Ameriprise Financial

Retirement Check-In® survey

Abstract

Baby boomers are a bundle of contradictions when it comes to how they say they feel about their retirement. But while their financial attitudes may shift, the actions they're taking to prepare financially for retirement remain stagnant. And actions — or failure to act — tell a part of the story that words and sentiments do not.

The *Retirement Check-In®* survey sets out to examine the disconnect between the expectations that Americans maintain for their retirement and the financial actions they've taken to meet those expectations. It aims to expose the gap between what people feel when they think about retirement and whether the actions they're taking to prepare align with their levels of confidence. Ultimately, the study also reveals what many Americans are planning to do so that they can feel financially confident in retirement, despite economic challenges.

Table of contents

Introduction

Ameriprise Financial commissioned Koski Research to field the *Retirement Check-In®* survey. The purpose of the survey is to better understand the reasons behind the way Americans are feeling about their retirement, as well as the specific actions they are taking — or not taking — as they prepare for this milestone.

After conducting interviews with 1,000 men and women from across the country who are nearing retirement, several themes found their way to the top.

- **First,** their retirement planning habits and the action steps they are taking to prepare appear to be falling short of what they believe will create happiness in retirement.
- **Second,** there seems to be a gap between what Americans think they will need financially to retire versus what they have actually saved.
- **Third,** while finances affect a person's ability to retire, many more are worrying about their health in retirement.

A confident retirement may seem elusive to many Americans. And while some are taking steps to help reach this milestone, others still have a long way to go. In this report, we explore the difference between these two groups, as well as the actions those who need a confidence boost can take to feel more secure about their financial future.

Retirement mindset and preparedness: A worrisome disconnect

A perplexing disparity exists between Americans' emotional outlook for retirement and the reality they face. While many envision enjoyable times ahead after exiting the full-time workforce, the survey reveals that they may not be adequately prepared for the transition into retirement. Over three-fourths (78%) of survey participants expect to be extremely happy in retirement, and even more feel they will be emotionally ready to retire (83%).

78% expect to be extremely happy in retirement. 83% feel they'll be emotionally ready to retire.

Moreover, nearly three-fourths of participants (72%) indicate that their dream retirement includes taking really nice vacations — a fact which perhaps provides clues as to the type of post-career lifestyle they imagine for themselves.

Yet, when questioned about whether or not they feel extremely or very confident that they will be able to afford the essentials in retirement, less than half of respondents (46%) signaled yes. Even fewer (38%) are extremely or very confident that they will be able to afford the extra things they've been looking forward to in retirement such as traveling and pursuing hobbies.

This apparent clash between emotions and reality is also revealed in other areas. An overwhelming majority (88%) of survey participants say they feel comfortable navigating through all the information available about preparing for retirement. And seven out of ten respondents (70%) report feeling in control of their financial future. Nevertheless, a striking percentage of those surveyed admit that they've failed to take action on steps that experts agree can help in successful retirement planning.

- **One in three (32%)** have not factored inflation into retirement planning. Nearly the same number admit they have not calculated the annual income their assets will produce in retirement (33%).
- **Thirty-eight percent** haven't estimated their annual expenses in retirement at all, and two in five (41%) report that they have no written financial plan.
- **Two in five (39%)** respondents also acknowledge that they haven't made a plan to leave an inheritance, a fact which may be of concern to the next generation.

Despite these gaps in planning, data further suggests a level of complacency when it comes to Americans' preparation for retirement. Fewer than two-thirds (62%) assert that they've done everything they can to prepare for retirement, and nearly three out of five (58%) say they could save more than what they're putting away now. Yet, only one out of three (32%) say they are afraid they aren't saving enough for their future needs. The lack of confidence that this one-third portrays could be due to any number of factors, but perhaps these respondents have a more realistic view of the true cost of retirement.

However, those who haven't done all they can to plan for retirement can learn something from their more confident peers. The study reveals several action steps that those who feel the most confident about affording essential expenses in retirement have taken, including having a written financial plan, factoring inflation into their retirement plans and calculating how much income their assets will produce in retirement.

58% admit they could be saving more for retirement than they are now.

53% are only moderately confident or not confident that they will be able to afford essential expenses in retirement.

62% are only moderately confident or not confident that they will be able to afford extra expenses in retirement.

Exposing the gap: What Americans think they need for retirement vs. what they've actually saved

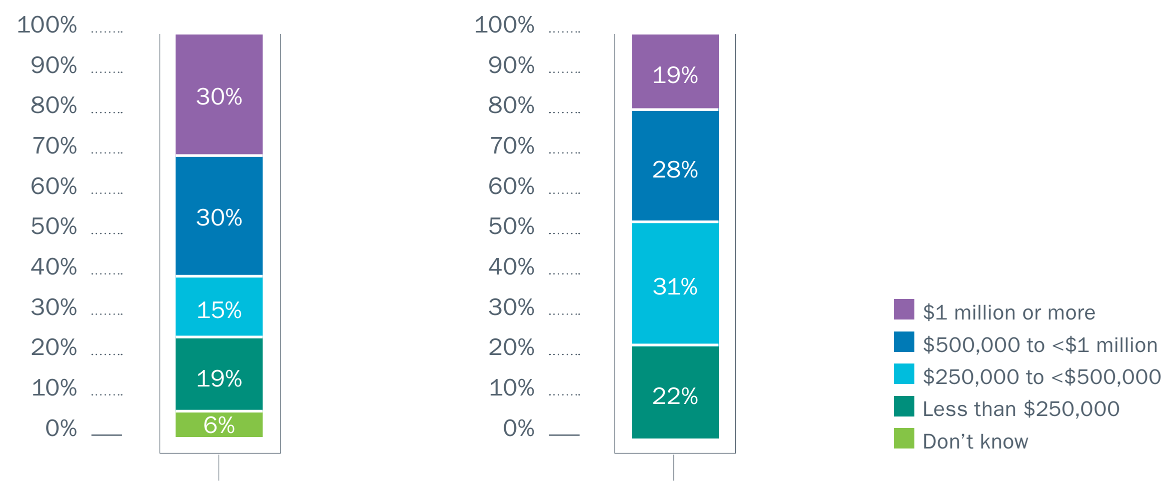
The contradictions continue with Americans' perception of how much they need to save for retirement in contrast to how much they've actually put away.

The survey uncovers that there is a gap of approximately $250,000 between what respondents think they need to retire comfortably and what they've set aside for their post-career income.

- On average, respondents say they think they will need close to $1 million for a comfortable retirement ($934,000), but their current investable assets are just under $700,000, including their employer-sponsored plans.
- What's more, nearly one in four (22%) report that they have less than $250,000 earmarked for retirement.

A comfortable retirement nest egg approaches $1 million; current assets are lagging

Our surveyed respondents have a clear idea of the assets they think they'll need in order to enjoy a comfortable retirement. These charts show that respondents are not saving enough.



$934,000

The average amount respondents think they'll need for a comfortable retirement

$696,000

The average amount these respondents have actually saved for their retirement (excluding real estate).

So how do Americans intend to make up the difference? It appears that many are relying on the value of their houses to help. Nearly half of respondents (47%) expect to use equity in their homes to help fund their retirement — a statistic that may come as a surprise, given that housing values remain well below pre-recession levels in many parts of the country.

Closing the gap: 47% expect to use their home equity to help fund their retirement. 68% expect to work for pay at least part time.

What's more, the number who expected to use equity in their homes prior to the great recession is actually smaller — only 39 percent of those surveyed report that they intended to use their home equity before the country fell into its recent period of economic decline. Though the reason for this shift is uncertain, it's plausible that individuals traumatized by the loss in value on other investments as a result of the recession feel they have no other place to turn other than their houses to help fund their retirement, even if their homes are worth less than they used to be.

The wisdom of this strategy may depend on individual circumstances, but the fact that more than one in three homeowners (37%) report that they've not yet or are not on track to pay off their mortgage may be cause for concern.

And perhaps in part due to feeling financially squeezed in other areas, a sizable majority of those surveyed indicate that they expect to continue working for pay at least part time after they officially retire (68%). Maintaining an income stream through part-time employment may work to alleviate some financial stress, but it should be noted that it can take time and energy away from the other activities and hobbies one envisioned for retirement, and often has associated costs in the form of transportation, wardrobe and other considerations. Unexpected illness or disability can also impair a person's ability to work as long as they desire.

Retirement in balance: Health vs. wealth

While everyone hopes for a healthy retirement, Americans are familiar with the fact that the later stages of life can present unpleasant physical challenges. There's little wonder, then, why concerns over health weigh heavily on the minds of those preparing to exit the workplace. In fact, the biggest fear for most surveyed 50- to 70-year-olds during retirement is their physical health (53%), far outweighing concerns over their financial situation (35%).

But what many may not realize is that health and wealth in retirement often go hand-in-hand. By 2020 a 65-year-old married couple without an employer-based health plan and with median drug expenses could need a total of $365,000 to $454,000 to pay for Medigap, Medicare Part B and Part D premiums and out-of-pocket drug expenses.[1] This may come as a jarring truth to many. More than half of the respondents (56%) admit that they have not researched what Medicare covers.

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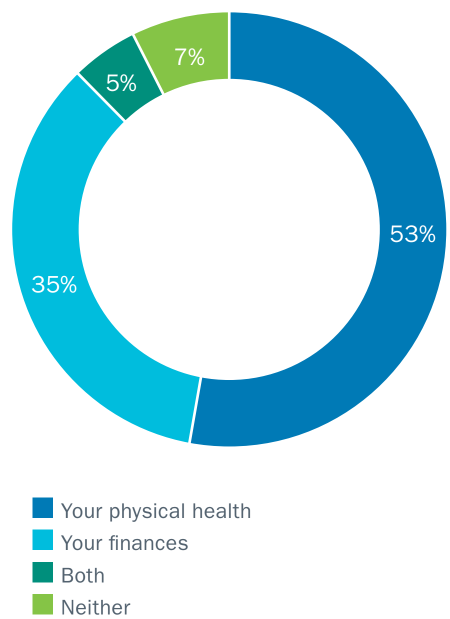
Their reluctance to research the potential cost of health-related issues in retirement may explain why so few have taken steps to protect themselves from the financial fall-out. Against the general advice of many financial planning experts, more than two-thirds (69%) of survey participants acknowledge that they have not purchased long-term care insurance.

In retirement, physical health is a bigger concern than financial health.



[1] Source: Employee Benefits Research Institute (ebri.org) December 2010 Issue Brief No. 351 Savings needed for Medigap Premiums, Medicare Part B Premiums, Medicare Part D Premiums and Out-of-Pocket Drug Expenses for Retirement at Age 65 in 2020. Based on couples age 65 in 2020 without an employer-based health plan and with median drug costs who choose to save in the 75-90 percentile. Does not include long-term health care costs.

Conclusion

The *Retirement Check-In* survey found a number of trends that question Americans' readiness and ability to retire. Among the findings is the idea that many Americans may be picturing a retirement they may not be able to afford if they fail to increase their savings and take other financial steps to prepare. And despite the fact that many of them feel they have not saved enough for retirement, the majority of Americans are much more worried about their health in retirement versus their finances.

While the data shows there are numerous disconnects between how Americans are thinking about and planning for their retirement, it also reveals that the majority are aware of these gaps. Therefore, it is imperative that baby boomers take the action steps to plan for their retirement rather than just thinking about it. Conversations with trusted sources, such as family members or a financial professional may be one of the most important steps to help this group become better connected to their retirement reality.

Methodology

Working with Koski Research, Ameriprise Financial launched a national telephone survey in October and November of 2012.

- Telephone interviews were conducted with 1,000 Americans who were 50–70 years old, employed but with plans to retire, and live in households with investable assets, including employer-sponsored retirement plans, that total $100,000 or more. Interviews were conducted on both landline phones and cell phones representing the percent of households that use cell phones only.
- The sample for this study was selected from targeted lists of households which, based on self-reported data, would likely qualify on the desired age, investable assets and employment criteria.
- The sample distribution closely matched recent Census data for employed Americans by age, gender and region. Accordingly, no weighting was required for sample balancing purposes.
- The margin of error is +/- three percentage points.

About Ameriprise Financial

At Ameriprise Financial, we have been helping people feel more confident about their financial future for over 115 years. With outstanding asset management, advisory and insurance capabilities and a nationwide network of 10,000 financial advisors, we have the strength and expertise to serve the full range of individual and institutional investors' financial needs. For more information, or to find an Ameriprise financial advisor, visit ameriprise.com.

About Koski Research

Koski Research is focused on having better conversations with key stakeholders — customers and clients, influencers, business peers and the general public. The firm combines high level proprietary custom research with research conducted for public release. All of this research relies on asking engaging questions, applying research acumen to create solid study designs and using marketing smarts to produce reports that lead to action.

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