply.

SECTION 3

Investing Preferences and Biases

Section 3: Investing Preferences and Biases

Interest in annuities is tied to understanding of annuities. When asked about interest level in annuities by name, relatively few retirees and non-retirees expressed interest. When annuities were described in detail, both in terms of benefits and limitations, interest was much higher and in the case of fixed-indexed annuities nearly universal.



45%

of near-retirees likely to purchase a fixed annuity



87%

of near-retirees likely to purchase a financial product *described* as a fixed-indexed annuity



53%

of near-retirees want financial product information from a financial advisor (#1 answer)

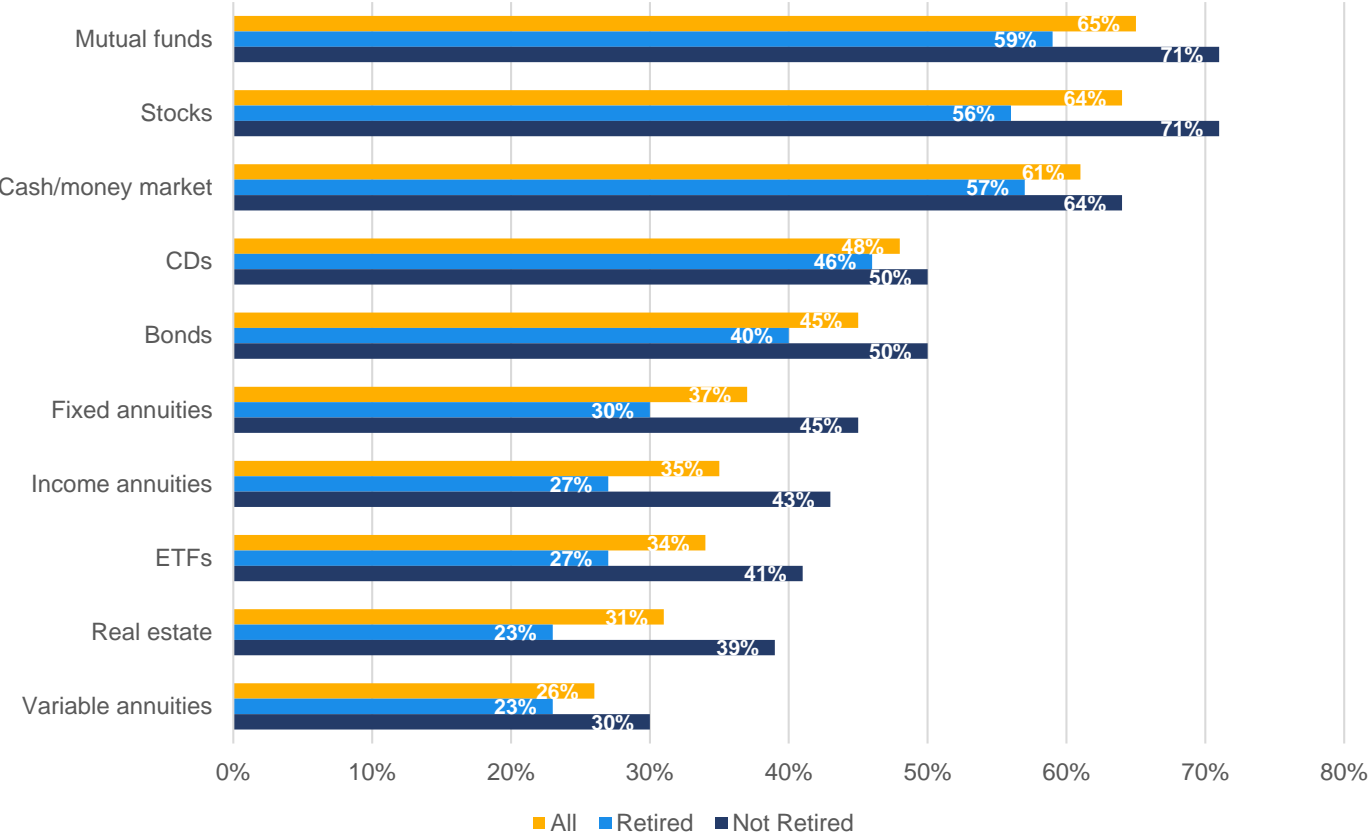


57%

prefer to purchase financial products from an advisor

Interest in Annuities is Relatively Weak...

Very/Somewhat Likely to Purchase Investment Products (n=2,004)



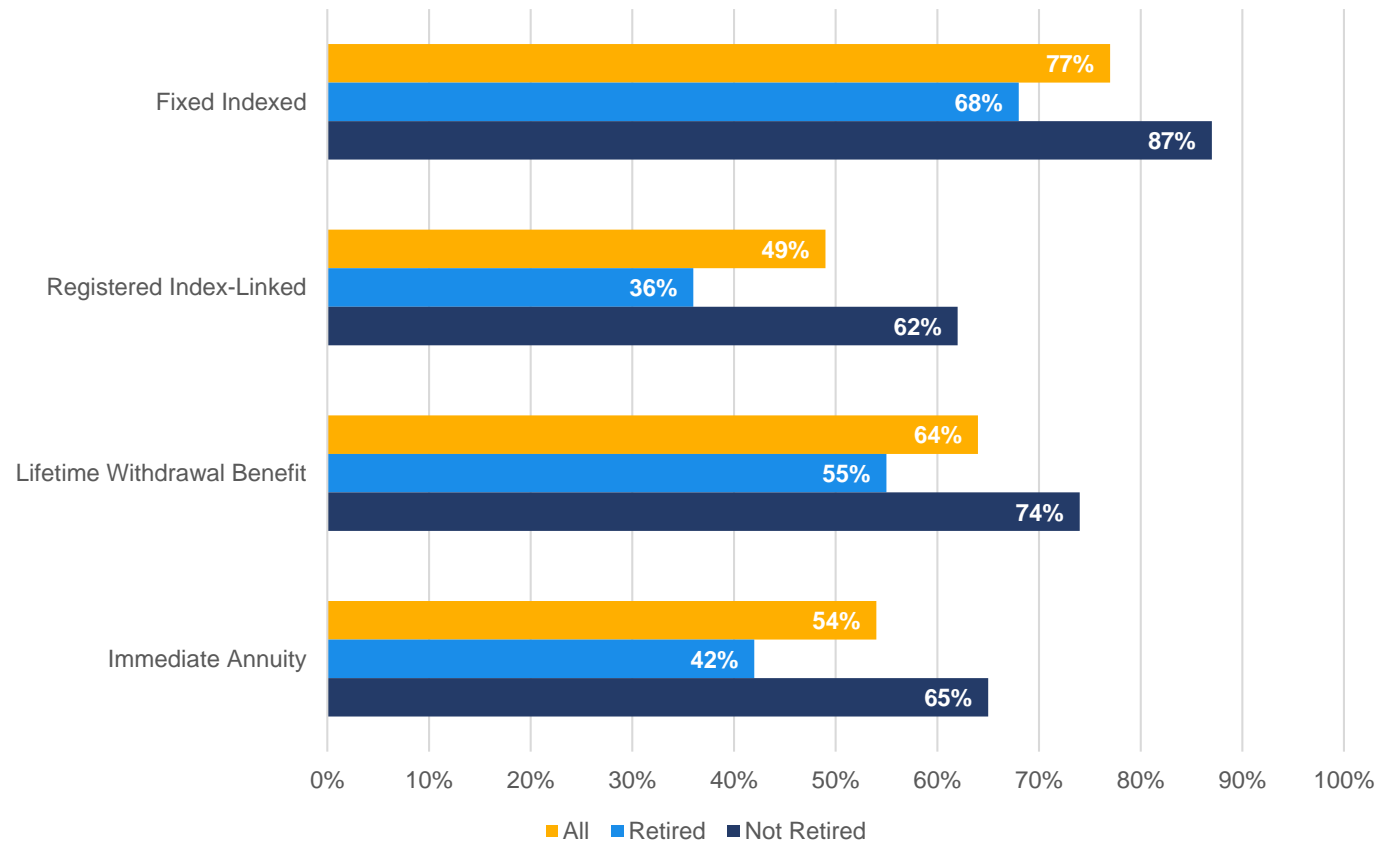
Annuities are not well understood by retirement savers, so it is unsurprising to see significantly less interest in annuities than in mutual funds, stocks, and even Certificates of Deposit (CDs) and cash, both of which currently provide no or very little return on investment.

Variable annuities tend to elicit a negative reaction, as they are frequently vilified for having high fees without discussion of the benefits they provide. The missing element in a survey question like this is the benefit to a retirement saver of allocating a portion of the portfolio to annuities, such as providing additional guaranteed lifetime income or protecting against the risk of a major correction in equity and bond markets. With only the name of the product to go on and without an understanding of how the product works, many would not say they are “likely” to invest in it.

Q. How likely are you to invest a portion of your retirement savings in each of the following options?

...Until They Are Explained

Interest in Annuities Based on Product Descriptions
(Very/Somewhat Interested, n=2,004)

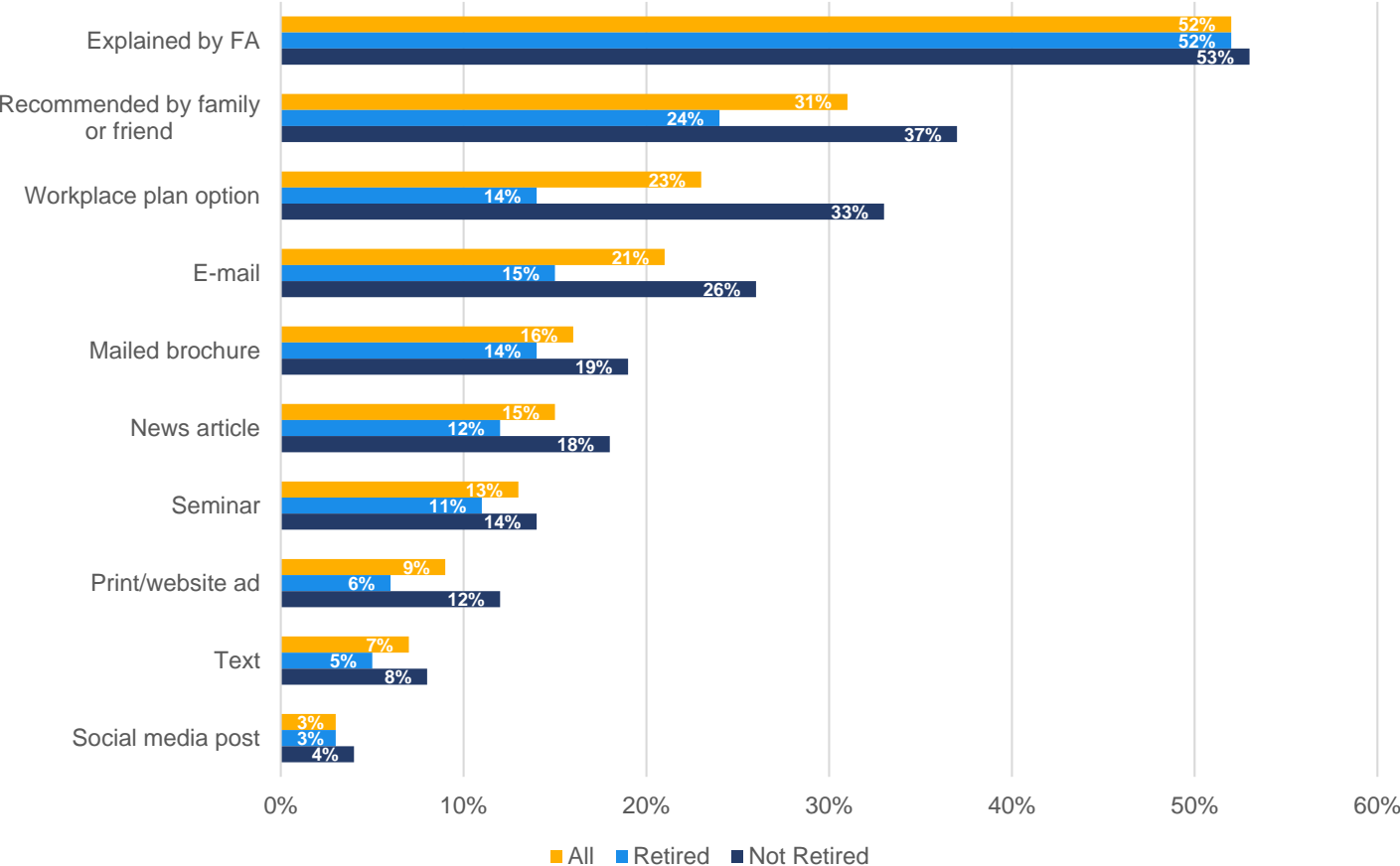


However, here the responses are based on complete descriptions four types of annuities: fixed indexed, registered index-linked, fixed indexed or variable annuities with lifetime withdrawal benefits, and immediate annuities. Each product was described in detail, both in terms of its benefits and its limitations, but were not called “annuities,” and respondents were asked about their level of interest.

Particularly among near retirees, who are less likely to have pensions and therefore potentially more fearful of their savings being impacted by market losses, the principal guarantee provides by fixed indexed annuities was very appealing. There was high interest as well in lifetime withdrawal benefits, again tying back to relatively fewer with pensions and a keen sense of having to provide one’s own secure sources of income during retirement. All of the annuities scored highly among workers saving for retirement, however — a positive sign that education can surmount bias.

Educating Consumers: Financial Advisors to the Front

**Preferred Sources of Financial Product Information
(Very Interested, n=2,004)**

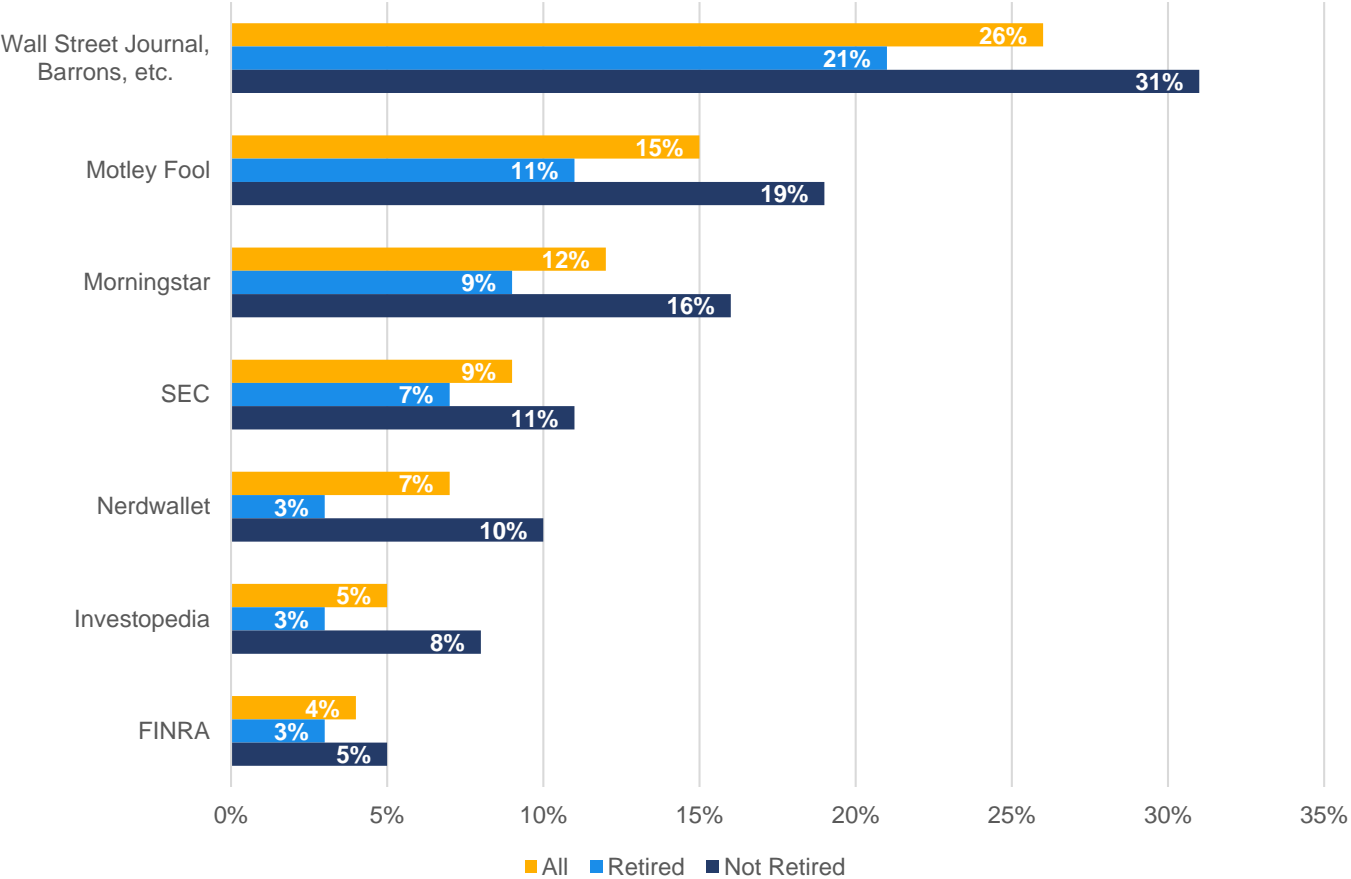


By a very wide margin, both the retired and near retired alike prefer to have financial products explained to them by a financial advisor. While there is some interest in getting information in other ways, such as talking to a friend or family member or having investment options available and explained in a workplace plan, what consumers really want is a knowledgeable professional who can explain not only how the products works, but how it fits into an overall financial plan.

Q. How interested would you be in the following ways to receive information about a financial product that might help during retirement?

Most Are Not Doing Independent Research

Personal Use of Financial Information Resources (n=2,004)

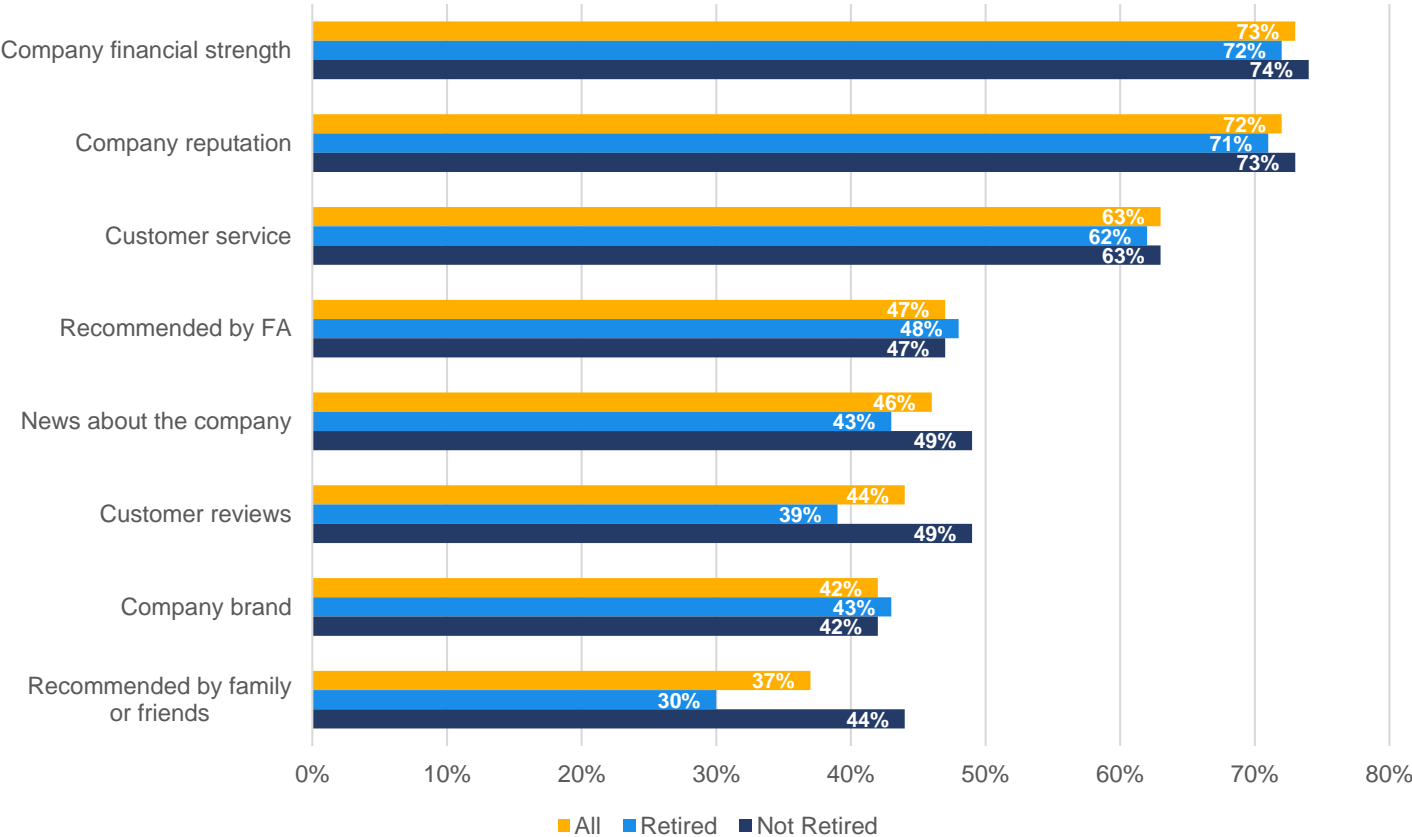


Very few are either familiar with or use common sources of information about investment products. Given the desire for a financial advisor to provide guidance this is hardly surprising, but it is concerning in that understanding some basics from materials freely available through websites like Nerdwallet and performing due diligence before engaging a financial advisor by using FINRA BrokerCheck® would help consumers better understand the advice their given and protect themselves against bad actors.

Q. Please indicate your level of familiarity and interaction with the following educational resources.

Be Strong, Be Reputable

"Very Important" Factors When Considering Financial Products (n=2,004)

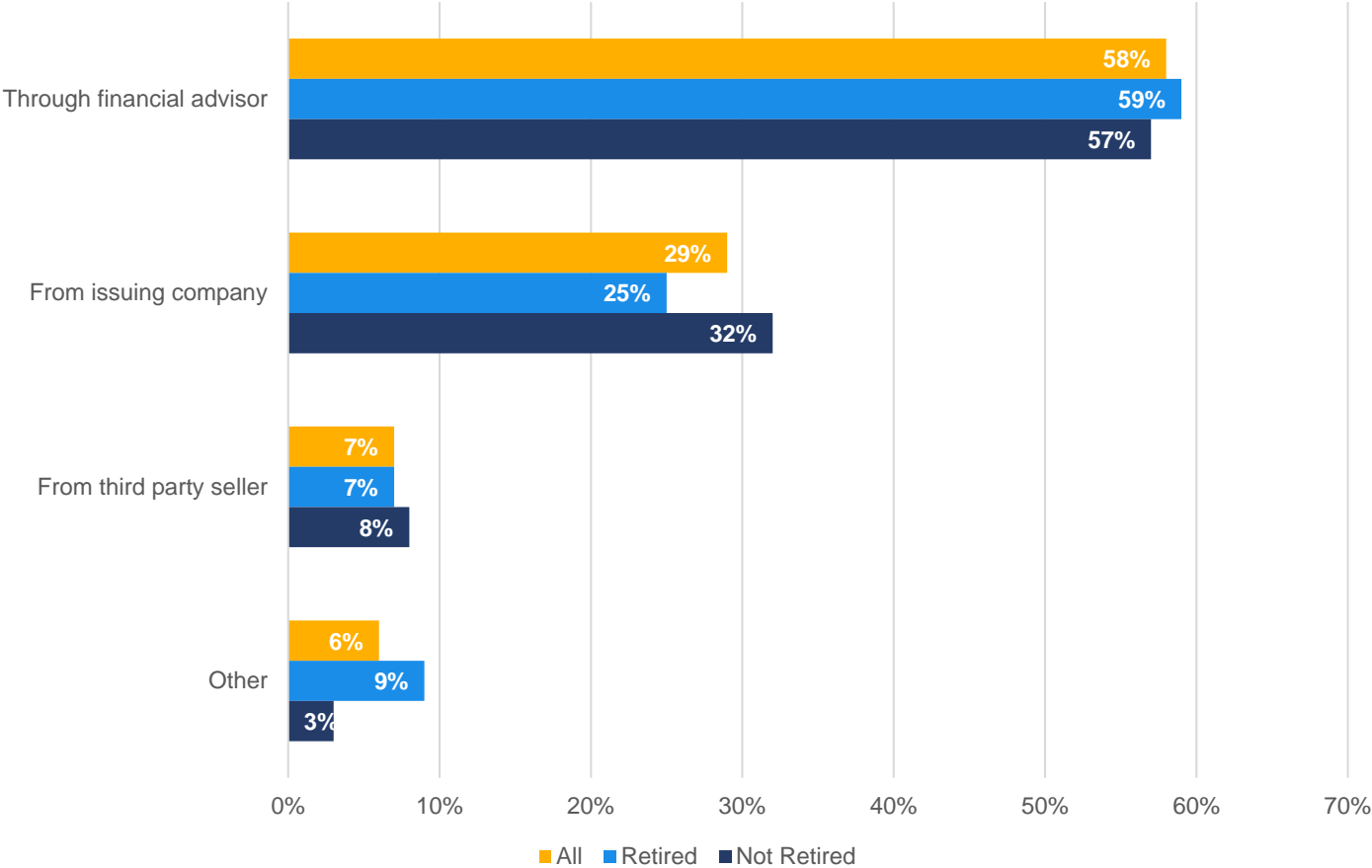


The factors consumers value above all others when making investments are for the company offering the annuity or other product to be financially strong, and to have a sterling reputation. Other factors, such as customer service and the financial advisor’s recommendation, are important as well, but a company faces an uphill battle if there is a perception it might not be there to make good on guarantees, or if its brand has negative associations.

Q. How important was/would each of the following be to you when selecting a company offering a financial product that can help you prepare for retirement?

Purchasing From Professionals

Preferred Way to Purchase a Financial Product (n=2,004)



Just as they want their information to come from a knowledgeable professional, when it comes time to purchase an annuity or other financial product, they want a financial advisor executing that transaction.

Tying together some of the themes in the preceding several slides, the opportunity for annuities is clear: knowledgeable, reputable financial advisors presenting clear information about the structure and portfolio role of annuities offered by solid, reputable companies will find a receptive clientele.

Q. How did you buy a financial product that helped you prepare for retirement, or how would you prefer to buy such a product?

SECTION 4

Working With Financial Advisors

Section 4: Working With Financial Advisors

For most retirees and near-retirees with retirement savings of at least \$100,000, the financial advisor relationship is important and collaborative. They want their information, recommendations, and transactions to be handled by the advisors, but they also want to be involved in decision making and have financial products thoroughly explained.



53%

of retirees have a relationship with a financial advisor (**46%** of near-retirees)



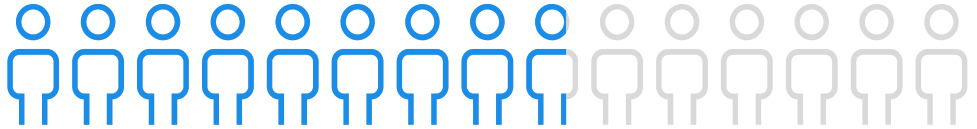
70%+

believe advisors are trustworthy, but also believe they should be heavily regulated



61%

of near-retirees want to find a financial advisor by referral from a family member or friend

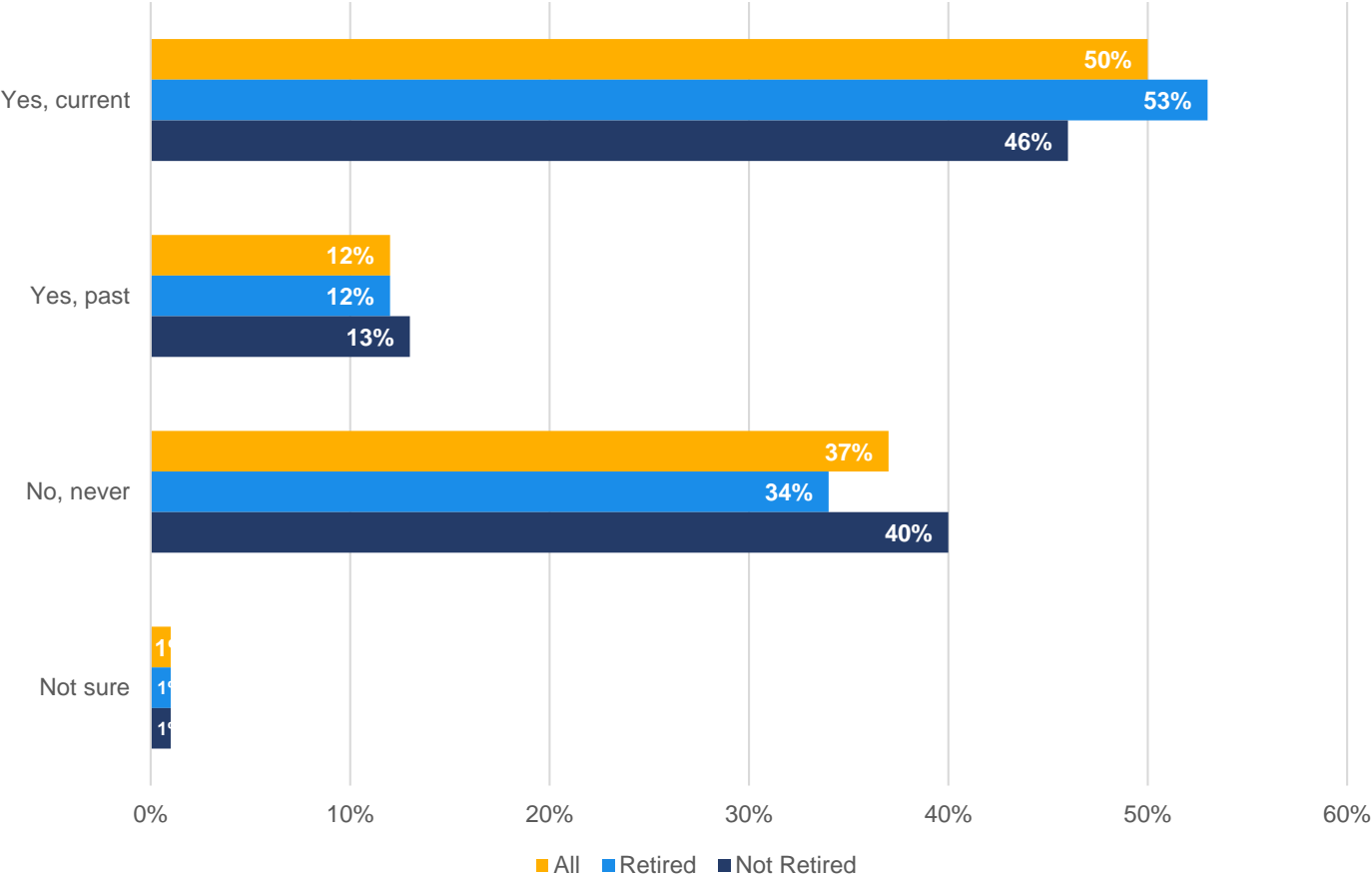


58%

of near-retirees want a financial advisor to select investments and explain everything

High Use of Financial Advisors Among Savers

Relationship with a Financial Advisor (n=2,004)

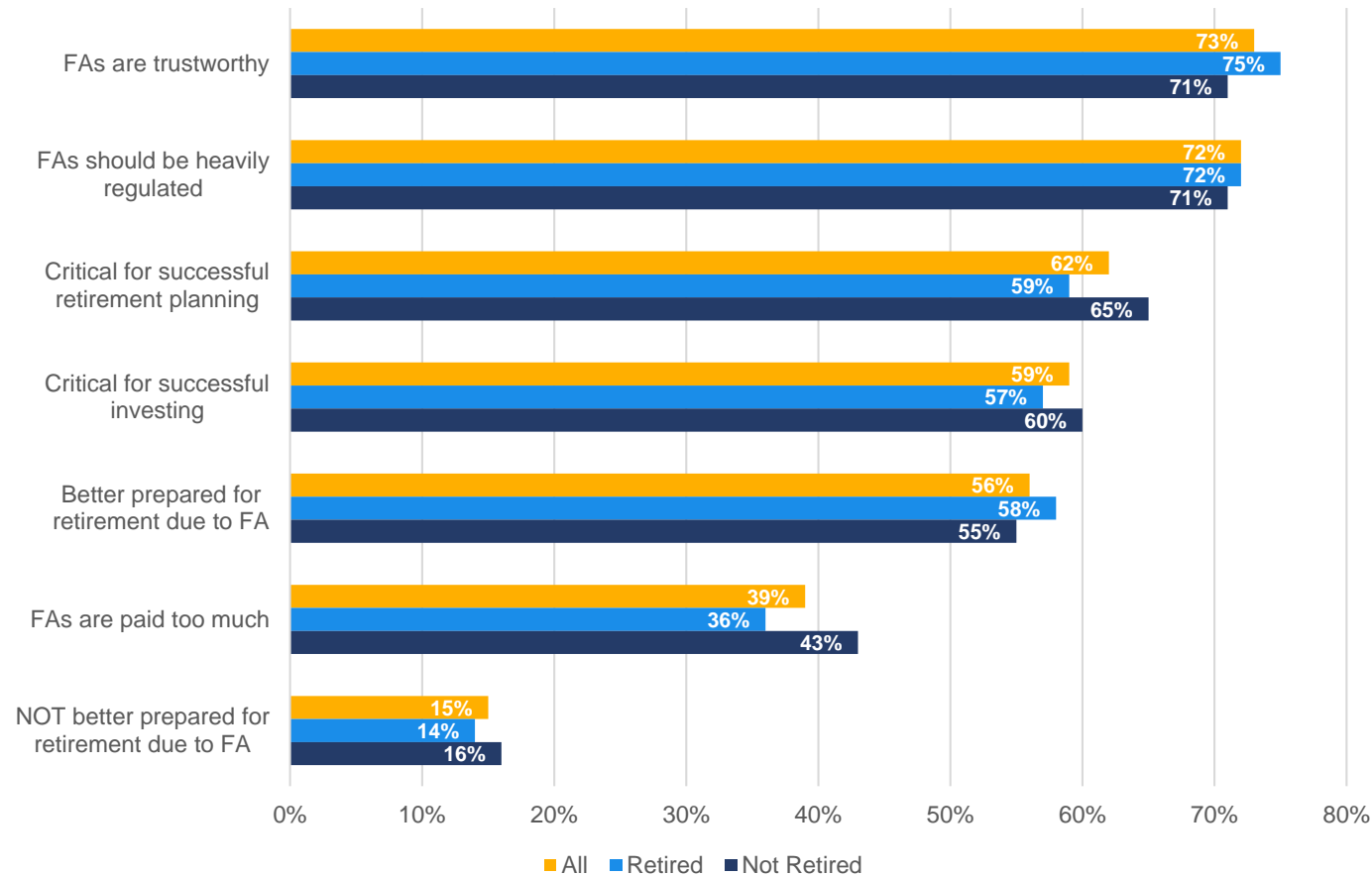


In part due to qualifying respondents as having at least \$100,000 in retirement savings, about half currently work with a financial advisor. Very few say they worked with a financial advisor at one time but do not any longer, indicating such relationships tend to be satisfactory and ongoing.

Q. Do/did you (and/or your spouse if married) work with a financial advisor to save for and/or manage retirement?

Trust, But Verify

Feelings Regarding Financial Advisors (n=2,004)



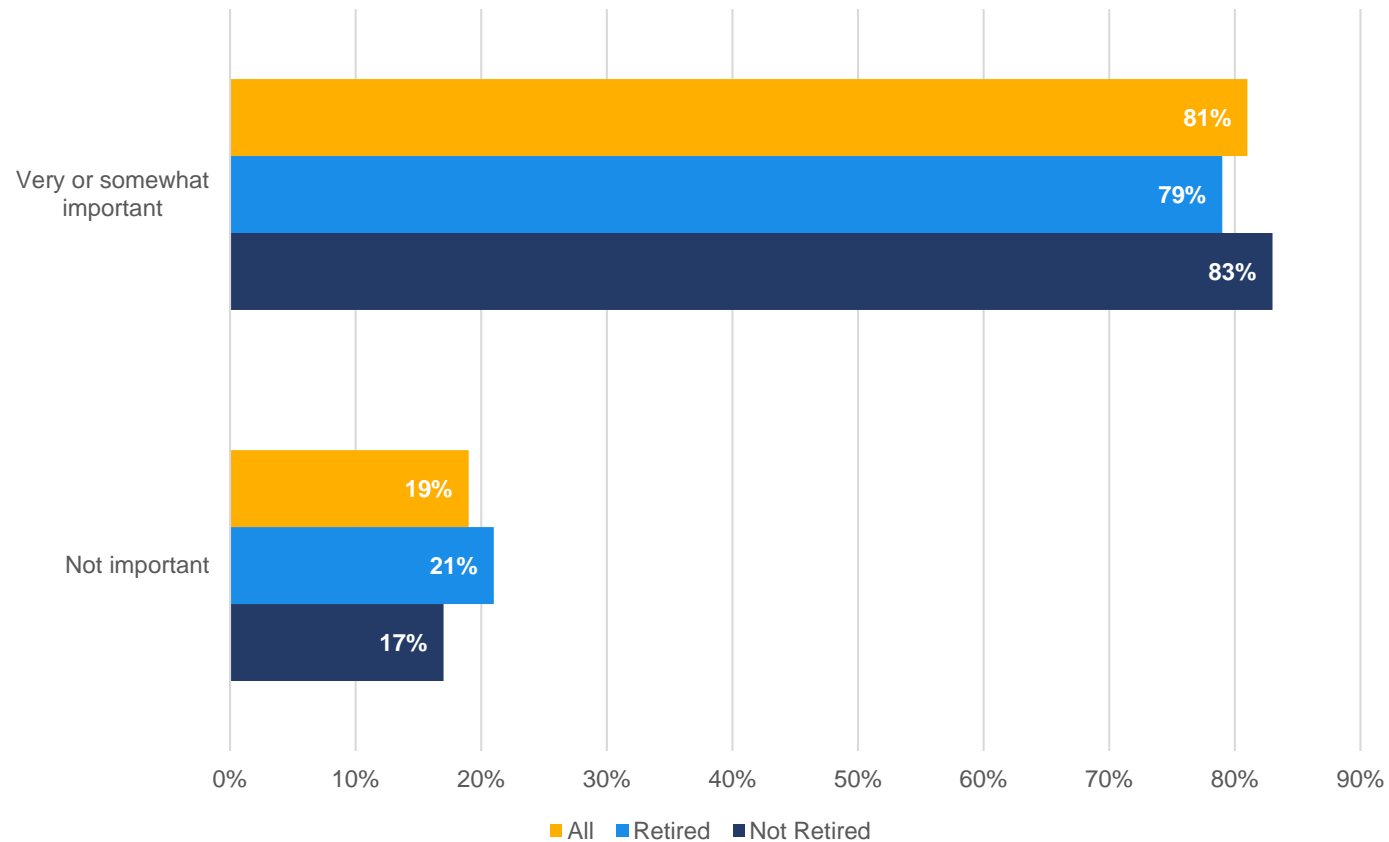
Consumers feel that financial advisors are trustworthy, but they also feel advisors should be heavily regulated. This indicates that the desire for regulation is rooted not in a lack of confidence or trust in the profession, but rather a contemplation of what is at stake – in effect no different from wanting a board-certified surgeon for a delicate operation.

Most respondents also feel that working with a financial advisor is critical in order to be prepared for retirement, and even to be successful with investing, and that they are better prepared for retirement due to working with a financial advisor. It is important to note that 40 percent of respondents do not work with a financial advisor, so responses in the 50 to 60 percent range essentially means 90 to 100 percent of those who work with financial advisors agree with these statements. Very few believe working with an advisor made them less prepared for retirement.

Q. Please indicate your level of agreement with each of the following statements about financial advisors?

A Strong Brand is Critical

Importance of Recognizable Financial Advisory Firm Name
(n=2,004)

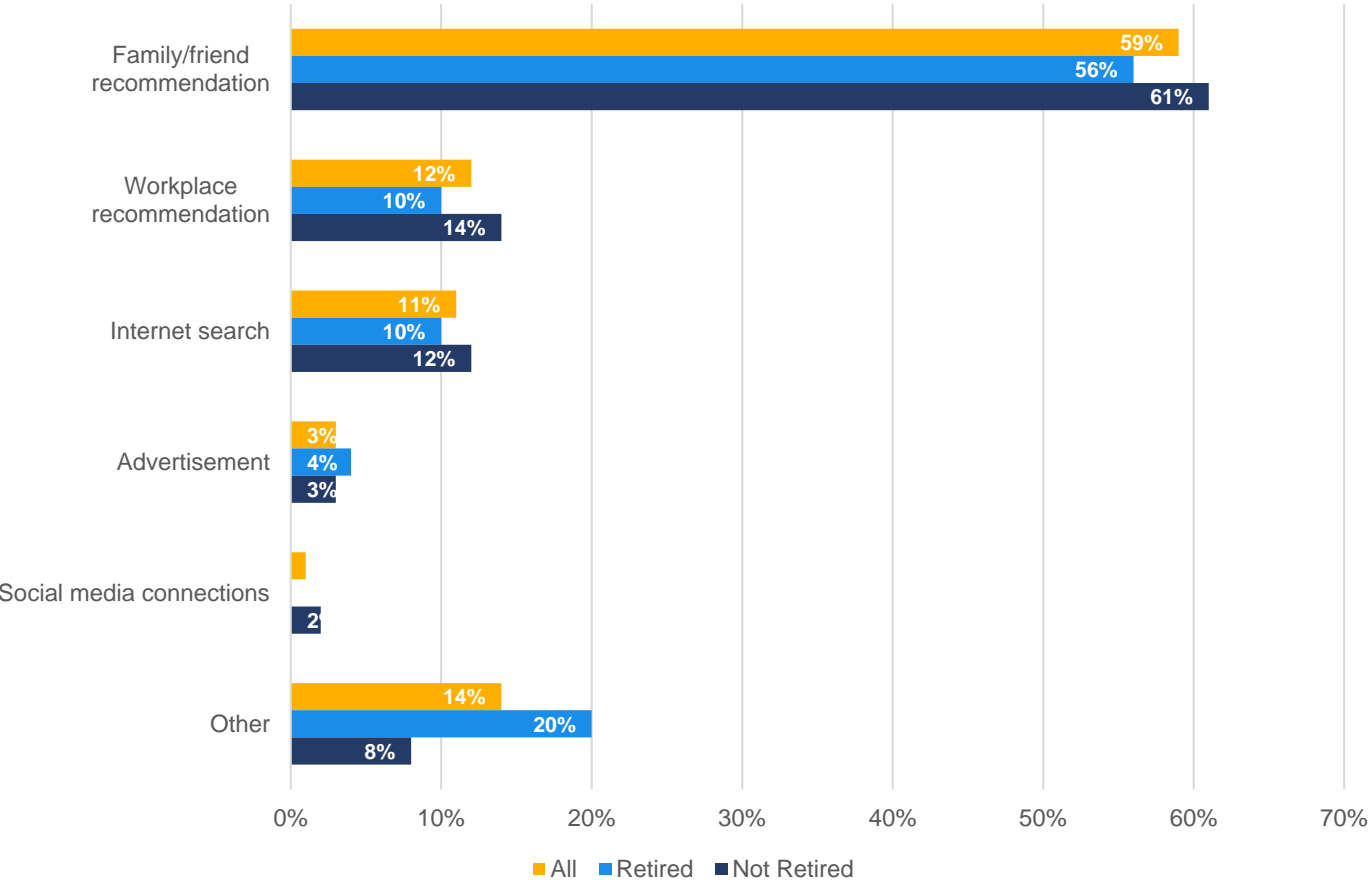


Bottom line: consumers want financial advisors to represent a firm they know and trust.

Q. When selecting a financial advisory firm, how important was/would it be for the advisor's company to be a name you recognize?

Find Me The Person, Not the Product

Preferred Method for Finding a Financial Advisor (n=2,004)

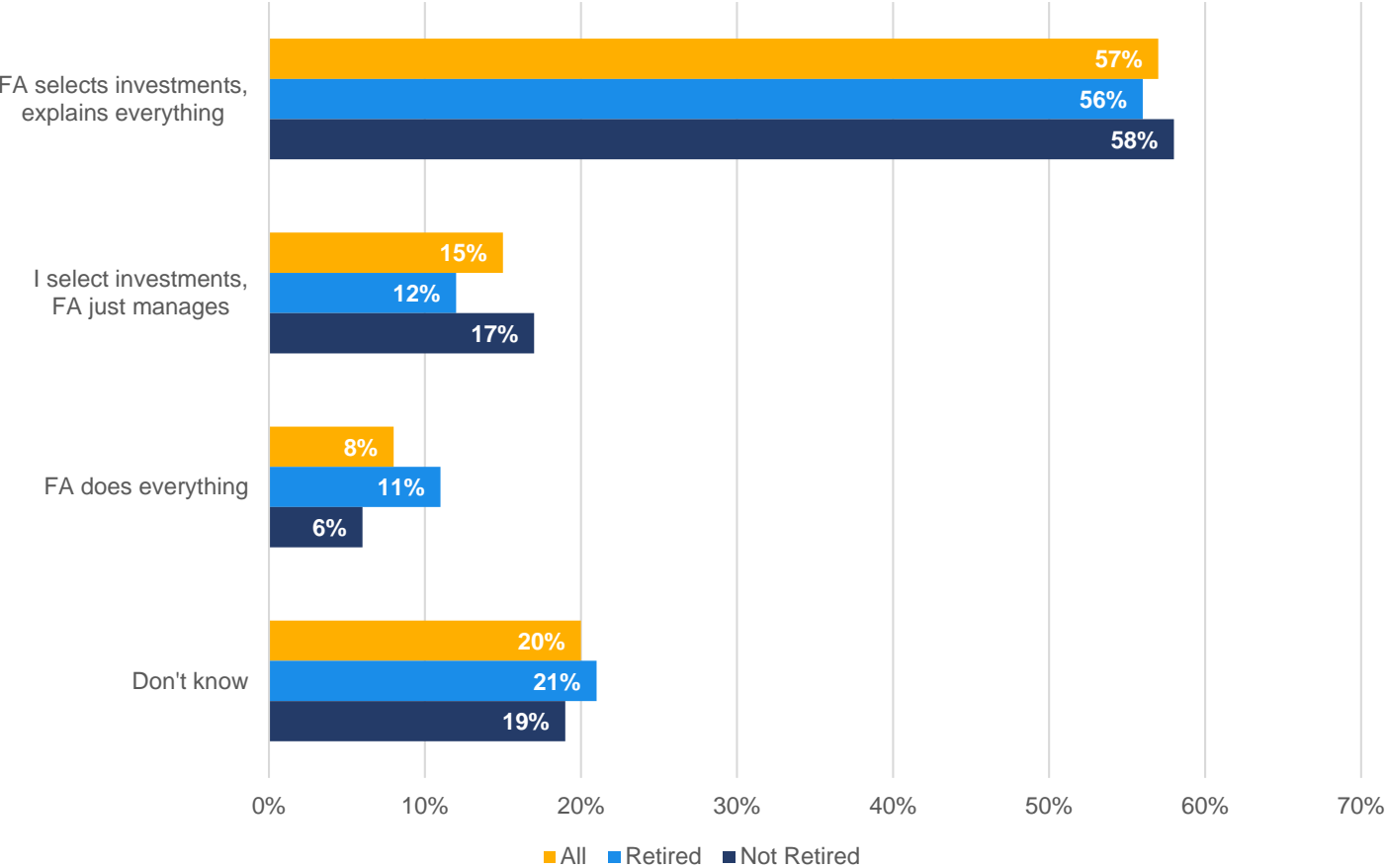


While there is a stronger preference for getting financial product information from a financial advisor versus a family member or friend, the preference for finding an advisor is by referral from a trusted person who has had a good experience. Surprisingly, there is very little interest in being directed to a financial advisor through workplace resources, despite a workplace plan being the primary, and often sole, pool of investable wealth for most workers.

Q. How did you, or would you, find a financial advisor?

Propose the Investments and Explain the Investments

Preference for Financial Advisor Working Relationship (n=2,004)



When it comes to retirement investing and retirement products, there is very little interest in either the do-it-yourself or hands off approach. Consumers do not want advisors to be mere order takers, nor do they want to be kept in the dark. Successful advisors will make sure their clients understand the mechanics of everything they are invested in, and the role each product plays in the portfolio.

It is worth noting that about one in five simply do not know how they would work with a financial advisor — a great opportunity to educate.

Q. How did/would you MOST prefer to work with a financial advisor?

APPENDIX A

Methodology

Methodology

This study was designed to survey retirees and pre-retirees about retirement lifestyle. The survey looked at the following four broad topics:

- Retirement Income
- Perceptions of Retirement Products
- Perceptions of Financial Professionals
- Communications and Interactions Preferences regarding Financial Products

The research was carried out by means of internet interviews. A total of 2,004 adult Americans aged 45 and older were interviewed. The respondents were interviewed to obtain readable samples of retirees and pre-retirees.

The Retiree sample consisted of 1,002 respondents who had been retired for at least five years and possessed \$100,000+ in retirement savings.

The Pre-Retirees sample contained 1,002 respondents who were no more than 15 years from expected retirement and possessed \$100,000+ in retirement savings.

The data were collected from November 5–11, 2021.

The margin of error for both the retiree and pre-retiree samples is $\pm 3.1\%$.

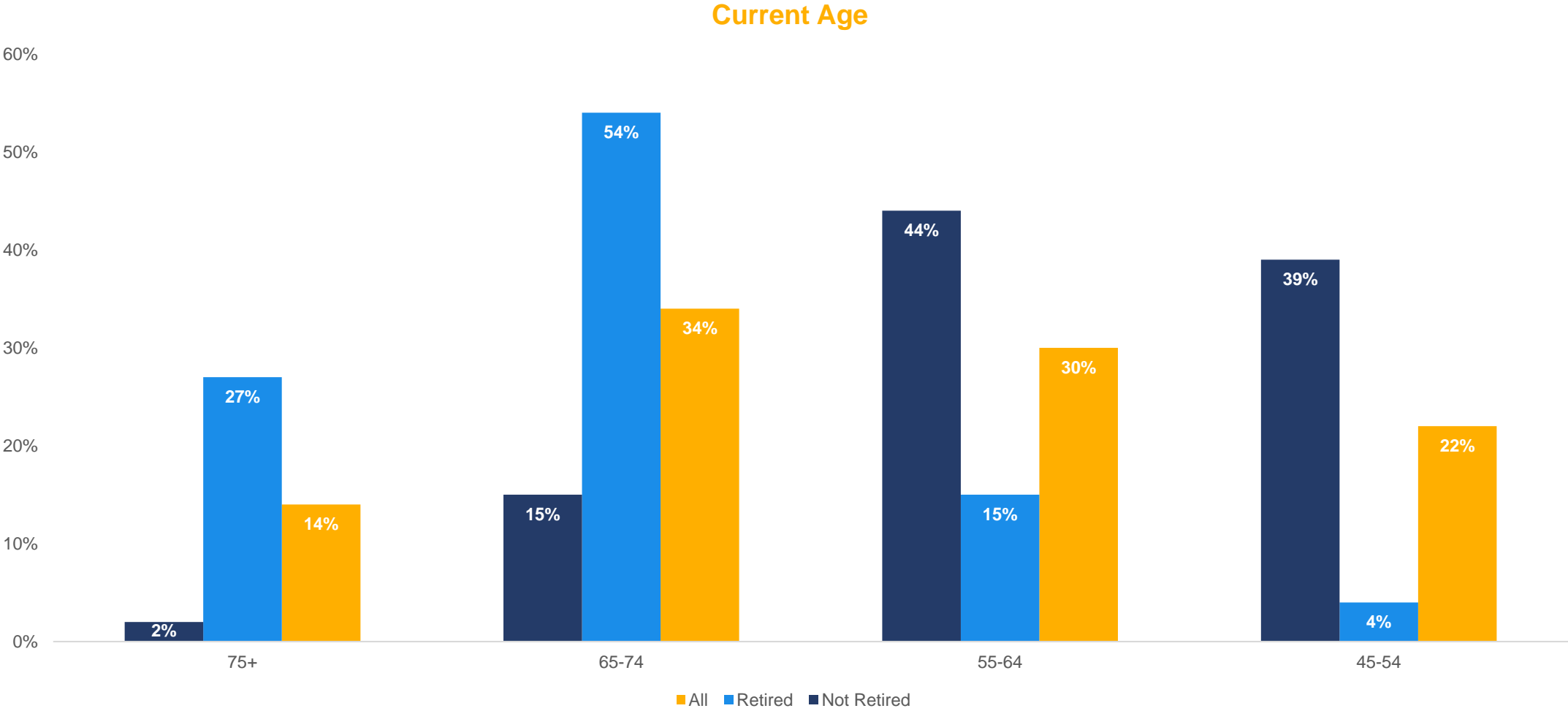
The margin of error for the total sample of 2,002 is $\pm 2.2\%$.

The data are not weighted.

APPENDIX B

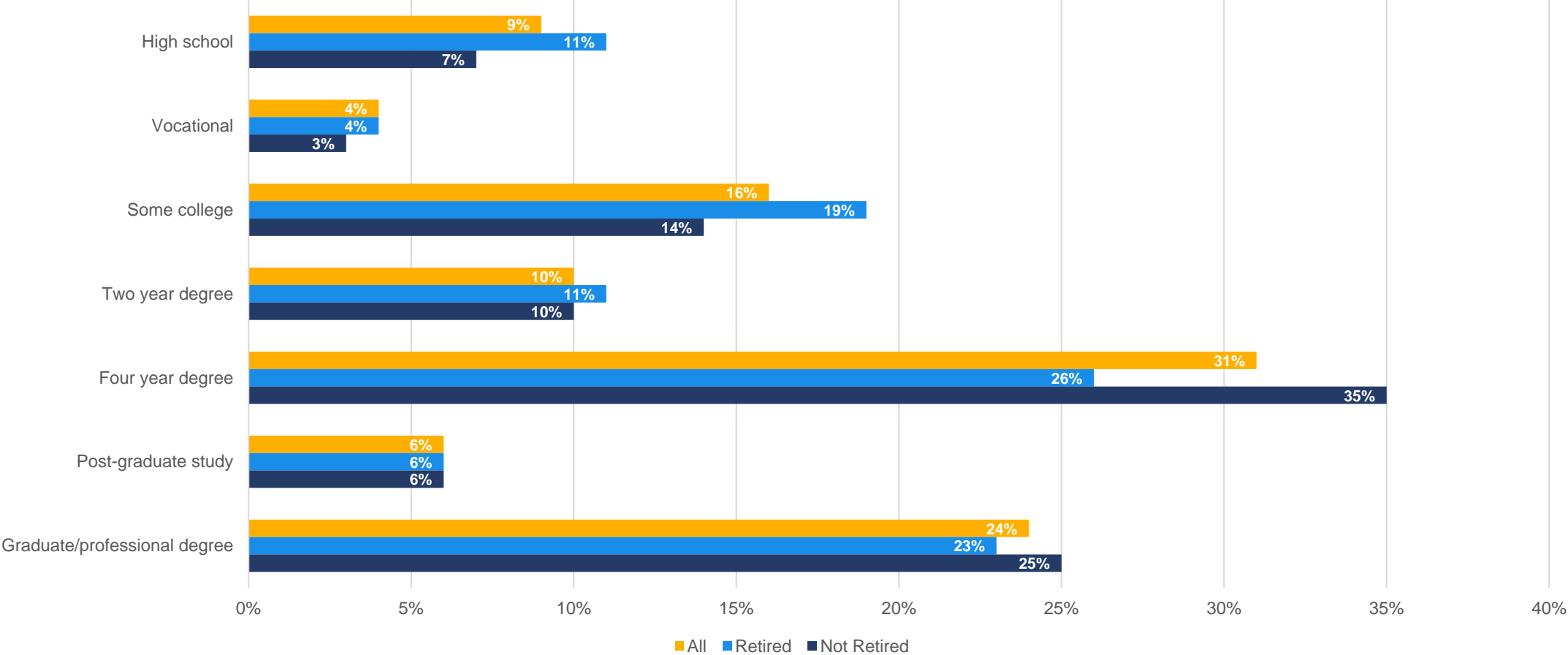
Respondent Demographics

Respondent Demographics



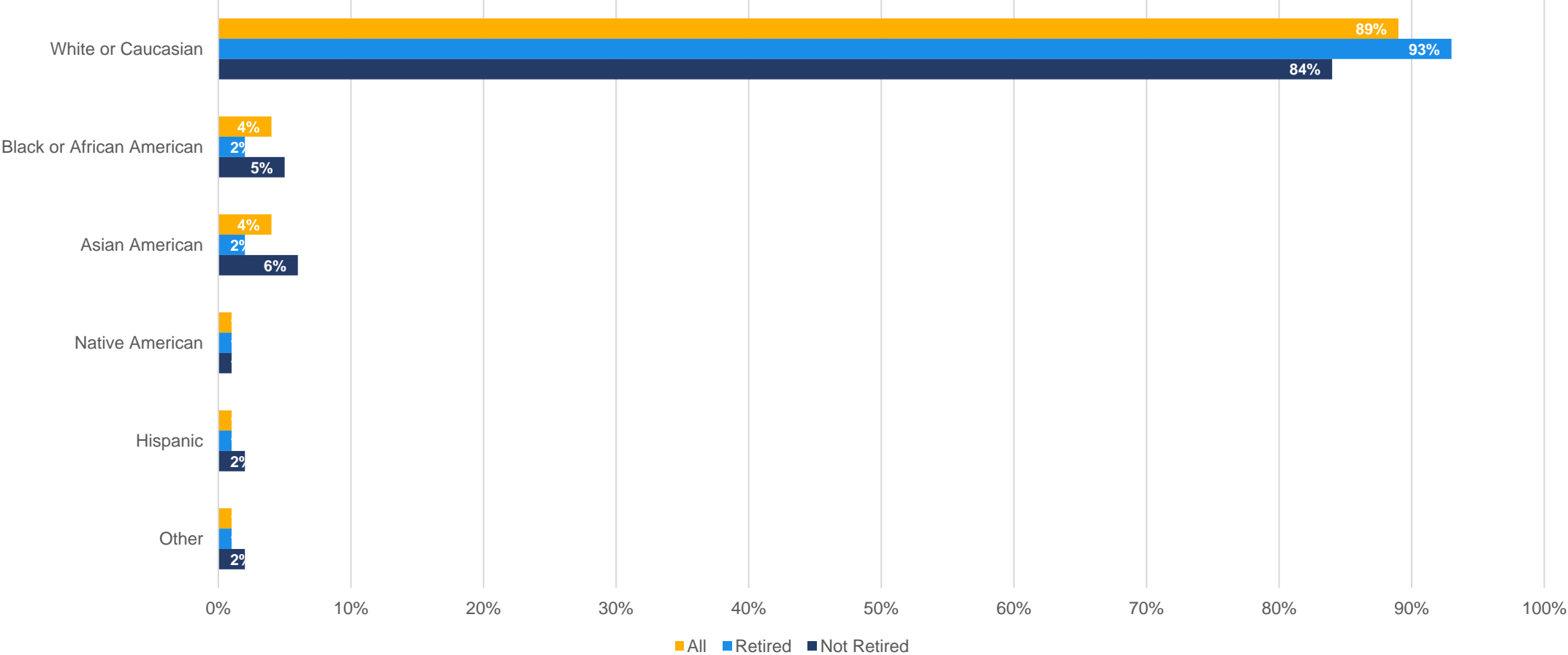
Respondent Demographics

Education Level



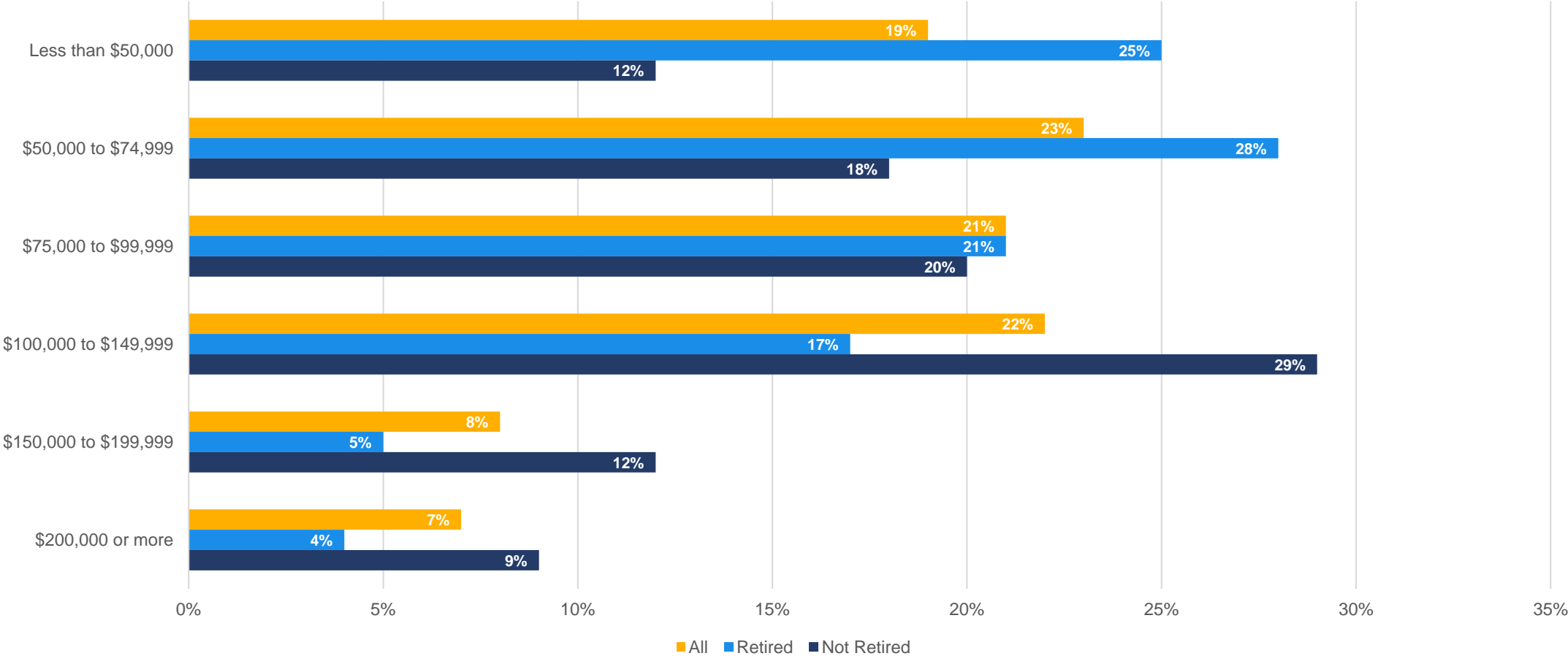
Respondent Demographics

Ethnicity

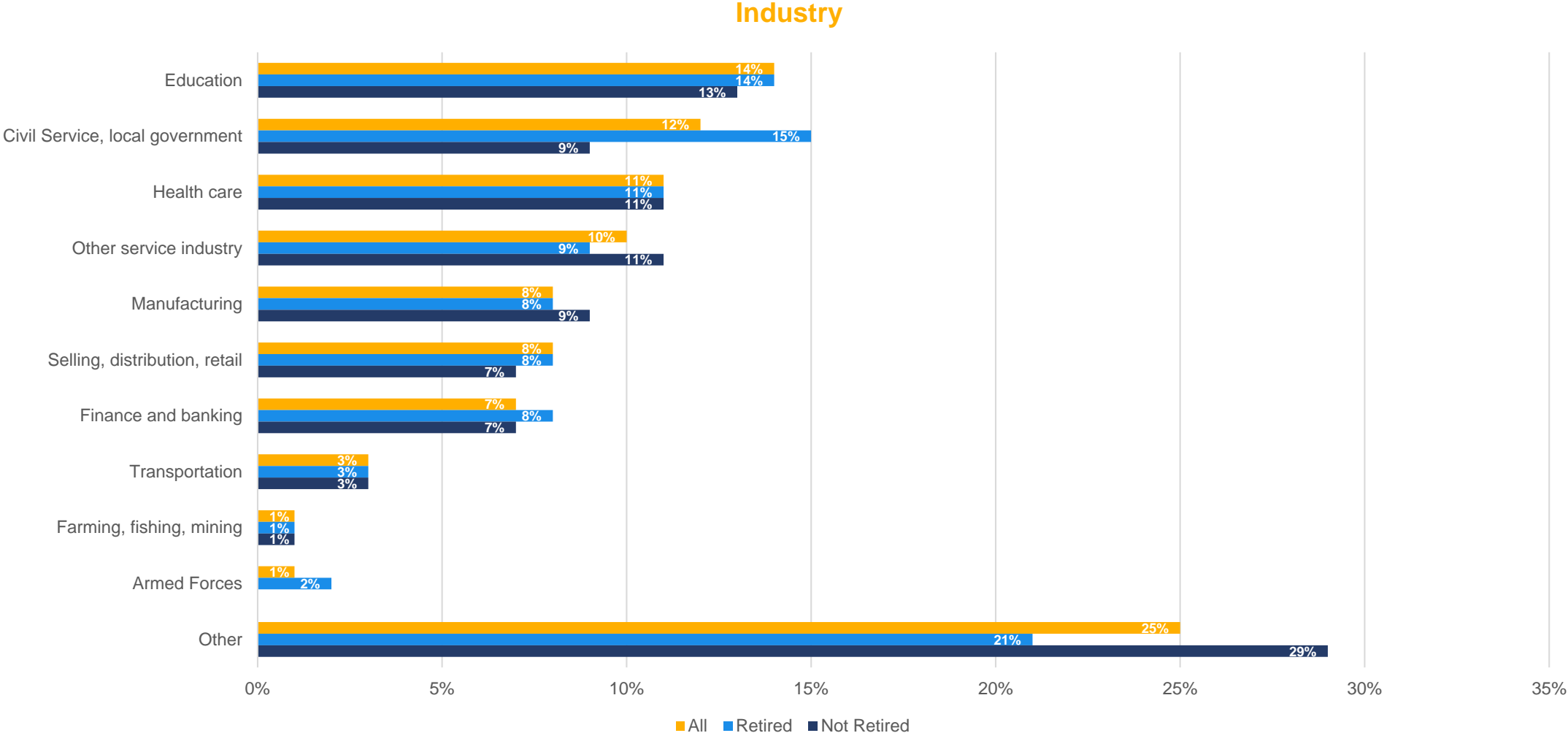


Respondent Demographics

Household Income

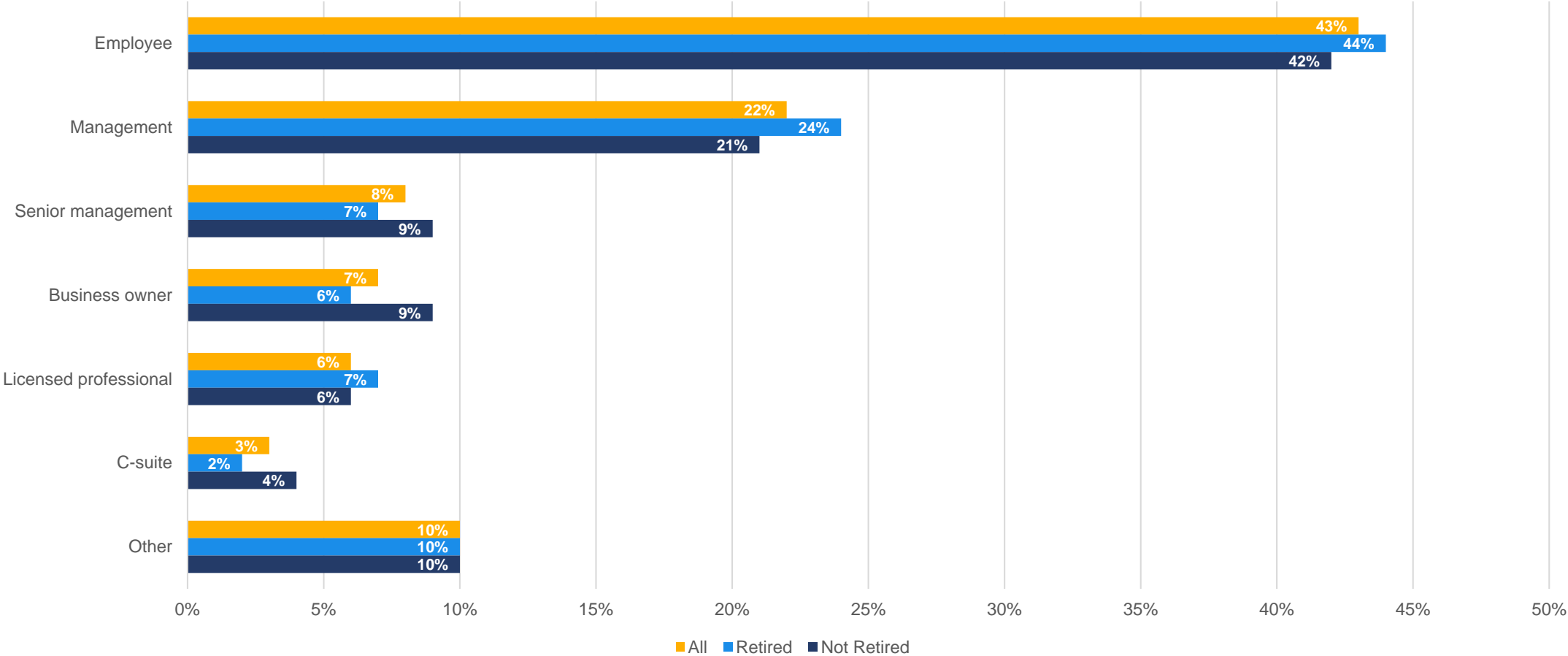


Respondent Demographics



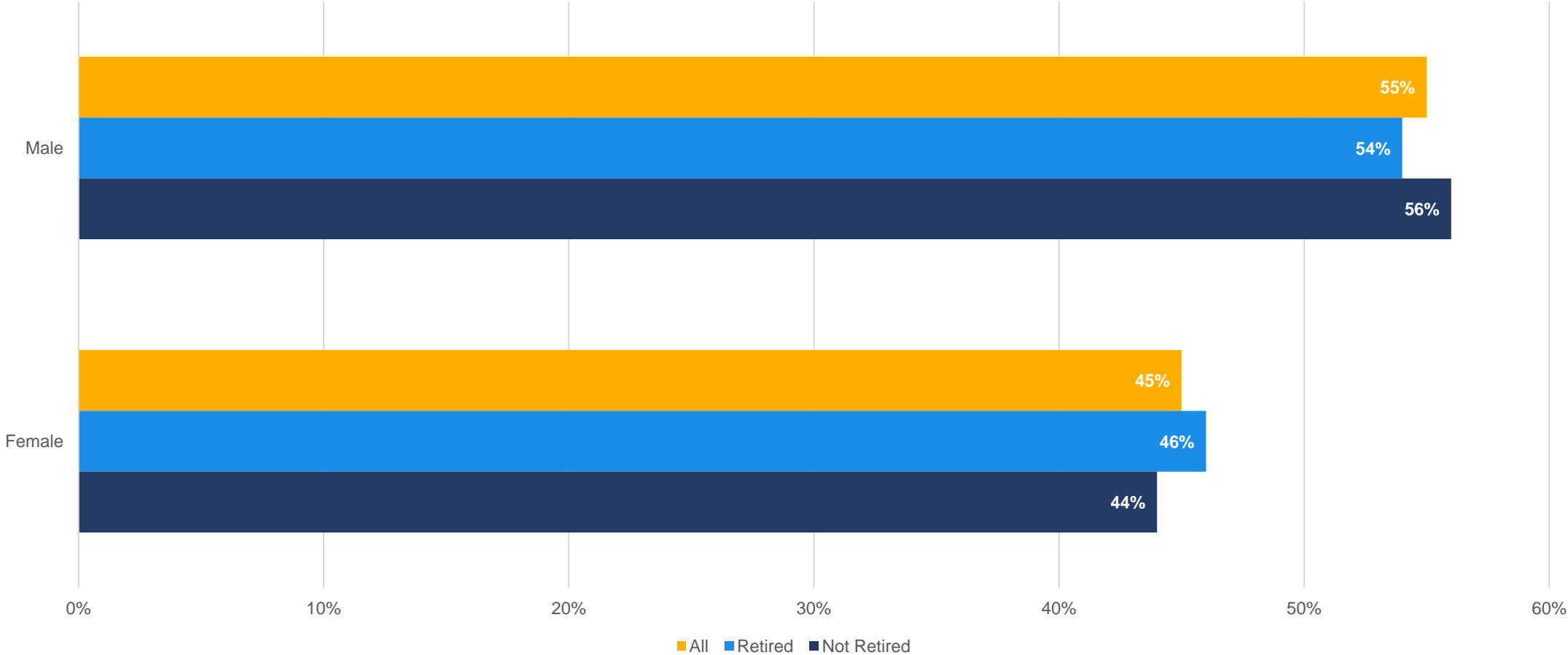
Respondent Demographics

Employment Classification



Respondent Demographics

Gender



APPENDIX C

Product Description Survey Question

Product Description Survey Question

[Fixed Indexed Annuity*] How interested would you be in an investment option that allows you to receive a small portion of the increase in a market index like the S&P 500 (but significantly less than the full amount of any gain) but also guarantees you would not lose any of your investment?

[Registered Index-Linked Annuity*] How interested would you be in an investment option that gives you a greater percentage of the gain in a market index like the S&P 500¹ than in the previous example, but you can lose up to 10% of your investment if the market index loses value?

[Annuity with Guaranteed Lifetime Withdrawal*] How interested would you be in an investment option that does not guarantee the dollar amount of your investment, but allows you to withdraw a certain amount every month and does guarantee that even if a combination of withdrawals and significant market losses causes the loss of your entire investment, you can keep withdrawing the same amount for as long as you live?

[Single Premium Immediate Annuity*] How interested would you be in an investment option that gives you a higher amount of guaranteed monthly income for life than any other option, but you would be unable to access any of the original investment (much like you cannot get back any of the taxes you paid into Social Security, but you will receive Social Security benefits for the rest of your life when you are eligible)?

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*Terms in brackets were not included in the question as posed to survey respondents