CRASH COURSE NEEDED:
FOUR OUT OF FIVE AMERICANS FAIL WHEN QUIZZED ON HOW TO MAKE THEIR NEST EGGS LAST

Editor's Note: The following is a press release, originally published by the New York Life Center for Retirement Income at the American College.

The 4% Safe Withdrawal Rate Rule is a Mystery to More than Two-Thirds of Americans

Half of Americans Unclear on Best Time to Claim Social Security

Major Study from The American College Raises Alarm About Deficiencies in Retirement Income Literacy

BRYN MAWR, PA, December 3, 2014 – Just **20%** of retirement-age Americans can pass a basic quiz on how to make their nest eggs last throughout retirement. In fact, a large majority of people age 60 to 75 with at least $100,000 in assets lack the knowledge they need for a financially secure retirement in areas such as life expectancy, Social Security, long-term care needs, investment risk and more.

These findings are part of the new **RICP® Retirement Income Literacy Survey,** from The American College of Financial Services – the most comprehensive survey exploring the drawdown phase of Americans' financial lifetimes, when people are no longer receiving a paycheck from their jobs but must still fund their lifestyles during a potentially lengthy retirement.

RETIREMENT INCOME LITERACY: FAILING GRADES

Despite their failing retirement income grades, many Americans are surprisingly sanguine about their retirement prospects. More than half **(55%)** consider themselves well-prepared to meet their income needs in retirement, and almost all **(91%)** are at least moderately confident in their ability to achieve a secure retirement.

"No one liked getting Fs back in school, but retirement income literacy is a test Americans simply cannot afford to fail," said David A. Littell, RICP® Retirement Income Program Director at The New York Life Center for Retirement Income at The American College. "When you're working, you can plan, save and prepare for a retirement target date. But once you're in retirement, there is no set target date for how long your savings must last – and little room for error. Workers are increasingly on their own when it comes to making financial decisions and a dwindling few have access guaranteed in-

Retirement Income Literacy: Failing Grades

Letter Grade on Retirement Income Quiz	Percentage of Respondents
A (91%-100% correct)	Less than 1%
B (81%-90% correct)	1%
C (71%-80% correct)	5%
D (61%-70% correct)	14%
F (60% or less correct)	***80%***

come from pension plans. Now is the time to raise retirement income awareness and give Americans the strategies and knowledge they need to address this challenge."

ASSETS ON THIN ICE

Respondents show a particular dearth of knowledge when it comes to understanding how to preserve their assets in retirement. The oft-cited "4 percent rule" for a safe withdrawal rate in retirement is unfamiliar to seven in ten Americans **(69%).**

A full **16%** thought it would be safe to withdraw 6% or even 8% per year.

On the other hand, one in five **(20%)** were overly conservative, estimating 2% to be the safest rate.

Despite the critical role that Social Security plays for most Americans, people are perplexed about when to claim it and how to make the most of their benefits. Only half of respondents **(53%)** know that it is best to wait until age 70 to claim Social Security for someone with a long life expectancy – a critical decision for one's financial security.

BOND BUBBLES AND STOCK SURPRISES

Although many Americans are responsible for their own investment choices, a disturbing number of these older respondents showed a lack of knowledge when it comes to understanding investments – especially bonds, which many consider "safe".

- Only two in five **(39%)** understand that when interest rates rise, the value of bond funds will decrease – especially concerning with potential rate increases in the near future.
- Less than one in ten **(7%)** understand that small company stock funds have a higher return over time than large company stock funds, dividend paying stock funds, or high yield bond funds. "At age 25 or 35, these responses would be problematic but forgivable, because there's plenty of time to make up for any mistakes," said Professor Littell. "But at 65 or 70, poor investment decisions can be almost impossible to bounce back from. Even worse, bad decisions can damage both the future growth of a nest egg and the retirement income it can generate over time."

RETIREES GRAPPLE WITH RISK OF DEPLETING SAVINGS

Managing risk around retirement income is a problem for many Americans. More than half of Americans **(51%)** underestimate the life expectancy of a 65-year-old man, showing a lack of knowledge around how much time people should plan for living in retirement.

The time closest to retirement is the riskiest period for many retirees – yet the study finds most Americans unsure about how to transition into the drawdown phase.

Only **37%** know that someone planning to retire at age 65 should take the least amount of investment risk at age 65, rather than earlier or later.

Just **30%** of respondents recognize that it is more effective to work two years longer or defer Social Security for two years than to increase retirement contributions by 3% for five years.

PLANNING NEEDED

Americans face a retirement income planning deficit. Only **27%** of respondents report having a written retirement plan in place – despite the fact that **63%** say they have a relationship with a financial advisor, and more than half **(52%)** are at least moderately concerned about running out of money in retirement. A significant minority **(33%)** have *never* tried to figure out how much they need to accumulate to retire securely.

"Basic financial literacy during the working years is dramatically different from the mindset people need when they transition to generating retirement income from their nest eggs," said Professor Littell. "Financial advisors, plan sponsors and financial services companies all have a role to play in raising Americans' grades when it comes to awareness and understanding of basic retirement income principles."

METHODOLOGY

The study was designed by Greenwald & Associates in cooperation with the American College. Respondents were asked knowledge, behavior and attitudinal questions on the following topics: retirement and retirement planning, ability to maintain lifestyle, income generation, annuity product knowledge, Social Security, life expectancy, death of a spouse, taxes, inflation, housing, medical insurance and long-term care.

Information for this study was gathered through online interviews conducted between July 17-25, 2014. A total of 1,019 Americans were interviewed. To qualify for participation in the study, respondents had to be ages 60-75 and have at least $100,000 in household assets, not including their primary residence.

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ABOUT THE NEW YORK LIFE CENTER FOR RETIREMENT INCOME AT THE AMERICAN COLLEGE

The New York Life Center for Retirement Income at The American College serves to elevate the knowledge of financial service professionals in order to improve retirement security for Americans. It provides a website for advisors and supports the Retirement Income Certified Professional® (RICP®) designation, which educates financial advisors to help prepare the 76 million Baby Boomers and millions of older retirees who are concerned about the safety of their retirement income plans. To learn more about the New York Life Center for Retirement Income, go to *http://retirement.theamericancollege.edu.* ■