

NRPC: 2002 Survey of Prospective Retirees



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Conducted by:
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Washington, DC

Background of the Study

Objective

The purpose of this study is to learn more about people who are in the prime target market for retirement investments. NRPC wants to understand these consumers better to support the educational, marketing and sales efforts of its members. There is interest in learning more about consumers' financial preparations for retirement and ideas about managing money in retirement. The study is also designed to explore consumers' familiarity with a number of financial products.

Method

A telephone survey was conducted in August 2002 among people 40 to 65 years of age. A total of 500 interviews were obtained. All survey respondents were screened to insure they were:

- 40 to 65 years of age;
- Financial decision makers; and
- Have household income of at least \$50,000.

Key Findings and Implications

Expectations for retirement – when it will start, how long it will last, and what kind of financing it will require – tend to be unrealistic and may contribute to a crisis in retirement for many.

- Many expect to retire before the traditional retirement age of 65 – the average expected age of retirement for survey respondents is 62 years of age.
- Most expect to live a long life – on average, respondents estimate their life expectancy to be 82 years. However, those expecting to live longer do not plan to retire later.
- Most prospective retirees typically underestimate the amount of money they will need to maintain their current lifestyle in retirement. The median monthly income respondents estimate they will need in retirement is \$3,000. On average, they say they need to replace about 60% of their income in retirement.
- There are indications that many of these consumers are not that confident about their financial security in retirement. For example, two-thirds (66%) plan to work for pay after they retire. When asked to gage their comfort level for achieving their desired lifestyle in retirement, the largest share (53%) are *somewhat confident*, with only one-third (33%) reporting they are *very confident*.

Progress to date in saving suggests that retirement funding is likely to be inadequate.

- Among those with a defined contribution plan, only 18% have \$200,000 or more in their plan.
- Only 17% report having total personal savings of \$200,000 or more.
- Respondents estimate that about 26% of their retirement income will come from personal savings, while about 24% will come from Social Security. Pensions and tax-qualified plans (such as 401(k) plans) are estimated to comprise about 43% of their future income during retirement.

Key Findings and Implications (continued)

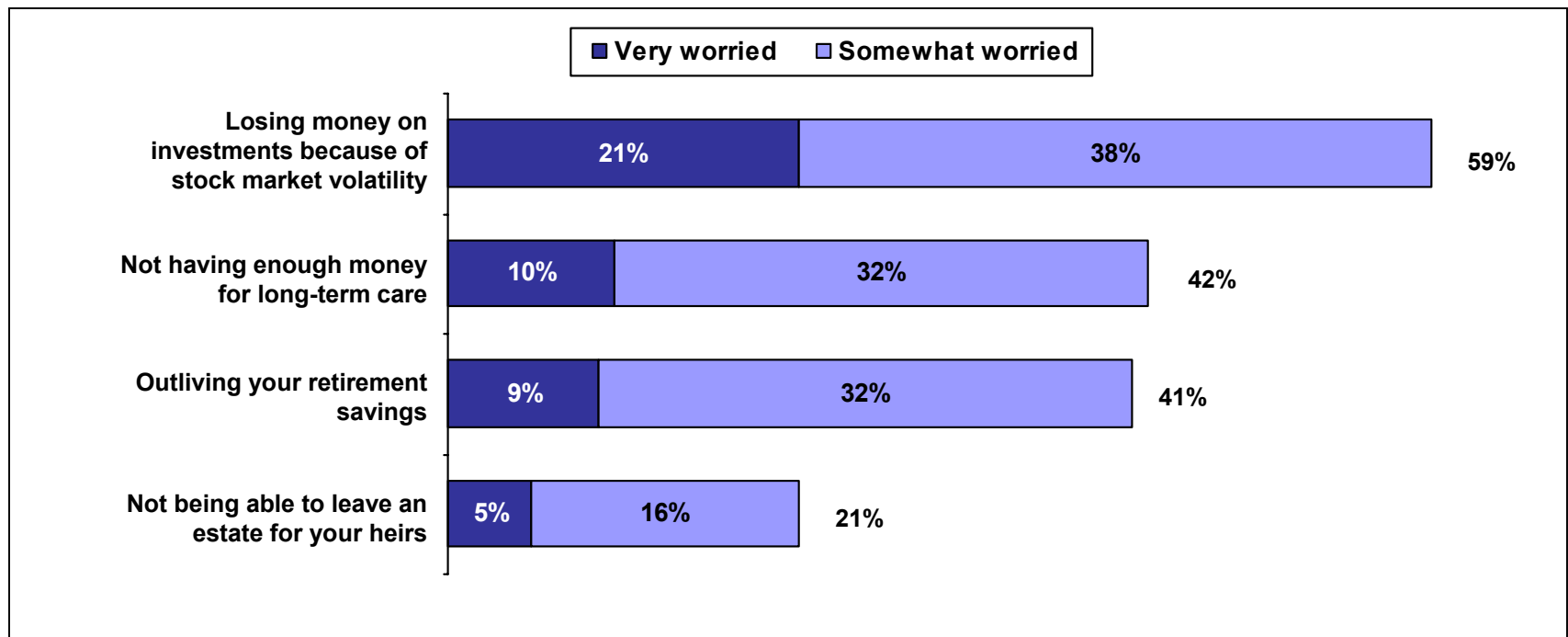
Efforts to enhance money management techniques in retirement and increase awareness and appreciation of retirement investments are warranted.

- Over half (58%) have tried to determine how much money they need to have saved by the time they retire. Those with a professional financial advisor and affluent respondents are most apt to have attempted to compile this information.
- However, many who tried to do a retirement calculation do not know how much money they need to have saved by the time they retire (39%).
- When asked to describe the strategy they have for how they will manage their investment money in retirement, most either plan to live off the interest and earnings from their assets (33%) or spend down their principal (29%). Only one in ten (10%) plans to increase their assets each year.

Stock Market Volatility Is A Dominant Worry; Significant Shares Express Other Financial Concerns

- About six in ten (59%) say they are at least *somewhat worried* about losing money on their investments because of stock market volatility, including 21% who say they are *very worried*.
- Among the other three situations measured, the level of concern is lower. Still, about four in ten (42%) say they are worried about not having enough money to pay for an extended stay in a nursing home or for extended nursing care at home. A similar share (41%) are worried about outliving their retirement savings.
- Only about one in five (21%) are *very* or *somewhat worried* about not being able to leave an estate for their heirs.

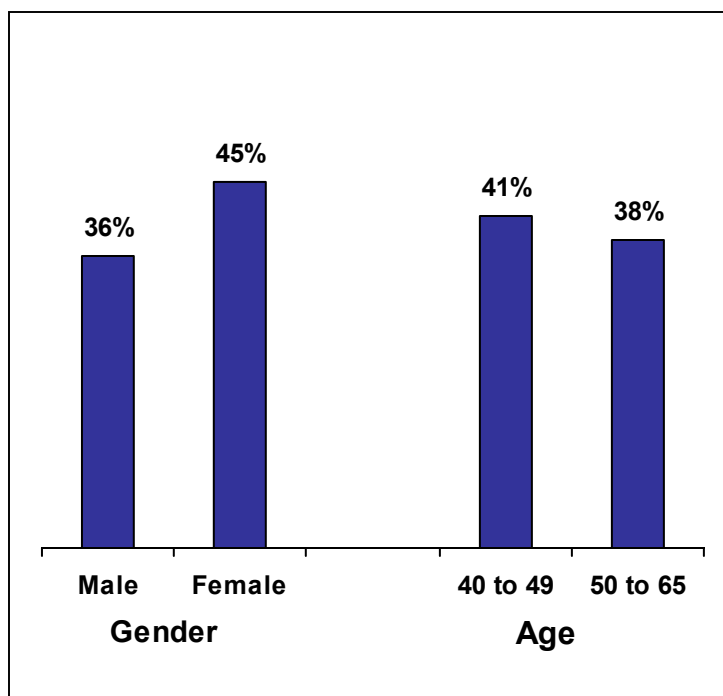
How worried are you about ...



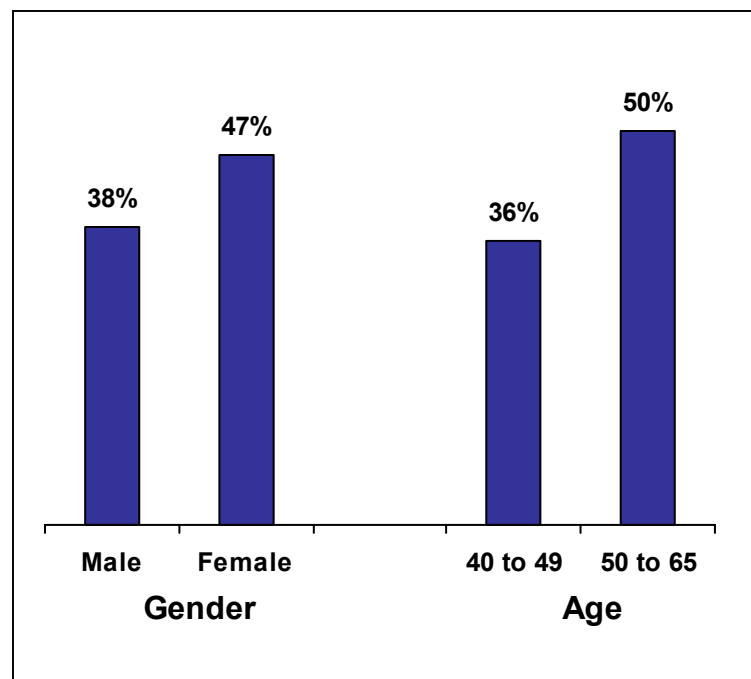
Women Are More Worried On Some Issues; Long Term Care Concerns Rise with Age

- Women non-annuity owners are more likely than their male counterparts to say they are worried about outliving their savings; they are also more worried about not having enough money to pay for an extended stay in a nursing home or for extended nursing care at home.
- While there is no age difference in concern about outliving savings, those in the older half of the age range of respondents (50 to 65 years) are more apt to be worried about the financial consequences of long-term care than are those in their forties (50% vs. 36%).

Percent very/somewhat worried about outliving savings



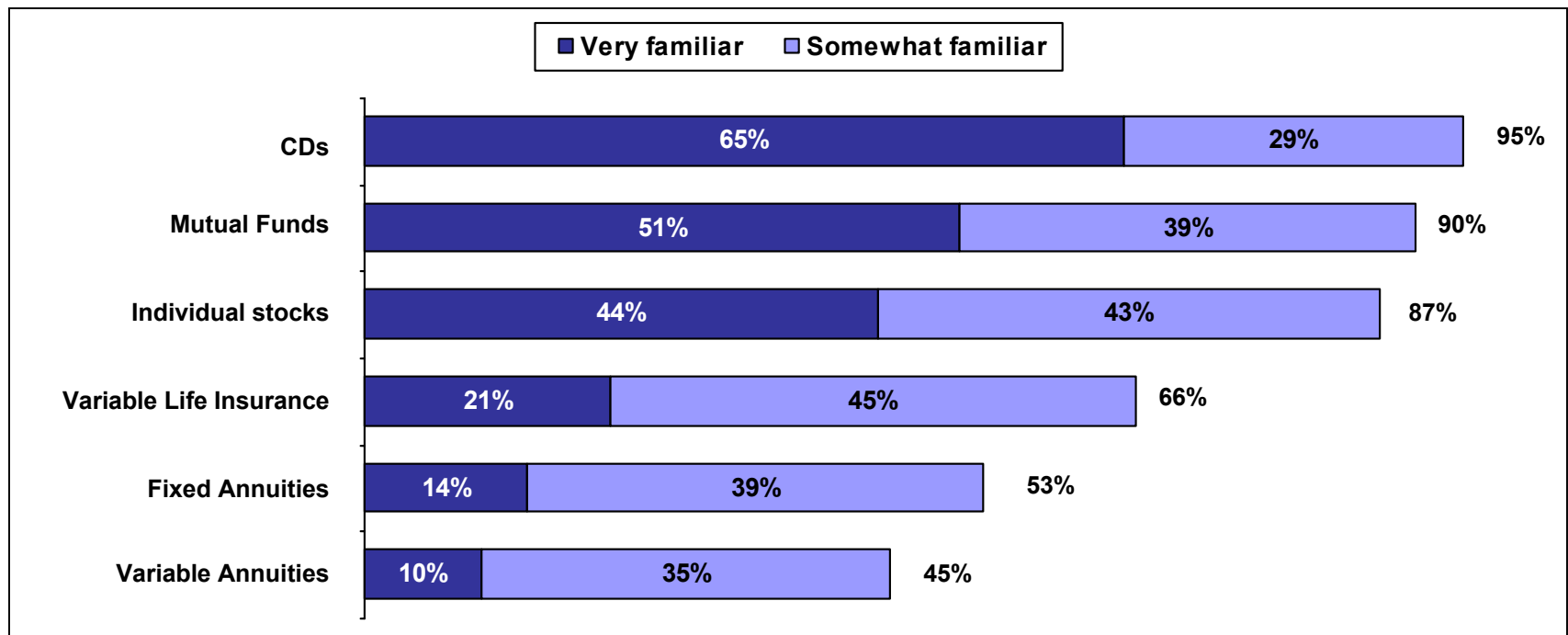
Percent very/somewhat worried about not having enough money for long-term care



Of the Six Financial Products Measured, Familiarity Is Lowest for Annuities, Highest for CDs

- Nearly all (95%) consumers are familiar with Certificates of Deposit or CDs, including two-thirds (65%) who report they are *very familiar* with them. Nearly as many say they are at least *somewhat familiar* with mutual funds (90%) and individual stocks (87%).
- Two-thirds (66%) say they are *very* or *somewhat familiar* with Variable Life Insurance.
- Less than half (45%) are familiar with variable annuities and a somewhat larger share (53%) are familiar with fixed annuities.

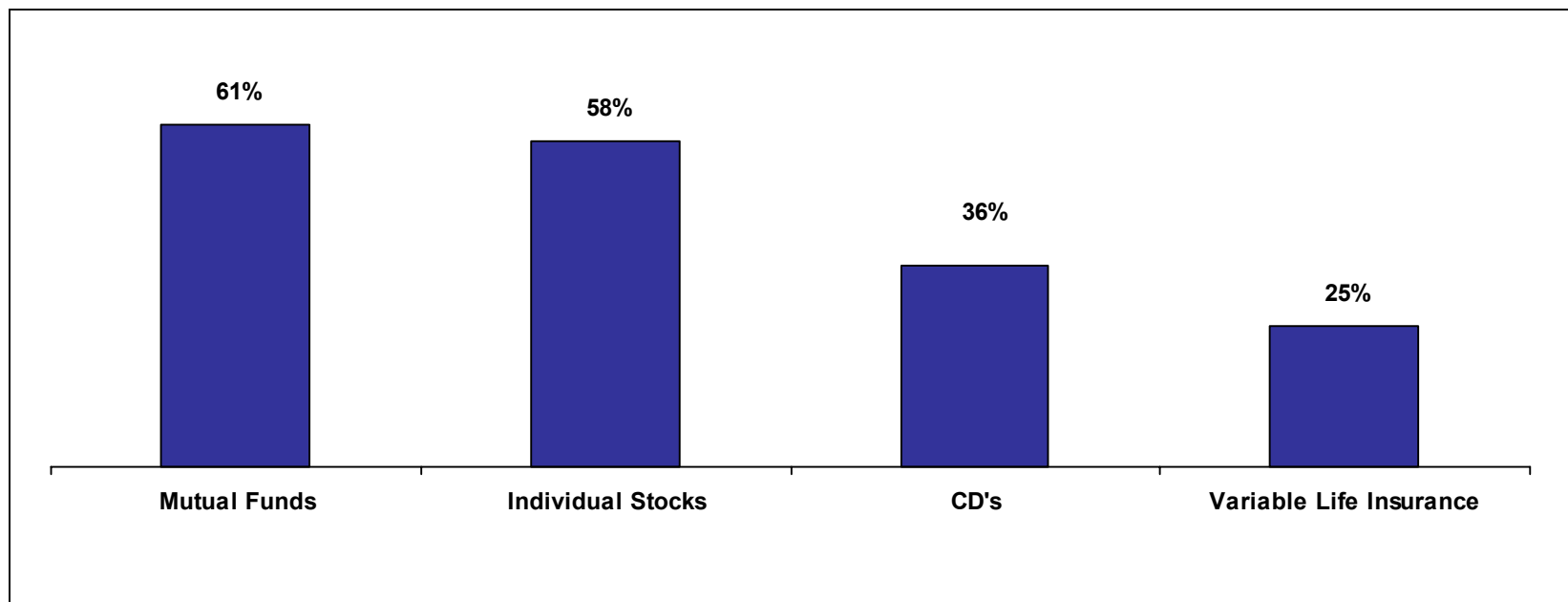
How familiar are you with ...



VLI Ownership Trails That of Other Equity-Based Products; About a Third Own CDs

- About six in ten say they own mutual funds (61%) and individual stocks (58%).
- Just over a third (36%) have investments in Certificates of Deposit (CDs).
- One-quarter (25%) report having variable life insurance.

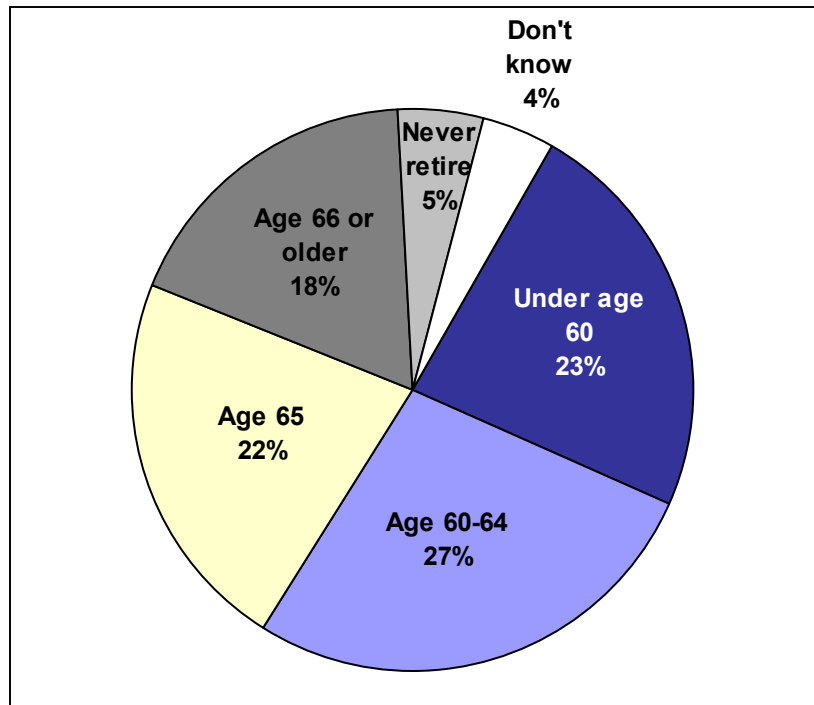
Percent Who Own Financial Product (outside of defined contribution plan at work)



About About Half Expect To Retire Before Age 65; Only A Few Think They Will Never Stop Working

- The average expected age of retirement is 62.2 years. Nearly one-quarter (23%) believe they will stop working sometime before they reach age 60. A slightly larger share (27%) expect to retire when they are age 60 to 64. Another 22% believe it is realistic for them to plan on retiring at the traditional age for retirement -- 65 years of age. About 18% say they will retire sometime after age 65.
- The average expected age at retirement goes down as net worth increases.

At what age do you expect to retire?



Average Expected Age of Retirement

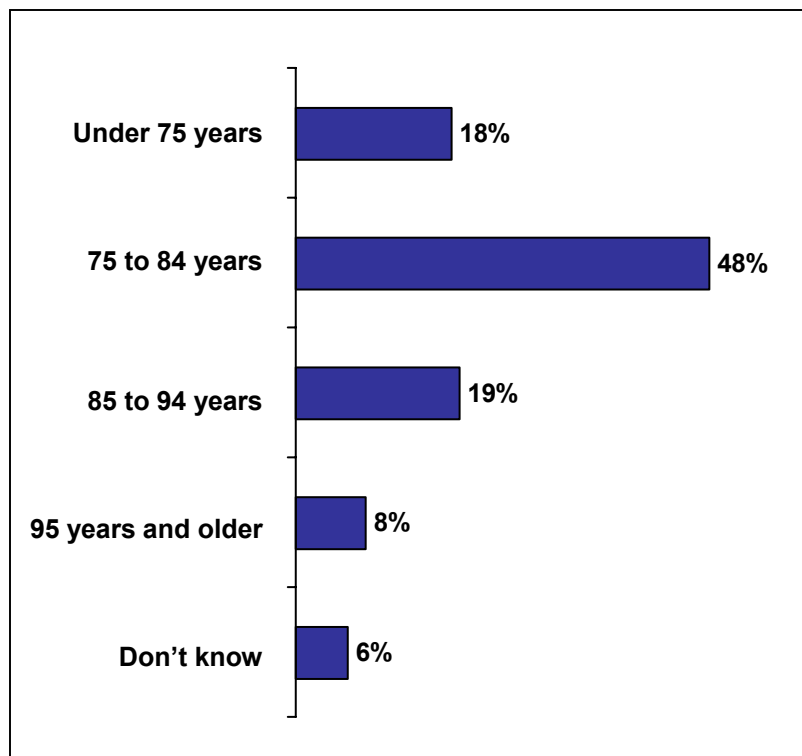
	<u>Mean Age</u>
All Non-Annuity Owners	62.2
Net Worth:	
Less than \$250,000	63.8
\$250,000 to \$499,999	62.7
\$500,000 or more	60.8

Those Expecting To Live Longer Do Not Plan To Retire Later

- About half (48%) believe they will live to be 75 to 84 years of age. Another 27% think they will live longer than that. Only 18% do not think they will make it to age 75.
- Those who think they will live to an advanced age, however, are not more inclined to postpone the age at which they retire. In fact, expected age of retirement is lowest (mean of 61.1 years) for the group that expects to live the longest.

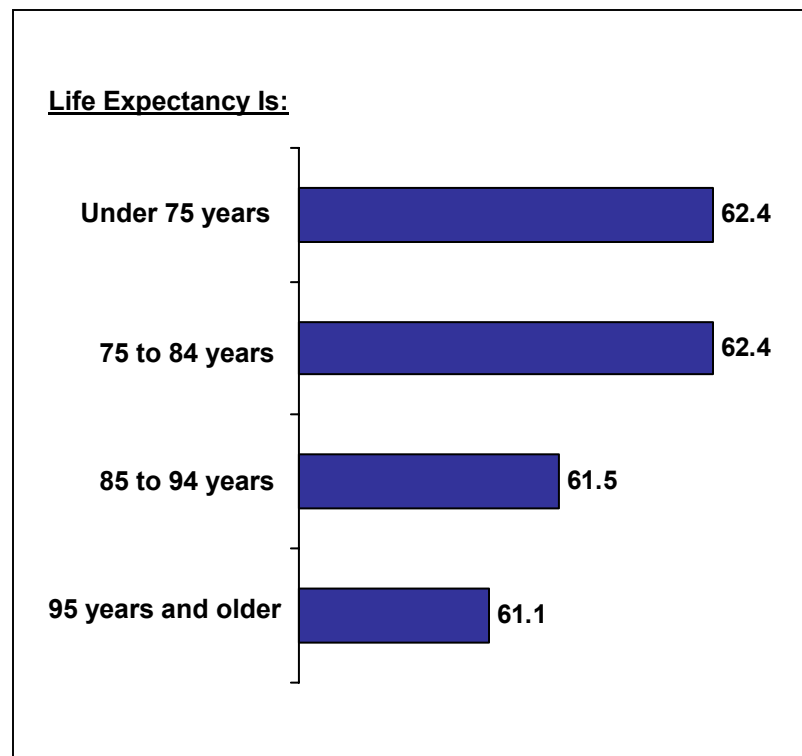
Do think it is most likely that you will live to be

(overall mean = 82 years)



Realistically, at what age do you expect to retire?

(overall mean = 62 years)



Estimated Monthly Income Needs In Retirement Are Not Likely To Be High Enough

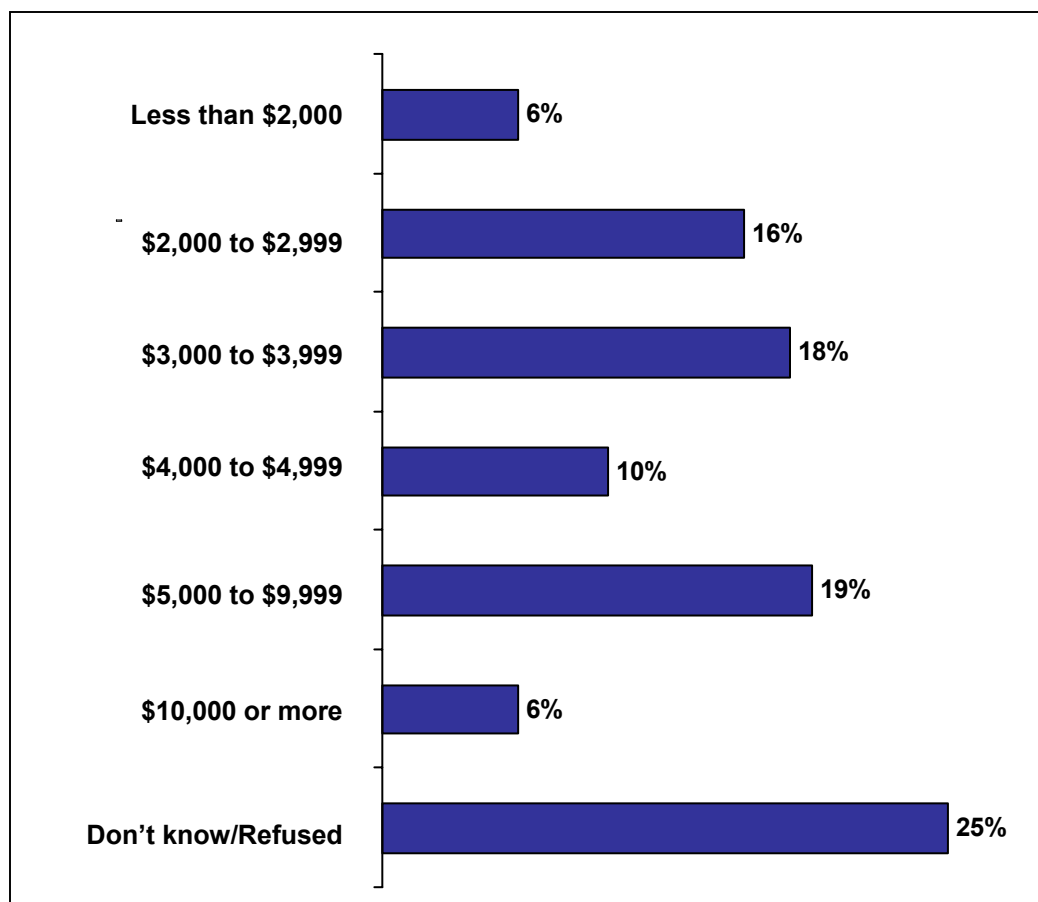
- The median monthly income that respondents feel they will need to live on to maintain their current lifestyle in retirement is \$3,000; the mean (\$5,150) is considerably higher, suggesting some segments have much greater income requirements.
 - Men estimate higher monthly income needs during retirement – 32% of men think they will require \$5,000 or more monthly, compared to 17% of women.
- About one-fifth (22%) feel that they will need less than \$3,000 per month in retirement.

At that point (retirement), how much do you think you will need, after taxes, to live on each month to be able to maintain your current lifestyle?

(among those who plan to retire: n=474)

(overall mean = \$5,150)

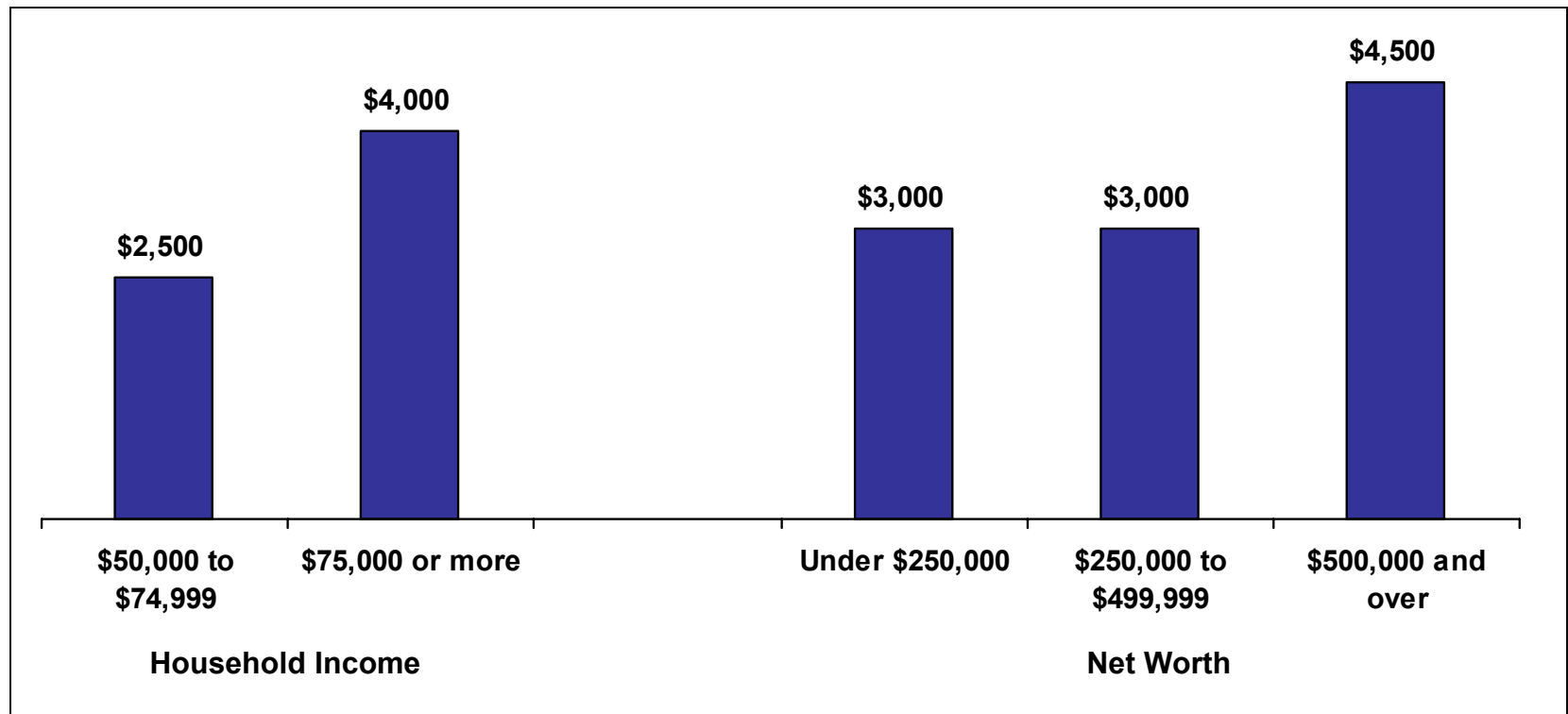
(overall median = \$3,000)



Even For Higher Income, Monthly Income Needs During Retirement Are Probably Underestimated

- The median monthly income anticipated by those with higher household incomes is \$4,000, compared to only \$2,500 for those with lower household income.
- The median monthly amount that respondents with net worth of over \$500,000 estimate they will need is \$4,500.

How much do you think you will need, after taxes, to live on each month to be able to maintain your current lifestyle?
(median dollar amounts shown; overall median = \$3,000)



Expected Income Replacement Ratio During Retirement To Live Comfortably Is Low

- Respondents feel they need to replace, on average, 60% of their income in retirement.
- Just over a third (35%) feel they will need to replace 70% or more of their household's pre-retirement income to live comfortably in retirement.

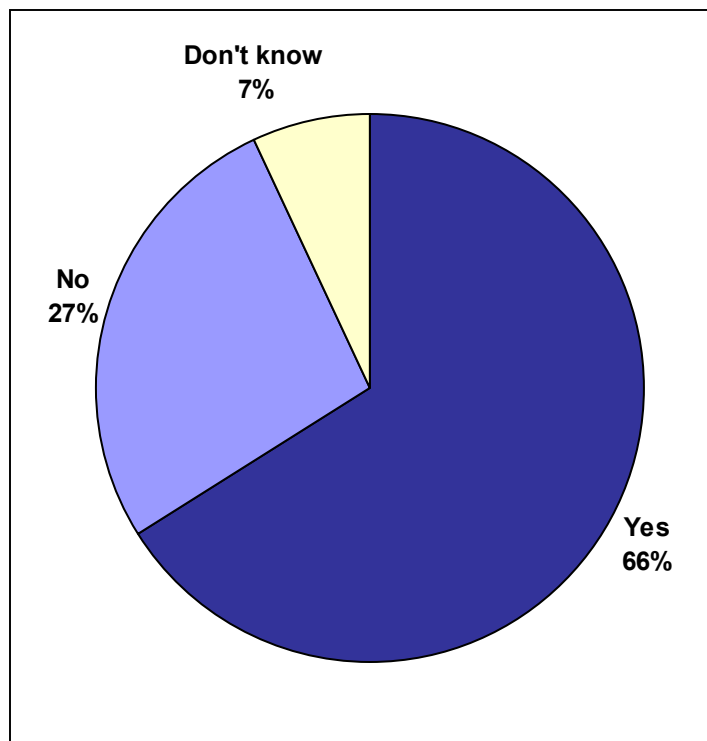
About what percentage of your pre-retirement income do you think you (and your spouse) will need to live comfortably in retirement?
(among those who plan to retire: n=474)
(median percent = 60%)

	<u>Total</u>
Percent of Pre-Retirement Income	
Less than 50%	14%
50% to 59%	21
60% to 69%	12
70% to 79%	22
80% or more	13
Don't know	17

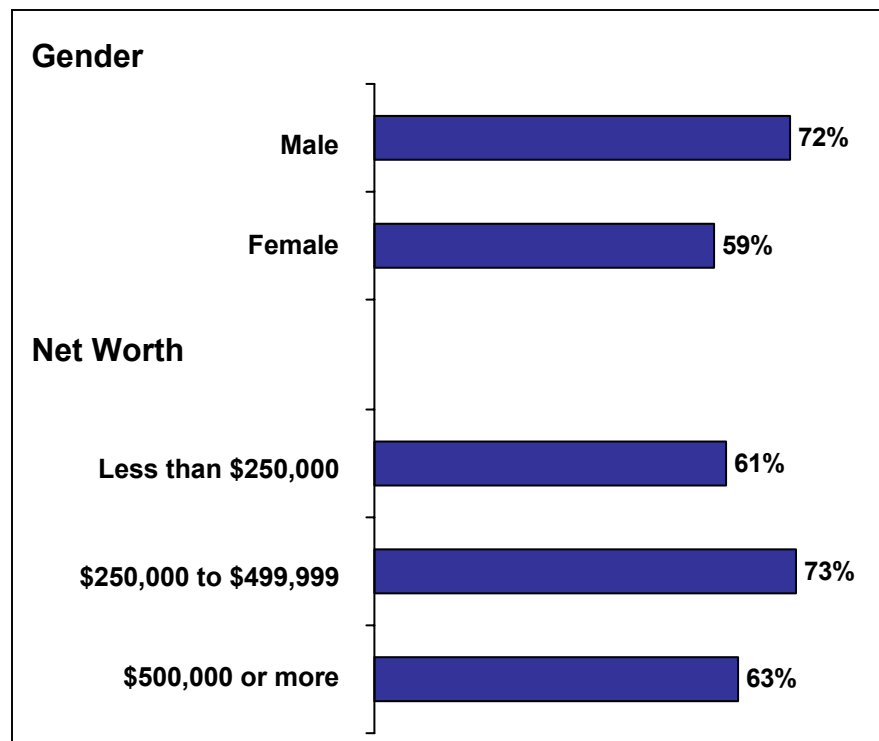
Two-Thirds Plan To Work For Pay After They Retire

- Two-thirds (66%) say that they will work for pay after they retire, while 27% say they will not and 7% report they “don’t know.”
- Men are more apt than women to say they will continue working during retirement (72% vs. 59%). Expectations for remaining in the workforce during retirement are especially high among those with the middle range of net worth, \$250,000 to \$499,999 in assets.

Do you plan to work for pay after you retire?



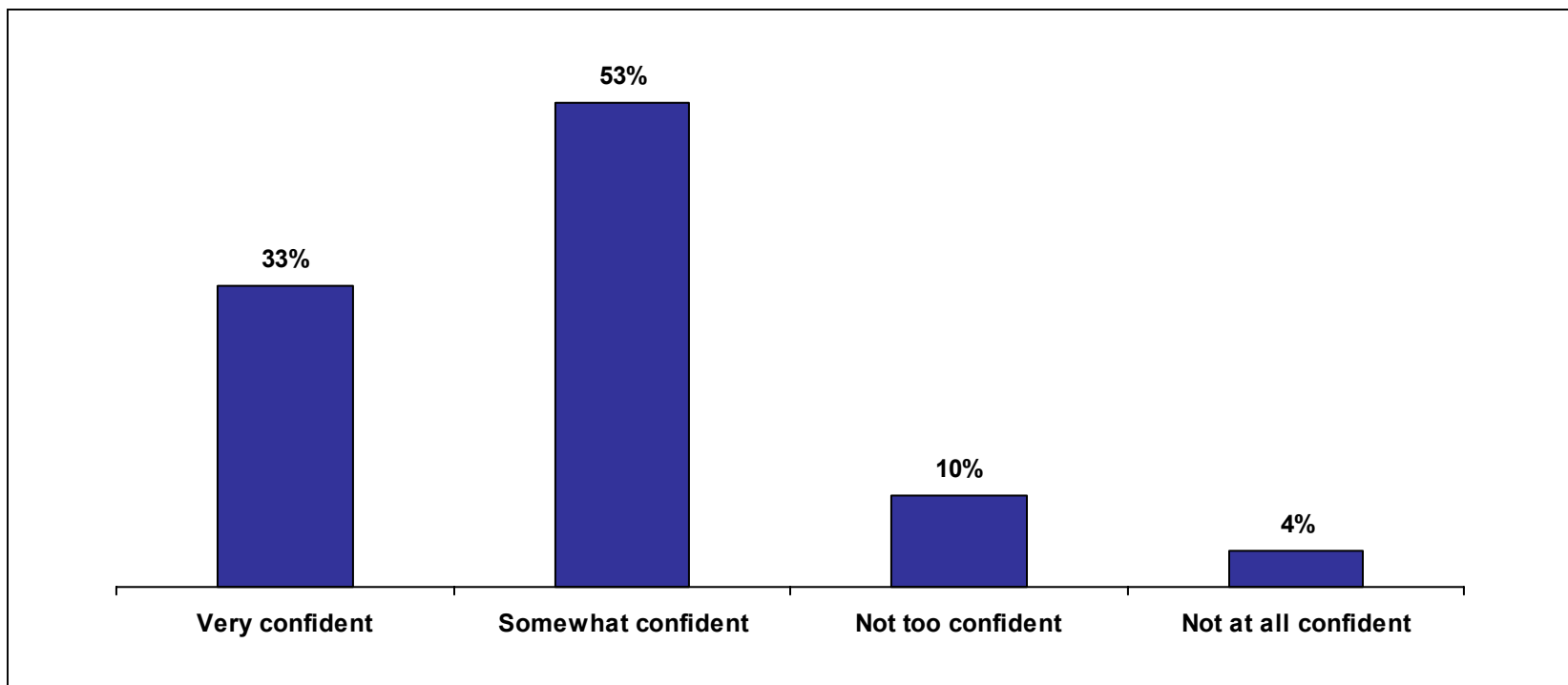
Differences in Expectations of Continued Work During Retirement
(among those who expect to work for pay during retirement)



Most Are Not Totally Confident They Will Be Able to Maintain A Comfortable Lifestyle in Retirement

- Only one-third (33%) report being *very confident* they will be able to maintain the lifestyle they want throughout their retirement years.
- Over half (53%) say they are *somewhat confident* of their ability to have the lifestyle they desire after retirement and another 10% are *not too confident*. However, only 4% report having *no confidence at all*.

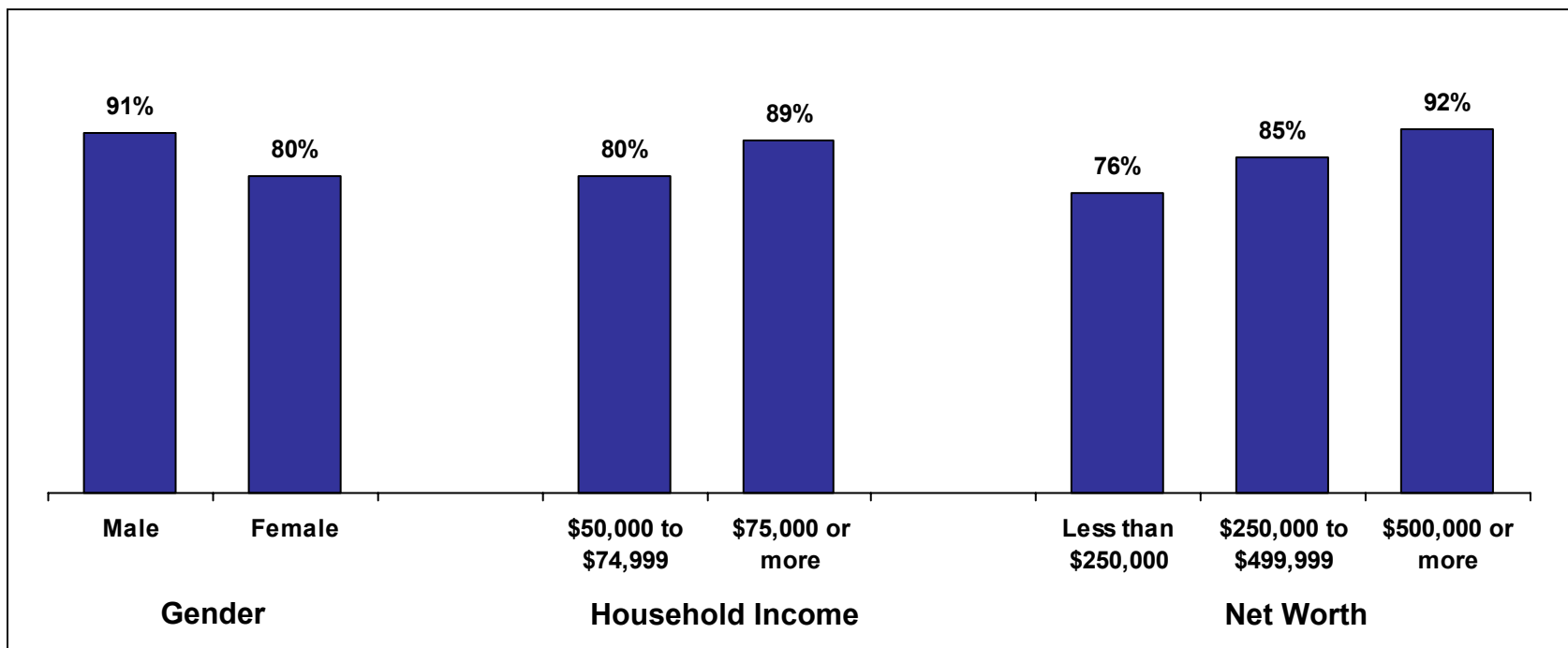
How confident are you that you will be able to maintain the lifestyle you want throughout your retirement years?



Men Are More Confident Than Women; Affluence Is Also Related to Confidence in Retirement Security

- While nine in ten men (91%) are *very or somewhat comfortable* that they will be able to maintain their lifestyle in retirement, only eight in ten women (80%) feel the same.
- Confidence in being able to enjoy a financially comfortable retirement increases with affluence.

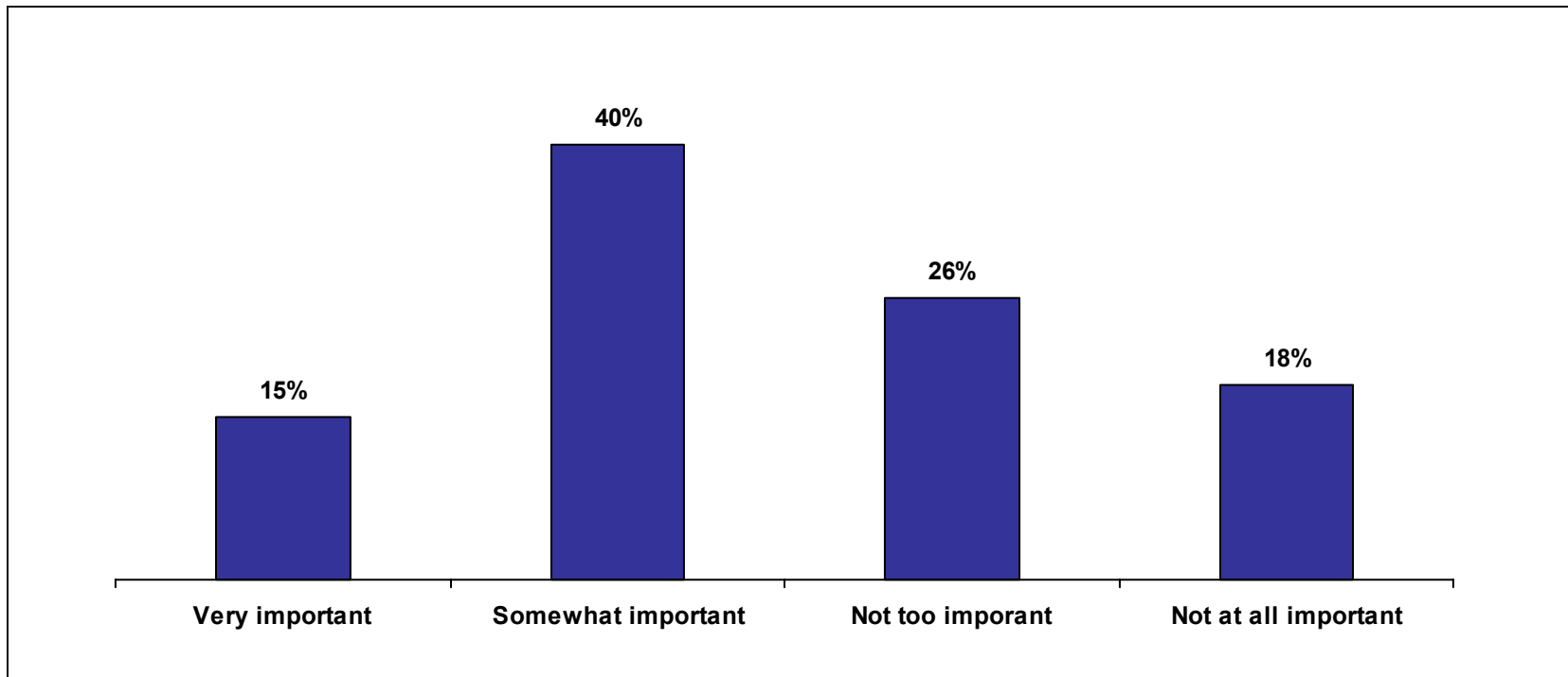
How confident are you (and your spouse) that you will be able to maintain the lifestyle you want throughout your retirement?
(Percent Very/Somewhat confident)



Over Half Feel It Is Important To Leave An Estate For Their Heirs

- Fifty five percent say it is at least *somewhat important* to be able to leave an estate for their heirs, including 15% who feel it is *very important*.
- Another 26% say it is *not too important* and 18% feel it is *not at all important*.

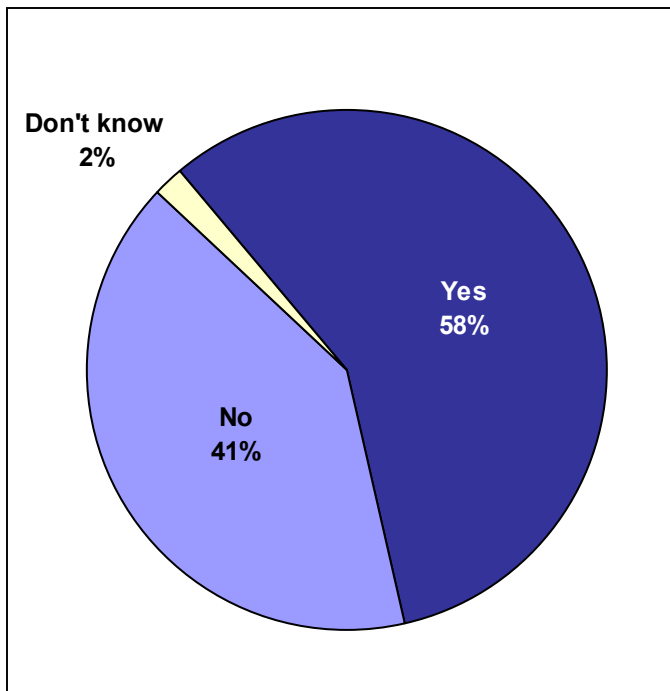
How important is it to you (and your spouse) to be able to leave an estate for your heirs?



A Majority Has Tried to Determine How Much They Need To Save For Retirement

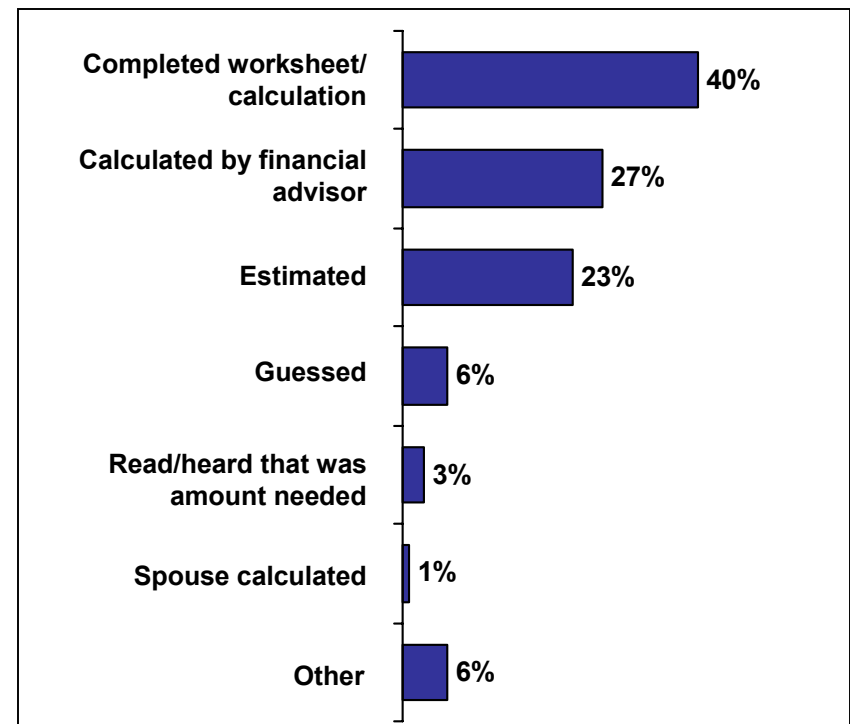
- Over half (58%) have attempted to figure out how much money they need to have saved by the time they retire, so that they can live comfortably in retirement.
- The largest share of those who have tried to determine what their retirement savings goal should be say they completed a worksheet or did a calculation (40%). Smaller shares say their financial advisor calculated an amount for them (27%) or they estimated an amount based on assumptions about market conditions (23%).

Have you (or your spouse) tried to figure out how much money you will need to have saved by the time you retire, so you can live comfortably in retirement?



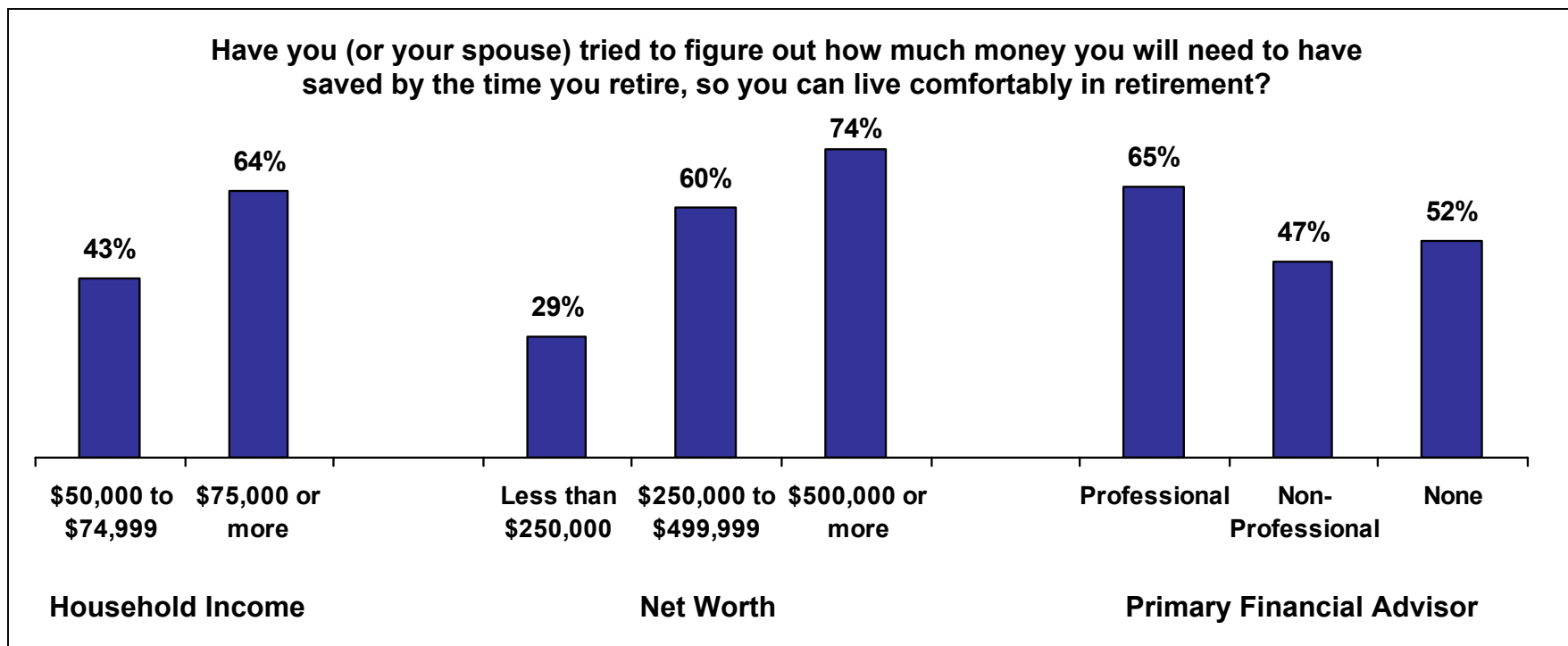
How did you determine the amount you would need to save by the time you retire?

(among those who tried to calculate an amount: n=288)



Affluent And Those With Financial Advisor More Apt To Have Tried Calculating Retirement Money Needed

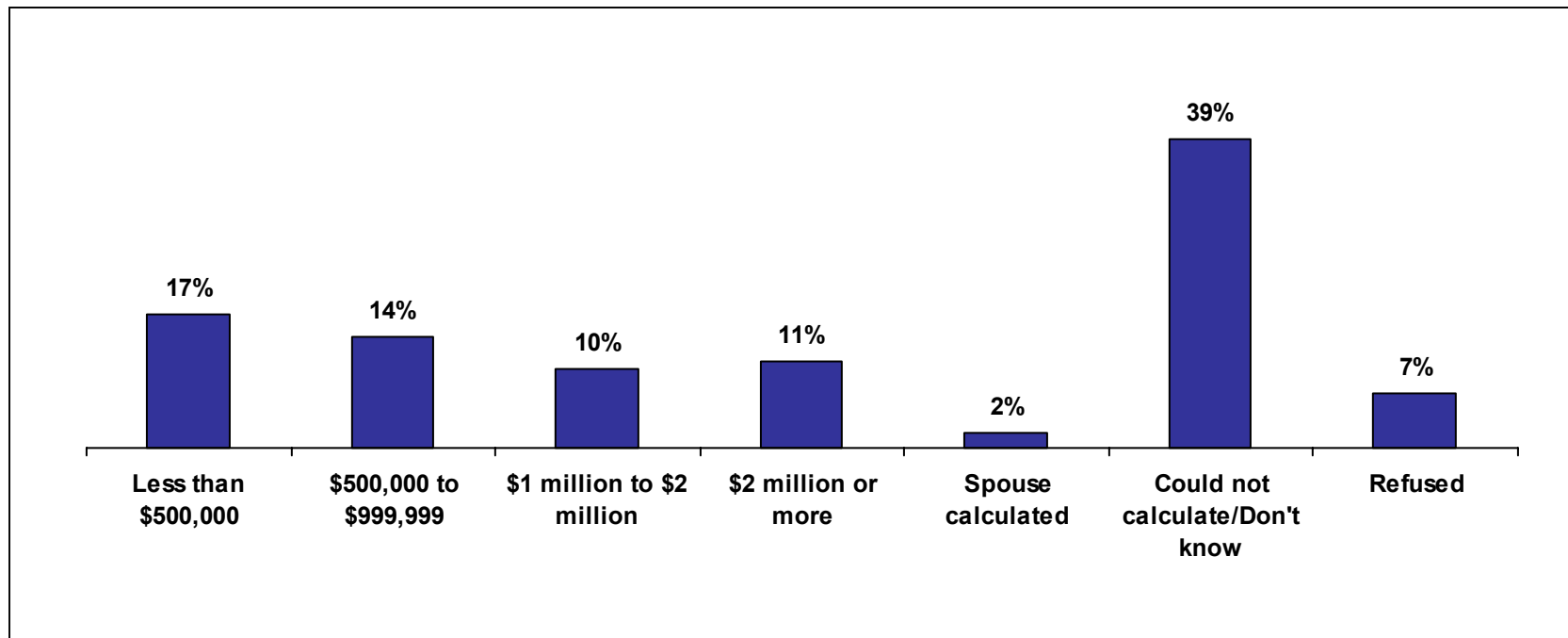
- Nearly two-thirds (64%) of those with income of \$75,000 or more have tried to figure out how much money they need to have saved for retirement in order to live comfortably. In contrast, only 43% of those with income in the \$50,000 to \$74,999 range have attempted to do this.
- As household net worth increases, so does the share of those who have tried to determine how much they should be saving for retirement.
- About two-thirds (65%) of those who have a professional financial advisor have tried to figure out the amount they need to save for retirement.



Many Who Tried to Calculate What They Need To Have Saved For Retirement Do Not Know The Amount

- Among those who tried to do a retirement calculation, just under one-third (31%) determined they would need to save under \$1 million dollars. About one in five (21%) figured they would need \$1 million or more in savings in order to have a comfortable retirement.
- The largest share (39%) either could not do the calculation or don't know how much in total savings they need to have by the time they retire.
 - Women are more likely than men to report they don't know the amount or couldn't calculate it (49% vs. 29%).

Amount Calculated They Would Need To Save For Retirement
(among those who tried to do retirement calculation: n=288)



Strategies for Managing Retirement Income Indicate Few Expect To Increase Assets During Retirement

- One-third (33%) say that, during retirement, they plan to live just on the interest and earnings from their investments.
 - Likelihood of using this strategy increases with net worth, from 22% for those with net worth under \$250,000 to 41% for those with net worth of \$500,000 or more.
- Another 29% say their strategy for managing their money in retirement involves spending down their asset base.
- Only about one in ten (10%) plans to increase their assets each year.
- Eight percent say they want to annuitize their investment money and turn it into a guaranteed income stream.
- About 3% plan to preserve their principal and live off regular income from retirement payments (e.g., Social Security, a pension, or military retirement).

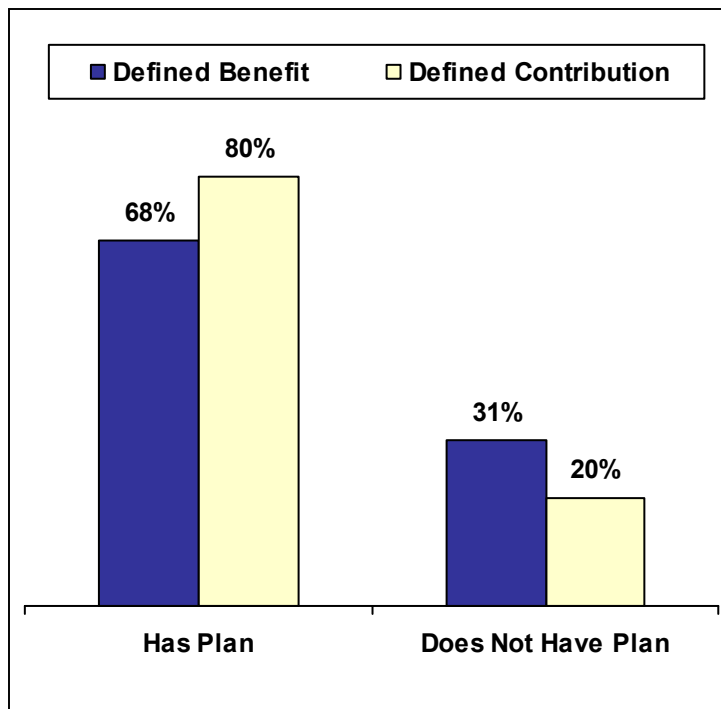
What is your strategy for how you will manage your investment money during your retirement years?

	<u>Percent</u>
Live just on the interest and earnings from their assets	33%
Dip into assets (assumes using interest/earnings)	29
Increase assets	10
Turn assets into guaranteed income stream	8
Live off regular income from these sources: Social Security, pension, military retirement	3
Continue working	2
Other	2
Don't know/Refused	19

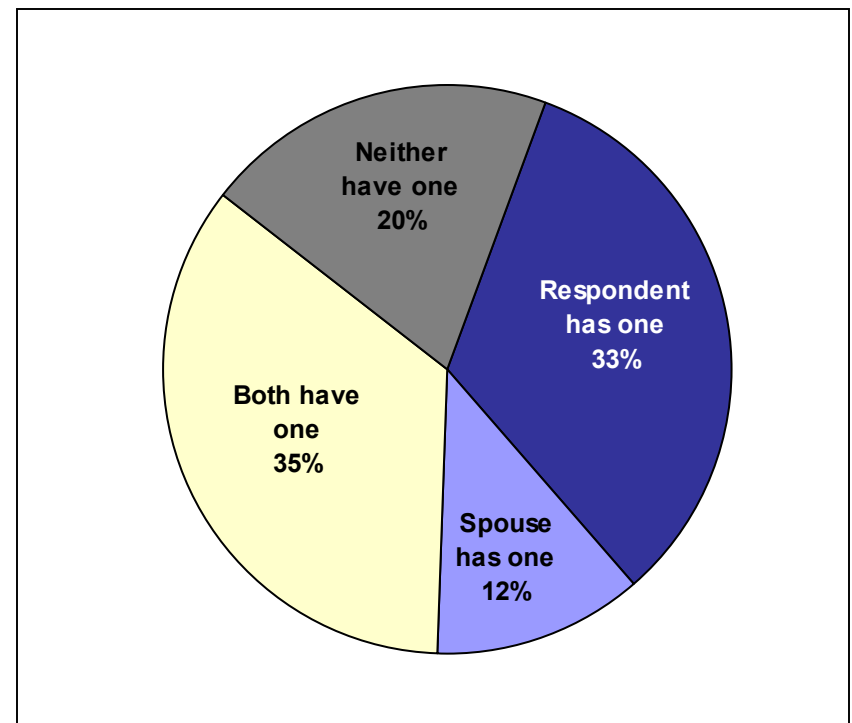
Defined Contribution Plans Are More Prevalent Than Defined Benefit Plans

- Two-thirds (68%) report that either they (or their spouse) has a defined benefit plan offered through a current or former employer.
- An even higher percentage (80%) reports having a defined contribution plan, such as a 401(k), 403(b) or 457 plan. Over one-third (35%) report that both they and their spouse have this kind of employer-sponsored retirement savings plan.
 - Respondents with household income above \$75,000 are more likely than those with household income \$50,000 to \$74,999 to report that either they or their spouse have a defined contribution plan (83% vs. 72%).

Do you (or your spouse) have a defined benefit plan/defined contribution plan?



Ownership of Household's Defined Contribution Plan



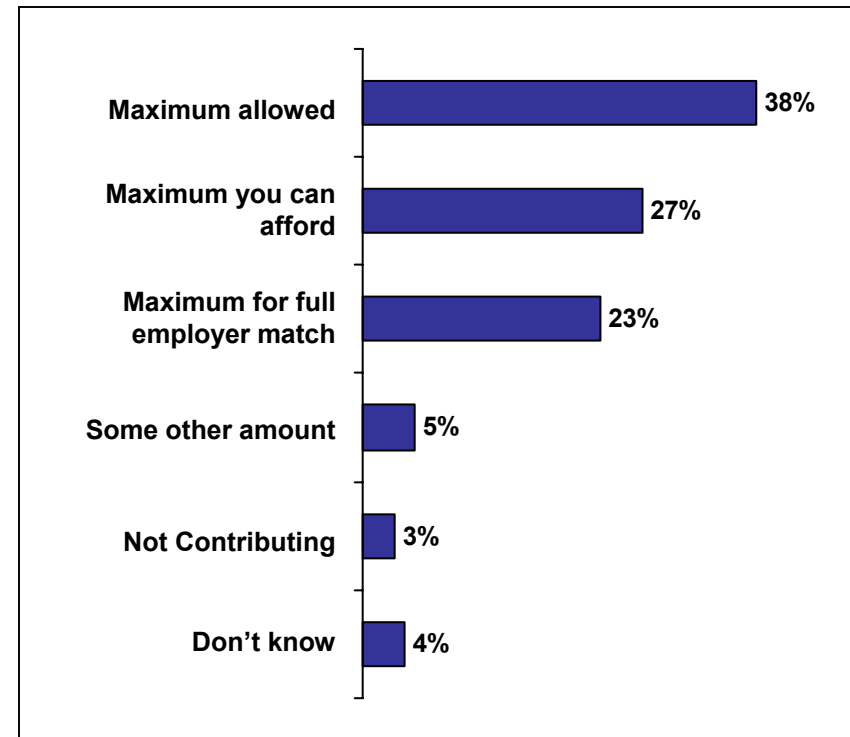
Many Participants in Defined Contribution Plans Take Full Advantage of This Opportunity To Save

- On average, respondents contribute 10% of their current salary to their employer's defined contribution plan. Just over one-quarter (26%) contribute 11% or more.
- Over one-third (38%) report that they invest the maximum allowed in their 401(k) plan each year. Another quarter (27%) say they put in the maximum they can afford and nearly as many say they contribute the maximum to receive the full employer match (23%).

Percentage of Current Salary Contributed to Defined Contribution Plan
(among those with defined contribution plan: n=399)

	<u>Percent</u>
Percentage Contributed Each Month:	
None	4%
1% to 4%	8
5% to 6%	16
7% to 9%	11
10%	20
11% to 19%	19
20% or more	7
Don't know/Refused	17
Mean	10.0

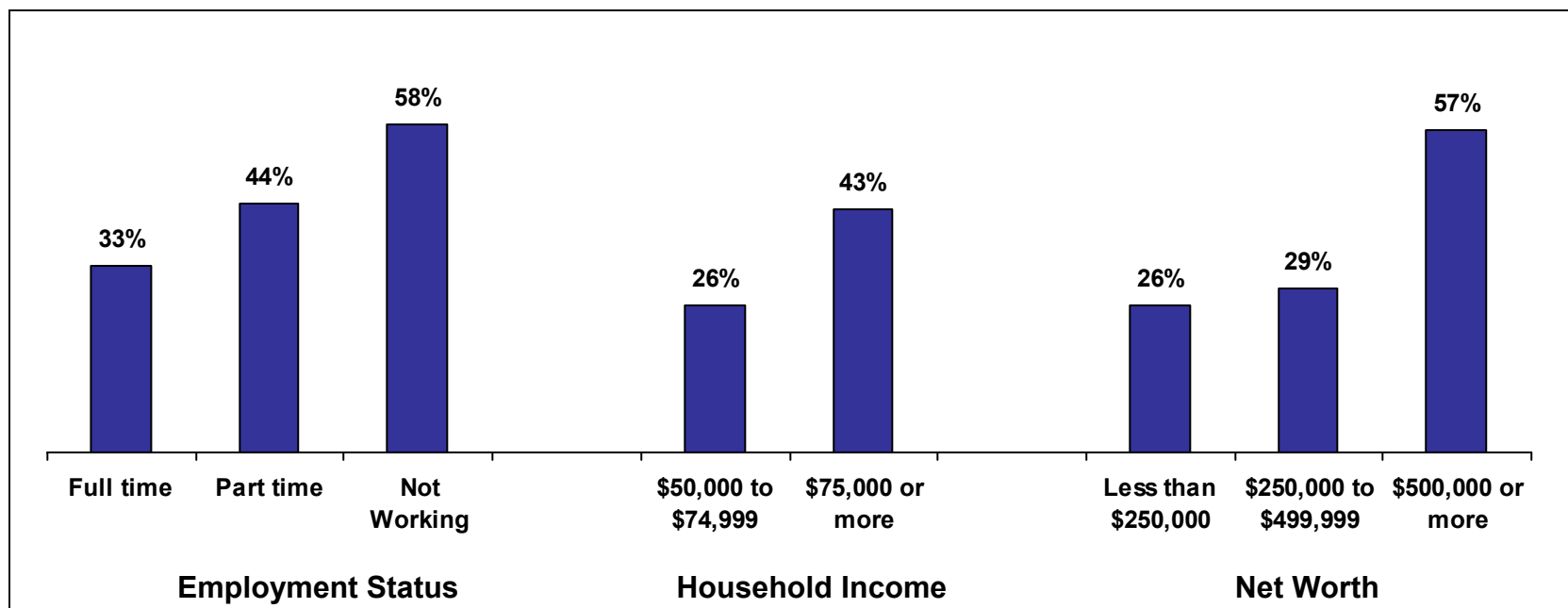
Which one statement best describes the amount that you (or your spouse) invest in your defined contribution plan each year?
(among those with defined contribution plan: n=399)



Households with One Full-Time Worker, Plus Affluent, More Likely To Be “Maxed Out” on Contributions

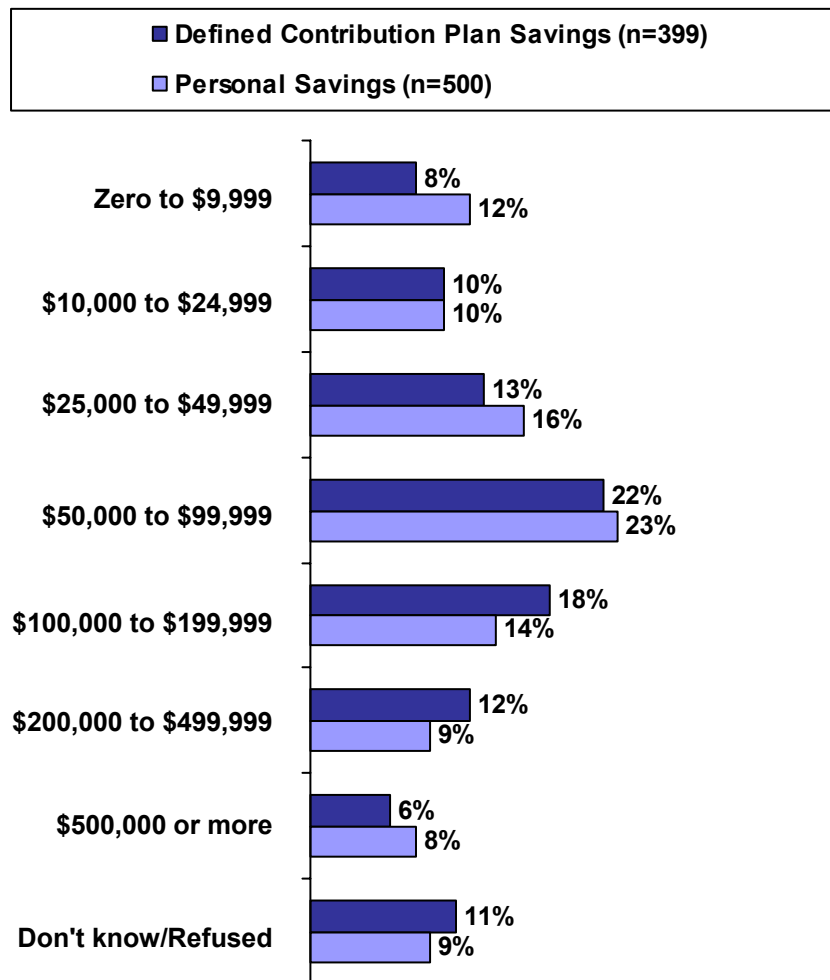
- Respondents who are not working, but who have a spouse contributing to a defined contribution plan, are far more likely than those who are full-time workers to be contributing the maximum to their 401(k) plan (58% vs. 33%).
- Over four in ten (43%) with a household income of \$75,000 or more are contributing the maximum allowed in their defined contribution plan, compared to 26% among those with a household income of \$50,000 to \$74,999.
- The proportion who “max out” on their defined contribution plan contributions is especially high among those with net worth of \$500,000 or more (57%).

Percent Who Are Contributing the Maximum Allowed
(among those with defined contribution plan: n=399)



Amount Saved in Defined Contribution Plan and in Personal Savings

Percent With Total Amount of Savings in Defined Contribution Plan and in Personal Savings

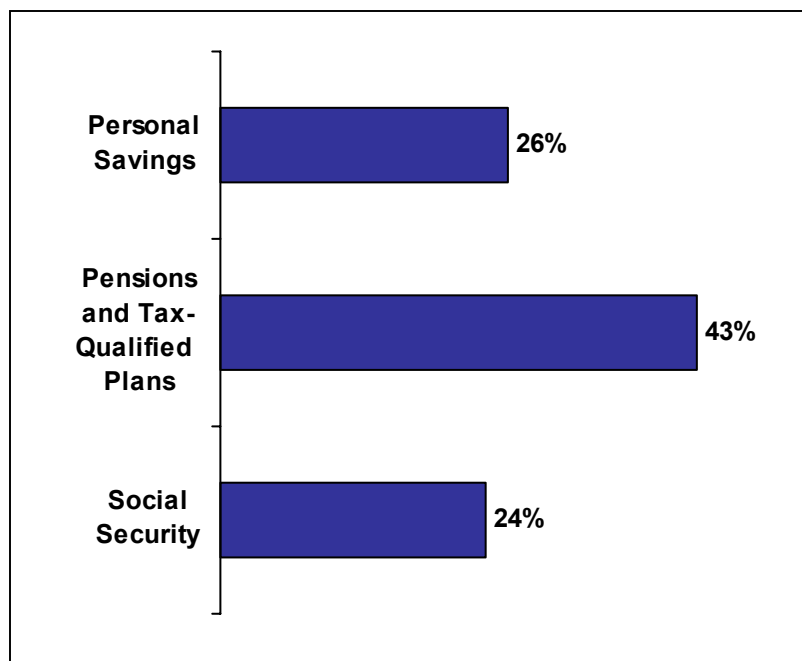


- Among those with a defined contribution plan, about three in ten (31%) have less than \$50,000 in that plan. Another 40% have between \$50,000 and \$199,999 in their plan. Only 18% report having \$200,000 or more in their defined contribution plan.
- Total personal savings, which excludes amounts in defined contribution plans and equity in primary residence, shows a similar distribution (note that this includes all respondents, regardless of defined contribution plan ownership).
 - Thirty-eight percent have less than \$50,000 in personal savings.
 - Another 36% have personal savings in the \$50,000 to \$199,999 range.
 - Seventeen percent have personal savings of \$200,000 or more.

Retirement Plans and Pensions Through Work Are Seen As Largest Source of Retirement Income

- On average, respondents expect that about 43% of their income during retirement will come from pensions and tax-qualified plans. They believe that about one-quarter (24%) will come from Social Security and other government programs such as SSI or Veteran's benefits. Their own personal savings are expected to comprise an average of 26% of their income during retirement.
- Not surprisingly, the share of retirement income that comes from personal savings increases with income and net worth.

About what percentage of the total amount you will need to live on during retirement will come from each of these sources:
(mean percentage)



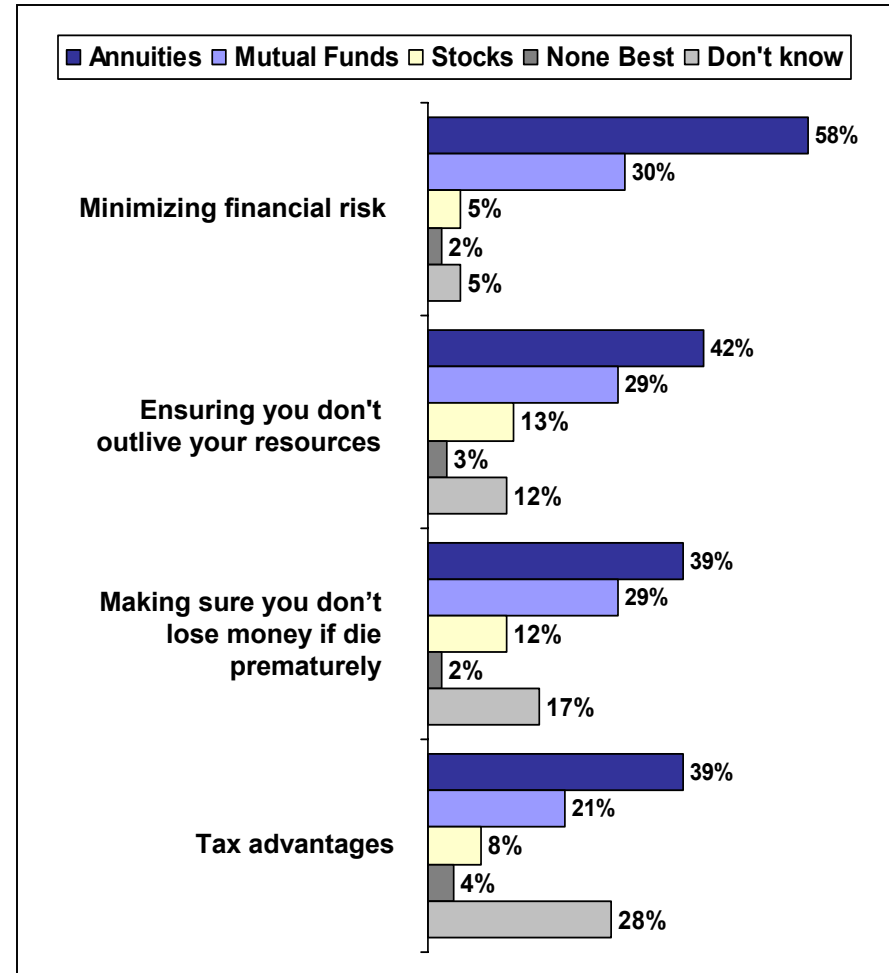
Estimated Average Percentage Of Income In Retirement From Personal Savings

	<u>Average Percentage</u>
Household Income	
\$50,000 to \$74,999	21%
\$75,000 or more	29
Net Worth	
Less than \$250,000	21%
\$250,000 to \$499,999	24
\$500,000 or more	32

Annuities Viewed As Superior To Mutual Funds & Stocks For Risk Minimization Plus Three Other Areas

- Out of 9 characteristics measured, annuities were viewed as being better than either mutual funds or stocks on four characteristics. For each of these attributes, mutual funds came in second, followed by stocks.
 - About six in ten (58%) feel that annuities are the best for minimizing financial risk; only half as many (30%) feel that mutual funds are best in this respect.
 - Another area in which annuities are viewed as best by a wide margin are for tax advantages (39% say annuities are best, compared to 21% for mutual funds and 8% for stocks).
 - About four in ten (42%) feel that annuities are the best investment of the three investments measured for ensuring people don't outlive their resources. About three in ten (29%) feel that mutual funds are best in accomplishing this goal.
 - About four in ten (39%) say that that annuities are best at making sure you don't lose money if you die prematurely, compared to 29% who feel that mutual funds stand out in this area. Only 12% cast their vote for stocks on this characteristic.

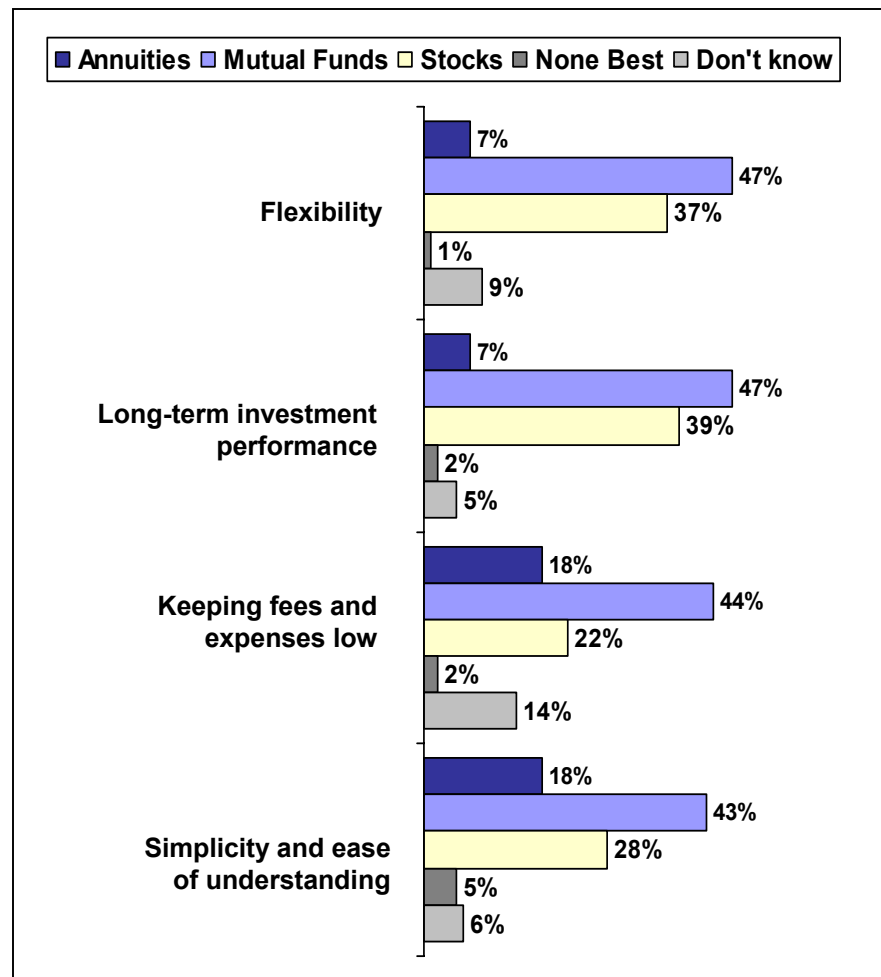
For each characteristic, which one of these three investments types is best: annuities, mutual funds or stocks?
(among those familiar with all 3 products: n=261)



Mutual Funds Beat Annuities and Stocks For Flexibility, Simplicity, Performance and Fees

- Mutual funds are viewed as best (in comparison with annuities and stocks) in four areas. However, for none of these characteristics does a majority feel that mutual funds are the leading investment category.
 - Nearly half (47%) feel that mutual funds are better than either annuities or stocks for the flexibility they provide. About 37% say that stocks are best in this area.
 - Mutual funds also beat out stocks and annuities when it comes to long-term investment performance.
 - Forty-four percent say that mutual funds are the best investment type for keeping expenses and fees low; only half as many feel that stocks (22%) or annuities (18%) are best in this area.
 - The largest share of respondents (43%) feel that mutual funds are best in terms of simplicity and ease of understanding, compared to 28% for stocks and 18% for annuities.

For each characteristic, which one of these three investments types is best: annuities, mutual funds or stocks?
(among those familiar with all 3 products: n=261)

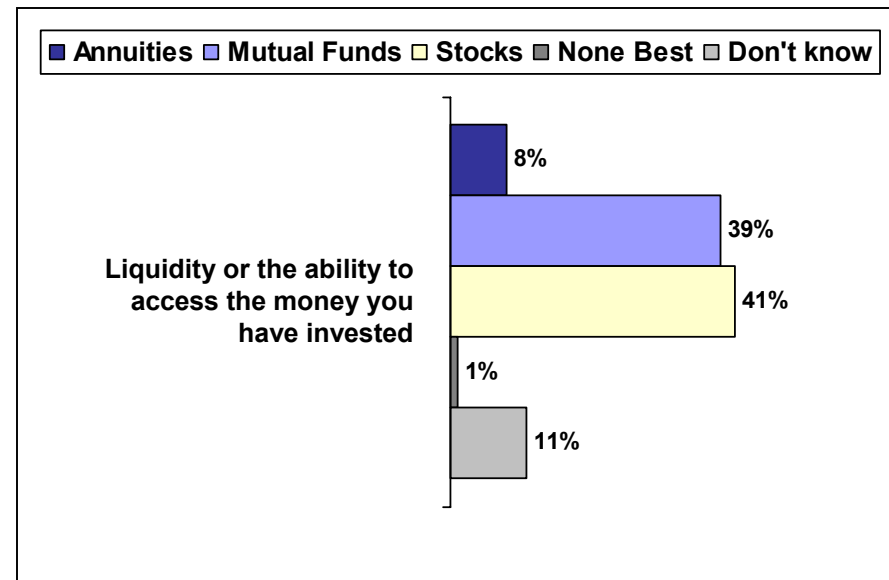


Equal Shares View Mutual Funds and Stocks As Best For Liquidity

- About equal shares of respondents feel that mutual funds (39%) and stocks (41%) are best in terms of the liquidity they offer.
- Only 8% say that annuities are superior to stocks and mutual funds for providing access to the money invested in the product.

For each characteristic, which one of these three investments types is best: annuities, mutual funds or stocks?

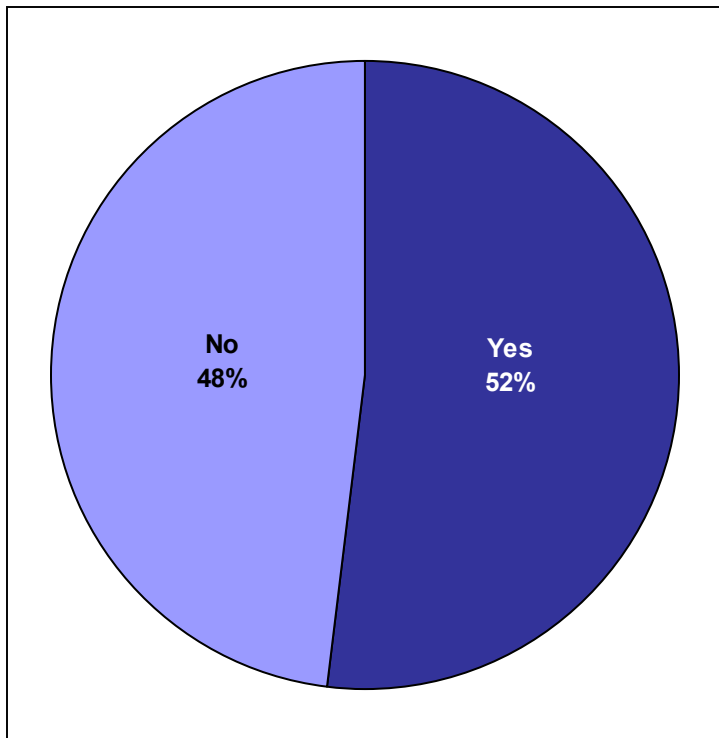
(among those familiar with all 3 products: n=261)



Over Half Have A Primary Financial Advisor, Usually A Financial Planner

- About half 52% say they have someone whom they consider to be their primary financial advisor.
- Among those with a primary financial advisor, the largest share (45%) say that person is a financial planner. Another 16% say their primary financial advisor is a stockbroker and 8% report they work with an accountant in this capacity.
- About one in seven (14%) say their primary financial advisor is someone who is not a professional advisor, such as a colleague, friend, or relative.

**Do you have someone whom you consider
to be your primary financial advisor?**



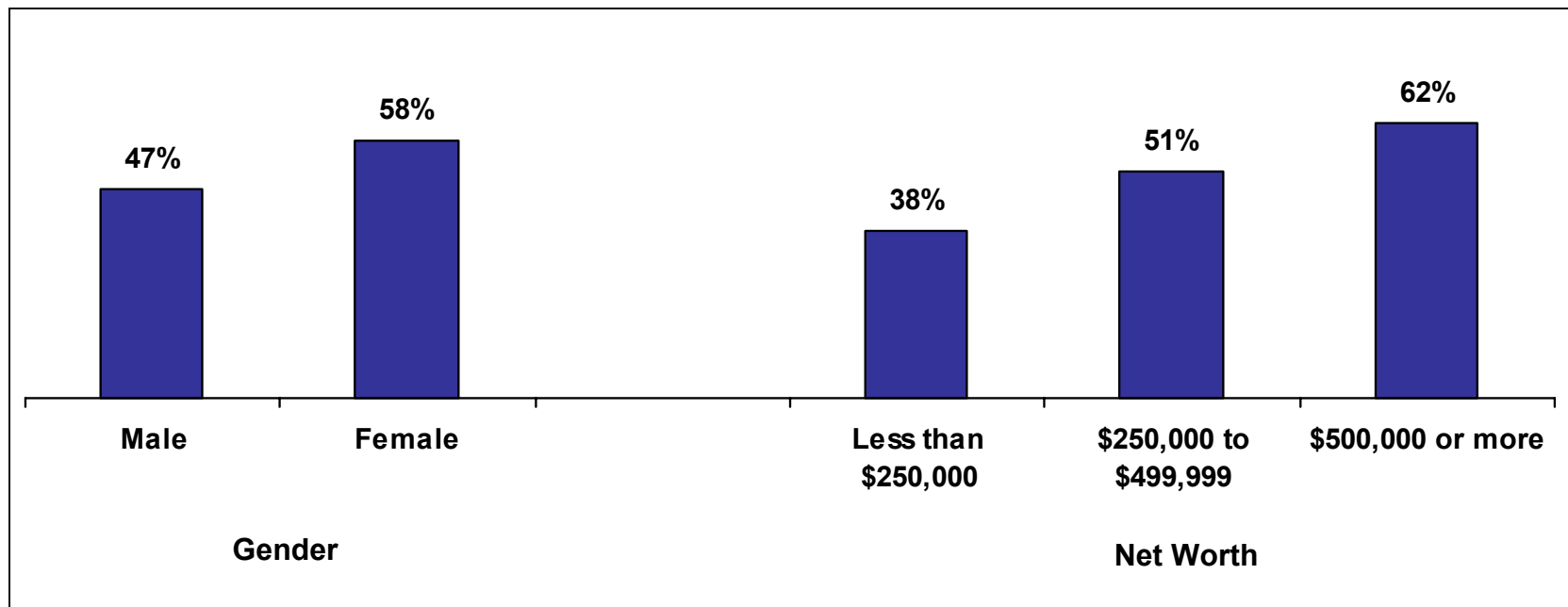
Is that person a ...?
(among those with financial advisor: n=262)



Women and Higher Net Worth Consumers More Apt To Report Having Primary Financial Advisor

- Nearly six in ten women (58%) report having a primary financial advisor, compared to only 47% of men.
- Likelihood of reporting a primary financial advisor increases with net worth, from a low of 38% for those with a net worth less than \$250,000 to 62% for those with a net worth of \$500,000 or more.

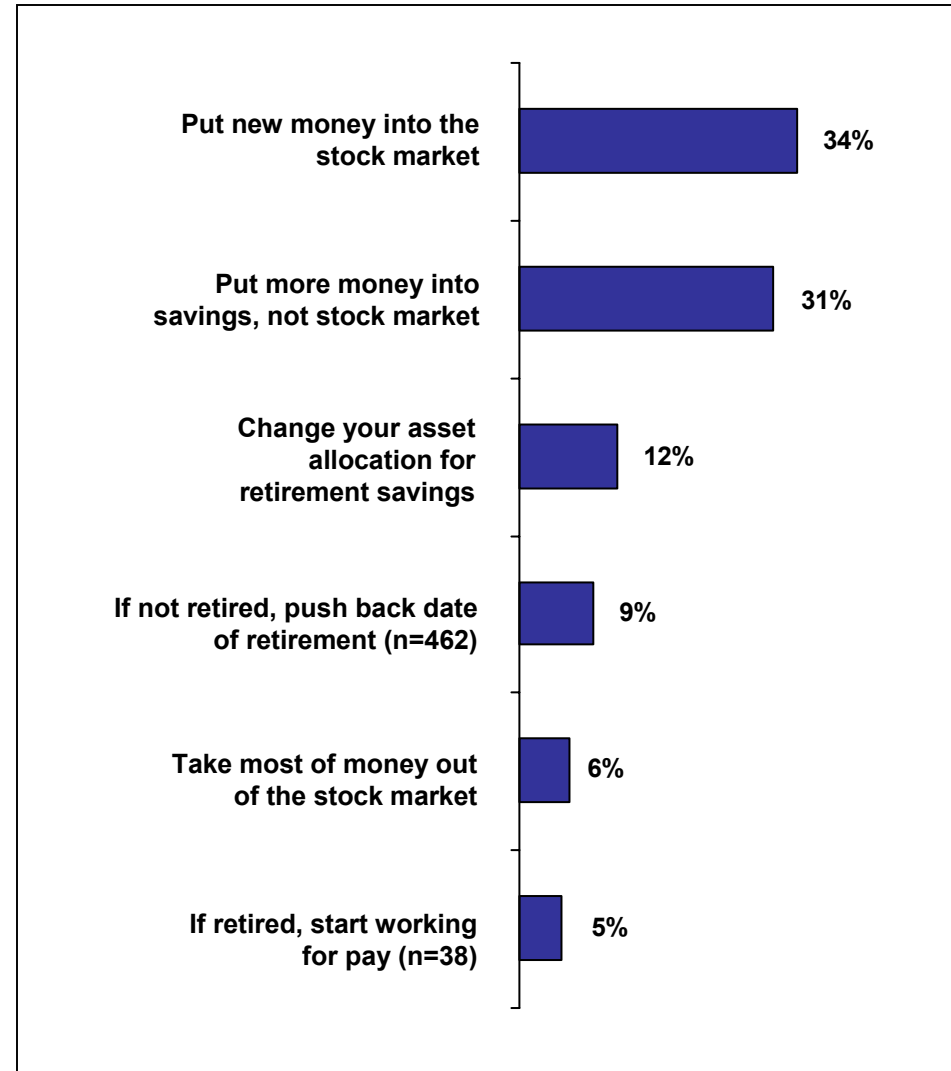
Percent With Primary Financial Advisor



Recent Stock Market Declines Prompted More Savings Behavior

- Out of five possible responses to the sharp decline of the stock market in July 2002, non-annuity owners are most likely to say they put new money into the stock market (34%) or put more money into savings other than the stock market (31%).
- A much smaller proportion report having changed their asset allocation for retirement savings (12%).
- Among the non-retired respondents, only about one in ten (9%) say they plan to push back the date of their retirement. An even smaller share of retired respondents (5%) say they went back to work.
- Only a few (6%) reacted to the stock market fall off by taking most of their money out of the market.

When the stock market dropped sharply in July of this year, some people reacted in various ways. Did you ... ?



Respondent Profile

Age, Gender and Education

Respondents were screened to be 40 to 65 years of age; their average age is 50.7 years. Just over half (52%) are male. Eight in ten (83%) have had at least some college, including 20% who hold graduate degrees.

Marital Status and Dependents

Most (87%) are married. About half (51%) provide significant financial support to someone else besides their spouse. Among those with financial dependents, most (91%) report they are children. About one in ten (9%) provide financial support to parents and 7% to other relatives.

Home Ownership

Nearly all respondents (95%) are homeowners.

Employment Characteristics

Close to three-quarters (73%) work full time and another 9% work part time. Eight percent are retired and 11% are not working for other reasons.

Income and Net Worth

Respondents were screened to have household income in 2001, before taxes, of at least \$50,000. About one-third (32%) report having household income of \$50,000 to \$74,999 and 27% report in the \$75,000 to \$99,999 range. Another third (34%) have household income of \$100,000 or more.

About one-quarter (24%) report having net worth (including the value of their home) under \$250,000. Half (50%) say their net worth is \$250,000 to \$749,999, and 17% report it is upwards of \$750,000.

Respondent Profile (continued)

	<u>Percent</u>		<u>Percent</u>
Age (n=190)		Own Primary Residence	
40 to 49 years	39%	Yes	95%
50 to 59 years	49	No	5
60 to 65 years	8	Employment	
<i>Mean</i>	<i>50.7 years</i>	Full time	73%
Gender		Part time	9
Male	52%	Retired	8
Female	48	Homemaker	7
Education		Laid off or unemployed	2
High school or less	17%	Other	2
Some college	28	Household Income	
College graduate	24	\$50,000 to \$74,999	32%
Post-graduate work	10	\$75,000 to \$99,999	27
Graduate degree	20	\$100,000 to \$149,999	20
Marital Status		\$150,000 or more	14
Married	87%	Don't know/Refused	7
Divorced, Separated or Widowed	9	Net Worth (including value of home)	
Single, Never Married	4	Under \$100,000	6%
Percent Giving Financial Support to Others	51%	\$100,000 to \$249,999	18
Person Receiving Financial Support (n=256)		\$250,000 to \$499,999	32
Children	91%	\$500,000 to \$749,999	18
Parents	9	\$750,000 to \$999,999	6
Grandchildren	4	\$1 million or more	11
Other relatives	3	Don't know/Refused	10
Other	2		