SOCIETY OF ACTUARIES®

2019 ANNUAL MEETING & EXHIBIT

October 27-30
Toronto, Canada

Session 088: Financial Perspectives on Aging and Retirement Across the Generations

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Session 088: Financial Perspectives on Aging and Retirement Across the Generations

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- Do not discuss what you or other entities plan to do in a particular geographic or product markets or with particular customers.
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- Do alert SOA staff and/or legal counsel to any concerning discussions
- Do consult with legal counsel before raising any matter or making a statement that may involve competitively sensitive information.

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Agenda

- Background and Methodology
- Key Findings and Summary by Generation
- Financial Priorities and Behaviors
- Retirement Savings and Planning
- Financial Fragility
- Millennials and Financial Security
- Researchers' Perspective
- Conclusions

Background and Methodology

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Current Environment and Context

- Major shift: DB to DC
- Financial literacy challenges
- Many Americans: limited access to unbiased financial advice except linked to employee benefits
- Big increases over time: college costs, student loans, and housing
- Great Recession impacted many careers – especially Millennials
- Massive technology changes: different effect on different generations
- Demographic shifts: life spans, family structures, number of children

SOA Research on Public Knowledge/Perceptions

- Generational survey (2018) builds on 20 years of prior SOA work
- Long term program goal: Understand and improve post-retirement risk management
  - Focus on middle-income market
  - Many lack adequate assets to maintain living standard in retirement
  - Decisions will require trade-offs on living standards
- Focus on multiple stakeholders
- Builds on prior work:
  - Started biennial Risk Survey in 2001 and added focus groups in 2005, 2013 and 2015
  - Survey, focus groups and interviews with those over 85 added in 2017 and 2018

SOA Generational Survey

- Sponsored by the Society of Actuaries' Aging and Retirement Strategic Research Program
- Survey Focuses on
  - Financial priorities and strategies with emphasis on retirement planning
  - Five generations: Millennials, Gen X, Early Boomers, Late Boomers, and Silents
- Research Goals are
  - Understand differences and similarities by generation
  - Understand how younger generations are doing vs. earlier generations
  - Help improve retirement security and help stakeholders improve their offerings
  - Define and understand financial fragility and compare across generations

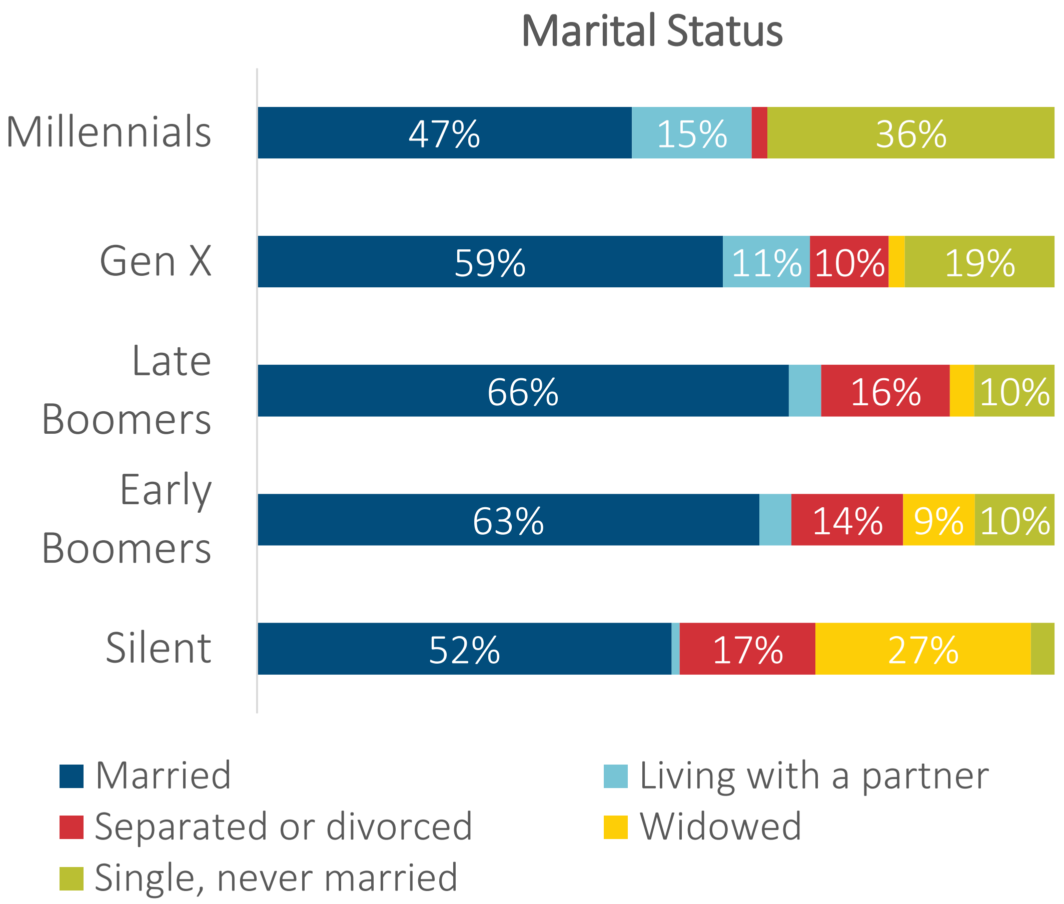
The Survey Methodology

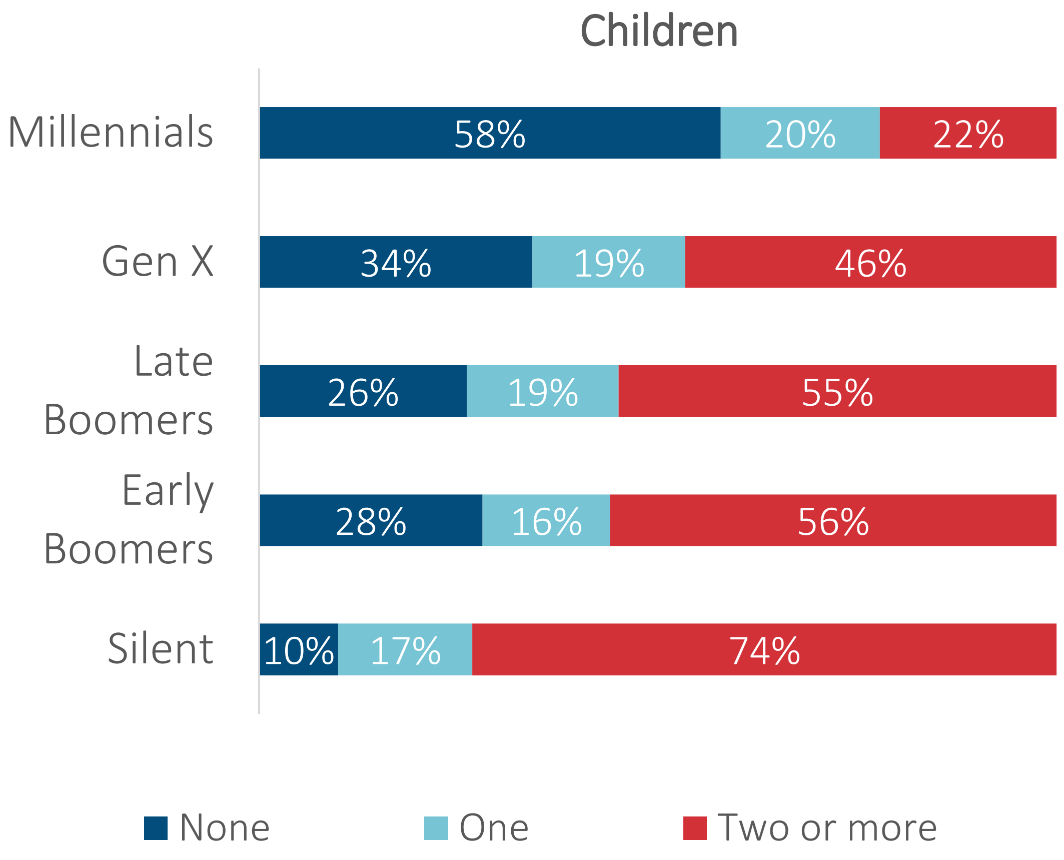
- Online survey (conducted July 17 - July 27, 2018)
- Used Research Now panel
- Conducted by Greenwald & Associates for Society of Actuaries
- Sampled 2001 individuals, about 400 per generation
- Five generations: Millennials, Gen X, Early Boomers, Late Boomers, and Silents
- Early and Late Boomers separated: different opportunities through their careers
- Recognizes key issues that surfaced in earlier SOA work including family, planning horizon, debt

The Survey Reports

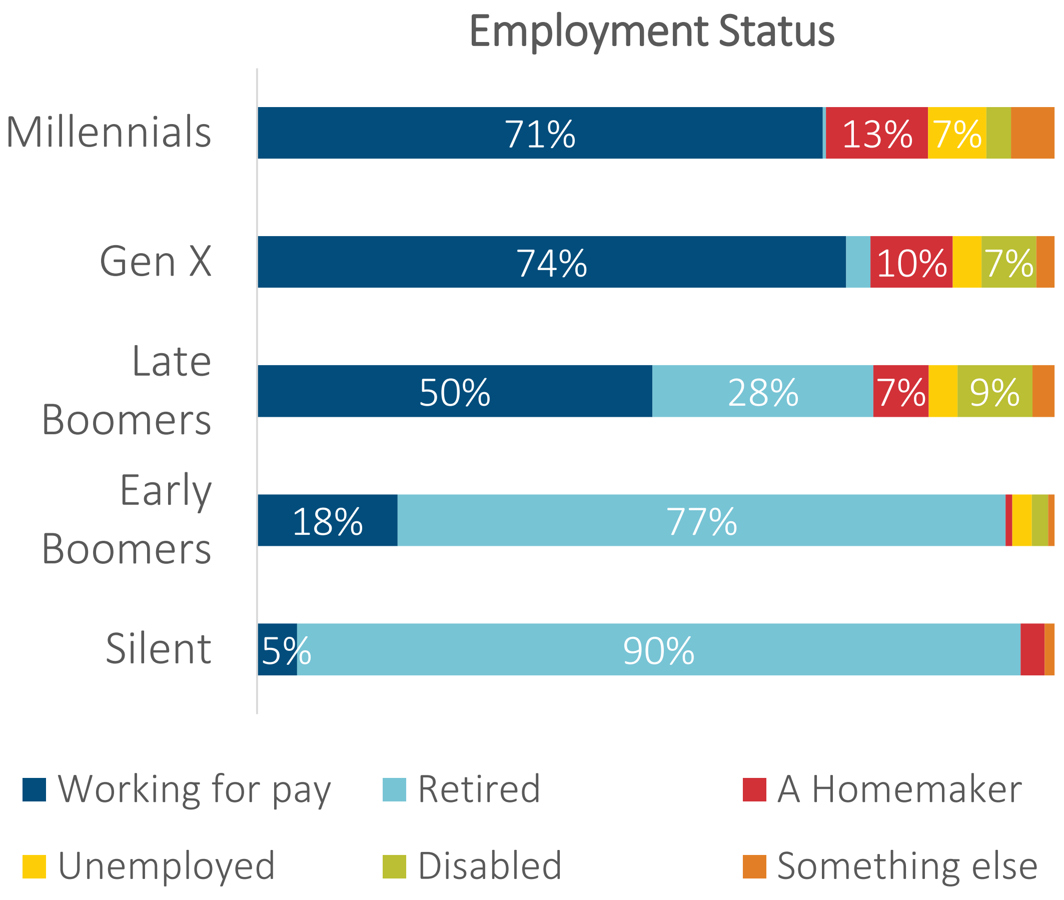
- Full report and posted questionnaire:
  - Financial Perspectives on Aging and Retirement Across the Generations
  - Posted Questionnaire and Results
- Six short reports on specific topics:
  - Difficulty in Gaining Financial Security for Millennials
  - Financial Priorities, Behaviors and Influence on Retirement
  - Family Obligations Across Generations
  - Financial Risk Concerns and Management Across Generations
  - Financial Fragility Across the Generations
  - Relationship of Marital Status to Financial Priorities of Five Generations of Americans
- All reports at https://www.soa.org/research-reports/2018/financial-perspectives-aging-retirement/

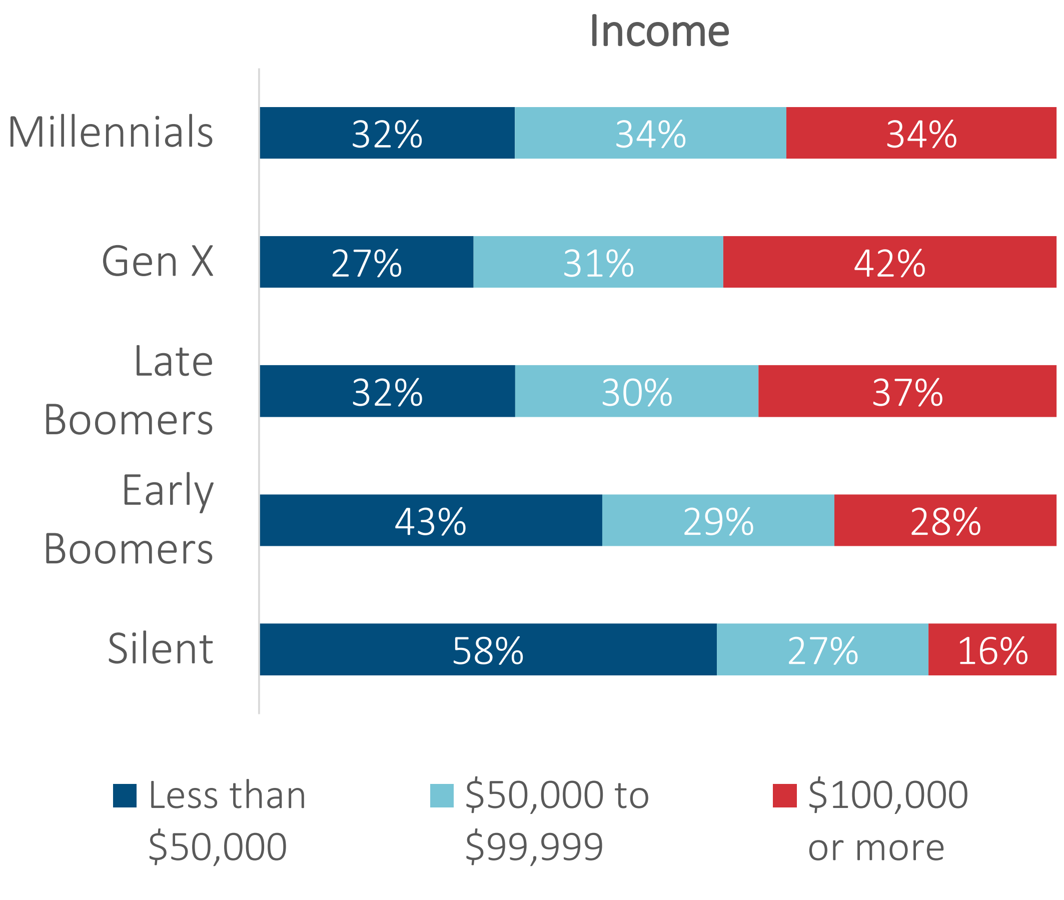
Respondent Demographics





Respondent Demographics





Key Findings and Summary by Generation

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Key Findings: Overall

- More similarities than differences across the generations
- All generations
  - Retirement savings important
  - Many people do not have adequate emergency fund
  - Family relations are important and members need to help each other
- Most fragile have key common issues throughout generations
- Financial planning time horizons: often too short but lengthen for older generations
- Millennials face greater challenges than earlier groups: Great Recession and student loans are drivers

Definition of Generations

- Initial methodological decision – defining and choosing generations
- Different sources use varying definitions of Generations
- For purposes of survey defined by ages in 2018:
  - Millennials (ages 20-38), (birthyears: 1980 -1998)
  - Gen Xers (ages 39-53), (birthyears: 1965-1979)
  - Late Boomers (ages 54-63), (birthyears: 1955-1964)
  - Early Boomers (ages 64-72), (birthyears: 1946-1954)
  - Part of Silent Generation (ages 73-83), (birthyears:1935-1945)
- Early and Late Boomers separated: different opportunities through their careers, etc.

Highlights: Millennials (Age 20-38)

- Struggling to establish themselves financially
- Majority not married and do not have children
- Highest level of financial fragility: 26% high financial fragility and 35% moderate financial fragility
- Very short planning horizon: 64% say 12 months of less
- Face financial pressures: payoff student loans and credit card debt, build emergency fund, save for a home
- Feelings when considering finances: Millennials most likely to feel overwhelmed: 29% of males and 51% of females (much greater than other generations)

Highlights: Gen X (Age 39-53)

- Family status: 59% married and 66% have children
- More confidence than Millennials and more focus on longer term
- More focus on retirement
- Few report student loans
- Lower level of financial fragility: 24% high financial fragility and 24% moderate financial fragility
- 11% are employed, laid-off or disabled

Highlights: Late Boomers (Age 54-63)

- Majority focusing on and nearing retirement
- Planning horizon: 51% say 3 years or more
- Family status: 66% married and 74% have children
- Targeting investments to grow their money
- Less fragile than younger groups: 13% high financial fragility and 26% moderate financial fragility

Highlights: Early Boomers (Age 64-72)

- 75% are retired
- Most better financially and least likely to be financially fragile
- Marital status: 90% married or previously married
  - 66% married
  - 14% divorced or separated
  - 9% widowed
- Most likely to be working with an advisor
- 60% can afford an unexpected expense of $10,000

Highlights: Silents (Age 73-83)

- Almost all are retired
- Marital status: 97% married or previously married
    - 52% currently married
    - 17% divorced or separated
    - 27% are widowed
- Group is 55% female and widowed group is heavily female
- Higher level of confidence than younger groups

Financial Priorities and Behaviors

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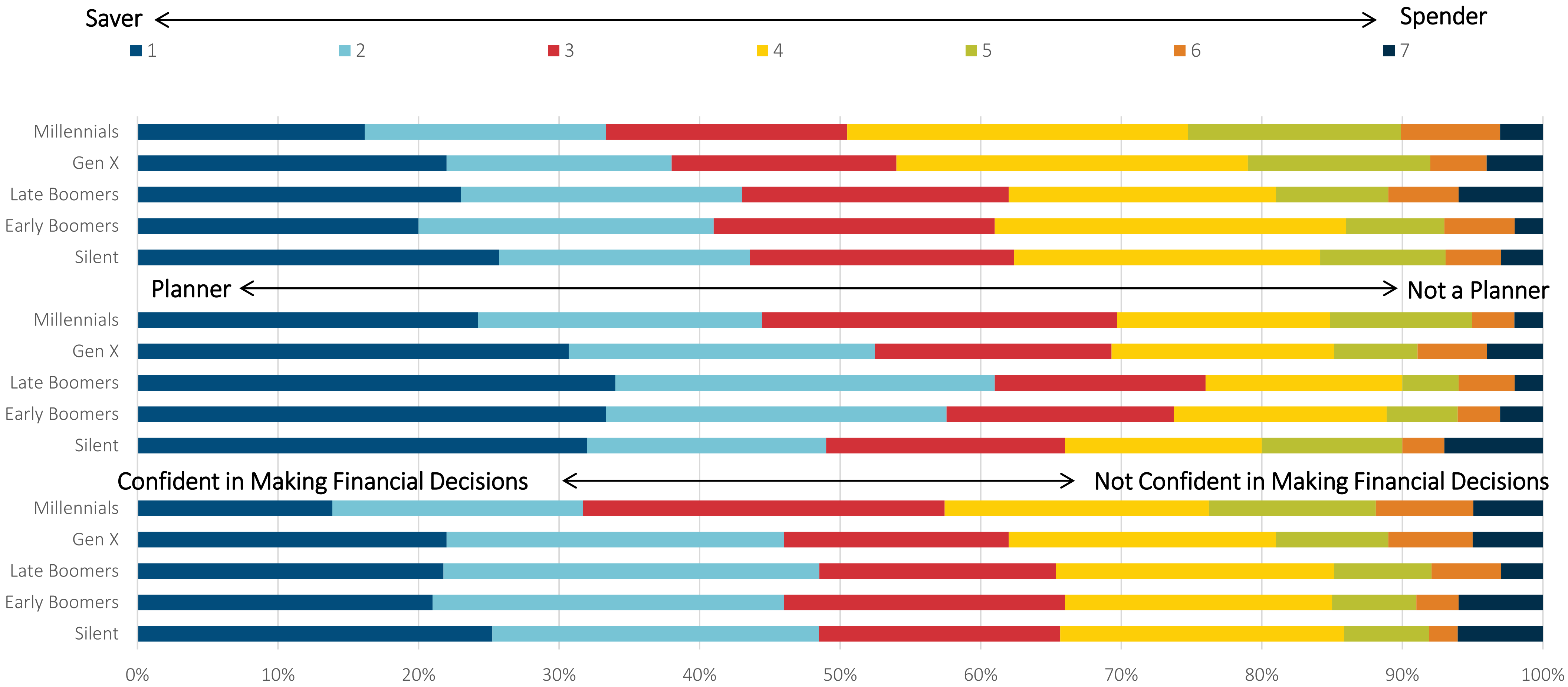
Key Findings

- All generations
  - See themselves more as savers then spenders, but older generations say so more
  - See themselves as thrifty, but older generations say so more
  - About half are budget-driven
  - Most individuals consider themselves planners
  - About half of each generation enjoy managing their finances
  - Few consider themselves investment pros
  - More optimistic than pessimistic, with 45% seeing themselves as optimistic
- Millennials
  - Focused on paying off student loans and home buying
  - More likely to feel overwhelmed

Key Findings (continued)

- Biggest financial priorities
  - All generations: being able to afford everyday bills
  - Groups not yet retired: saving for retirement and building emergency fund
- Paying off credit card debt is a top priority for youngest and oldest
- Planning varies a great deal
  - Some plan only paycheck-to-paycheck and more than ¼ in each generation plan for 3 months or less, with half of Millennials planning for three months or less
  - More than half of Silents and Late Boomers plan for 10 years or more
  - Only 17% of Millennials plan for 10 years or more
- Confidence in making decisions increases with age
  - Some people are probably over confident

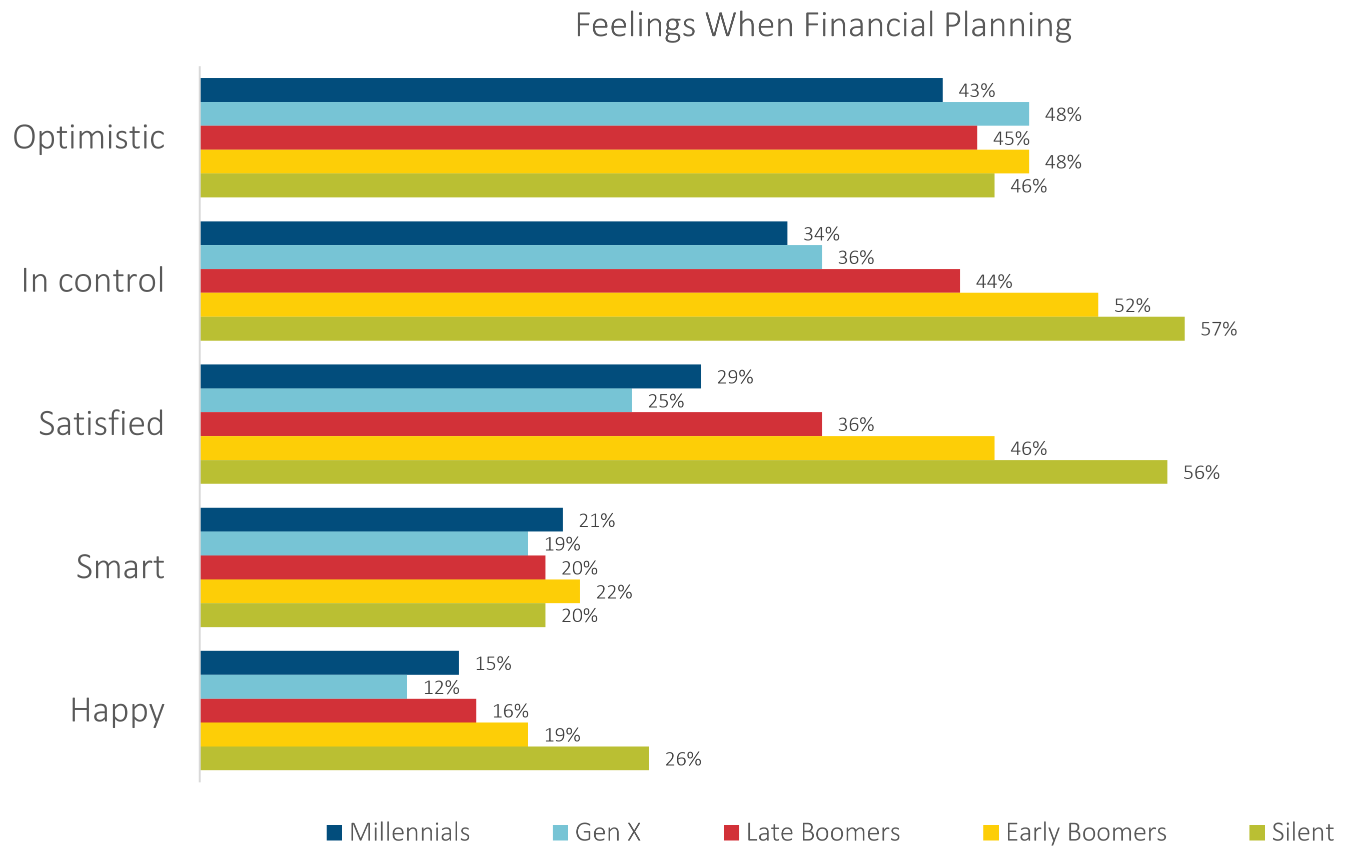
Savers, Planners and Confidence by Generation



What best describes where you stand in the continuum between each of the following pairs of opposing words?

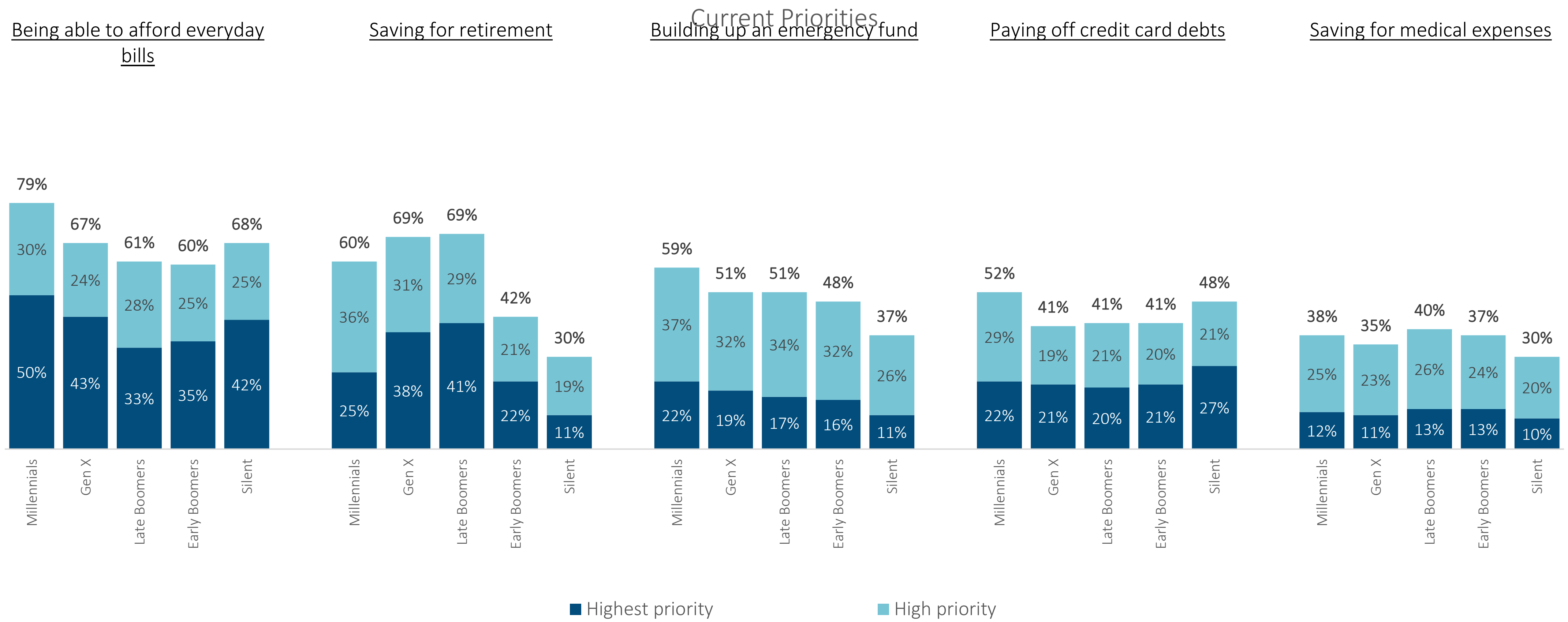
Millennials (n=398); Gen X (n=399); Late Boomers (n=403); Early Boomers (n=401); Silent (n=400)

All generations feel similarly optimistic. Older generations more in control/satisfied



What are your feelings when you are reviewing your financial situation and looking ahead for planning purpose? *Please select as many words below that describe how you feel*. Millennials (n=398); Gen X (n=399); Late Boomers (n=403); Early Boomers (n=401); Silent (n=400)

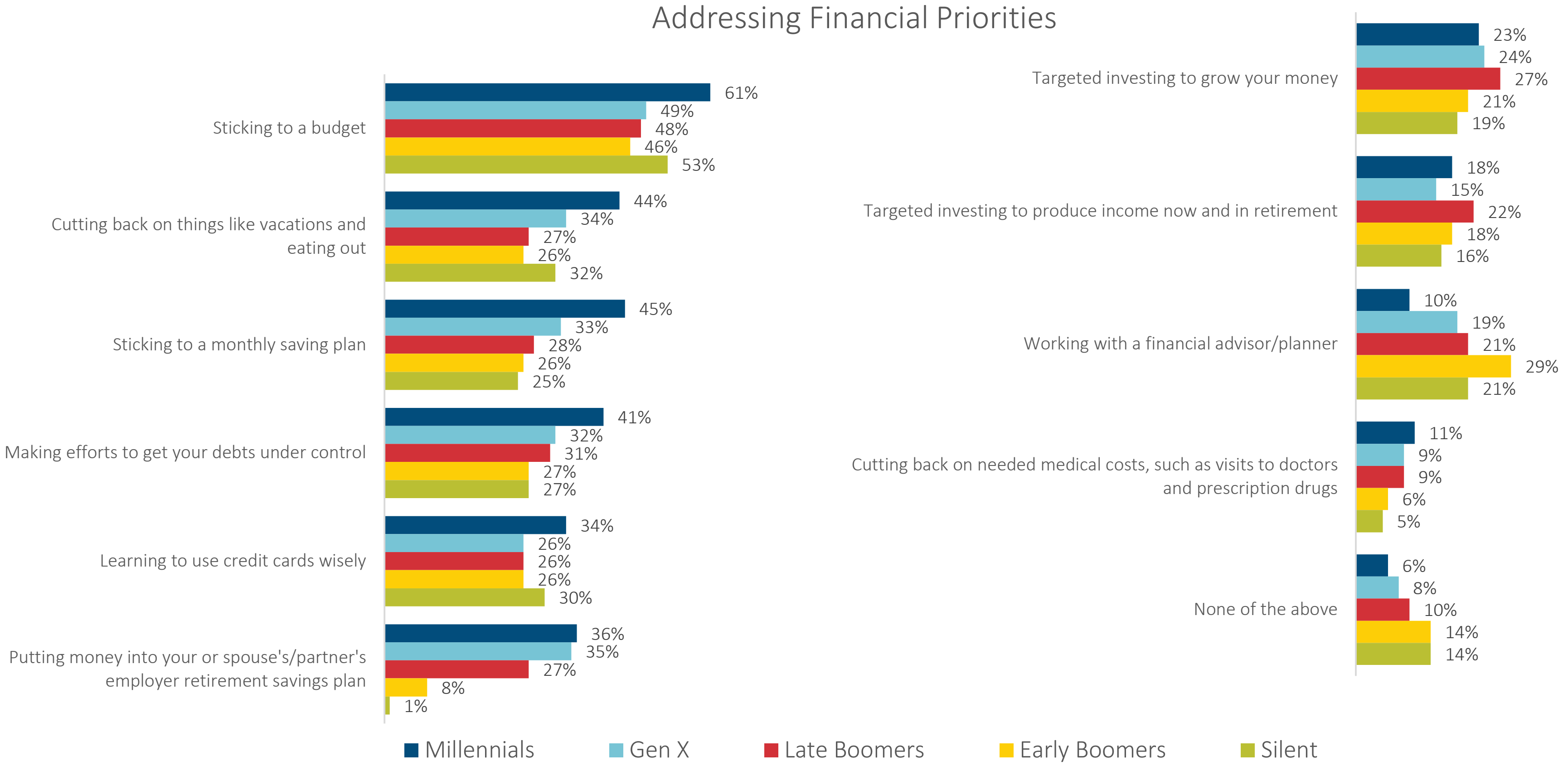
Most say affording everyday bills is a priority, Millennials more than others. Saving for retirement is most important to Gen Xers and Late Boomers.



Thinking of your current financial situation, how much of a priority is each of the following?

Millennials (n=398); Gen X (n=399); Late Boomers (n=403); Early Boomers (n=401); Silent (n=400)

All generations stick to a budget more than other strategies to address their financial priorities. Boomers, especially older ones, are more likely than others to use an advisor.



Which of the following things are you doing this year to address your financial priorities? *Please select all that apply*.

Millennials (n=398); Gen X (n=399); Late Boomers (n=403); Early Boomers (n=401); Silent (n=400)

Retirement Savings and Planning

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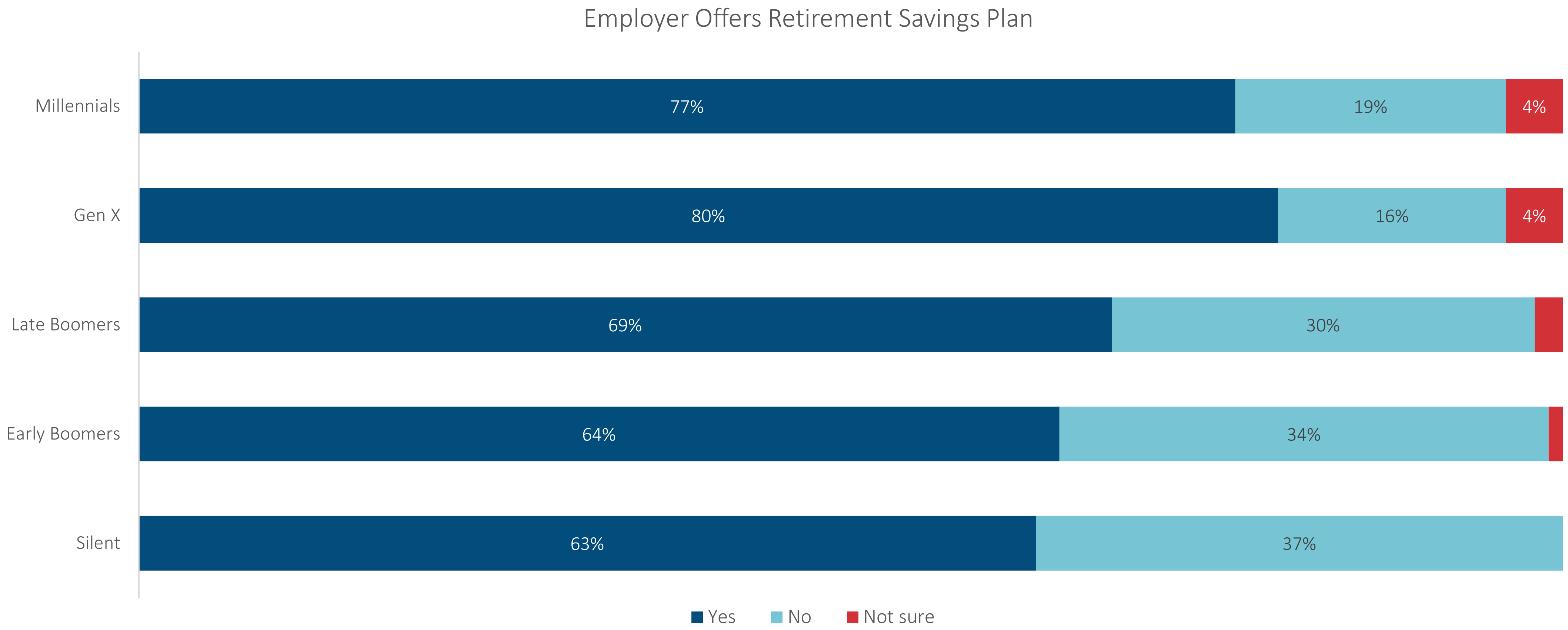
Key Findings

- Saving for retirement was second highest financial priority
  - 60% indicate savings for retirement was highest or high priority.
- All generations: retirement savings important
- Strong interest in retirement savings across generations.
  - If plan offered, about ¾ saved
  - If plan offered a match, about ¾ saved enough for the maximum match
- Six in ten say they are on track for retirement savings - but are they?
- Few are knowledgeable about investments
- Planning horizons are a problem

Younger generations are more likely to work for an employer that offers a retirement savings plan.

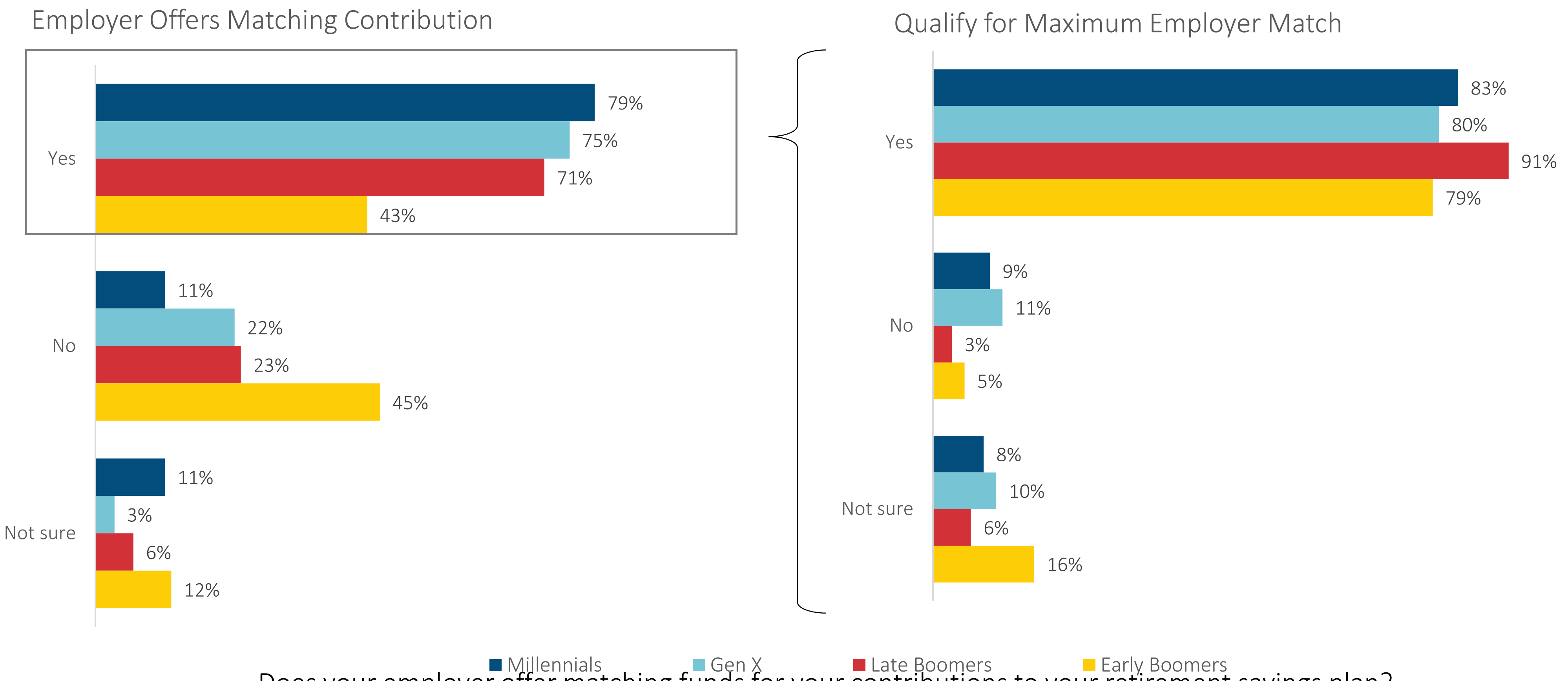


Does your employer offer a retirement saving plan such as a 401(k) or 403(b) plan, profit sharing plan or other type of retirement savings plan?

[IF EMPLOYED] Millennials (n=280); Gen X (n=285); Late Boomers (n=199); Early Boomers (n=81); Silent (n=28*)

*Caution: Low n-size (11-49)

Early Boomers are least likely to be offered a matching contribution while Late Boomers are most likely to make contributions high enough to qualify for the maximum employer match.



Does your employer offer matching funds for your contributions to your retirement savings plan?

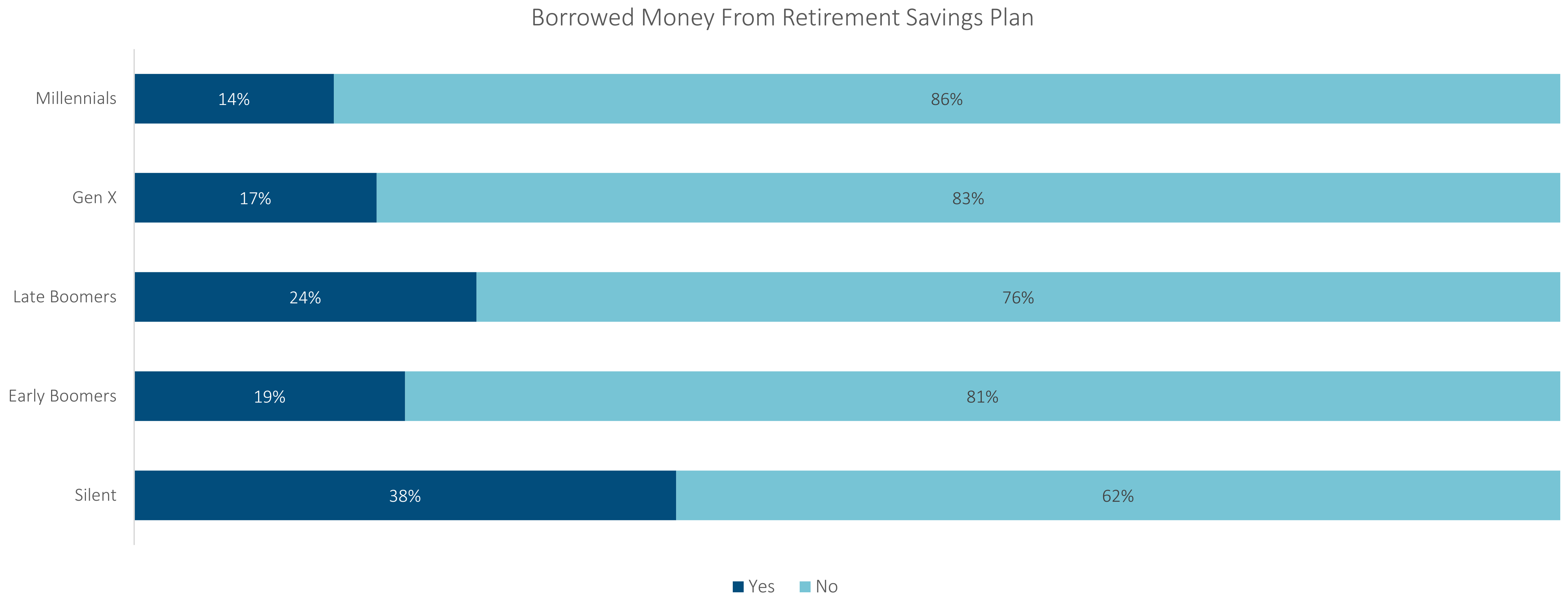
[IF HAVE RETIREMENT SAVINGS PLAN] Millennials (n=221); Gen X (n=219); Late Boomers (n=143); Early Boomers (n=52)

Is your retirement savings plan contribution enough to qualify you for the maximum employer match?

[IF HAVE MATCHING PROGRAM] Millennials (n=170); Gen X (n=164); Late Boomers (n=102); Early Boomers (n=30*)

*Caution: Low n-size (11-49)

Few have borrowed money from their retirement savings.

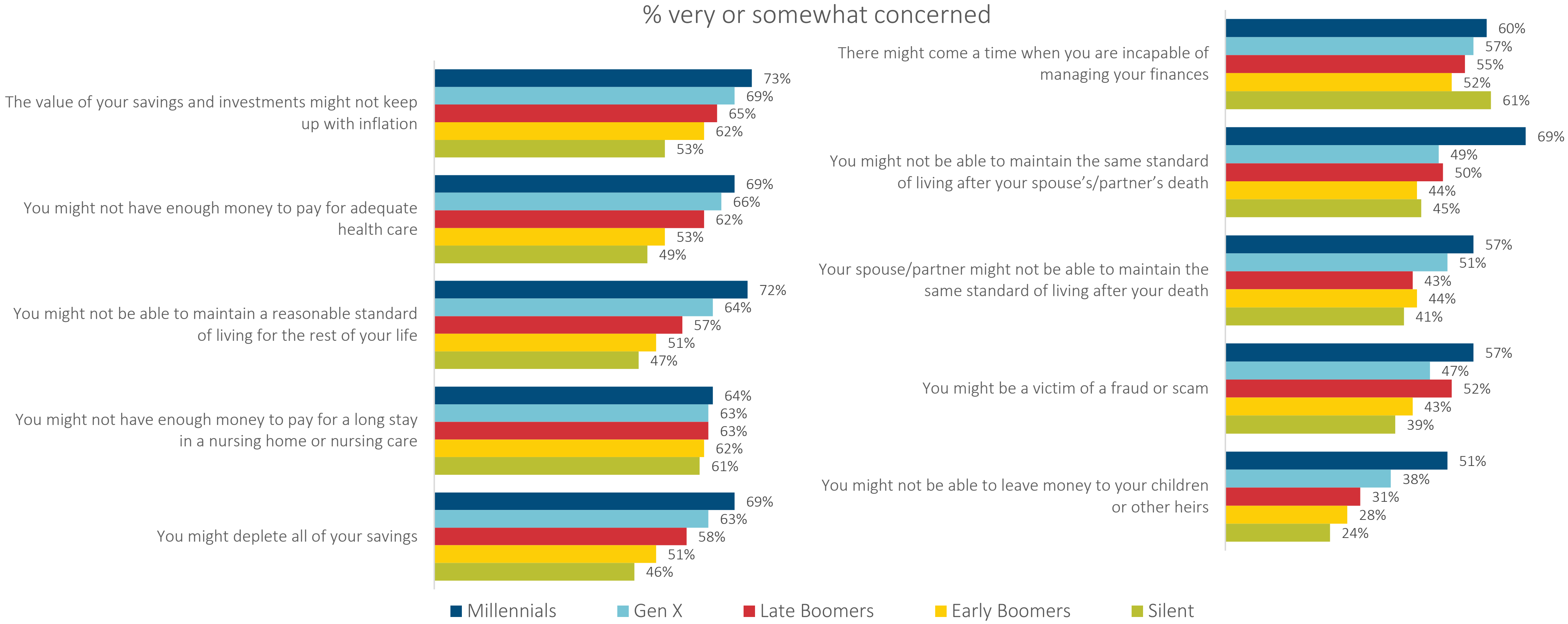


Have you ever borrowed money from your retirement savings plan?

[IF HAVE RETIREMENT SAVINGS PLAN] Millennials (n=221); Gen X (n=219); Late Boomers (n=143); Early Boomers (n=52); Silent (n=16**)

**Caution: Low n-size

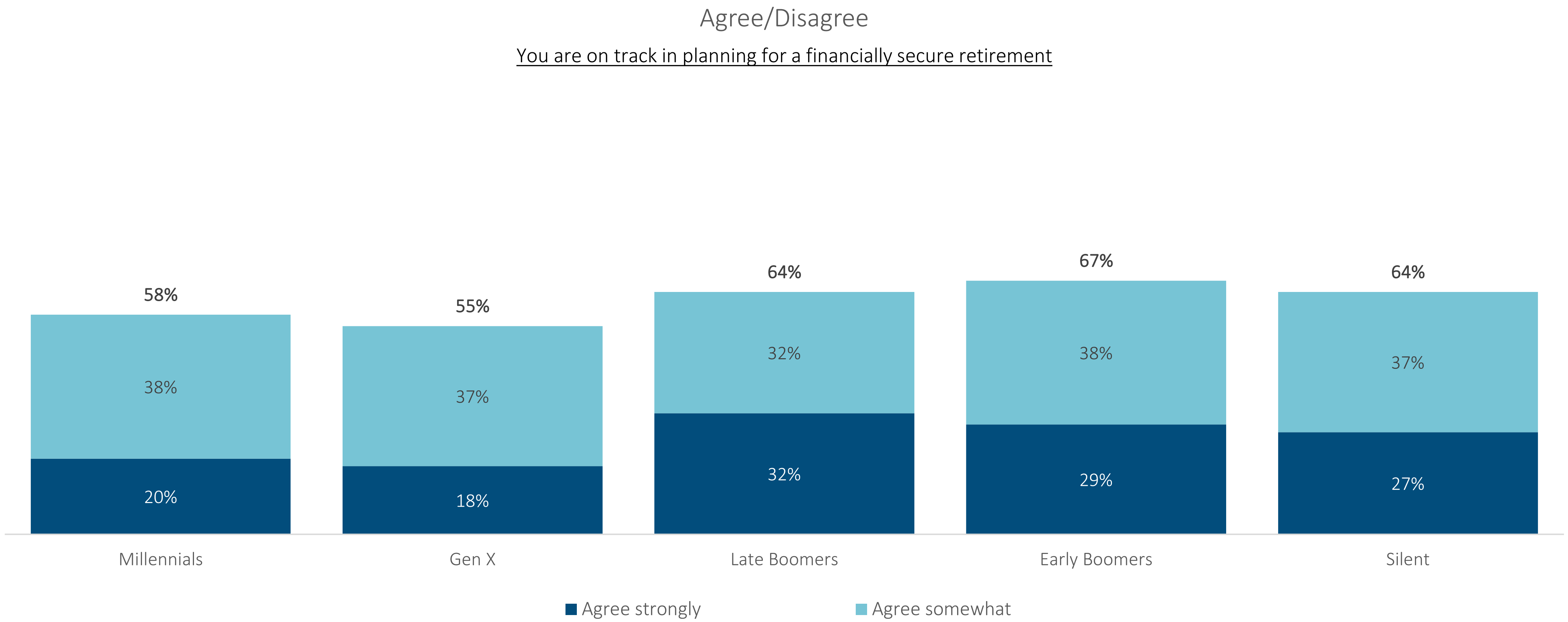
Concerns about Retirement



How concerned are you about each of the following in retirement?

Millennials (n=398); Gen X (n=399); Late Boomers (n=403); Early Boomers (n=401); Silent (n=400)

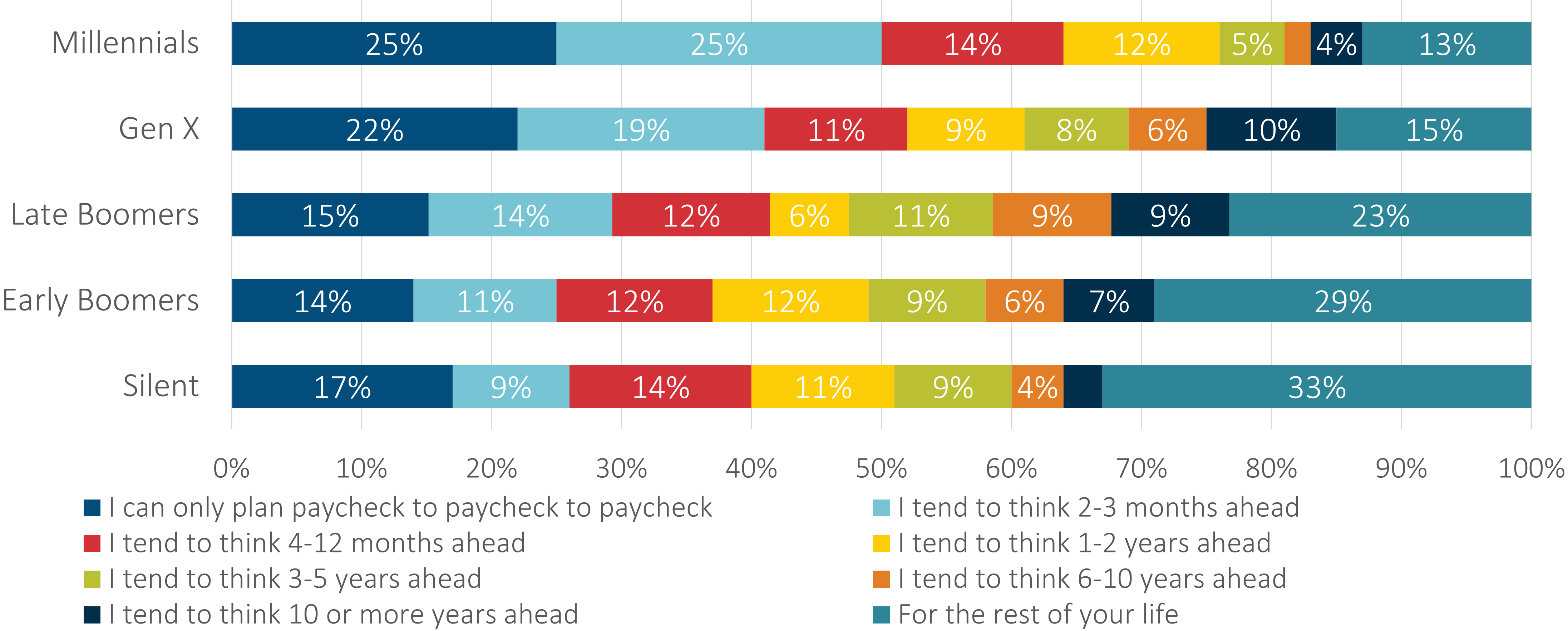
Roughly two in three Boomers, those closest to retirement, feel on track in planning for a financially secure retirement.



Please indicate the extent to which you agree or disagree with the following statements.

Millennials (n=398); Gen X (n=399); Late Boomers (n=403); Early Boomers (n=401); Silent (n=400)

64% of Millennials plan financially for 12 months or less.



- When you are reviewing your financial situation and looking ahead for planning purposes, what time frame do you tend to consider? (Millennials, n=398; Gen X, n=399; Late Boomers, n=403; Early Boomers, n=401; Silent, n=400)

Financial Fragility

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Financial Fragility Index Methodology

The financial fragility index is defined by assigning and weighting scores to the following characteristics:

- Feelings about financial situation and planning
- Level of Confidence in making financial decisions
- How respondents would cover unexpected expenses
- Feelings about being on track for a secure retirement

Based on score, respondent assigned to one of 3 levels of fragility: Low, Moderate, High

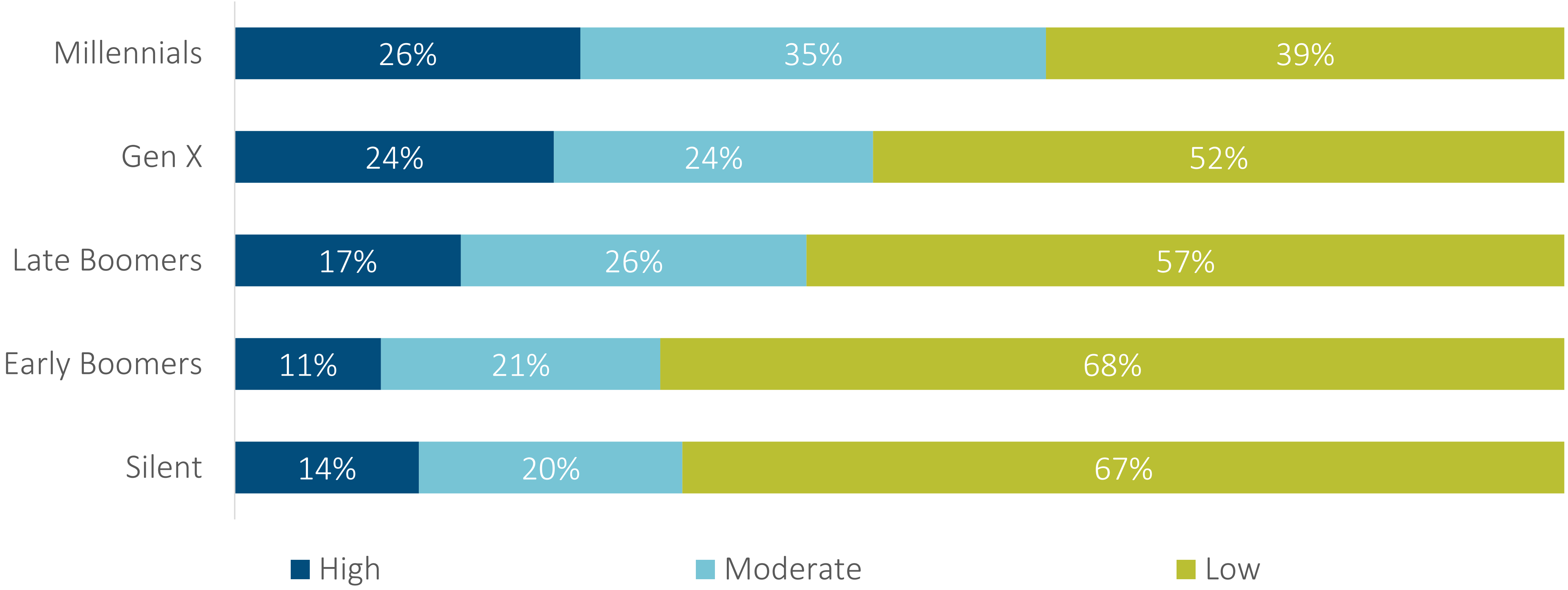
Key Points

- Groups/generations more likely to be fragile
  - Millennials
  - People with assets under $10,000
  - Single people
  - Lower income, unemployed and disabled
- Planning: about 60% of most fragile plan paycheck to paycheck and 75% for three months or less
- Managing debt and avoiding high cost debt very important: 25% say debt is complicating their financial management

Key Points (continued)

- Emergency funds: often not available
- More planning important for this group
- Retirement planning is out of reach for many who are fragile

One-quarter of Millennials have high financial fragility.

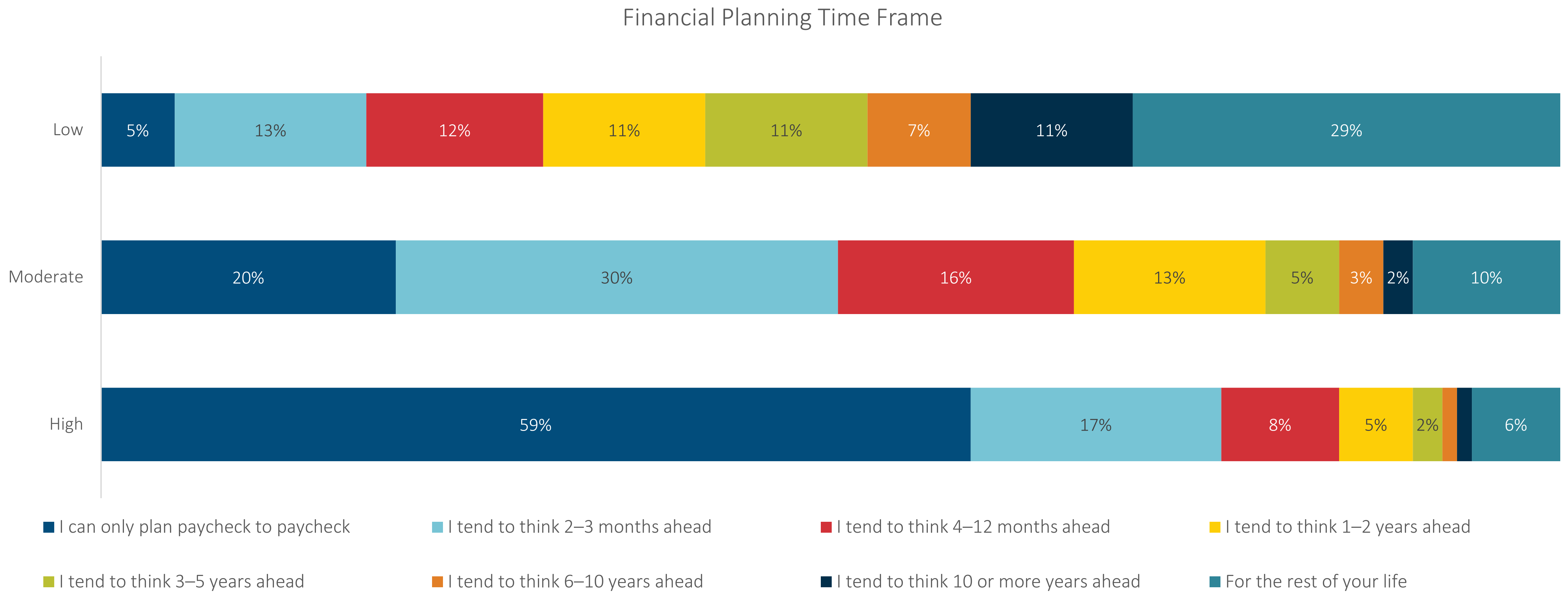


Financial fragility is interpreted here as vulnerability to a financial crisis and having a negative outlook of personal finances.
Financial Fragility Index (Millennials, n=398; Gen X, n=399; Late Boomers, n=403; Early Boomers, n=401; Silent, n=400)

Financial Fragility by Demographic Groups – Other

- By Gender: Female more likely to have high fragility (23%) as male (19%)
- By marital status: Married least likely to have high fragility (15%).
- By employment status: Retired (11%) and Employed (20%) much less likely to have high fragility than Unemployed (43%) and Disabled (46%)
- High financial fragility decreases with greater education, income and savings.

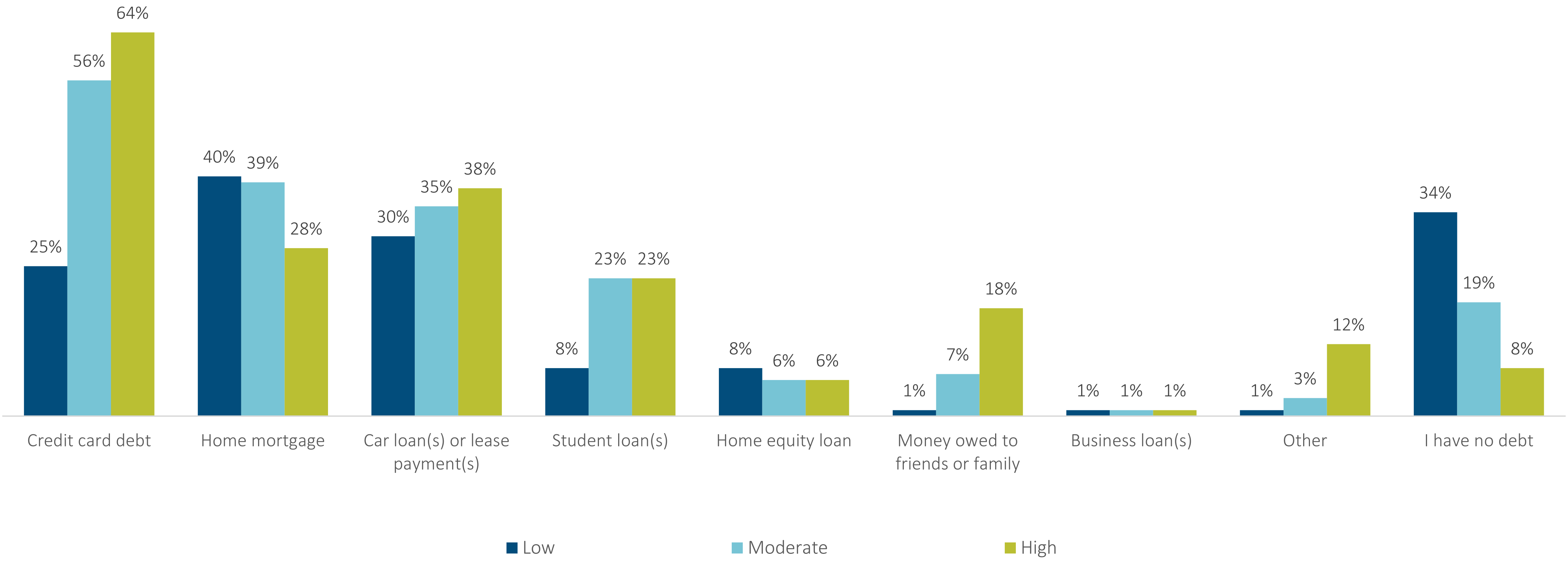
Financial Planning Time Frame by Financial Fragility



When you are reviewing your financial situation and looking ahead for planning purposes, what time frame do you tend to consider?

Low Fragility (n=1,150); Moderate Fragility (n=484); High Fragility (n=367)

Current Debt Obligations by Financial Fragility



What types of debt do you currently have?

Low Fragility (n=1,150); Moderate Fragility (n=484); High Fragility (n=367)

Millennials and Financial Security

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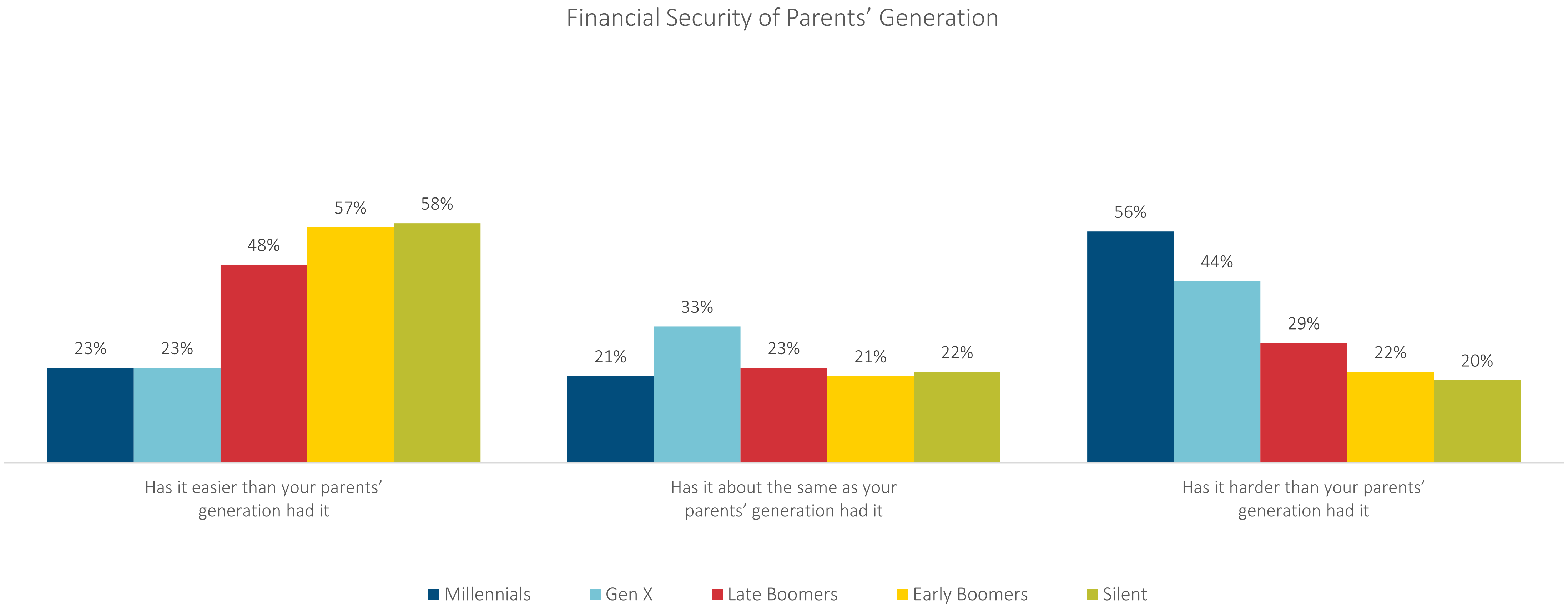
Millennials Face Greater Challenges

- Agreement across generations that Millennials have more difficult path to being financially established
  - More debt – especially student loans
  - Low home ownership
  - Great Recession effects on earnings and jobs
  - More financial fragility than other generations

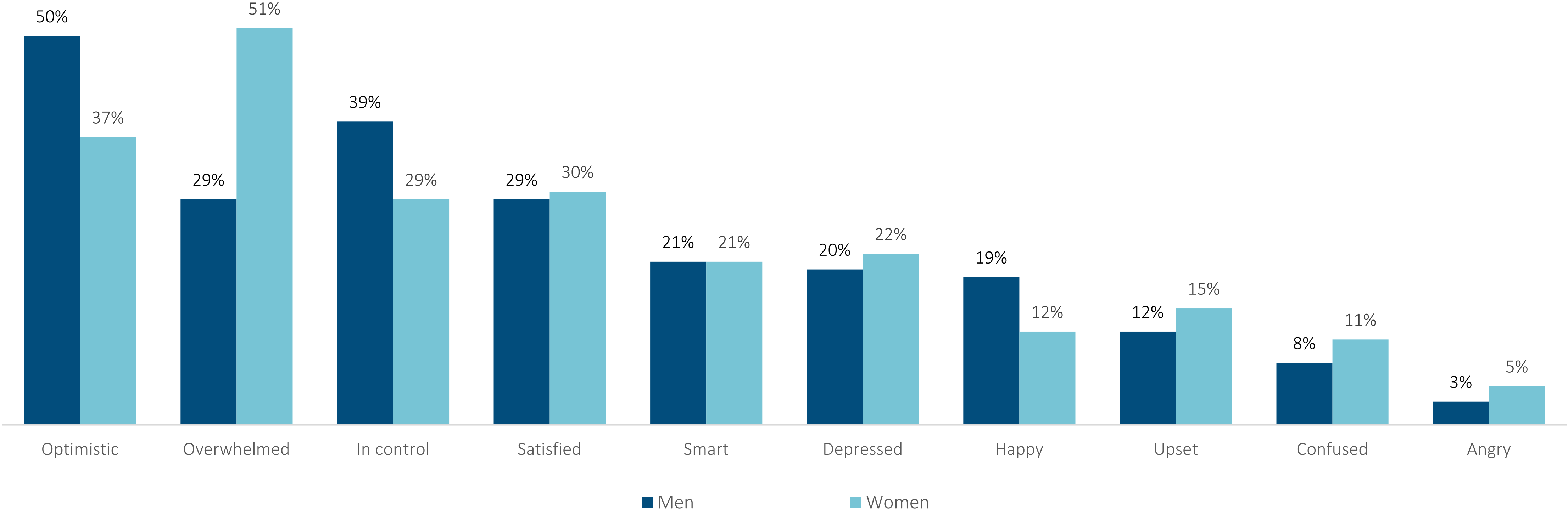
Older generations say it is easier for them to achieve financial security than their parents while younger generations say it is harder.



In terms of achieving financial security, do you think your generation…?

Millennials (n=398); Gen X (n=399); Late Boomers (n=403); Early Boomers (n=401); Silent (n=400)

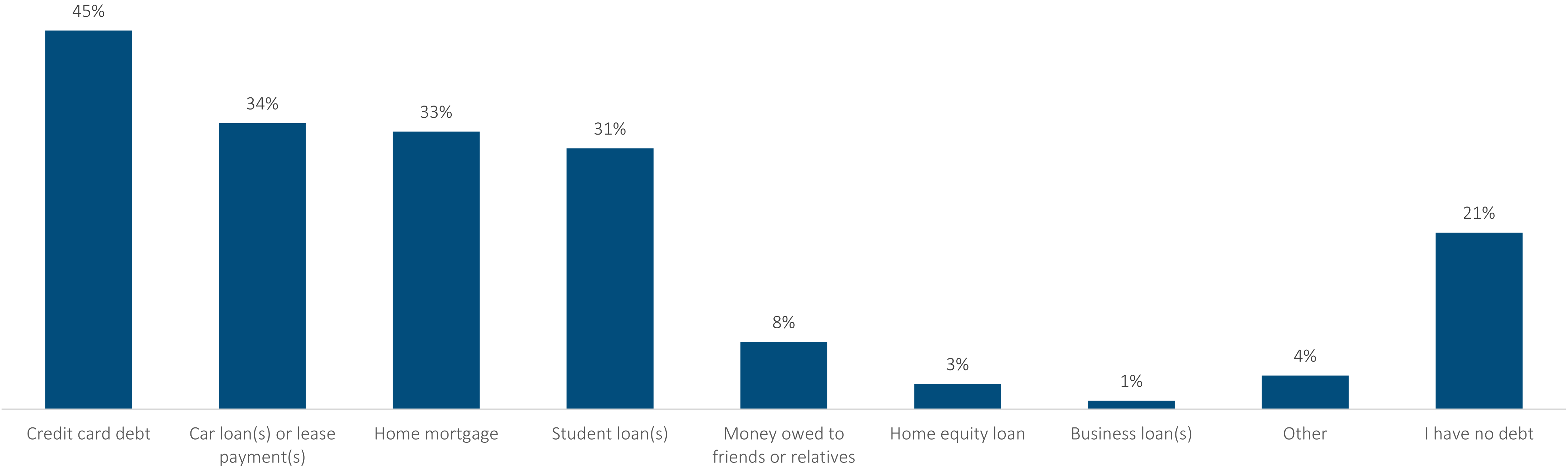
Millennials' Feelings Toward Financial Situation by Gender



What are your feelings when you are reviewing your financial situation and looking ahead for planning purposes?

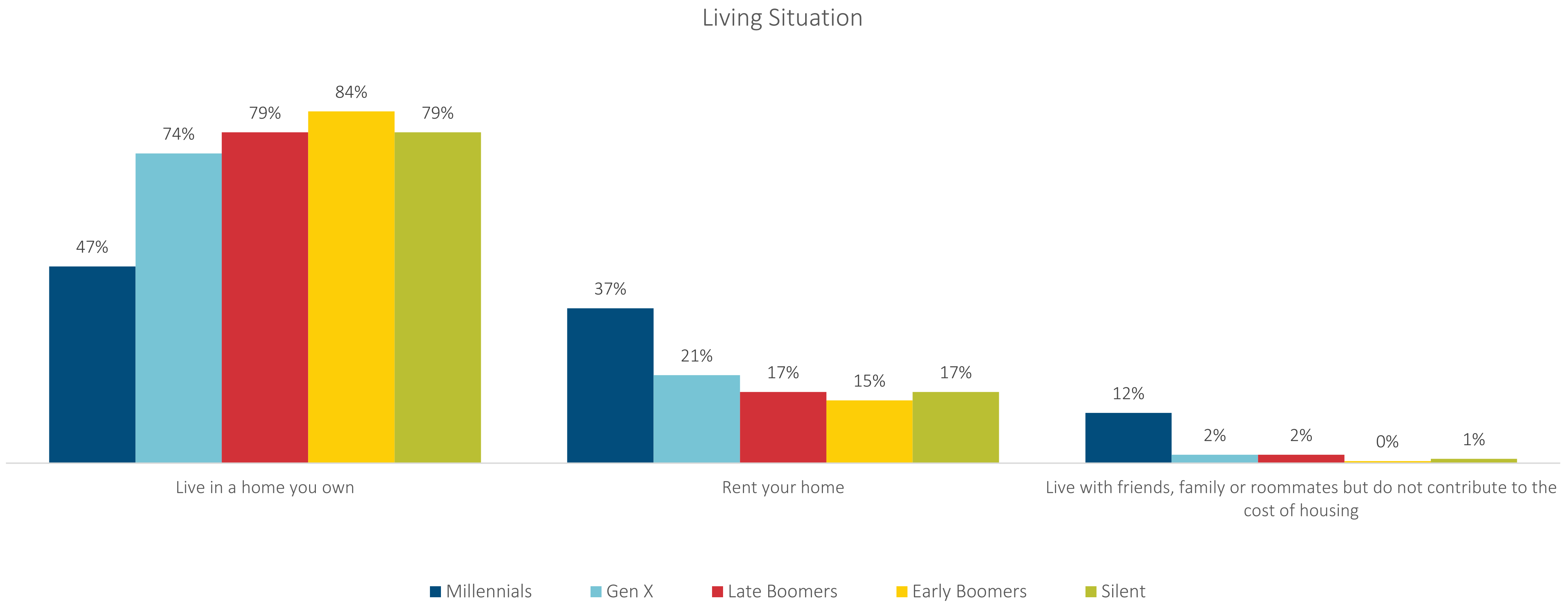
Millennials (n=398)

Current Debt Obligations of Millennials



What types of debt do you currently have?
Millennials (n=398)

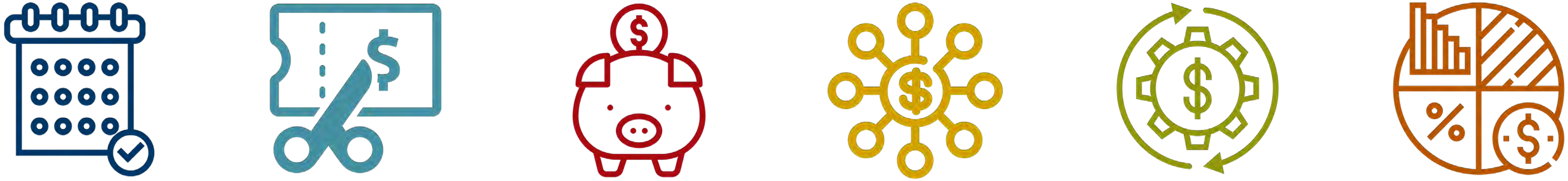
Living Arrangements by Generation



Do you currently…?

Millennials (n=398); Gen X (n=399); Late Boomers (n=403); Early Boomers (n=401); Silent (n=400)

Millennials classify themselves as:



44%	35%	33%	33%	26%	12%
Planner*	Thrifty	Saver*	Budget driven	Enjoy managing finances	Investment pro

*Lower than all other generations

What best describes where you stand in the continuum between each of the following pairs of opposing words? (Millennials, n=398; Gen X, n=399; Late Boomers, n=403; Early Boomers, n=401; Silent, n=400)
Icon Source: Noun Project

Researchers' Perspectives

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Implications: Researcher Perspective

- A confluence of factors are creating the need for new retirement plan strategies for Millennials
  - Size of generation and pressure it will put on social insurance programs
  - Higher levels of debt early in retirement
  - High cost of housing
  - Expected high cost of education for their children
  - Desire for active retirement stage
  - Likelihood of longer period of decline due to more effective medical practices that will keep people with chronic conditions alive longer
  - The development of new stages of life

Profound changes in the life course: three stages of life to six

For most of human history	→	Today
Childhood		Childhood
		Adolescence *Starting in late 1800s*
		Transadulthood *Starting very recently*
Adulthood		Adulthood
		Active Retirement *Starting post-WWII*
Decline		Longer Decline

Each stage of life creates the need for a transition, and has financial implications, but makes life richer and broader.

Implications: Researcher Perspective (cont.)

- Suggested retirement plan strategies:
  - More aggressive and age-adjusted auto-escalation strategies
  - New approaches to guiding Millennials on accumulation goals for ages 30, 40 and 50
  - New, more effective metrics for accumulation goals
- A new set of more effective solutions:
  - Transformational products, which transform to meet revised needs
    - Transformation from life insurance to long term care or disability insurance to long term care
  - New methods of using home equity to fund retirement
    - For example, the Equify approach
- A new way to conceptualize the ‘retirement challenge’
  - Accumulate for the “go=go years” and less for the “slow-go years”
  - Incorporate risk sharing into the decline stage: the “no-go years”

Conclusions

Key Findings: Differences and Similarities Between Generations

Similarities between generations

- For achieving financial security, all believe the Millennial generation has it harder
- All are more likely to describe themselves as savers, thrifty, and investment novices
- Slightly less than half feel optimistic
- Paying bills is a key financial priority
- Three in five believe they are on track to a financially secure retirement
- All are concerned with paying for long-term care
- One-third believe it is important to leave an inheritance
- Most agree adult children should help their parents financially and with regular tasks
- Few believe parents should help adult children if it means they will harm their own financial future

Key Findings: Differences and Similarities Between Generations

Differences between generations

- Younger generations have shorter financial planning time frames
- Confidence in making financial decisions increases with age
- Late Boomers are the most likely to be planners
- Older generations are more likely to feel in control and satisfied while Millennials feel overwhelmed
- Retirement concerns are higher with younger generations
- Younger generations are most likely to have debt with Gen Xers most likely to have mortgage debt and Millennials most likely to have student debt
- The likelihood of having received an inheritance increases with age
- Millennials are most concerned with leaving their children money

Millennials Have Biggest Issues

- Face greater challenges than the group that came before them
- Most likely to have student loan debt
- Some are dealing with the aftermath of the Great Recession
- Fewer are married
- Fewer own homes
- More likely to be overwhelmed by financial management

Implications for Financial Services Companies

- Different generations have different needs
- There is strong value in customized communications and tools
- Financial fragility is an issue for some employees
- Dealing with debt is critical for some employees
- Product features can help address some of the challenges
  - Auto features: auto enrollment, auto increases, and auto portability
- Messages that consider where employees are is very important

Implications for Benefit Programs

- Programs should recognize key differences among generations
- Programs need to address different issues that are relevant for each individual
- Tools are important although most will not help the most fragile – how technology is used differs by generations
- Basic financial management: budgeting, debt management, and building an emergency fund are key for most people
  - Improving 401(k) plan features for employee money will not help most vulnerable until their shorter term problems are solved
- Provide people with information about different types of debt and debt management

How to Find SOA Research Reports and More Information

- All of the reports discussed are available on the Society of Actuaries website at
  - https://www.soa.org/research/topics/research-post-retirement-needs-and-risks/
- For more information about SOA Research – contact SOA Research Actuary Steve Siegel at
  - 847-706-3578
  - ssiegel@soa.org
- For information about the survey and presentation contact
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Questions?

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