News
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A Precarious Existence: How Retirees Are Financially Faring in Retirement

New research from TCRS underscores the financial vulnerability of retirees

LOS ANGELES – December 18, 2018 – Fewer than half of retirees (46 percent) agree that they have built a large enough retirement nest egg, with only 16 percent "strongly" agreeing and 30 percent "somewhat" agreeing, according to a new survey by nonprofit Transamerica Center for Retirement Studies (TCRS).

"Retirees' circumstances regarding when and how they retired exemplify common risks: employment issues, ill-health, and financial need. They offer a cautionary tale for those currently in the workforce on the importance of maintaining good health, financial planning, and competitive job skills," said Catherine Collinson, CEO and president of Transamerica Institute and TCRS. "Retirees' experiences also underscore the need for careful planning, including contingency plans if forced into retirement sooner than expected."

A Precarious Existence: How Today's Retirees Are Financially Faring in Retirement provides detailed survey findings about their lives in retirement, financial situation, living arrangements, and plans for long-term care. Retirees are still relatively young at age 71 (median), healthy, and have a positive outlook on life. They are spending more time with family and friends (61 percent), pursuing hobbies (44 percent), traveling (39 percent), and engaging in a variety of other activities. Most are taking steps to protect their health (although they can do even more). Nevertheless, they are financially vulnerable.

A Glimpse of Retirees' Financial Vulnerability

"Many of today's retirees were forced into retirement before they were ready, which translates into fewer years earning income in the workforce – and more time in retirement," said Collinson. The survey finds that retirees are retiring at age 63 (median), with more than half (56 percent) indicating they retired sooner than they had planned. Among them, 54 percent cited employment-related reasons such as job loss, organizational changes, general unhappiness, and/or took an incentive or buyout. Forty-seven percent cited health and/or family-related reasons. Only 11 percent retired early because they had the financial ability to do so.

Retirees are getting by financially for the time-being. However, the survey finds indicators of their vulnerability:

- Sixty-six percent of retirees indicate that Social Security will be their primary source of income over the course of their retirement. Those who are currently receiving benefits started at age 62 (median), which is the earliest age that most workers can claim benefits, albeit at a permanently reduced amount.
- Retirees have an annual household income of $32,000 (estimated median). Twenty-five percent have a household income of less than $25,000, while only 15 percent have an income of $100,000 or more.
- Many are still paying off household debt:
  - Among the 45 percent of retirees who have non-mortgage debt (i.e., credit card debt, car loans, student loans, medical debt, etc.), the estimated median is $4,000.
  - Among the 28 percent of retirees who have mortgage debt (including any equity loans or lines of credit), the estimated median is $52,000.
- Given the time they have remaining in retirement, they have saved relatively little:
  - $75,000 (estimated median) in household savings including retirement savings (excluding home equity). Thirty-one percent have savings of less than $50,000, including nine percent who do not have any savings. Just 38 percent have savings of $100,000 or more.

- $79,000 (estimated median) in home equity. Forty-one percent have home equity of $100,000 or more. Twenty-two percent do not have any home equity.

"Retirees are already living within limited means and risk outliving their savings. How would they be able to cope with a financial shock such as long-term care expenses?" said Collinson.

Retirees Can and Should Be Doing More to Prepare for Long-Term Care

Many retirees are still relatively young; however, as they age their health will likely decline. In preparation, they should be planning for long-term care and formally documenting their wishes. Unfortunately, many have not done so:

- Only 45 percent of retirees are confident they will be able to afford long-term care, if needed, including 11 percent who are "very confident" and 34 percent who are "somewhat confident." Notably, only 12 percent have long-term care insurance.
- Forty-nine percent plan to rely on family and friends for long-term care in the event their health declines and they need help with daily activities and/or nursing care. Thirty percent plan to move to an assisted living community or nursing home. An alarming 24 percent do not have any plans for such care.
- When asked about the types of legal documents they have in place, a last will and testament (65 percent) is the most often cited, followed by power of attorney for healthcare or medical proxy (45 percent), and advance directives or living will (45 percent). Thirty-nine percent have a power of attorney to allow a designated individual to make *financial* decisions on their behalf. Fewer than two in five retirees have funeral and burial arrangements (36 percent), a HIPAA waiver (29 percent), or a trust (18 percent).

"Retirees may find themselves needing long-term care but unable to afford it. The likely scenario is that they will call upon their adult children to serve as caregivers, who could be putting their own employment and future retirement at risk by taking on this responsibility. Retirees who lack adequate financial resources will also put added strain on Medicaid and other support services," said Collinson. Transamerica Institute's 2017 survey of caregivers outlines the risky situation faced by family caregivers.

Lessons Learned: Insights for Future Generations of Retirees

"Some retirees could have been better at saving during their working years, while others may have done everything right and still find themselves facing a savings shortfall. When they started their careers decades ago, the retirement landscape and planning-related assumptions were very different – and they will continue to evolve. Individuals now need to do more to prepare themselves," said Collinson.

Retirees shared the following insights, which may be useful for today's workers in their preparations:

- Seventy-three percent of retirees agree they wish they would have saved more and on a consistent basis.
- Sixty-four percent wish they had been more knowledgeable about retirement saving and investing.
- Fifty percent feel they waited too long to concern themselves with saving and investing for retirement.
- Almost half (47 percent) indicate debt interfered with their ability to save as much as they needed for a comfortable retirement.
- On the other hand, two-thirds say they did as much as they could to prepare for retirement (67 percent).

"As a nation, the United States is approaching critical crossroads and we need to be asking the right questions about how to prepare our aging population for retirement. What can we do to strengthen the retirement system to help ensure that all Americans can retire with dignity? Policymakers, industry, employers, academics, nonprofits, communities, individuals and families must join together to innovate solutions. The sooner we take steps to modernize our retirement system, the sooner we can achieve positive results," said Collinson.

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About the Survey

The analysis contained in ***A Precarious Existence: How Today's Retirees Are Financially Faring in Retirement*** was prepared internally by the research team at TCRS. The online survey was conducted within the U.S. by The Harris Poll on behalf of TCRS between July 6 and 31, 2018 among a nationally representative sample of 2,043 self-identified retirees. Respondents met the following criteria: U.S. residents, age 50 or older, worked in a for-profit company employing five or more people for the majority of their career. Census data were referenced for education, age by gender, race/ethnicity, region, household income. Results were weighted where necessary to bring them into line with the population of U.S. residents age 50+ who are retired or semi-retired. The weighting also adjusts for attitudinal and behavioral differences between those who are online versus those who are not, those who join online panels versus those who do not, and those who respond to surveys versus those who do not.

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