

Aging and Retirement

# Financial Expectations of Pre-Retirees Versus Realities of Retirees

2019 Risks and Process of Retirement Survey Research Brief





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## Financial Expectations of Pre-Retirees Versus Realities of Retirees

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### **Caveat and Disclaimer**

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## INTRODUCTION AND BACKGROUND

This fact sheet discusses how retirees are faring in retirement and differences between retirees' income sources and pre-retirees' expected income sources. Differences between expectations and what happens in retirement are not uncommon. At present with the transition from defined benefit (DB) to defined contribution (DC) plans and other system changes, some differences realistically reflect less availability of sources such as DB plans for pre-retirees, and other differences may reflect unrealistic expectations on the part of pre-retirees.

This is the first time that this series of surveys conducted since 2001 explored whether retirees are doing as well as expected. The 2019 results indicated that a majority of retirees overall report that they are doing the same or better than expected. But retirees who have experienced major health issues, periods of unemployment and loss of spouses are generally not as well off, and more are faring worse than expected.

The Society of Actuaries continues to research the factors that contribute to retirees having sufficient retirement income for a successful retirement and has focused in depth on this topic in several iterations of this survey series. Over prior iterations of this survey, the sources of income in retirement have been examined, including Social Security, DB pensions, qualified retirement plans, individual retirement accounts (IRAs) and several other components.

We should remember that the transitions taking place in the U.S. retirement system affect sources of income. As a result of the shift away from DB plans, retirees today are more likely to have income from a DB plan, and pre-retirees are more likely to have assets in a DC plan. Pre-retirees are likely to overestimate the amount of their income that will come from such plans.

The survey results provide some comparative data between pre-retiree expectations and retiree experiences:

- **Retirees rely more on Social Security for income in retirement than pre-retirees expect.** Although 64% of retirees say that Social Security benefits are a major source of income in retirement, only 50% of pre-retirees expect it to be for them.
- **Defined benefit income is a larger income source for today's retirees than it will be in the future.** Although 35% of retirees say that a DB pension is a major source of income in retirement, only 27% of pre-retirees expect it to be. In part, this probably reflects changes in the retirement system.
- **In contrast, pre-retirees are far more apt to expect an employer retirement savings plan to be a major source of income in retirement—37% versus 13% for retirees.** This may also reflect changes in the retirement system over time.
- **Pre-retirees are far more likely to count on employment income to play at least some role in retirement (53%) compared to only 18% of retirees for whom it plays at least some role.**
- **Only roughly one in ten retirees or pre-retirees expect or rely on a taxable investment or bank account (not including a checking or savings account) as a major source of retirement income.** Fewer than 5% rely on a payout annuity or rental property to play this role, and only 1% of each have or will rely on a reverse annuity mortgage this way.
- **Income sources vary by economic level.** Those with higher income expect to be or report being better off financially in retirement than those with lower income.
- **As found in previous research, lower income respondents are more reliant on Social Security and less reliant on other sources of income.**

Note that prior SOA research observed that the majority of people with money in IRAs and 401(k) plans withdraw money during retirement as required by the IRS Required Minimum Distribution rules. Many have no income withdrawal plan beyond these periodic withdrawals.

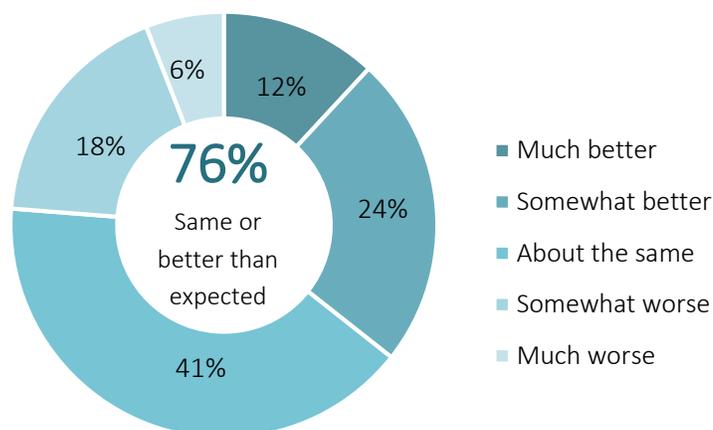
## DETAILED FINDINGS

- More than three-quarters of retirees are doing the same or better in retirement than they thought they would when they were working. Only about one-quarter do worse in retirement than they thought they would.

**Figure 1**

### HOW RETIREES ARE DOING IN RETIREMENT COMPARED TO EXPECTATIONS

Based on where you thought you would be financially in retirement when you were working, would you say you are doing ...?  
 (Filter: Retirees n=1,051)

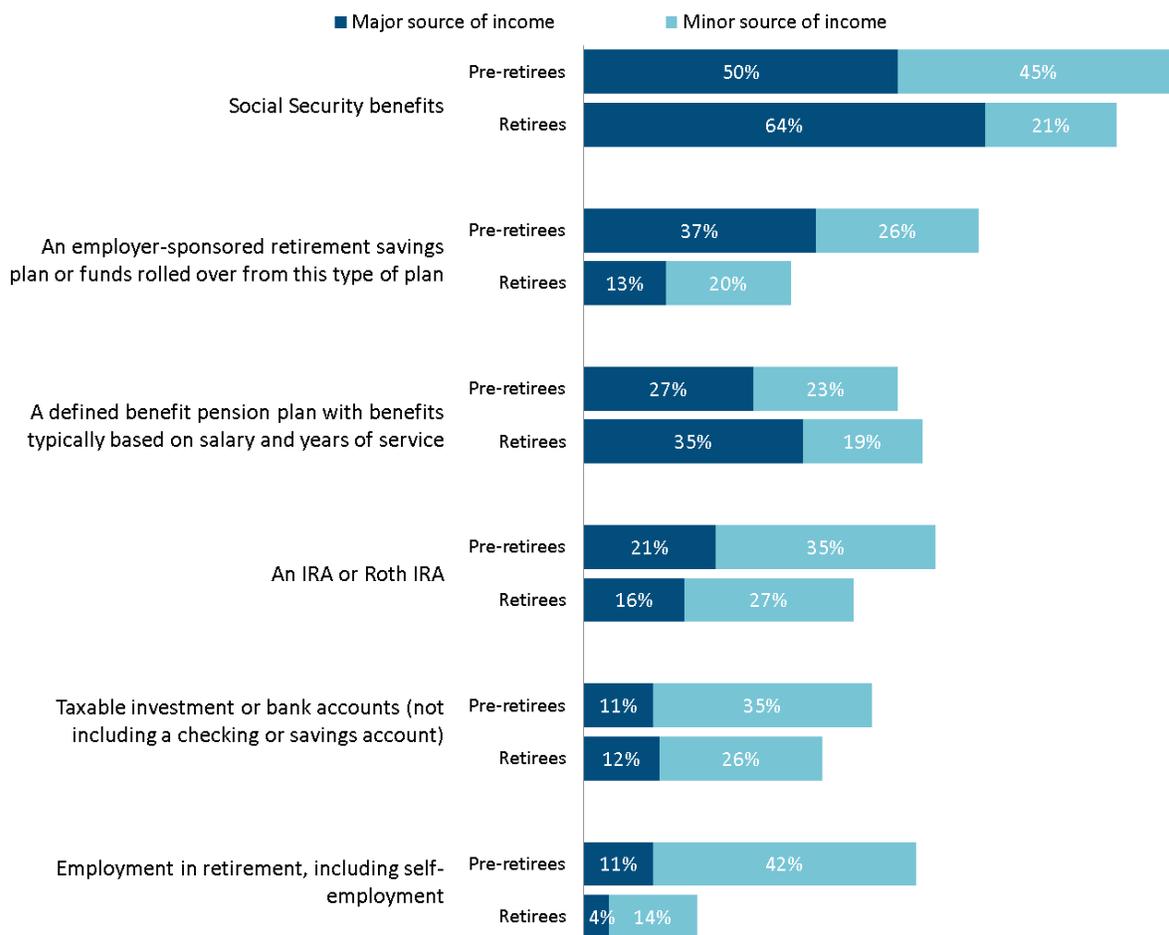


- **Social Security is a more important income source in retirement than pre-retirees expect it to be.** Additionally, fewer pre-retirees (27%) expect to have a DB pension plan as a major source of income in retirement, compared to 35% of retirees who say it is, possibly reflecting the declining prevalence of these plans, as well as underestimations by pre-retirees for what those plans can provide.

**Figure 2**

**SOURCES OF INCOME IN RETIREMENT**

Which of the following do you expect will be/are a major source of income, a minor source of income, or not a source of income for your (and your spouse's/partner's) retirement?  
 (Pre-retirees n=1,046; Retirees n=1,051)



- The extent to which both retirees and pre-retirees depend on income sources varies by assets and income, with those with higher incomes looking more to assets and pensions, and less to Social Security, than lower income groups. For example, among retirees, 41% of those with incomes of \$75K and above rely on Social Security as a major income source compared with 68% of those with \$35K to \$74K and 87% of those with less than \$35K. In contrast, retirees with \$75K or more in income are more likely to say that a retirement plan (22%) or an IRA (21%) is a major source of income than those with less than \$75K in income (8% for retirement plan and 12% for an IRA), and similar effects can be found for assets. Pension income is also higher among the wealthier sample.
- Those in some of the subgroups examined in this study are more apt to consider Social Security to be a major source of income, including pre-retirees out of work for more than three months (65%), those with major health problems (retirees 77%; pre-retirees 62%) and retired widows (84%). Retirees (18%) and pre-

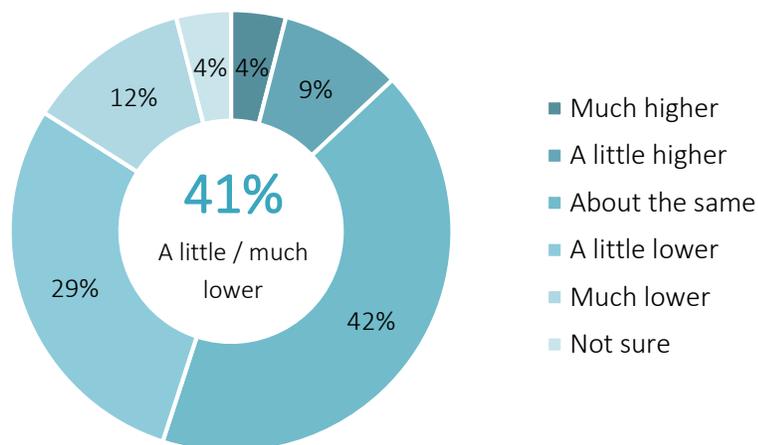
retirees (25%) underemployed or unemployed for more than three months are less likely to consider a pension to be a major source of retirement income, which is not surprising since work was disrupted. Pre-retirees who have had work disruption (26%) or a major health problem (27%) are less likely to consider a retirement savings plan to be a major income source, as is the case with retirees who are widowed (8%) or who have a major health problem (6%).

- **Most workers expect their expenses in retirement to be about the same (42%) or lower (41%) in retirement.** This distribution has not changed much since last asked in 2015. More than half of pre-retirees (56%) believe that their income in retirement will allow them to buy less than they can afford now.

**Figure 3**

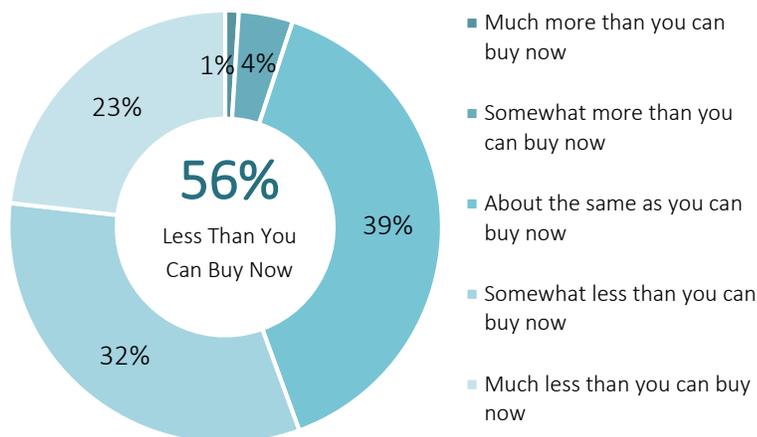
**EXPECTATION FOR EXPENSES IN EARLY RETIREMENT**

*Compared with your expenses in the five years before you retire, do you expect your expenses in the first five years of your retirement will be higher, about the same, or lower? (if worker)*  
 (Pre-retirees n=1,046)



**Figure 4**  
**EXPECTATIONS FOR BUYING POWER IN RETIREMENT**

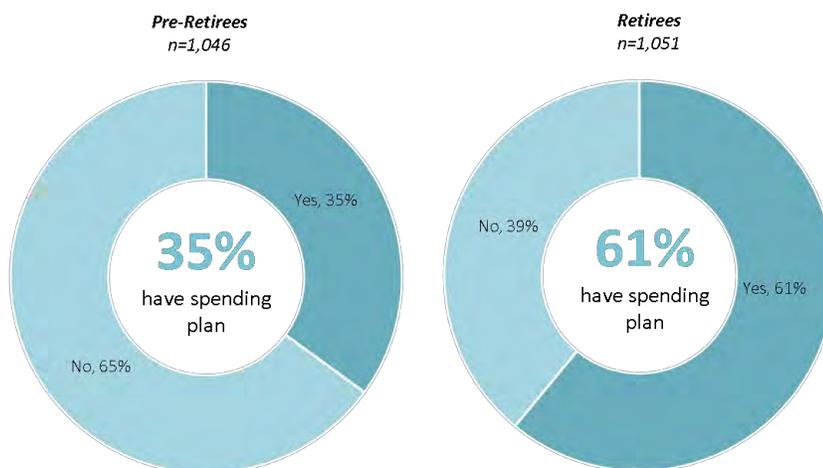
*As best you can guess, do you think that your income in retirement, from all sources including Social Security benefits will permit you to buy ...?*  
 (Filter: Pre-retirees n=1,046)



- Spending plans seem to begin for many at retirement. **More than six in ten retirees (61%) have a plan for how much money to spend in retirement and where that money will come from compared to only 35% of pre-retirees.**

**Figure 5**  
**SPENDING PLAN FOR RETIREMENT—PRE-RETIREE VS. RETIREE**

*Do you currently have a plan for how much money you will spend each year in retirement and where that money will come from?*

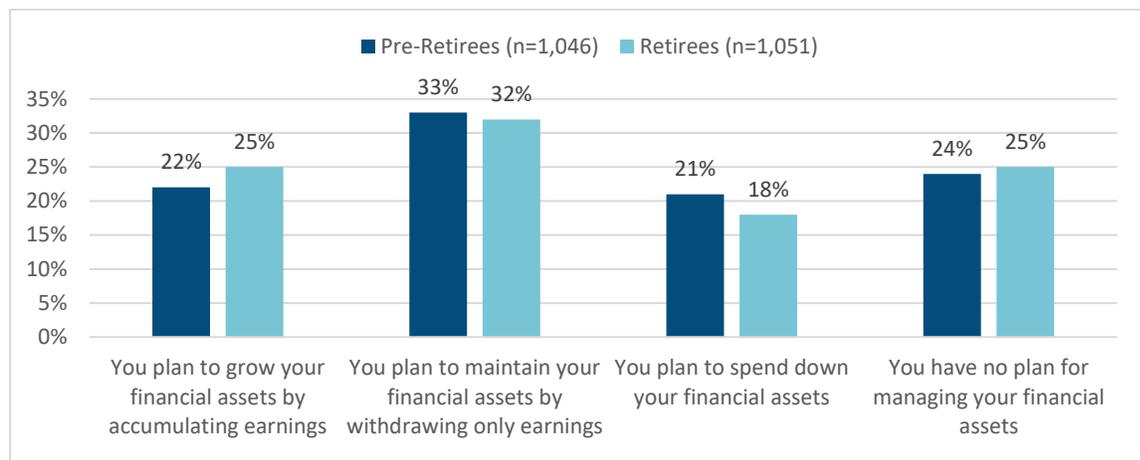


- More than half of retirees (57%) and pre-retirees (55%) plan to maintain or grow their assets in retirement.

Figure 6

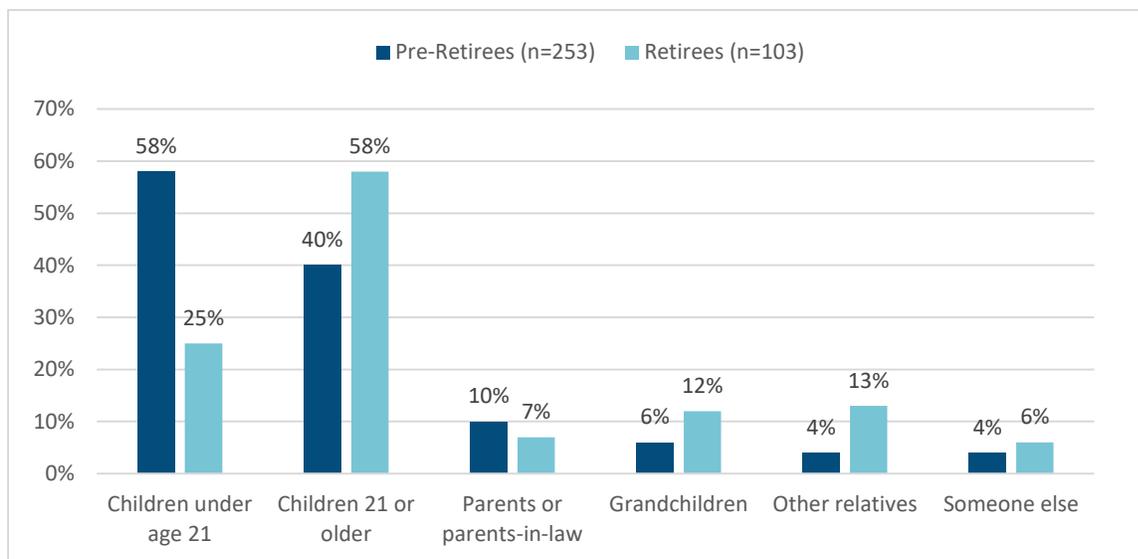
PLAN FOR MANAGING FINANCIAL ASSETS IN RETIREMENT

Which one of the following best describes how you (plan to) manage your financial assets (in retirement)?



- Pre-retirees are far more likely to support someone other than themselves or spouses (26%) than retirees do (9%), with children rather than parents being far more likely to be the recipient of this support. Of this limited sample, pre-retirees (77%) are far more apt to have these relatives residing with them than retirees (48%). Among those providing such support, 40% of pre-retirees and retirees claim that it has at least some impact on their finances, but few (14%) claim that it has a great deal of impact.

**Figure 7**  
**PROVIDING FINANCIAL SUPPORT TO OTHERS—WHO THEY SUPPORT**  
*To whom do you provide this support?*  
*(Filtered for those who offer financial support to others)*



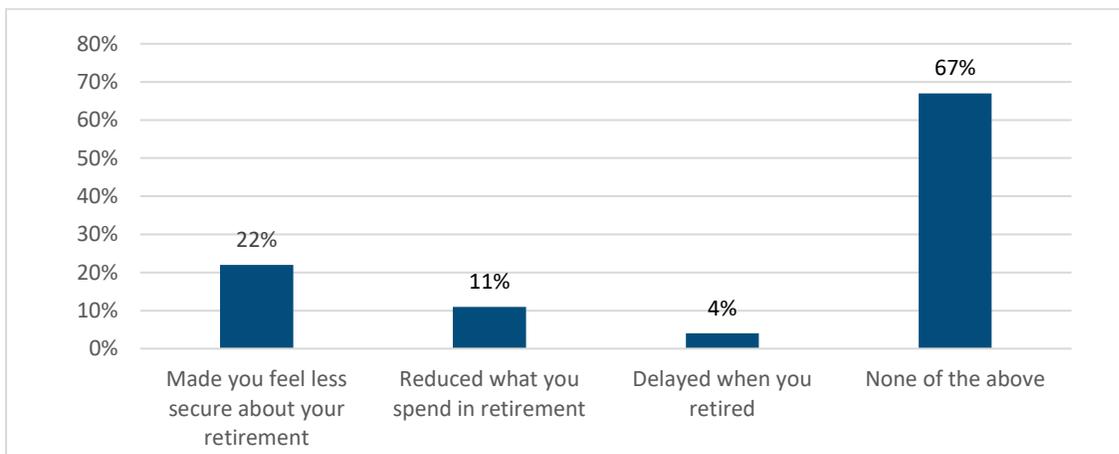
- About one-third of retirees claim that the 2008 financial crisis had an impact on when they retired, on what they spend in retirement or in making their retirement less secure. A majority of those that did cut back on spending did so by traveling less, eating out less often or simply purchasing less.

**Figure 8**

**IMPACT OF MORTGAGE CRISIS AND STOCK MARKET DECLINE ON RETIREMENT**

*What impact did the mortgage crisis and stock market decline in 2008 have on your retirement?*

*(Filter: Retirees n=1,051)*

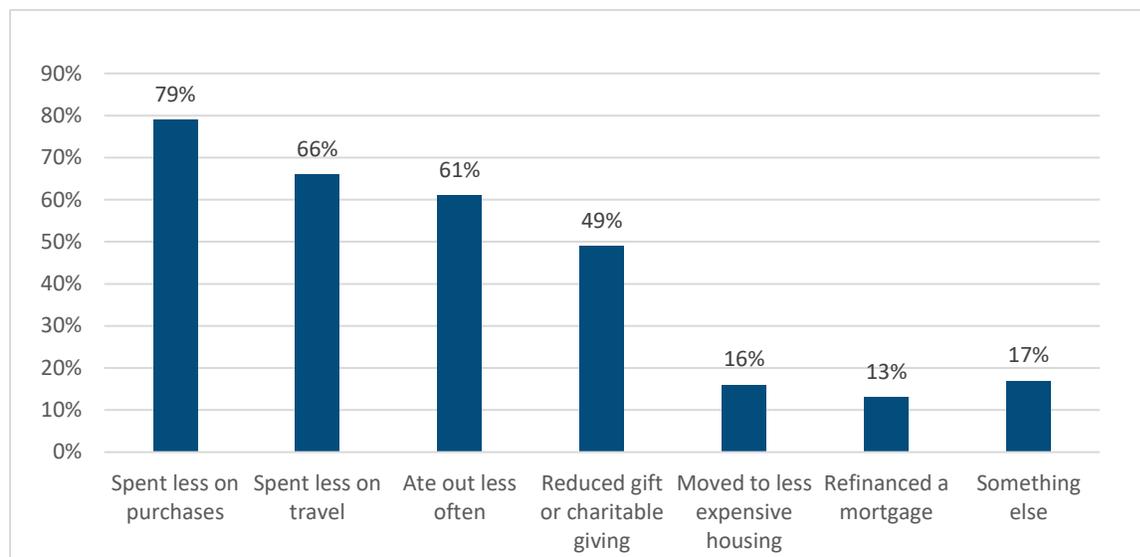


**Figure 9**

**ACTIONS TAKEN TO DECREASE SPENDING DUE TO MORTGAGE/STOCK CRISIS**

*What actions did you take to decrease your spending?*

*(Filter: Retirees who made effort to reduce spending, n=132)*



- Although the study indicates that a majority of retirees report that they are doing the same or better than they expected, this does **not** apply to the entire retired population. Those with lower income and wealth are far more likely to say that they are faring worse than they thought they would be, as are widows and those experiencing major health issues. Nonmarried and female retirees also do not fare as well as others.

**OBSERVATIONS**

This fact sheet shows differences between retirees’ income sources and pre-retirees’ expected income sources, as well as the expectations and realities of their financial situations in retirement. Retirees rely far more on guaranteed income sources such as Social Security and pensions and less on their own savings and employment income than pre-retirees expect they will. Such differences may occur because pre-retirees will have less guaranteed income available to them as pensions are on the decline and the future of Social Security could be in doubt, or because pre-retirees historically overestimate the role that their savings will play.

Further, about six in ten pre-retirees expect their expenses to stay the same or be higher in retirement, yet nearly the same proportion expect their income to buy less in retirement than they can afford now, perhaps offering some explanation for why pre-retirees are far more likely than retirees to expect to rely on employment in retirement as a source of income.

The pre-retiree view of their retirement income and spending is less optimistic than the reality retirees describe experiencing in retirement. This finding centered on the idea of retirees faring better economically than pre-retirees expect to is also reflected in the EBRI/Greenwald Retirement Confidence study (<https://www.ebri.org/retirement/retirement-confidence-survey>).

Across pre-retires and retirees, less wealthy and healthy segments of the population are less optimistic about their financial picture in retirement.

## About The Society of Actuaries

The Society of Actuaries (SOA), formed in 1949, is one of the largest actuarial professional organizations in the world dedicated to serving more than 31,000 actuarial members and the public in the United States, Canada and worldwide. In line with the SOA Vision Statement, actuaries act as business leaders who develop and use mathematical models to measure and manage risk in support of financial security for individuals, organizations and the public.

The SOA supports actuaries and advances knowledge through research and education. As part of its work, the SOA seeks to inform public policy development and public understanding through research. The SOA aspires to be a trusted source of objective, data-driven research and analysis with an actuarial perspective for its members, industry, policymakers and the public. This distinct perspective comes from the SOA as an association of actuaries, who have a rigorous formal education and direct experience as practitioners as they perform applied research. The SOA also welcomes the opportunity to partner with other organizations in our work where appropriate.

The SOA has a history of working with public policy makers and regulators in developing historical experience studies and projection techniques as well as individual reports on health care, retirement and other topics. The SOA's research is intended to aid the work of policymakers and regulators and follow certain core principles:

**Objectivity:** The SOA's research informs and provides analysis that can be relied upon by other individuals or organizations involved in public policy discussions. The SOA does not take advocacy positions or lobby specific policy proposals.

**Quality:** The SOA aspires to the highest ethical and quality standards in all of its research and analysis. Our research process is overseen by experienced actuaries and non-actuaries from a range of industry sectors and organizations. A rigorous peer-review process ensures the quality and integrity of our work.

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