

Americans' Perspectives on New Retirement Realities and the Longevity Bonus

A 2013 Merrill Lynch Retirement Study,
conducted in partnership with Age Wave



Bank of America Corporation

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Introduction



With people living and often working longer than any preceding generation, this study examines their perspectives about preparing for retirement and living the best life that they can during their later years.

The 2013 Merrill Lynch Retirement Study reveals new insights into people's approaches to and thoughts about retirement, including:

- **Reinvention:** Today's retirees aren't retiring — they're moving on to explore new options, pursue old dreams and live life to the fullest. They're seeing the longevity bonus as a chance to devote energy to pursuits they may not have had the time or freedom to chase during the "career" portion of their lives, to stay stimulated, and to strengthen and expand their social network.
- **Connectivity:** The "Me Generation" is becoming the "Us Generation." Today's retirees are finding comfort, meaning and safety in connections — family, friends, communities and trusted guides.
- **Traditional Values:** Today's retirees are defining happiness not in terms of dollars but in terms of new experiences, peace of mind, helping family and making a difference.

What are people worrying about? The Study found five major areas of concern:

- **Health Disruptions:** Health problems and the cost of healthcare now top the list of retirement worries — and even more so among the affluent. Yet just one in nine pre-retirees is completely confident in their ability to pay for their retirement healthcare expenses.
- **Falling Short:** People don't know exactly how long they will live and feel insecure about their ability to support a very long life. They do not want to be a burden on their families and do not want to sacrifice too much quality of life. They also fear being lonely.

- **New Family Interdependencies:** In today's uncertain economy — where one or more family members may be struggling financially — balancing an individual's or couple's retirement needs with the needs of parents, siblings, children and grandchildren is a growing and complicated challenge. And partly because of these family complexities, most couples now want to share responsibility equally when making major financial decisions.
- **Home & Community:** People are concerned about where they should live in retirement, as well as finding ideal accommodations for their parents.
- **Search for Guidance:** Because of shifts away from pensions and strains on entitlement plans, Boomers recognize they must be more self-reliant. But they are in uncharted territory and feel they need guidance.

The following report summarizes the key findings of our Study.



Methodology



This report is based on a national public opinion poll conducted online by Harris Interactive. The Merrill Lynch survey was completed from December 2012 to January 2013, in partnership with Age Wave, and included more than 6,300 respondents age 45 and older. Findings are based on 3,002 responses from the general population. In addition, select study findings are based on an oversampling of an additional 3,005 affluent respondents with \$250,000 to \$3 million in investable assets (including liquid cash and investments, but excluding real estate). The remaining 320 interviews included an oversample among 60 to 70-year-olds. Results were weighted as needed for age by gender, education, race/ethnicity, region and household income. Propensity score weighting was also used to adjust for respondents' propensity to be online. No estimates of theoretical sampling error can be calculated.



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Age Wave is the nation's foremost thought leader on population aging and its profound business, social, healthcare, financial, workforce and cultural implications. Under the leadership of Founder/CEO Dr. Ken Dychtwald, Age Wave has developed a unique understanding of the body, mind, hopes and demands of new generations of maturing consumers and workers and their expectations, attitudes, hopes, and fears regarding retirement. Since its inception in 1986, the firm has provided breakthrough research, compelling presentations, award-winning communications, education and training systems and results-driven marketing and consulting initiatives to over half the Fortune 500. For more information, please visit www.agewave.com. Age Wave is not affiliated with Bank of America Corporation.

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Work & Leisure: A Revolving Door

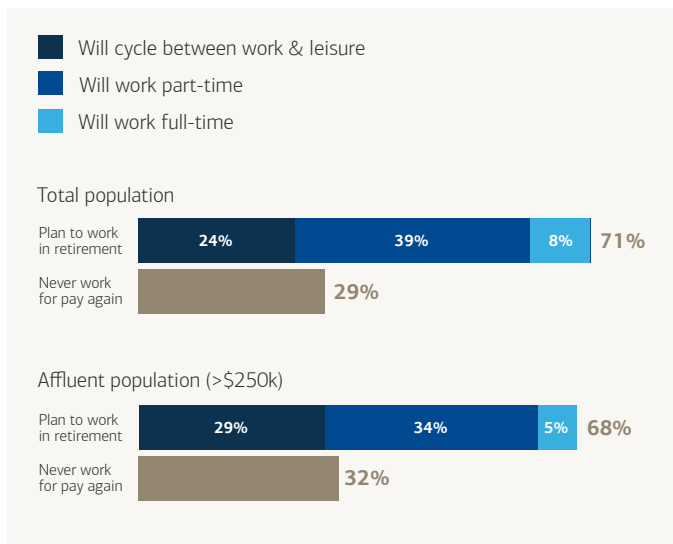


Retirement now often includes a desire for continued productivity. Continued income is an important motivation in today's uncertain economy, but stimulation, satisfaction and social connections are just as important.

Rebalancing work and leisure

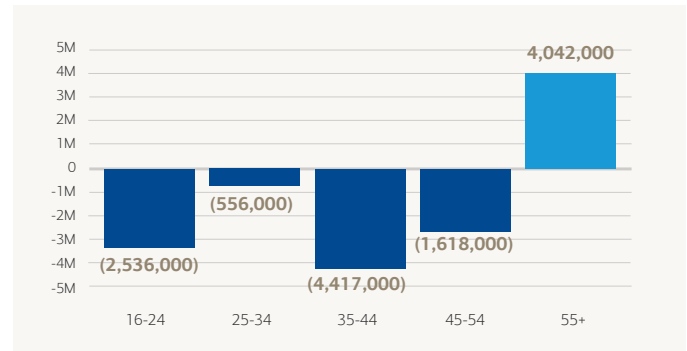
Retirement used to mean the end of work. Today, seven out of ten pre-retirees say they would ideally like to include some work in their retirement years. Most are seeking flexible work arrangements, such as part-time work (39%) or going back and forth between periods of work and leisure (24%) (FIG 1). In fact, working in later life is increasingly becoming the norm. For example, between 2006 and 2011, only the age 55+ workforce grew, while during the same time, millions of younger workers left or were displaced from the workforce (FIG 2).

Figure 1: Ideal plan for balancing work and leisure in retirement



Base: Pre-retirees

Figure 2: Change in employed workers by age group, U.S. 2006-2011



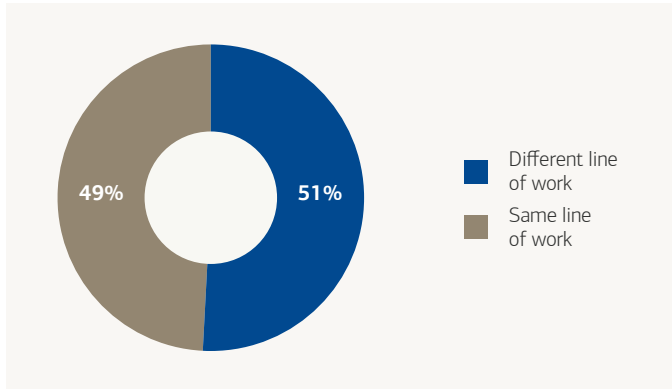
Source: Bureau of Labor Statistics, February 2012



New beginnings

Perhaps due to lengthening life spans, many now view retirement as an opportunity for career reinvention, with half saying they want to launch into a whole new career rather than continuing the same line of work they did in their pre-retirement years (FIG 3).

Figure 3: Percent seeking same or different kind of work in retirement

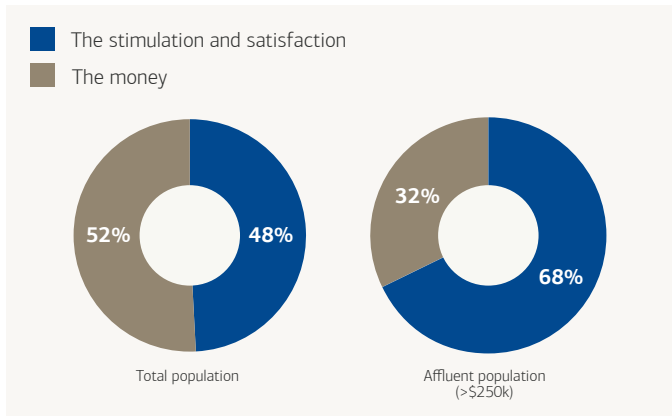


Base: Pre-retirees

More than a paycheck

While money and financial security remain important motivations for retirement careers, almost half say continued “stimulation and satisfaction” are the main reasons they want to work in retirement (FIG 4).

Figure 4: Top reason for working in retirement

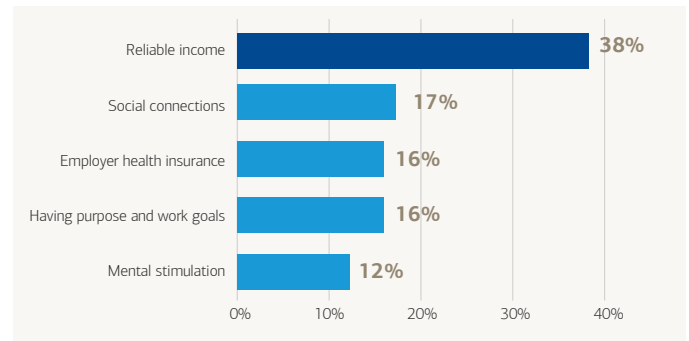


Base: Total population

The missing link: Friendship

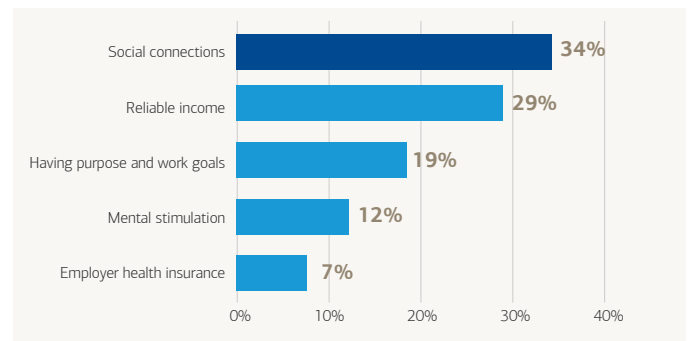
The end of work also reveals an often unforeseen surprise: the importance of friendships and relationships with fellow workers. Although pre-retirees think a reliable income is what they’ll miss most when leaving work, retirees tell us that it is the social connections that they miss most after they retire (FIG 5, 6).

Figure 5: What pre-retirees think they will miss most about work when they retire



Base: Pre-retirees

Figure 6: What retirees actually miss most about work now



Base: Retirees

Health Disruptions & Concerns

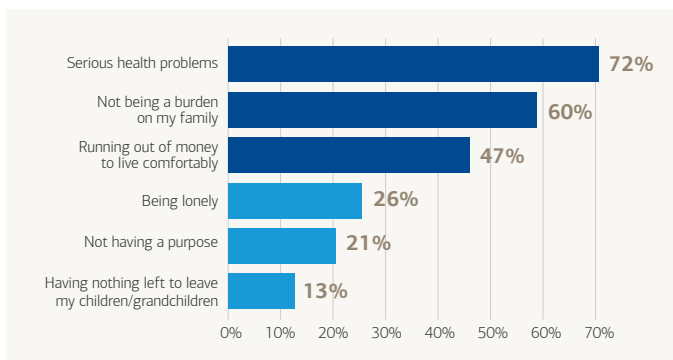


For many, loss of health can be the most devastating wildcard in retirement. Health problems and the cost of healthcare now top the list of retirement worries—and even more so among the affluent. Yet just one in nine pre-retirees is completely confident in their ability to pay for their retirement healthcare expenses. In addition, though many associate early retirement with financial success, loss of health is the top reason people retire earlier than expected.

Health problems: The #1 retirement worry

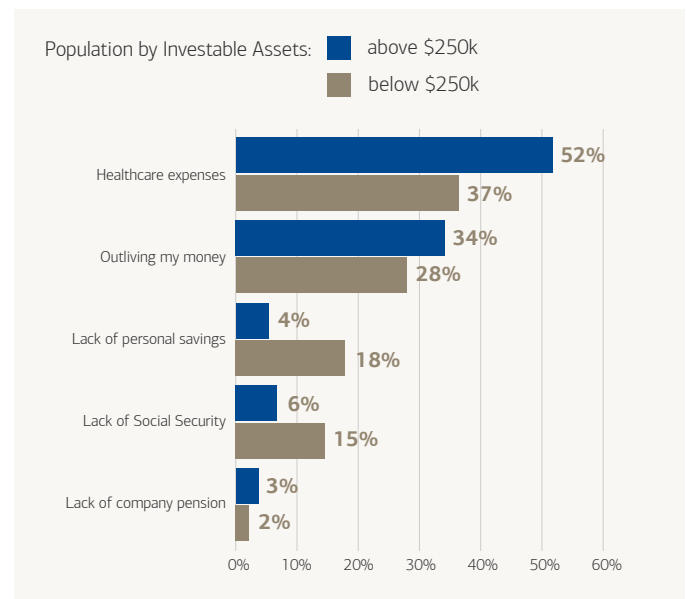
Health problems can severely disrupt retirement timing, lifestyles, and financial security. When asked what their biggest worries are about living a long life, retirees tell us serious health problems top the list (FIG 7).

Figure 7: Biggest worries about living a long life



Base: Retirees

Figure 8: Top financial worries for retirement



Base: Total population

The risks of retirement healthcare expenses

The expenses of healthcare are a top worry as well (FIG 8). Unanticipated medical expenses can derail years of retirement preparation. Sixty percent of bankruptcies in the U.S. today are related to medical bills,¹ and retirees who are struggling with health issues are twice as likely to say they are in a financial crisis. Wealthier pre-retirees and retirees are even more likely to rank healthcare expenses as their top financial worry in retirement (FIG 8).



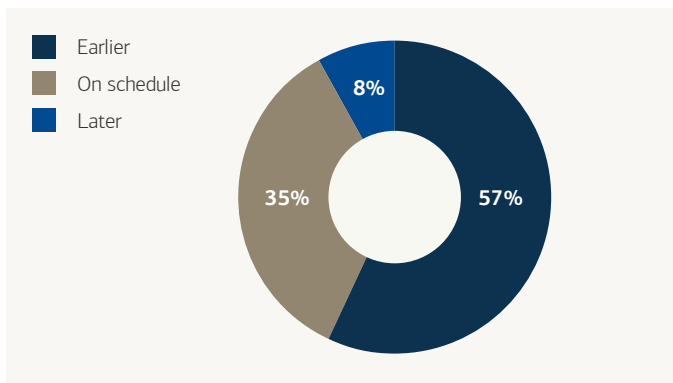
1. "Bitter Pill: Why Medical Bills Are Killing Us." Time.com (2013). Available at <http://www.time.com/time/magazine/article/0,9171,2136864,00.html>. Accessed March 13, 2013.

The #1 reason for early retirement

Despite all that we hear today about people’s plans to delay retirement, nearly three out of five retirees say they retired earlier than they expected (FIG 9) — 58% of women, 56% of men. And although early retirement has often been equated with financial success, health problems are actually the top reason (FIG 10).

Today, pre-retirees expect to delay retirement by four years, on average. Often, pre-retirees delay retirement to shore up their retirement savings. But health problems can cause a devastating double hit on retirement preparation, both increasing unexpected expenses and cutting hoped-for income.

Figure 9: Percent retiring earlier, on schedule or later than planned

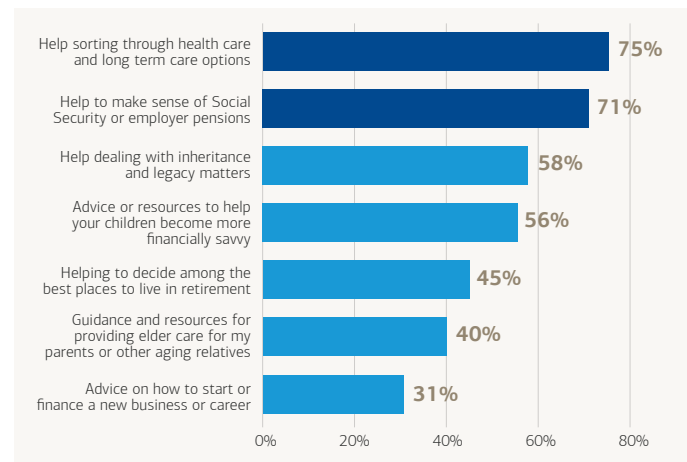


Base: Retirees

Protecting against retirement health risks

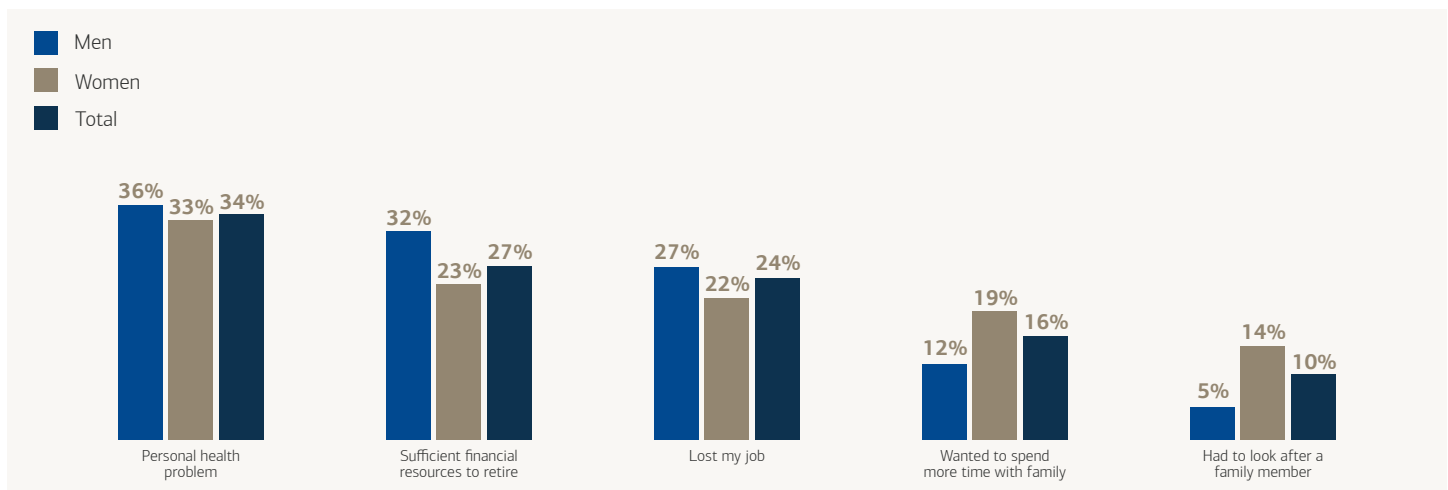
Twenty-five years ago, two-thirds of large companies offered health benefits to retirees. Now, just one-third of these companies offer retirement health benefits.² In addition, there is growing concern about the long-term stability of government healthcare programs, such as Medicare. Retirees today are seeking new solutions to protect against retirement healthcare costs, such as increased savings, programs that supplement traditional Medicare (e.g., Medigap or Medicare Advantage), and long-term care insurance. And in fact, healthcare is one of the top issues pre-retirees and retirees are seeking advice about (FIG 11).

Figure 11: Beyond core financial advice, what is most valuable



Base: Total population

Figure 10: Reasons for early retirement



Base: Retirees

2. "Ultimate Guide to Retirement: Health Insurance." CNNMoney.com (2012). Available at http://money.cnn.com/retirement/guide/insurance_health.

New Family Dynamics

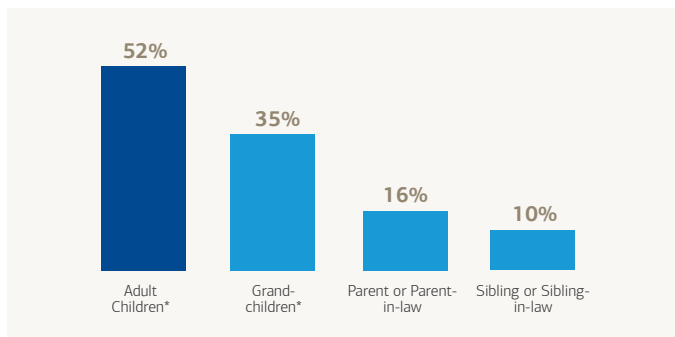


In today's economic uncertainty, one or more family members may be struggling financially. This can make balancing an individual's or couple's retirement needs with the needs of parents, siblings, children and grandchildren a growing and complicated challenge. Pre-retirees and retirees increasingly delve into their own retirement savings to extend financial, housing, healthcare, and education support to family members in need.

The family cube

The term "sandwich generation" was coined in the 1980s to describe Boomers who needed to care for both children and aging parents. Today, due in part to recent economic hardships, the sandwich generation is transforming into a family cube, with support extending side to side as well as up and down. In our national survey, we asked people age 45+ whether they expect to provide support to family members (FIG 12).

Figure 12: Do you expect to provide support to...?



* Among those who have children (74% of those surveyed have children)
Base: Total population



Collaborative partnership

There is an emerging trend among spouses when it comes to making major financial decisions, including long-term planning and investing. Going forward, our data finds that couples are interested in a more collaborative partnership, with three out of four men (73%) and women (76%) indicating they would like to have equal responsibility when making major financial decisions.

The four mainstays of family support

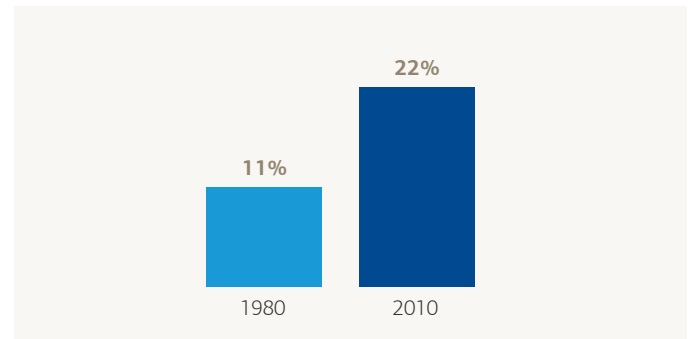
The dynamics and emotions of family support can be far more complex today. It is estimated that stepfamilies outnumber original families.³ Other extended relationships are increasing, too. Multigenerational households are on the rise, doubling since 1980 to more than one in five households⁴ (FIG 13). With this in mind, we believe these are the four mainstays of family support:

- **Financial.** 43% expect to provide direct financial support, such as writing a check or providing a loan to a family member.
- **Housing.** 38% expect to provide or help a family member pay for a place to live.
- **Education.** 30% expect to help pay education expenses for a family member.
- **Healthcare.** 25% expect to pay for or help manage a family member's healthcare or long-term care needs. (FIG 14).

Wealthier family members more likely to be called upon to help

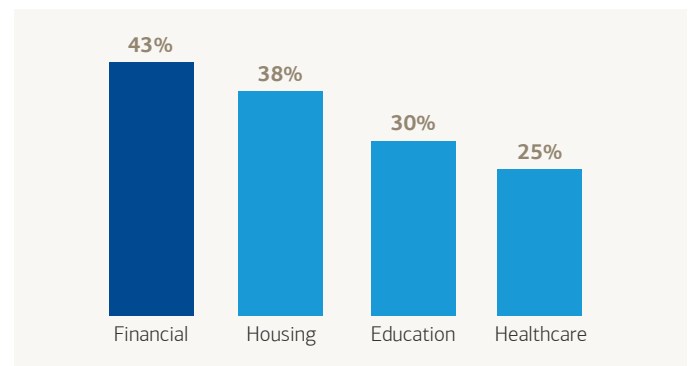
Financial success often brings greater family responsibilities. Higher-income pre-retirees and retirees are twice as likely to expect to provide support to their adult children, grandchildren and parents (FIG 15).

Figure 13: Percent households that are multigenerational



Source: "The Boomerang generation: Feeling OK about Living with Mom and Dad." Pew Research & Social Trends (2012).

Figure 14: Types of support expecting to provide to family members



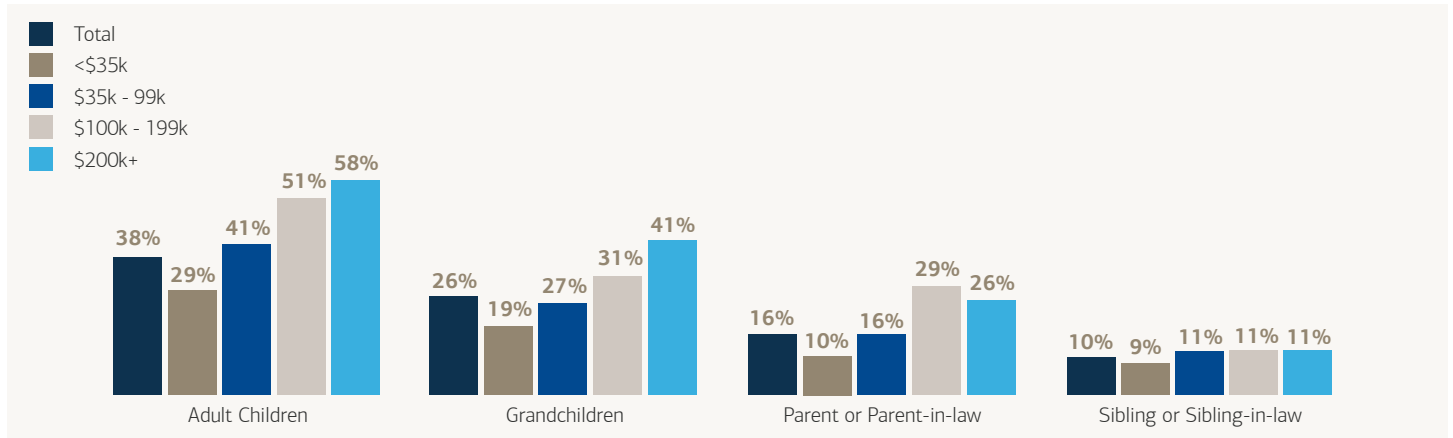
Base: Total population



3. "Stepfamilies to Uncle Sam: Learn to Count!" Wednesday Martin. The Huffington Post (2009). Available at www.huffingtonpost.com/wednesdaymartin/stepfamilies-to-uncle-sam_b_373314.html. Accessed February 4, 2013.

4. "The Boomerang Generation: Feeling OK about Living with Mom and Dad." Pew Research & Social Trends (2012). Available at <http://www.pewsocialtrends.org/files/2012/03/PewSocialTrends-2012-BoomerangGeneration.pdf>. Accessed January 21, 2013. Multigenerational households means more than two generations living together.

Figure 15: Percent expecting to provide support to family members by income



Base: Total population

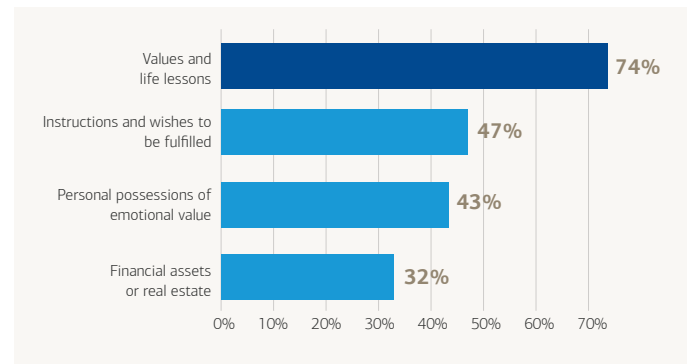
The four pillars of legacy

People also seek to benefit family members through inheritance and legacy — and this extends beyond just money. According to Age Wave research, there are four key pillars of legacy:

1. Values and life lessons
2. Instructions and wishes to be fulfilled
3. Personal possessions of emotional value
4. Financial assets or real estate

When asked what is most important to pass on to future generations, the top priorities are values and life lessons — more than twice as important as money and financial assets (FIG 16).

Figure 16: Most important to pass on to the next generation



Base: Total population



Seeking “Retirement Peace of Mind”

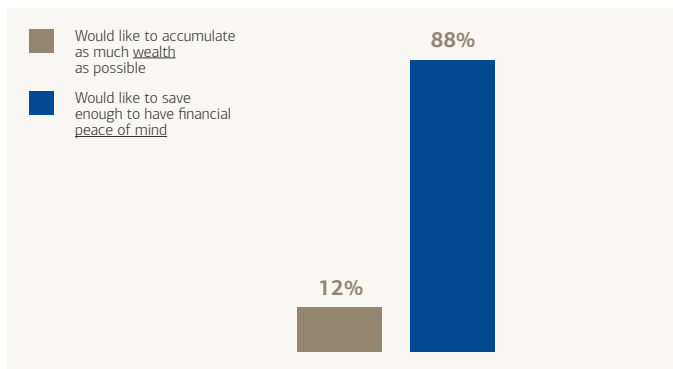


At the end of the day, achieving peace of mind is the priority among pre-retirees and retirees. Many are seeking strategies to protect their financial assets and generate reliable income sources throughout what may be a longer retirement. Below we have also introduced a new national “Retirement Peace of Mind Index,” calculated through the aggregation of findings from this research pertaining to how people feel about their retirement.

Today’s priority: achieving peace of mind

In previous decades, “getting rich” and “retiring early” were often heralded as the ideal retirement plan. Today, pre-retirees and retirees are more than seven times more likely to say their financial goal is “saving enough to have financial peace of mind” versus “accumulating as much wealth as possible” (FIG 17).

Figure 17: Most important financial goal



Base: Total population

The new focus on peace of mind is likely driven by a number of converging forces, including:

- The financial wake-up call of the recent recession, which exposed the dangers and risks of aggressive investment strategies.
- The movement of the boomer generation from their accumulation years into their retirement decumulation years — when they are seeking to responsibly manage savings and income to last throughout retirement.
- Increasing life expectancy, creating greater uncertainty regarding how much people need to save and prepare for retirement.

Longevity concerns

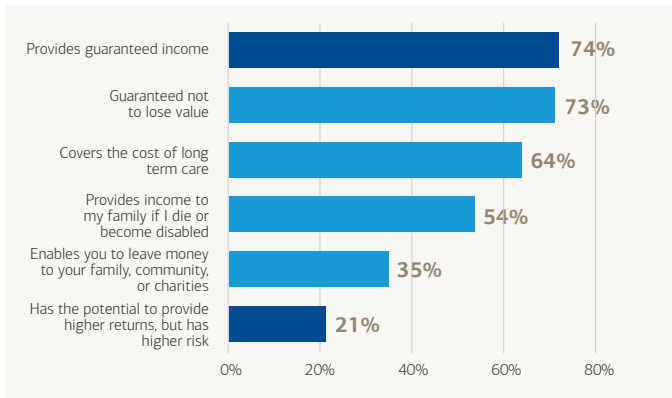
As life expectancy continues to increase, people find themselves spending more time in retirement than they had originally planned. While a longer life is generally viewed positively, pre-retirees and retirees are expressing concerns about unexpected life events due to a lengthier retirement. In fact, when asked what might be their biggest worries about living a long life, 70% of men and 68% of women said serious health problems and 47% of men and 61% of women said running out of money.



More Conservative Strategies

Many pre-retirees and retirees seek to adopt more conservative financial strategies. When considering investments or insurance, people age 45 and older now say having guaranteed income* and protecting assets are almost four times more important than achieving higher-risk returns (FIG 18).

Figure 18: Most important in retirement investment or insurance



Base: Total population

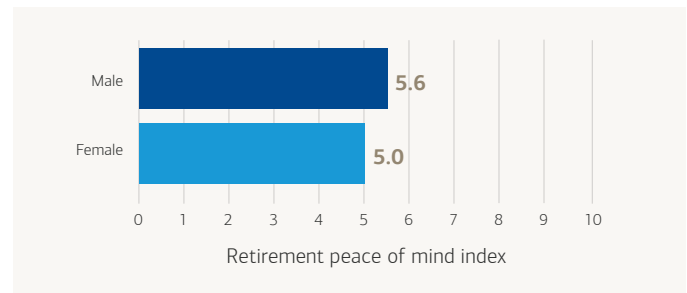
Retirement Peace of Mind Index

An index to measure the current level of national retirement peace of mind was calculated from responses to the following survey questions:

1. I feel content and comfortable about how I will spend my retirement years.
2. I have many worries about what might happen during my retirement.
3. Thinking about my retirement gives me feelings of security and stability.
4. I feel anxious and uneasy about how I will support myself and my family during retirement.
5. I feel well prepared for whatever may happen during my retirement.

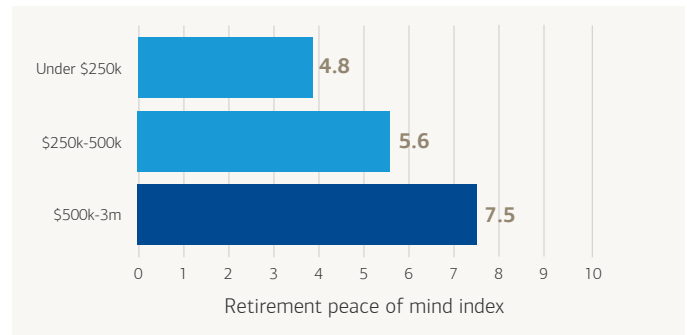
Based on averages of responses to these questions, the national “Retirement Peace of Mind Index” at the time of the survey was 5.3 on a scale of 1-10. Retirement peace of mind varies by gender, wealth, and use of a financial advisor (FIG 19, 20, 21)

Figure 19: Retirement peace of mind by gender



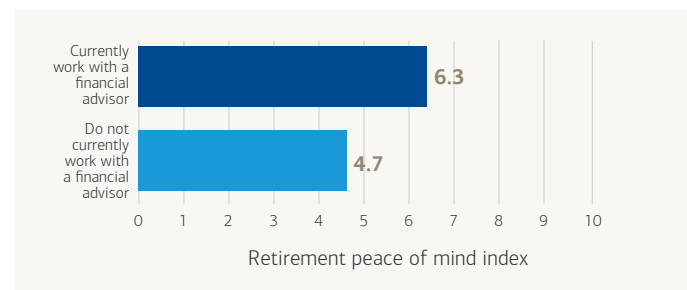
Base: Total population

Figure 20: Retirement peace of mind by investable assets



Base: Total population

Figure 21: Retirement peace of mind by use of a financial advisor



Base: Total population

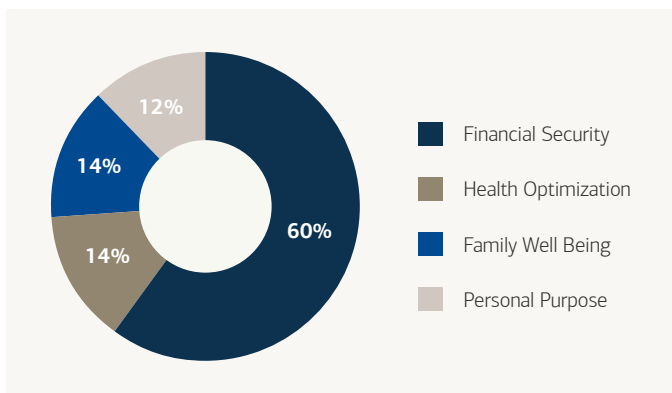
* Any guarantees are subject to the claims-paying ability of the issuer.

Four key elements of retirement peace of mind

The following four key elements help create retirement peace of mind (FIG 22):

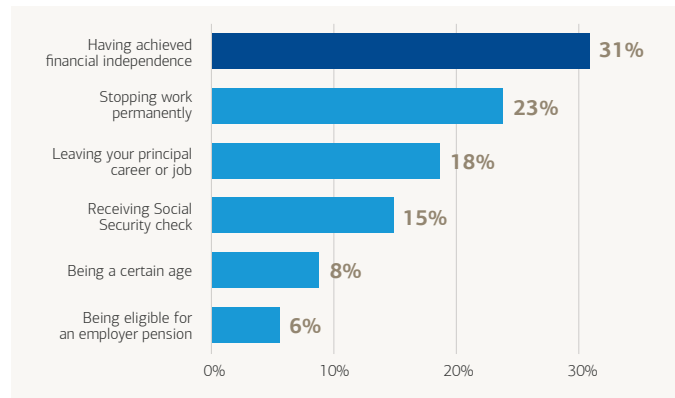
- Financial security: confidence in having sufficient resources for retirement.
- Health optimization: confidence in having resources and reliable care to maintain health in retirement.
- Family well-being, feeling assured that family members will be financially secure and can rely upon each other when needed.
- Personal purpose: having meaningful retirement goals, faith/spirituality, social connections, and personal legacy.

Figure 22: Importance of four key elements of retirement peace of mind



* Financial security, health optimization, family well-being, and personal purpose account for 67% of variance in the retirement peace of mind index.

Figure 23: When asked what best defines what retirement means to them, respondents cited:

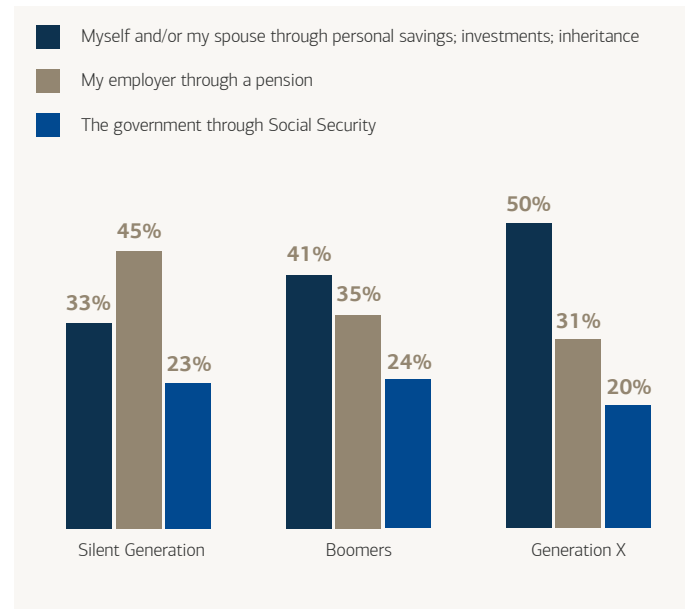


Base: All respondents

Overturning the three-legged stool

Among previous generations, retirement preparation was very much like a three-legged stool. Retirement funds were expected to come from (1) government entitlement programs, such as Social Security and Medicare, (2) employer pensions, and (3) personal savings and investments. The retirement plans of the “silent generation” (ages 68 to 88) reflect this expectation. This generation estimates that just 33% of their retirement funds come from personal savings. However, other generations are far less likely to feel they can count on government entitlement programs or employer defined benefit pensions. The boomer generation (ages 49 to 67) expects they will need to fund 41% of their retirement through personal savings and investments. Generation X (ages 37 to 48) expects to be personally responsible for half of their retirement funds (FIG 24).

Figure 24: Expected sources of retirement funds



Conclusion



New retirees and those nearing retirement are looking forward to their “bonus years.” They see life in retirement as filled with opportunity and a chance to enjoy a Second Act. However, they don’t know exactly what to expect during, or how to successfully manage, a long, complex and ever-changing retirement. And a long life in retirement brings worries about outliving their money, health and healthcare costs, family interdependencies, the loss of quality of life, and being isolated and lonely.

These findings suggest people would benefit from at least six things:

- A better understanding of the issues critical to retirement, risks they face and what they need to prepare for
- A clear definition of their goals and what is most important to them in retirement
- Knowledge of potential trade-offs they must consider
- An ability to examine various scenarios and the potential outcomes of decisions they are being asked to make
- A plan of action that puts all their resources to work to help them to live their very best lives in retirement
- An ability to correct course when circumstances warrant

In short, we believe people want and need to know more about their retirement years before they are upon them, to gain greater clarity about what they want to achieve, and to understand what is possible in this stage of life.

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