



Insured Retirement Institute

Middle-Income Boomers and Retirement

Tapping the Significant and Underserved Middle-Income Market

August 2011

About the Insured Retirement Institute: The Insured Retirement Institute (IRI) is a not-for-profit organization that for twenty years has been a mainstay of service, commitment and collaboration within the insured retirement industry. Today, IRI is considered to be the authoritative source of all things pertaining to annuities, insured retirement strategies and retirement planning. IRI proudly leads a national consumer education coalition of nearly twenty organizations and is the only association that represents the entire supply chain of insured retirement strategies: our members are the major insurers, asset managers, broker dealers and more than 75,000 financial professionals. IRI exists to vigorously promote consumer confidence in the value and viability of insured retirement strategies, bringing together the interests of the industry, financial advisors and consumers under one umbrella. IRI's mission is to: encourage industry adherence to highest ethical principles; promote better understanding of the insured retirement value proposition; develop and promote best practice standards to improve value delivery; and to advocate before public policy makers on critical issues affecting insured retirement strategies and the consumers that rely on their guarantees. Visit www.IRionline.org today to experience the vast resources of the Insured Retirement Institute for yourself.

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Overview

Although middle-income Boomers may not be as sought-after for advisors compared to those in higher income brackets, their need for retirement income advice is significant. Many middle-income Boomers—who earn as much as \$75,000 per year—will require guidance to develop plans to provide an adequate income for their retirement needs.

In this exclusive report, IRI examines the expectations and concerns of middle-income Boomers pertaining to retirement planning, and evaluates their use—or avoidance—of financial planners. We conclude by exploring the methods and opportunities advisors may use to engage with this market segment.

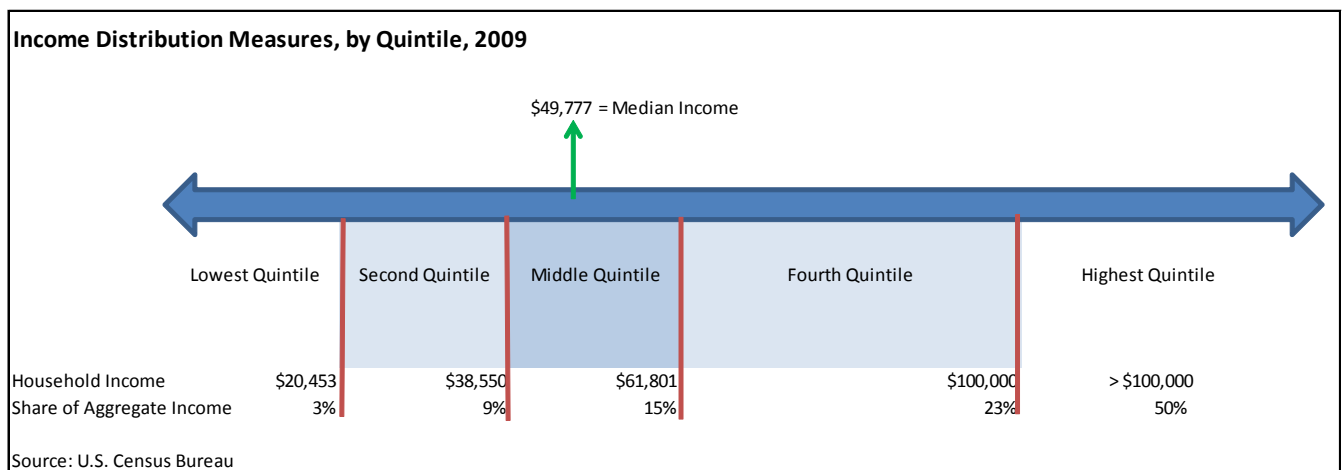
Key Findings and Analysis

- Middle-income Boomers are in need of advice on retirement planning and general investing and they have the means to invest in a variety of products.
 - More than 70% are homeowners.
 - Middle-income Boomers' median retirement account holdings range from \$11,000-\$35,000, and median stock holdings from \$9,000-\$13,000.
 - The majority (57%) have not used advisors or planners to help them coordinate their disparate finances for the long term.
- Middle-income Boomers have numerous concerns about retirement savings and income.
 - 21% have little to no confidence that they are preparing adequately for their retirement years.
 - 24% have little to no confidence in their abilities to meet general expenses in retirement, and 26% doubt their abilities to cover medical expenses.
 - 49% have not tried to determine the amount of how much money they will need to live comfortably during retirement.
 - 48% question their knowledge of investing and investments.
- When asked to identify the most important trait they look for when selecting a retirement investment product, middle-income Boomers identified principal protection (19% of respondents) and guaranteed income (17%).
- Most middle-income Boomers can expect to receive an inheritance during their lifetimes, increasing assets by approximately 30% of their current wealth. Therefore, Boomers will need guidance in incorporating a relatively large inflow into their retirement portfolios.
- The most notable reasons middle-income Boomers give for not using an advisor is that they do not believe they need one or believe they are capable of doing their own planning—despite their low self-assessments of their investment knowledge.
- Of the middle-income Boomers who have consulted a planner, most do so to seek their expertise—whether it's in building a plan or validating a plan that the Boomers have constructed themselves.

Who Are The Middle-Income?

The first step in analyzing the retirement needs of middle-income Americans is to identify the composition of this demographic segment. Unfortunately, this is not a straightforward task as there is no established definition.

Going firmly by figures released by the U.S. Census Bureau, the middle quintile (20%) of Americans has household income ranging between approximately \$38,500 and \$62,000 per year. This segment represents 15% of the share of total household income in the U.S. in 2009, the latest full year for which data is available. When we expand these parameters into the second and fourth quartiles, the result is a range of approximately \$20,500 to \$100,000, representing 60% of Americans and 47% of the aggregate income.



As many advisors are focused on clients with higher incomes and higher net worth, the middle-income segment is often overlooked. However, IRI research shows that middle-income Boomers are in need of advice on retirement planning and general investing—and, they have the means to invest in a variety of products. The majority are homeowners—more than 70% of Boomers earning between \$25,000 and \$100,000 own their residences. More than three-quarters have health insurance coverage—although, as we’ll see later, many are concerned about health care costs in retirement. Many have savings and investments, with median retirement account holdings ranging from \$11,000-\$35,000, and median stock holdings of \$9,000-\$13,000. Yet, many (57%) have not used advisors or planners to help them coordinate their disparate finances for the long term.

Additional Traits of Middle-Income Households

Home Ownership Rates (by household income)	
\$25,000-\$39,999	60%
\$40,000-\$59,999	70%
\$60,000-\$79,999	76%
\$80,000-\$99,999	83%
Percent Covered by Health Insurance (by household income)	
\$25,000-\$49,999	73%
\$50,000-\$75,000	79%
Median Amount Invested in Retirement Accounts (quintile)	
Second Quintile	\$11,000
Middle Quintile	\$19,000
Fourth Quintile	\$35,100
Median Amount Invested in Certificates of Deposit (quintile)	
Second Quintile	\$15,400
Middle Quintile	\$11,000
Fourth Quintile	\$19,800
Median Amount Invested in Stocks (quintile)	
Second Quintile	\$8,800
Middle Quintile	\$13,200
Fourth Quintile	\$11,000
Percent of Boomers Who Have Consulted a Financial Planner for Retirement (by household income)	
\$30,000-\$74,999	43%
>=\$75,000	60%

Sources: Insured Retirement Institute, U.S. Census, American Housing Survey for the U.S., Survey of Consumer Finance

For purposes of this report, our focus will be Boomer households with annual incomes between \$30,000 and \$75,000. This range consists largely of the middle quintile, and steps a bit outside of its boundaries, taking into account the impact of geographic and other factors.

The Need for Advice

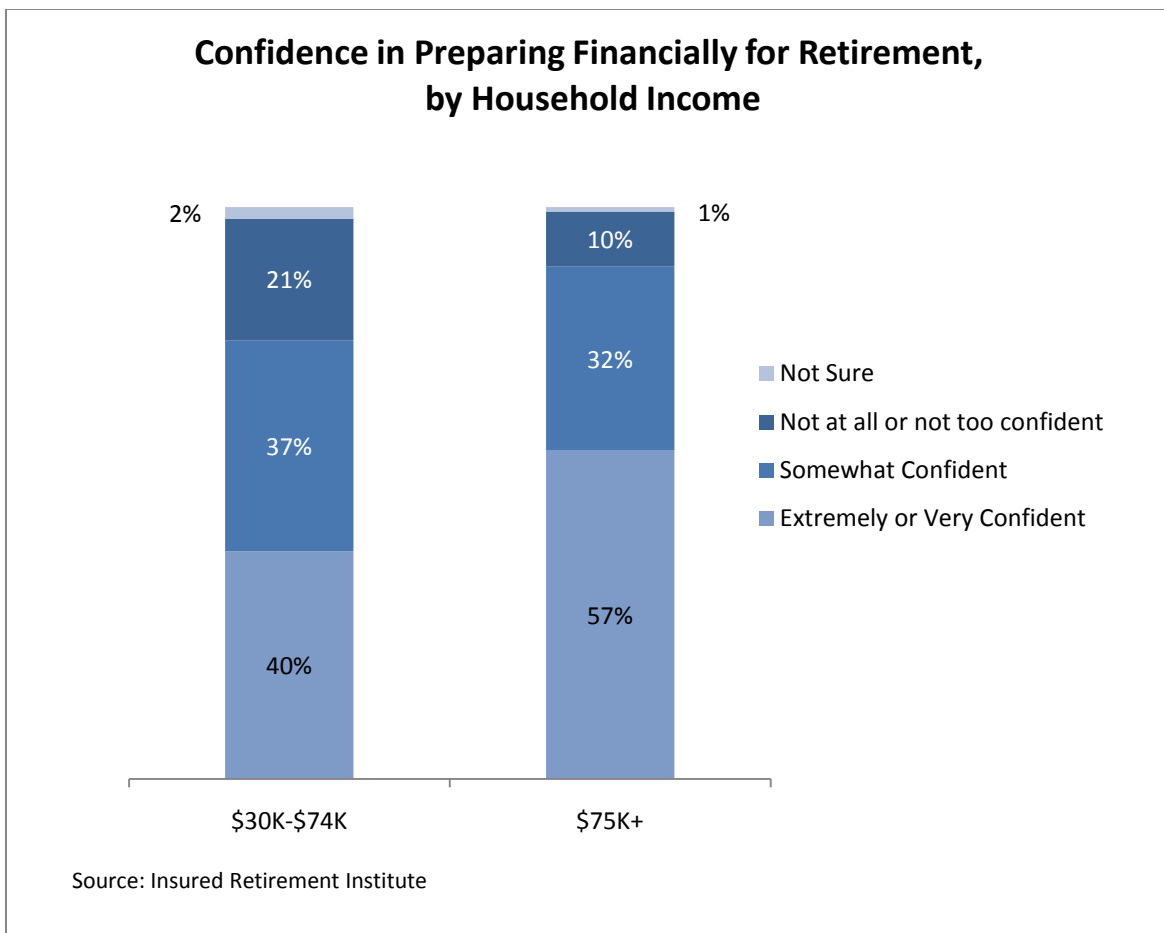
Middle-income Boomers are, compared to their higher income counterparts:

- Less confident about their abilities to meet expenses in retirement
- Less likely to determine their retirement savings needs
- More likely to count on social security and employer pensions for retirement income

- Less likely to question their knowledge of investing and investments
- More likely to value guaranteed income and principal protection in a retirement investment
- Less likely to consult a financial planner

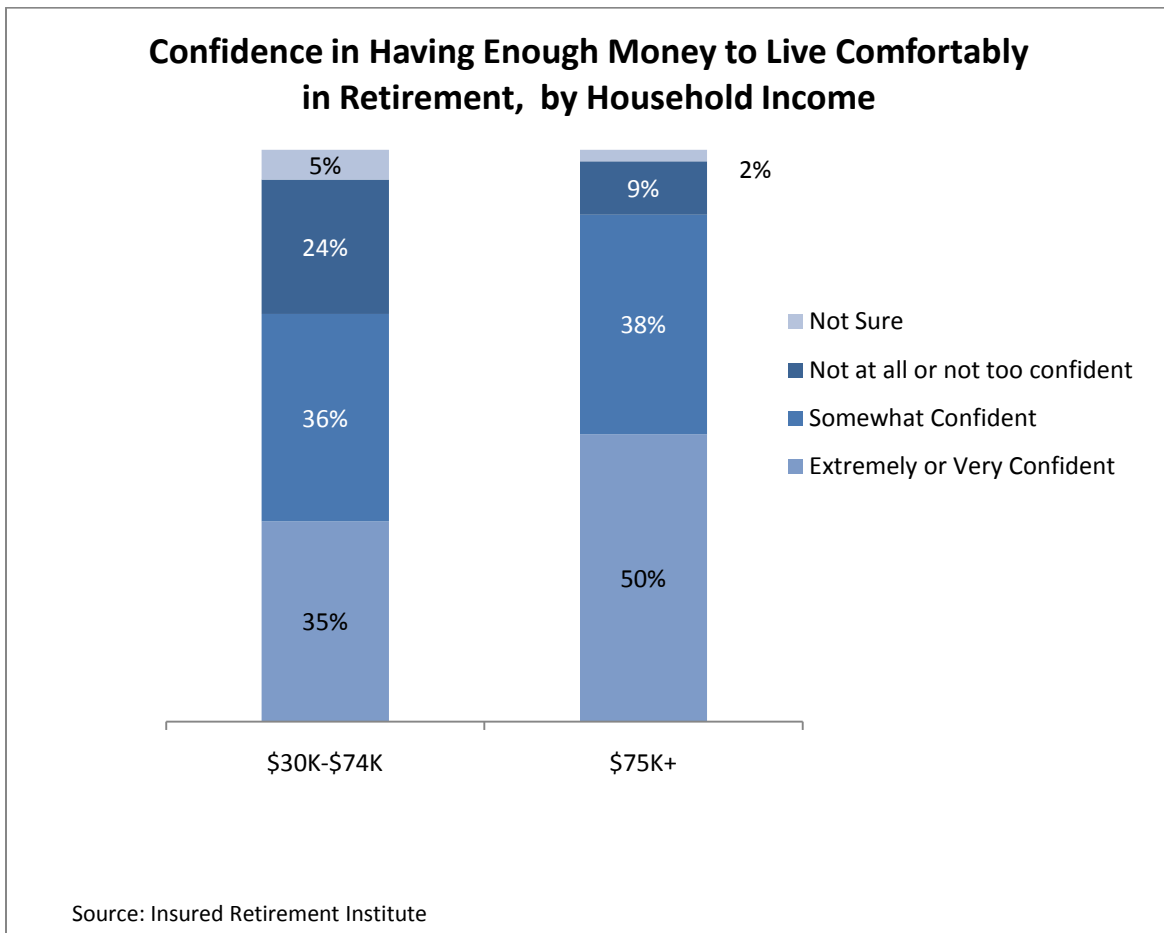
Retirement Confidence

Middle-income Boomers have concerns regarding the planning they have done for retirement. According to our survey, nearly one-quarter of Boomers with household incomes between \$30,000 and \$75,000 have little to no confidence that they are preparing adequately for their retirement years. This is nearly twice the rate of Boomers in higher income bands. Additionally, only 40% of middle-income Boomers expressed confidence in their retirement planning thus far, compared to nearly 60% of wealthier Boomers.



It follows, therefore, that middle-income Boomers are less confident about their abilities to meet expenses in retirement. Approximately one-third of middle-income Boomers have little to no confidence in—or don’t know about—their likelihood to live comfortably throughout their retirement years. This compares to just 11% of Boomers in higher income bands. Similarly, while half of wealthier Boomers expressed a high degree of confidence, only 35% of middle-income

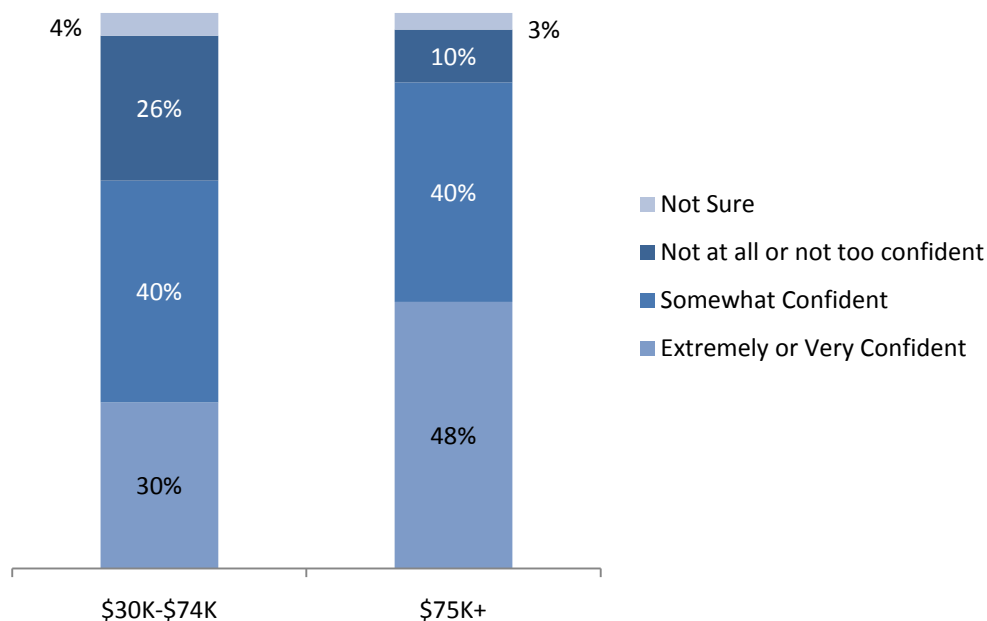
Boomers gauged their own prospects for having enough saved for retirement as extremely or very likely.



Middle-income Boomers have every reason to be concerned. Research from the Employee Benefit Research Institute (EBRI) shows that 51% of households in the second income quartile, and 35% in the third income quartile, are at risk of having insufficient resources to cover basic expenses and uninsured health costs. (See Jack VanDerhei and Craig Copeland, “The EBRI Retirement Readiness Rating™: Retirement Income Preparation and Future Prospects,” EBRI issue Brief, no. 344 (July 2010). Additionally, one in five households in the second quartile are expected to be unable to cover 80% of these expenses.

Medical expenses during retirement are another area of concern. Although most middle-income Americans presently have health insurance, this is likely to change during retirement, and many will need to determine how to fund these costs. According to the Center for Retirement Research at Boston College, out-of-pocket medical expenses for those covered by Medicare are expected to exceed \$4,300 per person and \$8,600 per couple per year. The amount needed by today’s 65-year-old couple, currently in good health, to pay for healthcare and long-term care during their remaining lifetime is \$260,000—and these costs are expected to rise.

Confidence in Having Enough Money to Take Care of Medical Expenses in Retirement, by Household Income



Source: Insured Retirement Institute

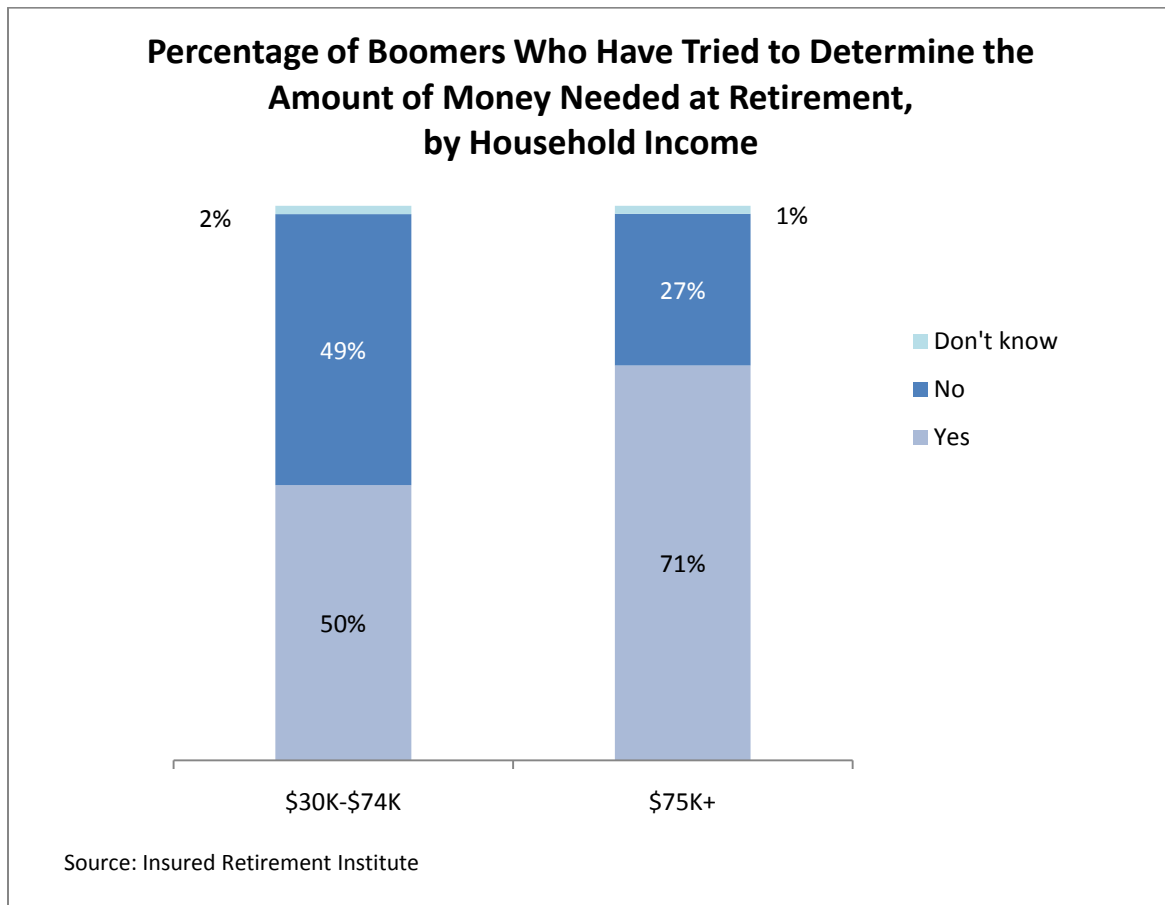
Boomers’ obligations are also a significant factor in ensuring they will be able to save enough for their retirement years. A recent report from the AARP Public Policy Institute estimates that Boomers who leave the workforce to take care of an aging parent lose roughly \$138,000 in Social Security benefits and at least \$50,000 in pension benefits. Whether they remain in the workforce or not, out-of-pocket costs for the care of family members can be a financial challenge. The report found that these expenses can amount to more than 10% of annual income on average—and up to 20% of income for those earning less than \$25,000 per year.

All of the above underscore the need for middle-income Boomers to start taking the necessary steps towards financial security in retirement. As we will see next, however, few have yet to do so.

Determining Retirement Needs

An early, as well as recurring, step in preparing for retirement is determining the amount of assets that one needs to save. Understandably, embarking on this process is daunting—yet middle-income Boomers are lagging their higher income counterparts in this regard. One-half of middle-income Boomers have not taken the time to determine how much money they will need to have amassed at

retirement in order to live comfortably during retirement. In contrast, only one-quarter of higher-income Boomers have not done so.



There are several reasons for this discrepancy, many of which present opportunities for advisors. Nearly half (48%) of middle-income Boomers expect that Social Security will comprise a major part of their cash inflow during retirement, undoubtedly influencing their perceived need to start saving on their own. Even if Social Security should turn out to be a major source of retirement income, advisors can play a key role in helping middle-income clients retirement strategies pertaining to Social Security. For example, advisors can counsel their middle-income clients on the timing of Social Security payments (as early payouts can result in lower amounts of income over time) and coordination with any other benefits to which their clients may be entitled. Additionally, most middle-income Boomers will need to rely on personal savings and investments, and advisors can help build a portfolio of investments that complement Social Security to meet the clients' goals.

Similarly, a large number of Boomers expect to rely largely on employer-provided defined benefit or defined contribution plans. Although this is also the case among higher-income Boomers, it is the middle-income that is at greater risk of failing to meet their retirement income goals through these plans. According to EBRI, the median 401(k) balance for participants in their 50s earning between \$40,000 and \$60,000 per year is approximately \$81,000, or less than two times present income.

Advisors can help middle-income participants determine drawdown strategies for their 401(k) balances, and also recommend outside investments to supplement these payouts.

Boomers' Anticipated Major Sources of Retirement Income, by Household Income

	Household Income		
	<\$30K	\$30K-\$74K	\$75K+
Social Security	68%	48%	24%
Employer-sponsored retirement plans			
A traditional employer-provided pension	22%	38%	45%
An employer-sponsored retirement savings plan, such as a 401(k)	14%	36%	49%
A lump sum distribution from an employer-provided cash balance	9%	6%	10%
Personal savings and investments			
Money from an individual retirement account (IRA)	15%	23%	32%
Personal investments	10%	21%	36%
Personal savings	9%	18%	19%

Personal investments include mutual funds, bonds, stocks, stock options, or annuities, not investments in a work-related retirement plan or IRA.

Personal savings refer to money in a non-investment savings bank account.

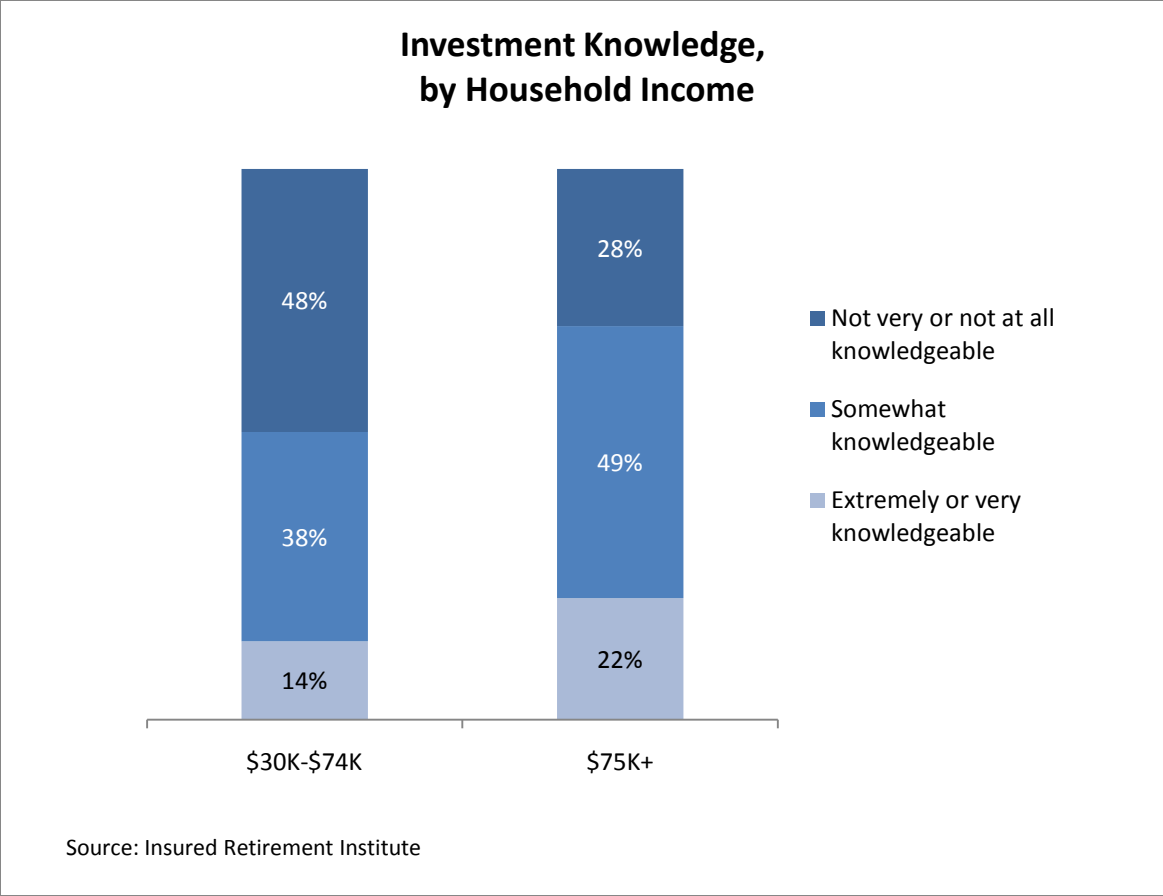
Survey population: Americans currently age 50-65.

Source: Insured Retirement Institute

Another reason that so many middle-income Boomers have not determined their financial savings needs for retirement is that relatively few (21%) expect personal investments to play a large role during retirement. This is also reflected in their savings behavior. Although, as noted earlier, middle-income Boomers have the means to invest, many are not doing so to a large degree. According to EBRI, nearly half of all workers (46%) have less than \$10,000 in savings, excluding the value of primary residence or defined benefit plans. Two-thirds have saved less than \$50,000. IRI contends that unfamiliarity with investments contributes to this low figure, and that, therefore, this is a gap that advisors can help fill.

Investing

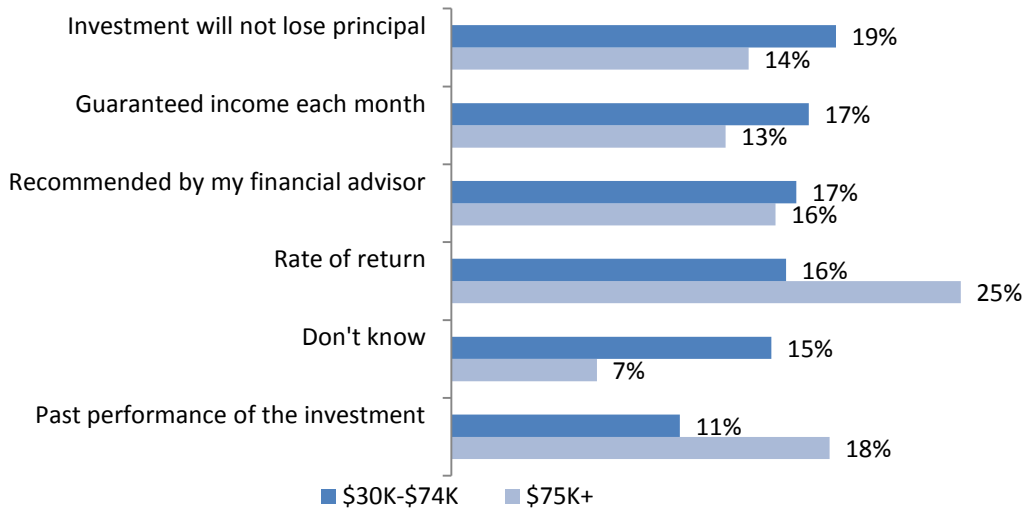
By their own admission, middle-income Boomers do not understand the ins and outs of investing. Roughly one-half (48%) of middle-income Boomers surveyed by IRI stated that they had little to no knowledge of investing, and only 14% felt they were savvy about investing. In contrast, 28% of Boomers who earn at least \$75,000 annually question their investment knowledge.



Yet, this doesn't stop many middle-income Boomers from investing on their own. Our survey revealed that 20% of middle-income Boomers invest by themselves, and one-third invest through retirement plans at their places of employment. (These figures are not mutually exclusive.) We will see later that many middle-income Boomers do not feel they need an advisor—however, as two-thirds of Boomers in this income band do not feel confident in their ability to invest, and many are concerned about retirement income and expenses, IRI contends that Boomers need to rethink this position.

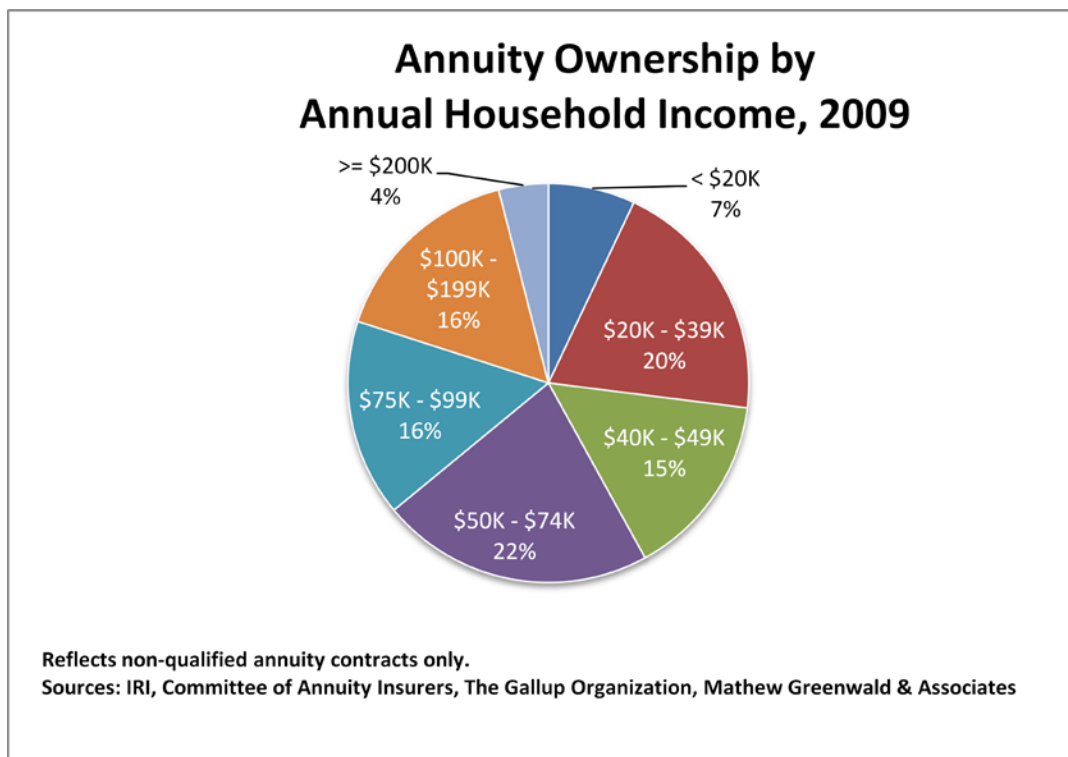
Even so, middle-income Boomers have some ideas as to the attributes they seek in a retirement investment. When asked to identify the most important trait they look for when selecting a retirement investment product, middle-income Boomers were more likely than higher-income Boomers to identify principal protection (19% of respondents) and guaranteed income (17%).

Most Important Traits of Retirement Investment, by Household Income



Source: Insured Retirement Institute

These preferences are also evident when studying the composition of annuity owners. According to data compiled by Mathew Greenwald & Associates and the Gallup Organization, 80% of households that own non-qualified annuities have incomes less than \$100,000 and nearly two-thirds earn less than \$75,000. Applying the parameters discussed earlier, households that earn between \$20,000 and \$100,000 annually comprise 73% of annuity owners.



Investment performance is of lesser consideration to them than it is to higher-income Boomers. Additionally, 15% do not know what they seek in a retirement investment, indicating that guidance is needed.

The Role of Inheritance

An important consideration for Boomers as they plan for their later years is a sudden rise in assets due to an inheritance. This issue is quantified in the report, The MetLife Study of Inheritance and Wealth Transfer to Baby Boomers, conducted by the Center for Retirement Research at Boston College in December 2010. Among the report's findings:

- Two-thirds of Boomers will receive an inheritance during their lifetimes.
- An estimated \$8.4 trillion is expected to pass via bequest to Boomers, of which \$2.4 trillion has already been received and \$6.0 trillion is anticipated.
- *Inter-vivos* (gifts made during the donor's lifetime) are estimated to raise this total amount to \$11.6 trillion.
- The average inheritance per Boomer is an estimated \$64,000; for middle-income Boomers, the range is \$100,000-\$200,000.
- The mean lifetime inheritances for middle-income Boomers will amount to approximately 30% of their current wealth.

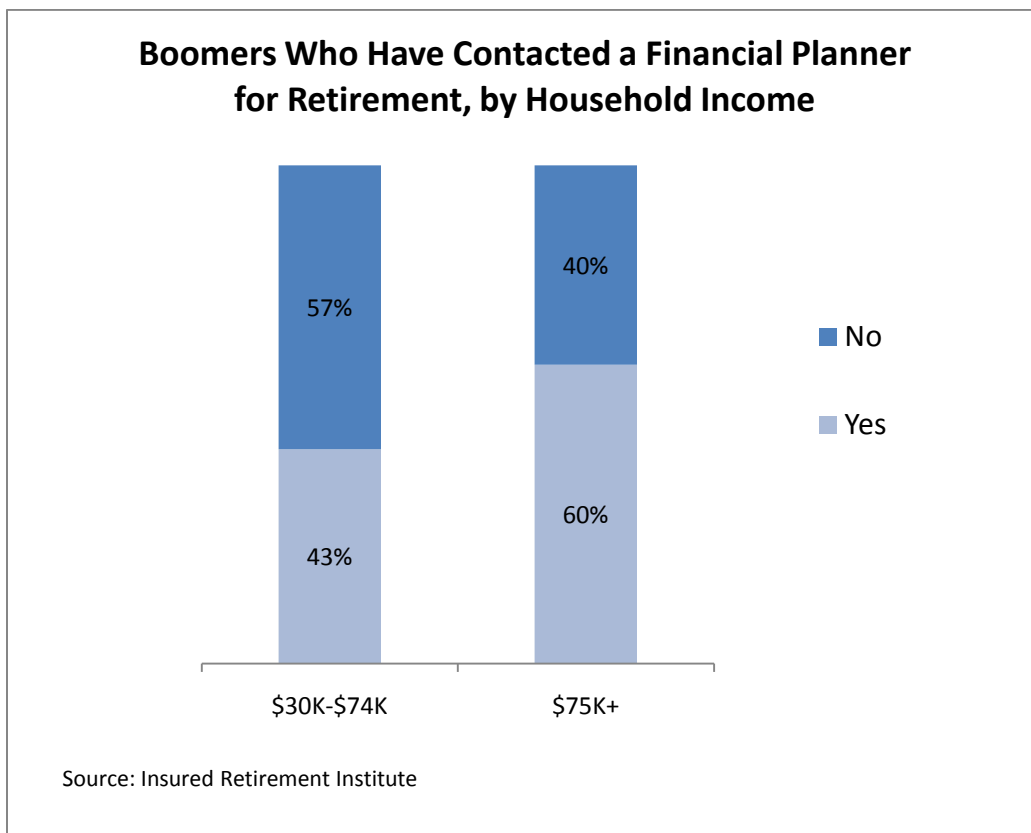
Even so, the MetLife report and several others (including AARP and New York Life) emphasize that Boomers should not count on a potential inheritance to get them through their retirement years. One of the reasons cited is that the levels of inherited assets have only minimal impact on the

overall assets needed for retirement. Another is that bequests will likely occur during the later years of Boomers' retirements, owing to the improved longevity of older generations.

IRI data shows that this latter message is resonating with Boomers. Nearly three-quarters (72%) of middle-income Boomers do not expect an inheritance to be a source of income in retirement. Still, 23% expect a bequest to comprise a small part of their retirement income. For this reason, along with the strong likelihood that Boomers will receive a modest inheritance and that middle-income Boomers have low self-assessments of their investment expertise, IRI contends that guidance will be needed to incorporate bequests into the retirement portfolios of middle-income investors.

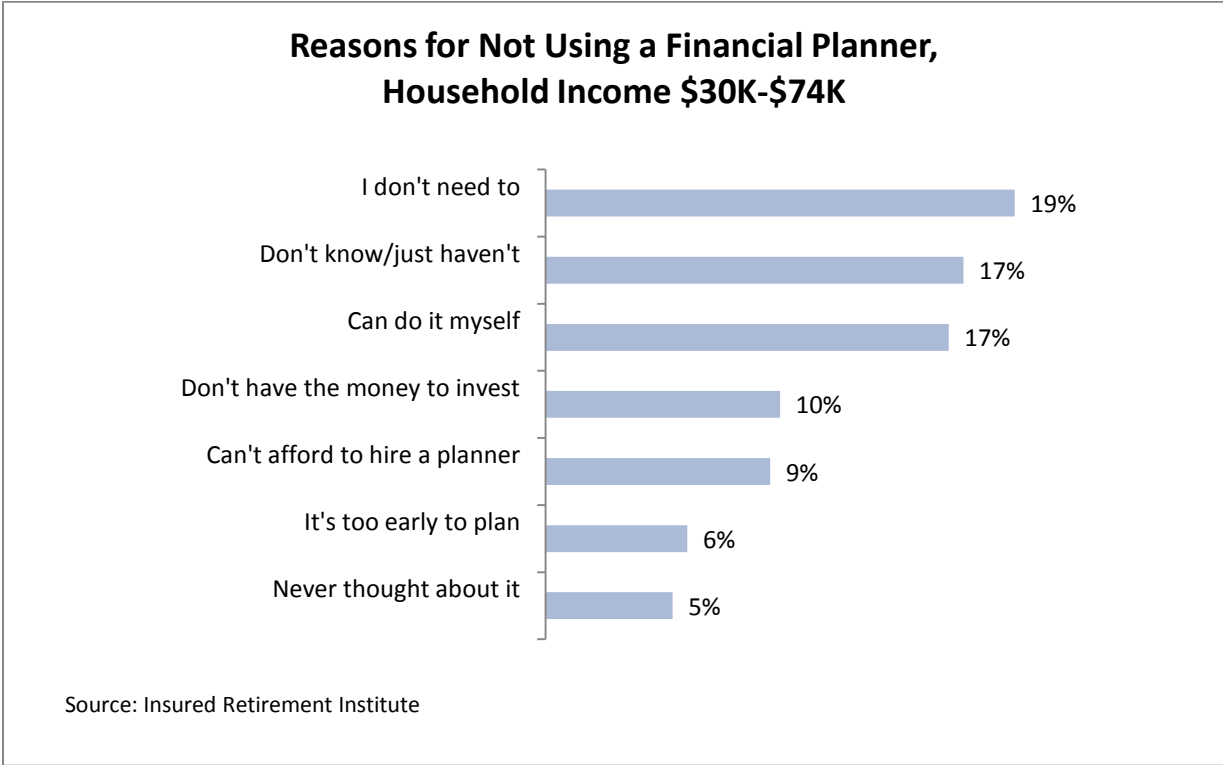
Advisor Engagement with Middle-Income Clients

As stated earlier, relatively few middle-income Boomers have consulted a financial planner for guidance in preparing for retirement. Only 43% of Boomers who earn at least \$30,000 but less than \$75,000 annually have contacted an advisor, compared to 60% of higher income Boomers.



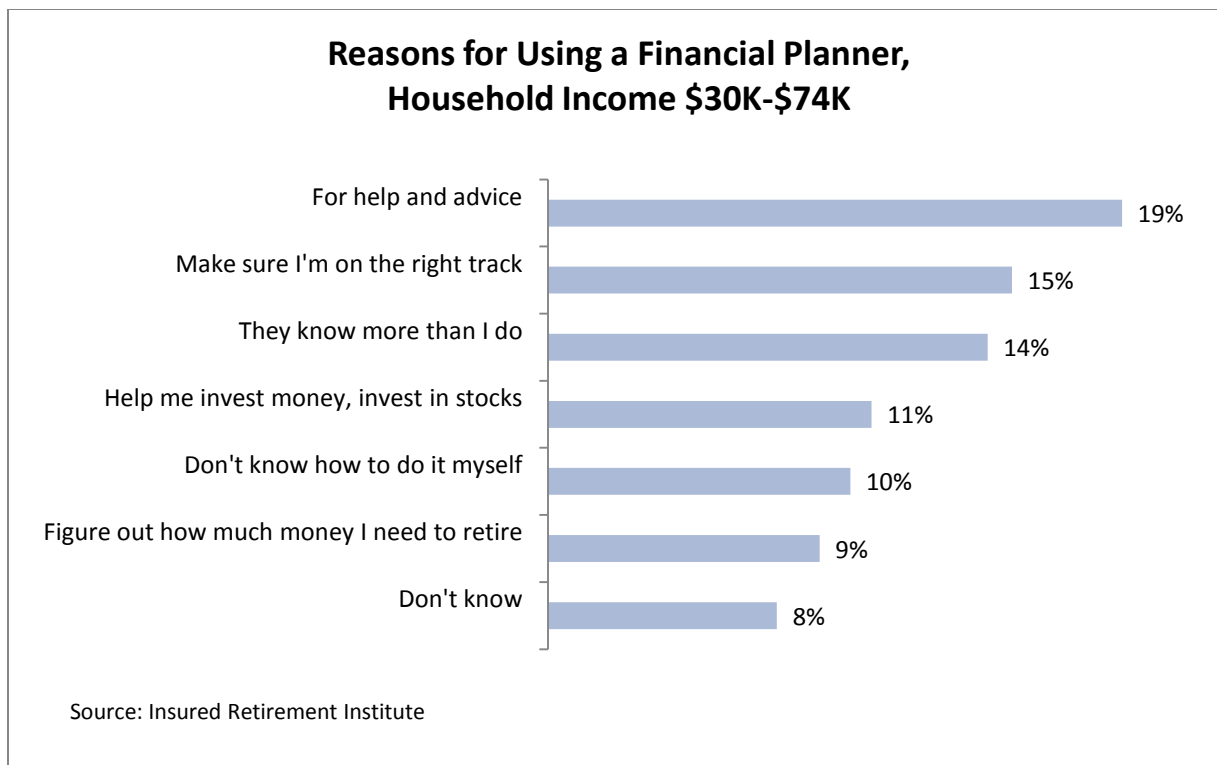
Given the challenges faced by middle-income Boomers in preparing for retirement, the expertise of an advisor should, theoretically, be welcomed. Yet, there are a variety of reasons that middle-income Boomers do not use advisors—most notably, they don't believe they need one or believe they are capable of doing it themselves.

As noted earlier, this position is inconsistent with middle-income Boomers' self-assessments of their investment knowledge. Procrastination is another reason given for not using an advisor, as is the belief that advisors are too expensive.



Getting middle-income Boomers open to the idea of using an advisor will depend upon the industry's ability to convey the positive aspects that advisor usage can bring. To begin, we examine the reasons that middle-income Boomers who use advisors have made that decision. Most turn to planners to seek their expertise—whether it's in building a plan or validating a plan that Boomers have constructed themselves. The validation aspect, in particular, is one that can resonate with Boomers who are of the do-it-myself mindset as it gives them more empowerment in deciding how to meet their goals.

Another enticing argument is that Boomers who have consulted with a financial planner are more likely to be confident about their retirement security than those who have not. IRI research conducted earlier this year concluded that 90% of Boomers who use planners believe they are doing a good job in preparing financially for their own retirement, compared to 63% of those who do not use planners.



For the most part, the dynamics of working with middle-income clients is not much different for advisors than working with any client. A multi-step client engagement process that emphasizes planning, discovery, implementation, and monitoring is employed just as for wealthier clients. Yet, monitoring becomes of greater importance as there is typically less wiggle room than there is for clients with greater financial assets. And, as reported in the June 6, 2011, issue of [Financial Planning](#), fees can be affordable given that many of the plans are simple and that the advisor does not need a large staff to fully serve this clientele.

Conclusion

The middle-income market remains a significant untapped market for the delivery of retirement planning services by financial planners. Middle-income Boomers are not confident about their retirement savings and do not consider themselves knowledgeable about investing; yet, they do not actively seek guidance from advisors.

Reaching middle-income Boomers will be a dual challenge. First, these clients need to be convinced that professional guidance will be beneficial. Second, advisors need to be convinced that the middle-income market is worth pursuing.

The reluctance by the middle-income to use advisors boils down to two key factors—independence and indifference. To the first point, many Boomers are accustomed to having primary responsibility for other financial aspects of their lives, and see retirement no differently. The expectation that of

government- and employer-sponsored retirement plans will see them through retirement certainly lessens the critical need for Boomers to take charge here. Further, many Boomers are expected to be the beneficiaries of inheritances, giving them access to a large sum of money at once with no clear direction on how to incorporate it into their planning. Yet, using an advisor does not mean giving up control, a fact that needs to be better communicated. Additionally, it needs to be communicated that many advisors offer Web-based tools, enabling Boomers to manage their finances while still having access to a professional, as needed.

Financial advisors may not fully realize the opportunities in working with middle-income Boomers. Although middle-income clients, obviously, have lower levels of investable assets, they still have significant investment needs. Boomers have many questions—for example, in what products should they invest (and for how long), how to protect loved ones, how to integrate Social Security with other sources of retirement income, and how to invest inheritances. They also need answers to the critical questions they are not asking, such as the tax implications of these decisions. The opportunities for advisors within the middle-income market are significant, and advisors would be remiss in discounting this large segment of the population. In any case, taking the first step toward planning for retirement is daunting, and the financial services industry needs to continue to implement and support educational and outreach programs as means to facilitate this process.

Methodology

The data in this report is derived from both proprietary and secondary sources. The Insured Retirement Institute (IRI) commissioned Woelfel Research, Inc. to conduct a survey of individuals approaching retirement or who have recently retired. The research was conducted by means of telephone interviews with 801 adult Americans aged 50-65. The sample was selected from a list of households in this age group, developed by Accudata, Inc. by compiling data from available sources such as motor vehicle records. Results were weighted by age and gender to the 2005-2009 American Community Survey population from the United States Census Bureau. Data was collected from February 18-22, 2011, and analyzed and cross-referenced by IRI in March through July 2011. The margin of error for the sample of 801 was $\pm 3.5\%$.

Supporting data was derived from the **2011 IRI Fact Book**, EBRI, AARP, Mathew Greenwald & Associates, the Gallup Association, and various government sources (including the U.S. Census Bureau and the Survey of Consumer Finance).