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MATTERS MOST.
CARRY THE SHIELD.


2017 RICP[®] Retirement Income Literacy Survey Report



THE AMERICAN COLLEGE
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**CENTER FOR
RETIREMENT INCOME**

2017 RICP[®] Retirement Income Literacy Report

Report Overview

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 - Why Retirement Income Planning Literacy?
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The American College of Financial Services





THE
**AMERICAN
COLLEGE**
OF FINANCIAL SERVICES®

About The American College of Financial Services

The American College of Financial Services was founded in 1927 and is the nation's largest non-profit educational institution devoted to financial services. Holding the highest level of academic accreditation, The College has educated one in five financial advisors across the United States and offers prestigious financial planning designations such as the Retirement Income Certified Professional (RICP®), Chartered Life Underwriter (CLU®), Chartered Financial Consultant (ChFC®), and Certified Financial Planner (CFP®). It recently approved conferral of PhD degrees to the first class of graduates of that program. The American College's faculty represents some of the financial services industry's foremost thought leaders. For more information, visit TheAmericanCollege.edu.



THE AMERICAN COLLEGE
NEW YORK LIFE
**CENTER FOR
RETIREMENT INCOME**



Jamie Hopkins, JD, LL.M., MBA, RICP®
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Mission:

To elevate the retirement income planning knowledge of financial service professionals in order to improve retirement security for Americans

Priorities & Initiatives:

- Research - RICP® Retirement Income Literacy Index
- Education - Retirement Income Certified Professional® (RICP®)
- Video Library - retirement.theamericancollege.edu
- Thought Leadership and Visibility



THE
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OF FINANCIAL SERVICES®

Retirement Income Certified Professional® (RICP®)



Practical. Current. Comprehensive.



Why Retirement Income Planning Literacy?



Why Retirement Income Planning Literacy?

- This report was designed to assess retirement literacy among individuals who are nearing or already in retirement. More specifically, the goal was to determine whether retirees and pre-retirees have the knowledge they need to successfully plan for a financially secure retirement.
- The quiz and results will also help educate Americans on key retirement income planning decisions.
- Following the mission of The American College and the Center for Retirement Income, the survey and report were developed to shine a light on the need for improved retirement income literacy and planning.
- The survey results will be used by the New York Life Center for Retirement Income to develop consumer education and by The American College's Retirement Income Certified Professional® (RICP®) designation to improve the education of financial advisors.



Methodology

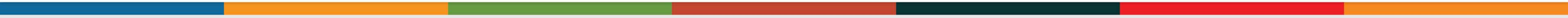
Research Methodology

- Information for this study was gathered through 20-minute online interviews conducted between February 16 – March 1, 2017.
- Respondents were recruited through the Research Now online panel, and a total of 1,244 Americans were interviewed.
- To qualify for participation in the study, respondents had to be age 60-75 and have at least \$100,000 in household assets, not including their primary residence.
- The final data set was weighted by age, education, and asset level to reflect the distribution of those characteristics among Americans age 60-75 with at least \$100,000 in investable assets (based on the 2013 Survey of Consumer Finance).

Research Methodology

- This survey is a follow-up of the 2014 Retirement Literacy Index study, which was conducted among n=1,019 Americans and had a similar methodology and questionnaire.
- Percentages in the tables and charts may not total to 100 due to rounding and/or missing categories.
- The original 2014 literacy questions were developed with the input and help of retirement income planning researchers and practitioners, with over 20 professionals being consulted. A few questions were modified in the 2017 survey for clarity purposes but topics remained consistent.
- A pilot survey was run to test the questions with consumers and to ensure that they were easily understood.
- In addition, topic areas from such leading retirement income educational programs as the Retirement Income Certified Professional® (RICP®) were reviewed in order to ensure that the proper retirement income topics were covered in the survey instrument. The RICP® curriculum includes educational material on distribution strategies, general planning, tax efficient withdrawals, investments, long-term care planning, Social Security, housing options, health care, insurance products, qualified plans, IRAs, optimal retirement ages, and government programs. See RICP® description: <https://www.theamericancollege.edu/designations-degrees/RICP>.

Take the Quiz



Respondent Demographics

Demographics

Gender	Total (n=1,244)
Male	50%
Female	50
Age	
60 to 64	39%
65 to 69	34
70 to 75	26
Marital Status	
Married	80%
Divorced or separated	8
Widowed	5
Single, never married	4
Not married, but living with a partner	3
Responsibility for Financial and Investment Decision Making	Married/Partner (n=1,044)
Primarily you	44%
Both you and another person	55
Primarily someone else	1

Education	Total (n=1,244)
Some high school or less	*
High school graduate	22%
Some college	11
Trade or vocational school	2
College graduate (4-year degree)	26
Post-graduate work	8
Graduate degree	32
Savings and Investments (Not Including Home Equity)	
\$100,000 to \$199,999	25%
\$200,000 to \$299,999	19
\$300,000 to \$499,999	16
\$500,000 to \$999,999	17
\$1 million to \$1.49 million	7
\$1.5 million or more	16

Demographics

Retirement Status	Total (n=1,244)
Retired and not working	63%
Retired but working part time	12
Retired but working full time year round	3
Not retired	22

Financial Advisor Relationship	Total (n=1,244)
Yes	65%
No	35

Comprehensive Written Financial Plan	Total (n=1,244)
Yes	34%
No	66

2016 Household Income	Total (n=1,244)
Under \$35,000	*
\$35,000 to \$49,999	1%
\$50,000 to \$74,999	26
\$75,000 to \$99,999	24
\$100,000 to \$149,999	30
\$150,000 or more	17
Prefer not to say	1

Home Ownership	Total (n=1,244)
Own	96%
Rent	4



Executive Summary

Executive Summary

Who Passed the Literacy Quiz?

- Retirement literacy remains low – 74% failed the 38-question retirement literacy quiz!
- Roughly 5% of respondents scored a B or higher (80%+).
- 47% correct was the average score (mean & median).
- Retirement literacy improved slightly from 2014 – 81% failed in 2014!

Executive Summary

Particular Areas of Concern

- **Americans have a particularly low knowledge about preserving assets and sustaining income in retirement.**
 - Only 38% know that \$4,000 is the most they can afford to “safely” withdraw per year from a \$100,000 retirement account, suggesting most do not know how to determine a prudent withdrawal rate in retirement.
 - Only 34% know that a substantial negative investment return at retirement age has a much bigger impact on portfolio sustainability than the same substantial negative return a number of years prior to or after retirement.
 - About half underestimate the life expectancy of a 65-year-old man, suggesting that many do not realize how long their assets may have to last.
- **Respondents also lack knowledge of the best strategy to improve retirement security as they approach retirement.** This area is also among the most problematic because knowledge is low and mistakes can limit opportunities to position one’s nest egg for retirement.
 - Only 33% understand that it is more effective to work two years longer or defer Social Security for two years than to increase contributions by 3% for five years just prior to retirement.
 - Fewer than half know that using a portion of the portfolio to purchase a life annuity can protect against the uncertainty of life expectancy.

Executive Summary

Particular Areas of Concern (Cont.)

- **Older Americans continue to display a significant lack of knowledge when it comes to understanding investments**, a knowledge that is becoming increasingly important as more need to place greater reliance on their nest eggs in retirement.
 - Just one in three understand that the value of bonds and bond funds falls as interest rates rise.
 - Only one in ten know that small company stock funds yield higher returns than large company stock funds, dividend paying stock funds, and high yield bond funds.
 - Just three in ten know that actively managed mutual funds have higher fees than ETFs.
 - Only one in four know that B-rated corporate bonds have higher yield than AAA corporate bonds or treasury bonds.
- **Older Americans also have a limited knowledge about long-term care.** This is problematic, as most older Americans need long-term care at some point in their lives. Knowledge is low on several critical items:
 - A majority underestimate the share of the population that will need assistance with Activities of Daily Living. Only 18% know that it is about 70% of the population.
 - Just one in three know that Medicaid pays for the majority of long-term care expenses provided in nursing homes.
 - Just 30% know that family members and not nursing homes, assisted living facilities, or hospitals provide the majority of long-term care services.

Executive Summary

Particular Areas of Concern (Cont.)

- **Respondents know very little about annuities.** This area is somewhat problematic, as annuity strategies are one way to enhance retirement income.
 - Over half (57%) answered each of our three annuity questions incorrectly.
 - Only 29% know that buying an immediate annuity will be more expensive for a younger person than an older one.
 - Only 17% know that the lifetime income payout rate for a 65-year-old male is roughly in the 6-7% range, though this is significantly higher than in 2014.
 - Only 14% know that a deferred annuity with guaranteed lifetime withdrawal benefits can pay income even if the investment account goes to zero.
 - Only one in five (19%) say they are not knowledgeable about annuity products in retirement (1 or 2 on a 7-point scale), suggesting many overestimate their knowledge of annuities.
 - However, three in four (74%) say having a source of guaranteed lifetime income in retirement is important, suggesting an appetite for more information about annuities.

Executive Summary


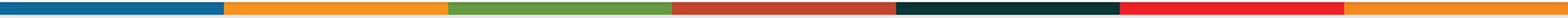
Areas of Higher Level of Literacy Proficiency

- **When crafting educational programs, it is helpful to note the areas in which the respondents had a higher level of proficiency.**
- **Majorities answered housing questions correctly**, indicating they know that reverse mortgages must be paid once the recipient leaves the home (76%) and that CCRCs offer a range of care from independent living to nursing care (65%).
- **Most older Americans are knowledgeable about Medicare issues**, with knowledge generally higher than in 2014. Eight in ten (79%) know that Medicare supplement insurance policies are most commonly purchased to cover deductibles and copays, 75% know traditional Medicare will cover physical exams, but not hearing aids or routine dental care, and 74% know out of pocket medical costs vary from retiree to retiree.
- **Older Americans are also more apt to understand the principle of inflation**, with 88% understanding that it reduces buying power and 59% knowing that a diversified portfolio of stocks is the best way to protect against inflation.

Executive Summary

More Mixed Literacy Results

- **There were several areas that provided mixed results. Unfortunately, the questions with lower performance represented issues involving important strategies.**
- **Knowledge is also higher about IRA and Roth IRA tax treatment, with one important exception.** Five in six (84%) understand that distributions must be taken from traditional IRAs every year after attainment of age 70½. More than six in ten (64%) know that distributions in retirement from a Roth IRA are generally tax free for a 65-year-old retiree. Seven in ten (69%) know that a retiree working part-time can still contribute to a Roth IRA. However, only one in three can identify the most advantageous time to convert an IRA to a Roth IRA, which is an important strategy for those early in retirement.
- **Finally, older Americans have moderate knowledge about life insurance in retirement.** Six in ten (60%) know that the death benefit from a life insurance policy owned by an individual is income tax free, though fewer (38%) understand that the cash value portion of a life insurance policy accumulates tax deferred.
- **Many older Americans still do not know enough about claiming Social Security.** Even though these results are better than some other areas, the knowledge level is still unacceptable given the importance of this decision.
 - On the plus side, over half (59%) know that benefits increase each year one delays taking Social Security up to age 70.
 - However, slightly fewer (55%) realize it is best to wait until age 70 to claim Social Security if one is going to live to 90.



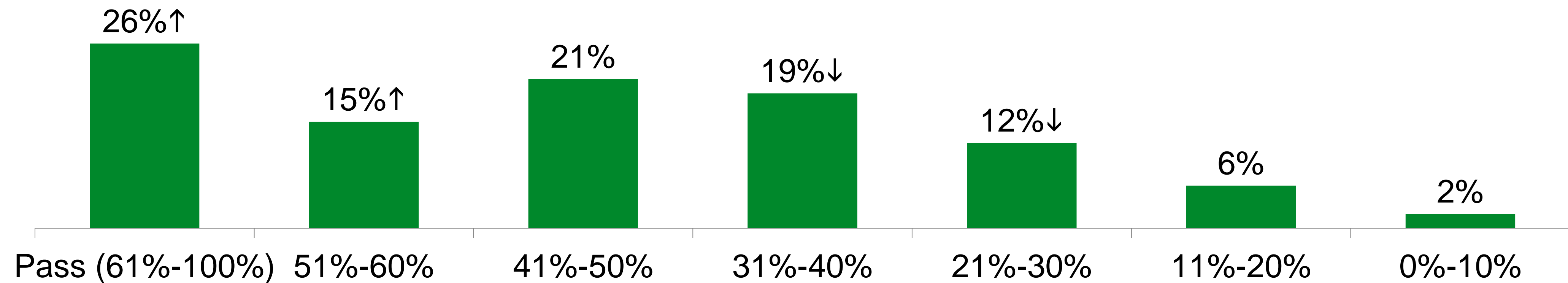
Who Passed the Literacy Quiz?

Who Passed the Literacy Quiz?

- Retirement literacy remains low – 74% failed the 38-question retirement literacy quiz!
- Roughly 5% of respondents scored a B or higher (80%+).
- 47% correct was the average score (mean & median).
- Men had a median score of 20 of 38 correct while women had a median of 16 of 38.
- Only 18% of women passed as opposed to 35% of men.
- Individuals with \$1 million+ of savings performed better than all other asset levels.
- Those who work with a financial advisor have lower levels of financial literacy.

Quiz Grade

- 26% passed
- 74% failed
- 60% scored less than 50%
- 20% scored less than 30%

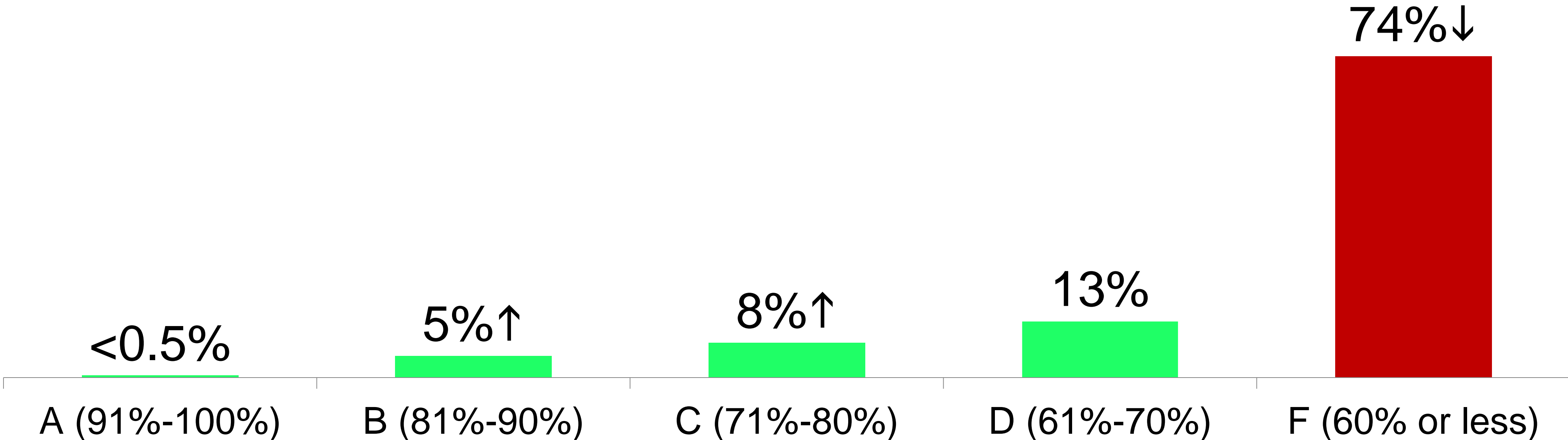


(2014 Total n=1,019; 2017 Total n=1,244) [Arrows represent a significant difference of at least 95%.]

Some quiz questions were changed or removed in the 2017 survey, so use caution when comparing overall quiz scores between years

Grade Distribution

- Only 5% scored a B or higher (81-100%)
- 50% of those passing received a D (61-70%)

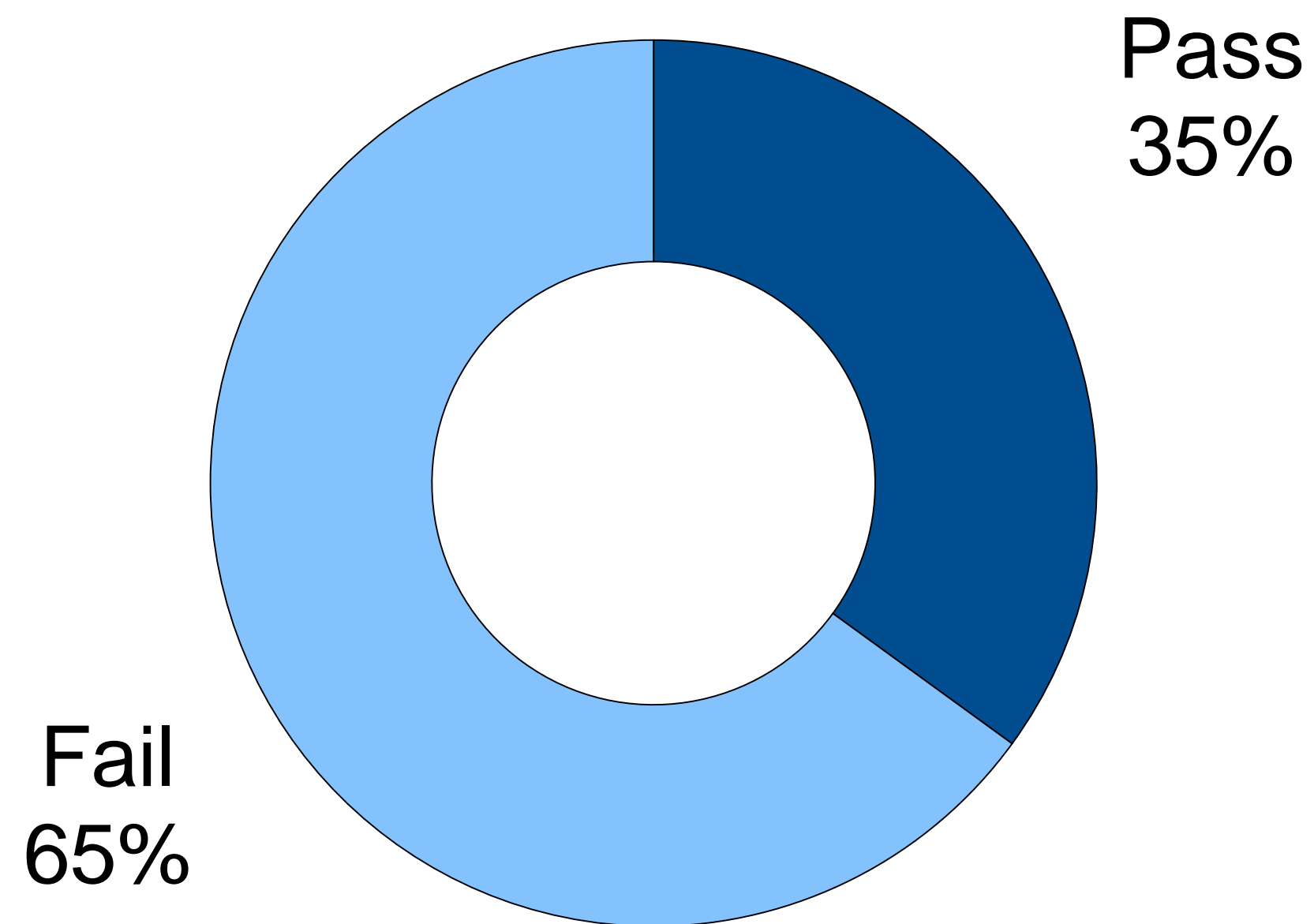


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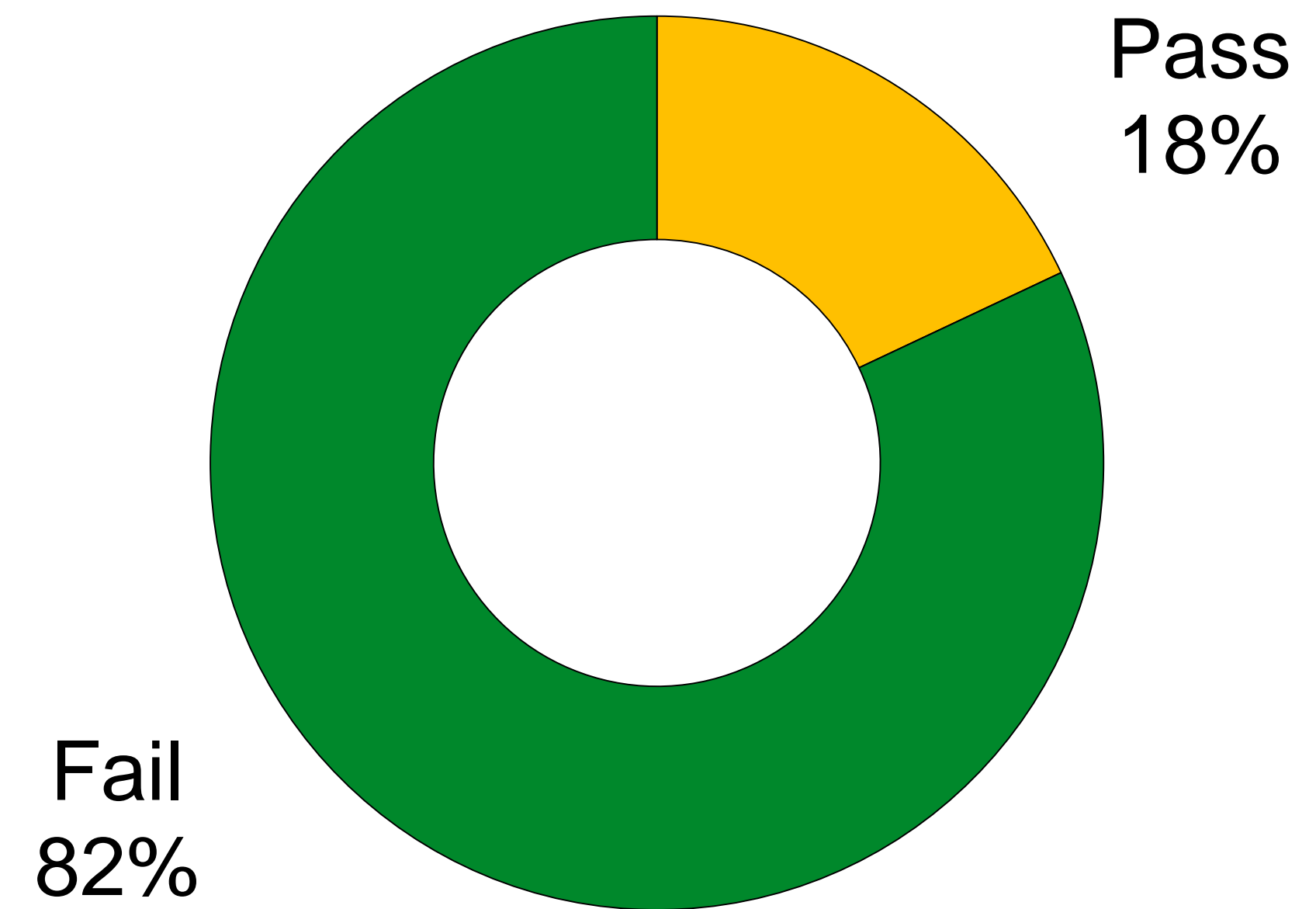
Male v. Female Responses

- Only 18% of women passed as opposed to 35% of men
- Male median score: 20/38
- Female median score: 16/38

Pass v. Fail of Male Respondents

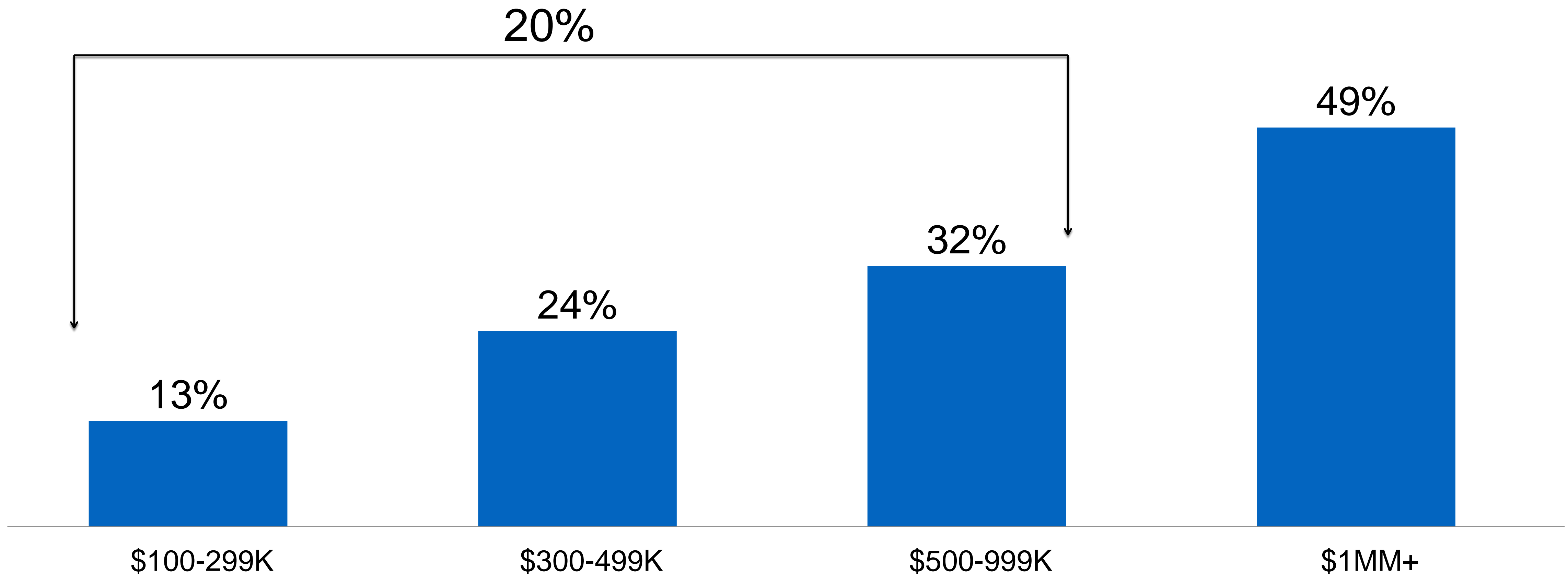


Pass v. Fail of Female Respondents



Pass Rates by Wealth*

- 49% of respondents with \$1 million+ passed
- 20% of respondents below \$1 million in assets passed the quiz

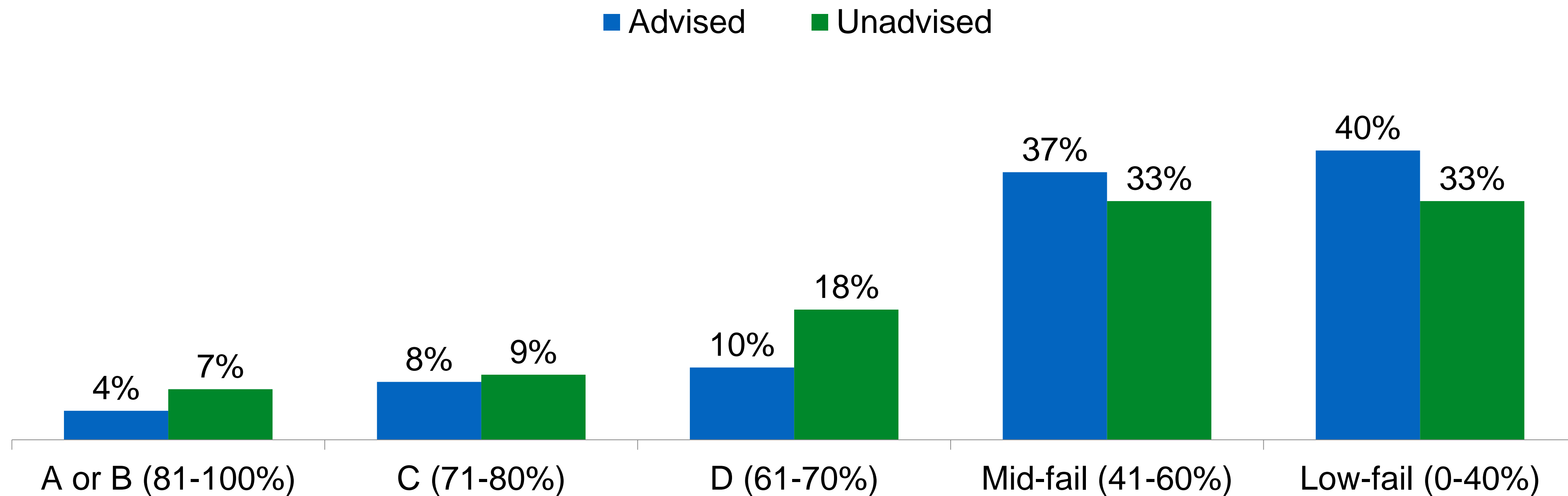


*Does not include home equity

Financial Advisor Literacy (Non)Impact

- Only 22% with an advisor passed the quiz
- 34% of those without a financial advisor passed the quiz

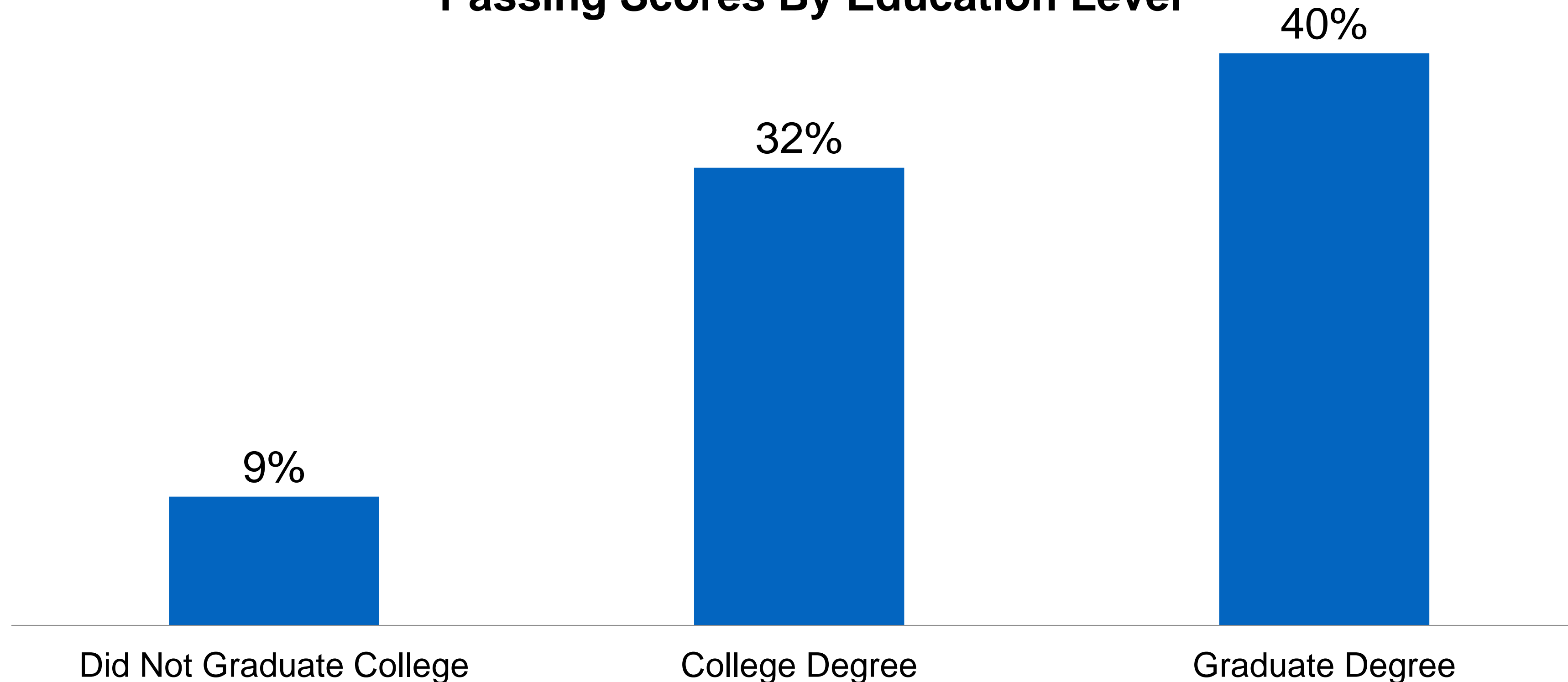
Quiz Grade by Advisor Status



Impact of Education on Literacy

- 40% of those with a graduate degree or higher passed
- Only 9% of respondents without a college degree passed

Passing Scores By Education Level



Average Scores by Section

Sections	Average Score (Mean)	# of Questions	% Correct
Strategies for sustaining income throughout retirement	2.05	5	41%
How long you will live – life expectancy	0.41	1	41%
Use of life insurance in retirement planning	0.98	2	49%
Annuity products in retirement	0.60	3	20%
How taxes affect retirement security	2.51	4	63%
Impact of inflation on retirement security	1.46	2	73%
Housing in retirement	1.41	2	71%
Medicare insurance planning	2.28	3	76%
Paying for long-term care expenses	1.82	5	36%
Investment considerations in retirement planning	2.39	6	40%
Social Security	1.42	3	47%
Company retirement plans	0.70	2	35%
Total	18.03	38	47%**

** indicates slight rounding error

Section Scores (Worst to Best)

Sections	% Correct
Annuity products in retirement	20%
Company retirement plans	35%
Paying for long-term care expenses	36%
Investment considerations in retirement planning	40%
Strategies for sustaining income throughout retirement	41%
How long you will live – life expectancy	41%
Social Security	47%
Use of life insurance in retirement planning	49%
How taxes affect retirement security	63%
Housing in retirement	71%
Impact of inflation on retirement security	73%
Medicare insurance planning	76%
Total	47%**

**indicates slight rounding error, reason why it does not average perfectly to 47.00.



**Positive Relationships Between
Literacy and Indicators of
Financial Sophistication**



Correlation with Financial Sophistication

- Those with higher levels of literacy were:
 - More likely to identify as risk takers
 - More likely to have a formal written retirement plan in place
 - More likely to have a long-term care plan in place
 - More likely to be the primary financial decision maker (married/partners)
- Higher literacy and higher pass rates were also associated with:
 - Respondents reporting high levels of retirement security confidence
 - Respondents self-identifying as knowledgeable about retirement income planning
 - Respondents reporting high levels of confidence that they could manage their own investments throughout retirement
- Those with higher literacy scores also found that it was more important that:
 - Their advisor act as a fiduciary
 - Their financial advisor educate them on retirement risks

Risk Taking

- Breakdown
 - 35% of respondents identified as risk takers
 - 65% of respondents identified as cautious/risk averse

	Pass Rate**	Mean Score**
Risk takers	40%	54.63%
Risk averse	19%	43.50%

** Indicates the difference between the two scores are significant at the 99% level

Retirement Confidence

- Breakdown

- 73% of respondents stated they were confident about their retirement security (5-7 Likert scale)
- 27% stated they had low to moderate confidence levels about their retirement security (1-4 Likert scale)

	Pass Rate	Mean Score**
High retirement security confidence	28%	49.57%
Low to moderate retirement security confidence	21%	41.69%

** Indicates the difference between the two scores are significant at the 99% level

Written Retirement Plan

- **Breakdown**

- 34% of respondents had a formal written retirement plan
- 66% of respondents did not have a formal written retirement plan

	Pass Rate	Mean Score*
With written plan	29%	49.89%
Without written plan	25%	46.25%

* Indicates the difference between the two scores are significant at the 95% level

Knowledge on Retirement Income Planning

- Breakdown

- 61% of respondents indicated they had high levels of retirement income knowledge (5-7 on Likert scale)
- 39% of respondents indicated they had low to moderate levels of retirement income knowledge (1-4 on Likert scale)

	Pass Rate**	Mean Score**
Higher knowledge	33%	51.97%
Lower knowledge	16%	40.59%

** Indicates the difference between the two scores are significant at the 99% level

Long-Term Care Plan

- Breakdown
 - 36% of respondents had a long-term care plan in place
 - 64% of respondents did not have a long-term care plan in place

	Pass Rate**	Mean Score**
With long-term care plan in place	34%	54.63%
Without long-term care plan in place	22%	44.92%

** Indicates the difference between the two scores are significant at the 99% level

Investment Management Confidence

- Breakdown

- 61% of respondents indicated they had high levels of confidence that they could manage their own investments throughout retirement (5-7 on Likert scale)
- 39% of respondents indicated they had low to moderate levels of confidence that they could manage their own investments throughout retirement (1-4 on Likert scale)

	Pass Rate**	Mean Score**
High confidence	33%	51.49%
Low to moderate confidence	17%	41.21%

** Indicates the difference between the two scores are significant at the 99% level

Primary Financial Decision Maker

- Breakdown

- 44% of respondents with a spouse or partner reported being the primary financial decision maker
- 55% of respondents with a spouse or partner reported that they shared the decision making in the household
- Only 1% stated they were not responsible for making financial decisions

	Pass Rate**	Mean Score**
Primary responsibility	39%	53.92%
Shared responsibility	17%	43.61%

** Indicates the difference between the two scores are significant at the 99% level

Importance of Fiduciary Advisor

- Breakdown

- Of respondents with an advisor, 48% stated it was not important to moderately important for their advisor to act as a fiduciary (1-4 Likert scale)
- Of respondents with an advisor, 52% stated it was extremely important for their advisor to act as a fiduciary (5-7 Likert scale)

	Pass Rate**	Mean Score**
Important that advisor is fiduciary	32%	51.64%
Not important advisor is fiduciary	17%	42.20%

** Indicates the difference between the two scores are significant at the 99% level

Importance that Advisor Educates on Risk

- Breakdown

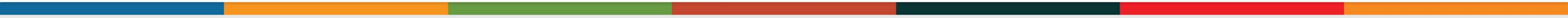
- 76% of respondents with advisors found it extremely important that their advisor educate them on retirement risks (5-7 Likert scale)
- 24% of respondents with advisors found it not important to moderately important that their advisor educate them on retirement risks (1-4 Likert scale)

	Pass Rate	Mean Score**
Wanted advisor education on risk	24%	47.79%
Education on risk not important	19%	41.68%

** Indicates the difference between the two scores are significant at the 99% level

Power of Literacy

- Respondents who passed the quiz were:
 - 46% more likely to have a long-term care plan in place
 - 16% more likely to have a written plan in place
 - 67% more likely to feel that it was important for their current advisor to be a fiduciary
 - 8% more likely to have an estate plan in place (80% of all respondents had a plan so still powerful)
 - 87% more likely to self-identify as a risk taker
 - 11% more likely to feel confident about their retirement
 - 36% more likely to feel confident that they could manage their own investments throughout retirement



Comparing 2017 to 2014 Literacy Survey



Executive Summary

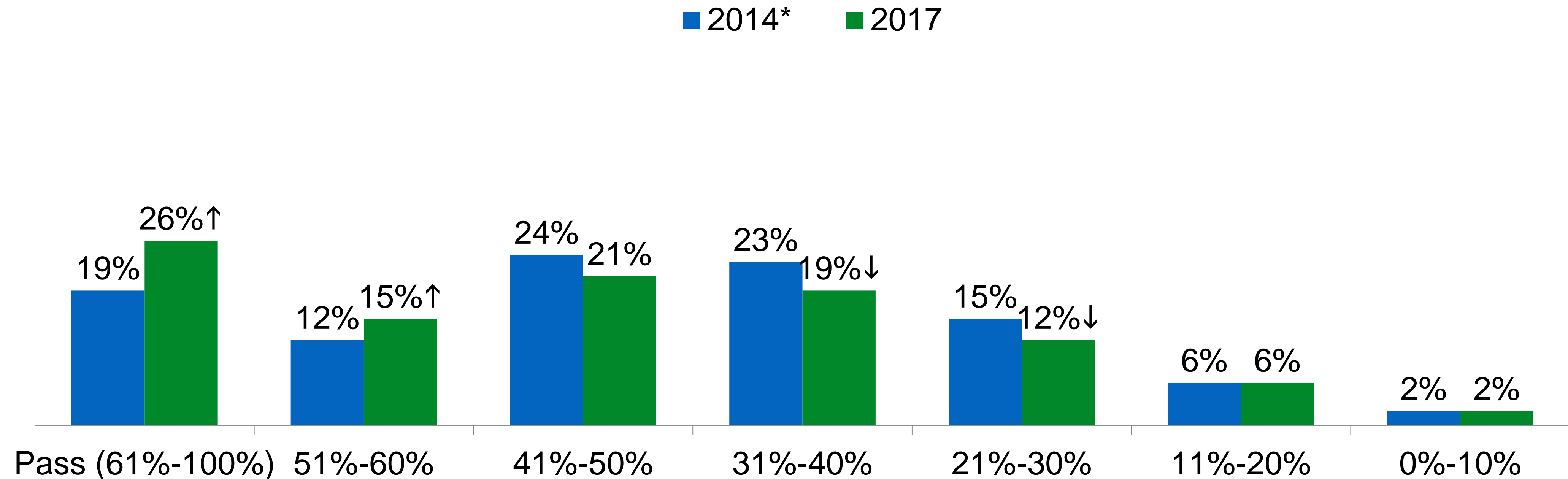
2017 Results Compared to 2014

- Retirement literacy improved slightly – 74% failed in 2017 and 81% failed in 2014!
- More respondents understood the 4% safe withdrawal rate – 38% in 2017 compared to 31% in 2014.
- More respondents understood the cost (pay-out rate) of an annuity, with only 13% answering correct in 2014 and 17% answering correctly in 2017.
- Respondents performed better on Medicare and health care questions, with an increase in understanding in out of pocket medical costs and Medicare coverage from 2014 to 2017.
- Respondents performed slightly worse on long-term care planning.

Overall Comparisons

2017 Results Compared to 2014

Quiz Grade Based on Total Percentage of Questions Answered Correctly



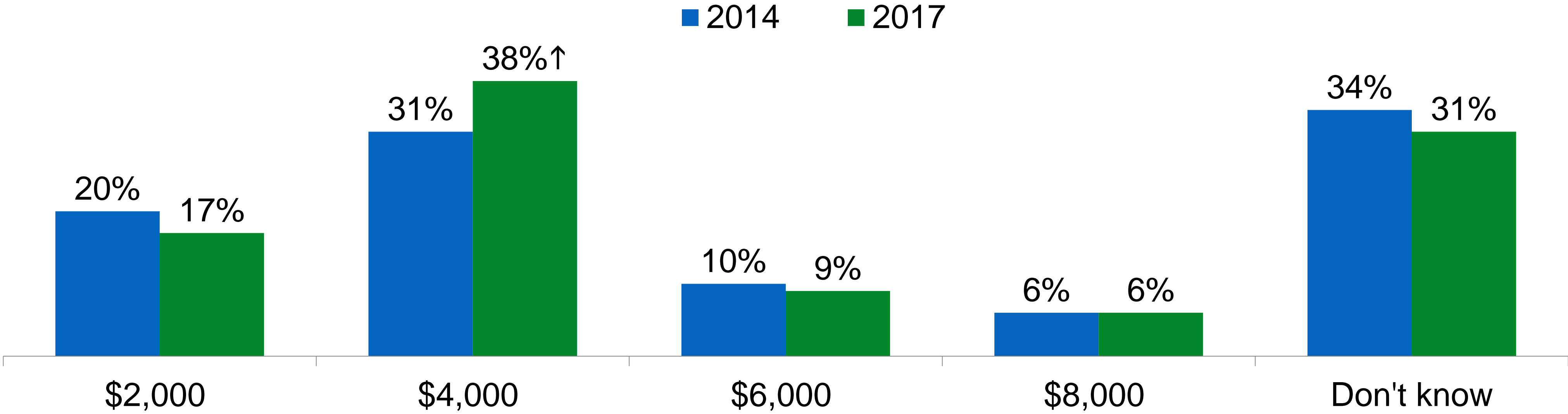
(2014 Total n=1,019; 2017 Total n=1,244) [Arrows represent a significant difference of at least 95%.]

* Some quiz questions were changed or removed in the 2017 survey, so use caution when comparing overall quiz scores between years

4% Safe Withdrawal Rate Knowledge Increased

Almost four in ten know the most they can draw from assets each year is 4%, up from roughly three in ten in 2014.

Quiz Question: Please choose the response below that best completes this statement: If you had a well diversified portfolio of 50% stocks and 50% bonds that was worth \$100,000 at retirement, based on historical returns in the United States the most you can afford to withdraw each year is about ____ plus inflation each year to have a 95% chance that your assets will last for 30 years.

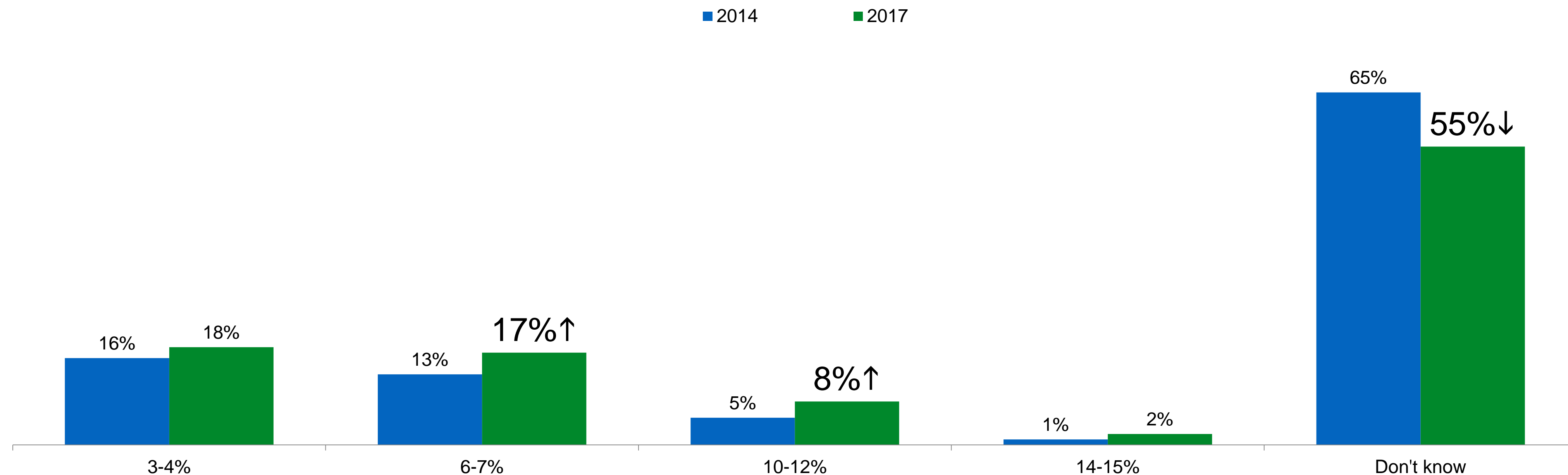


Q21: [Arrows represent a significant difference of at least 95%.]

Annuity Cost Improvement

Just 17%, up from 13% in 2014, are aware that the lifetime income payout rate for an immediate income annuity for a 65-year-old male today is roughly 6% to 7%.

Quiz Question: The lifetime income payout rate (the annual annuity payment as a percentage of the purchase price) for an immediate income annuity for a 65-year-old male today is roughly...

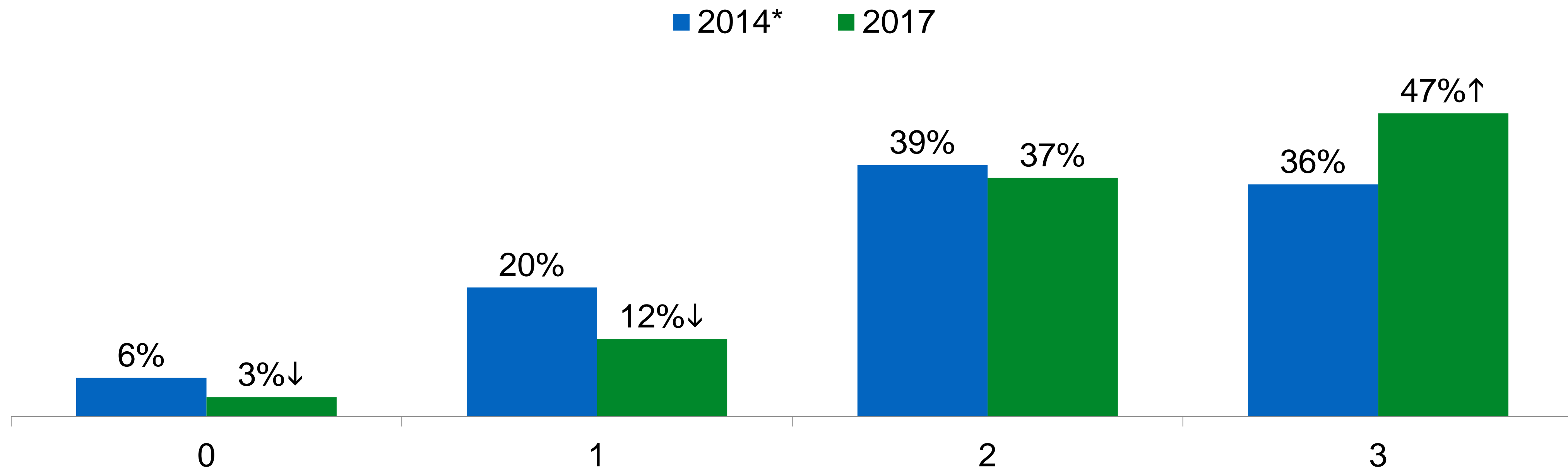


Q39: The lifetime income payout rate (the annual annuity payment as a percentage of the purchase price) for an immediate income annuity for a 65-year-old male today is roughly... (2014 Total n=1,019; 2017 Total n=1,244)
[Arrows represent a significant difference of at least 95%.]

Medicare Understanding Grew

11% more respondents could answer all three questions correctly. Mean score increased from 2.1 in 2014 to 2.28 in 2017.

Medicare Insurance Planning
Number of Questions Answered Correctly (Out of 3)



(2014 Total n=1,019; 2017 Total n=1,244) [Arrows represent a significant difference of at least 95%.]

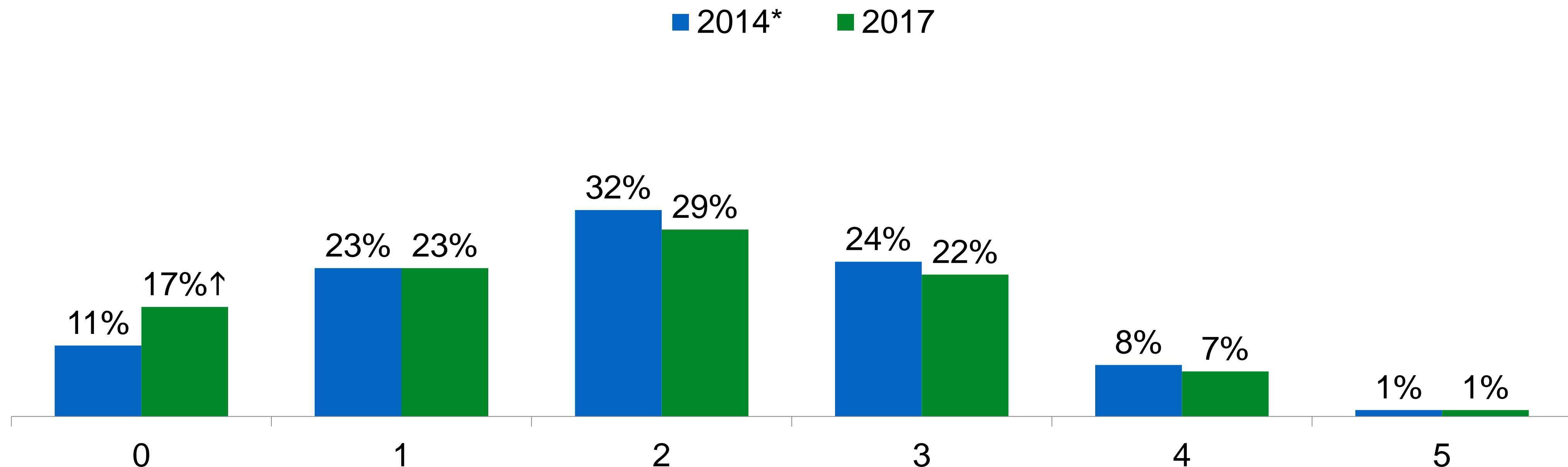
* Some quiz questions were changed in the 2017 survey, so use caution when comparing quiz scores for this section between years

In 2014, this section was called Medical Insurance Planning

Long-Term Care Literacy Declined

- 6% increase in respondents getting 0 questions correct, from 11% in 2014 to 17% in 2017. The mean long-term care score in 2017 was a 1.82/5 or 36% correct as compared to 2/5 or 40% correct in 2014.

Paying for Long-Term Care Expenses
Number of Questions Answered Correctly (Out of 5)



(2014 Total n=1,019; 2017 Total n=1,244) [Arrows represent a significant difference of at least 95%.]

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Strategies for Sustaining Income Throughout Retirement



Observations

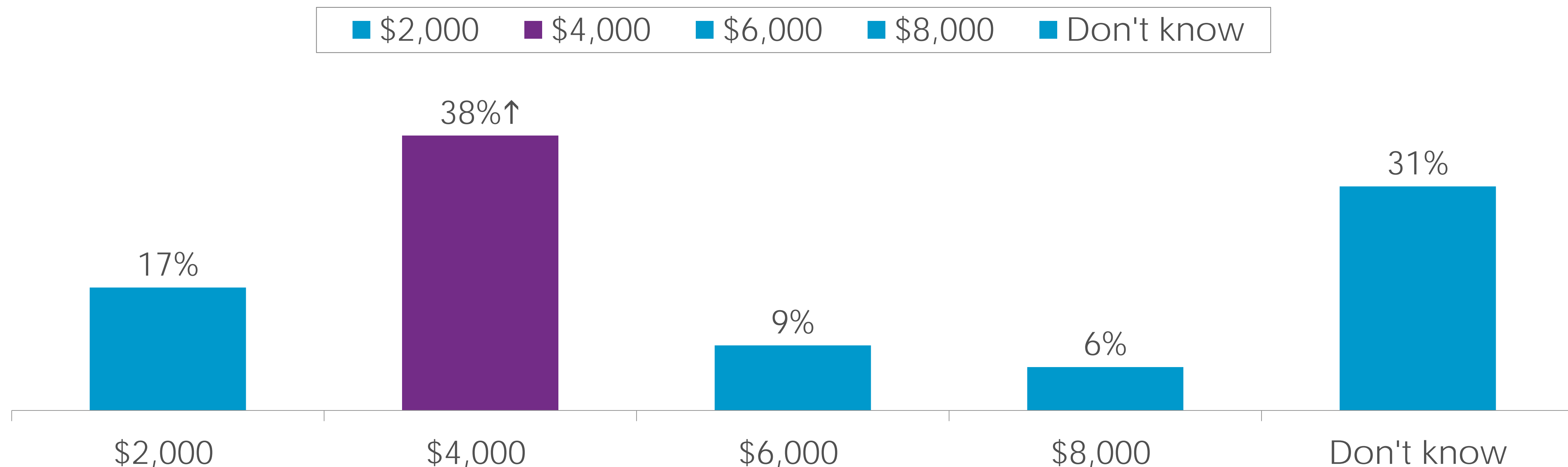
Strategies for Sustaining Income Throughout Retirement

- Almost four in ten had an understanding of the 4% safe withdrawal rule.
 - More than one-third did not understand the role of equities in a portfolio during the distribution period.
 - Fewer than half recognize that a life annuity can protect against life expectancy risk.
 - Only one in three understand that the timing of a large negative return has an impact on retirement security.
 - Only one in three understand it is more effective to work longer or defer Social Security than to save a bit more just prior to retirement.
- 

4% Withdrawal Question

Almost four in ten had an understanding of the 4% safe withdrawal rule.

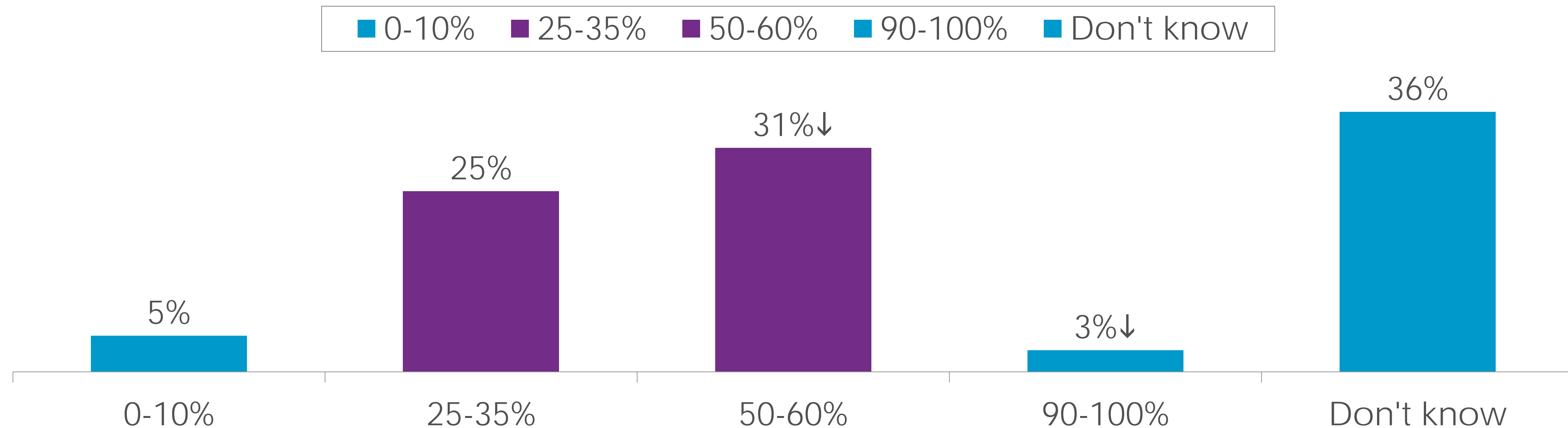
Quiz Question: Please choose the response below that best completes this statement: If you had a well diversified portfolio of 50% stocks and 50% bonds that was worth \$100,000 at retirement, based on historical returns in the United States the most you can afford to withdraw each year is about ____ plus inflation each year to have a 95% chance that your assets will last for 30 years.



Equity Allocation in Retirement

More than one-third did not understand the role of equities in a portfolio during the distribution period.

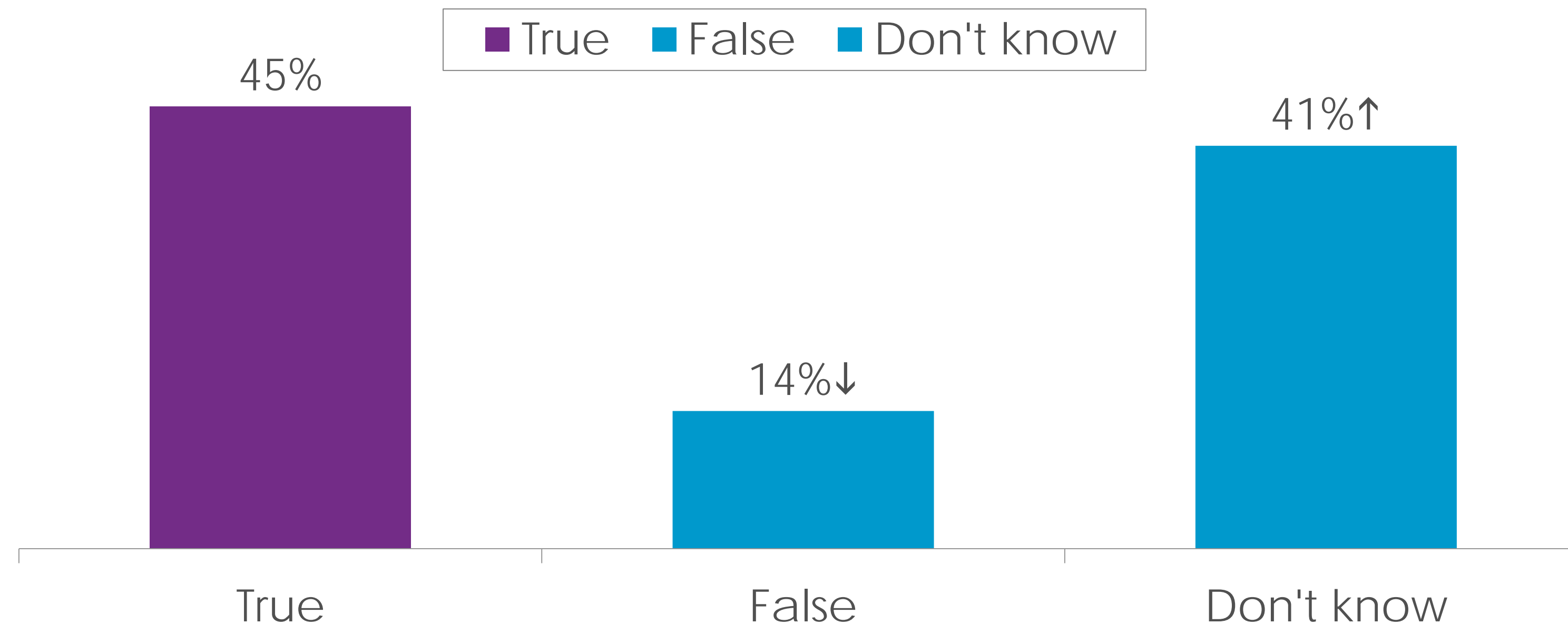
Quiz Question: To maximize the safe withdrawal rate from a portfolio over a 30-year retirement period, it is best to hold ___ in equities throughout retirement.



Impact of Life Annuities

Fewer than half recognize that a life annuity can protect against life expectancy risk.

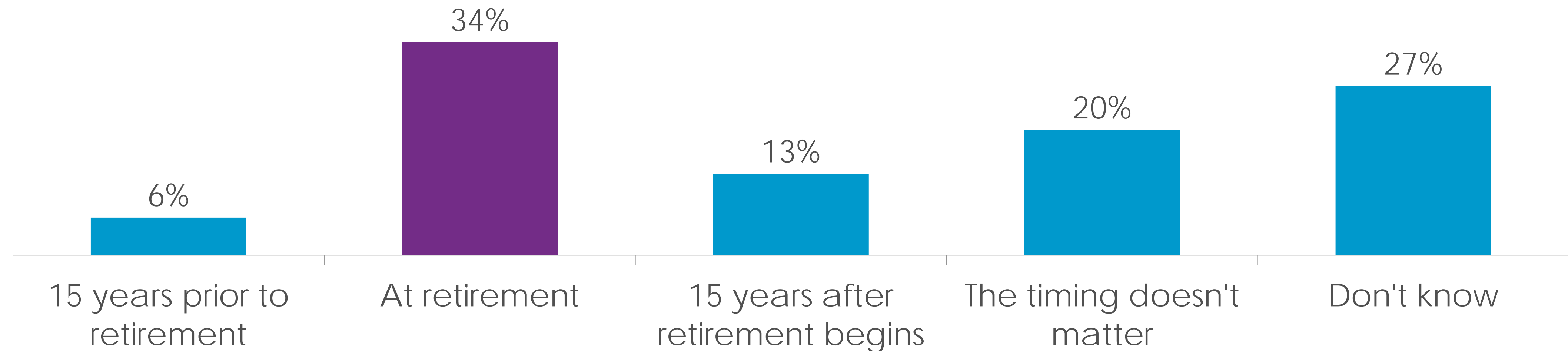
Quiz Question: True or False: Taking a portion (20-40%) of a retirement portfolio and buying a life annuity can protect against the uncertainty of life expectancy, ensuring that a basic level of spending is available throughout retirement.



Sequence of Returns Risk

Only one in three understand that the timing of a large negative return has an impact on retirement security.

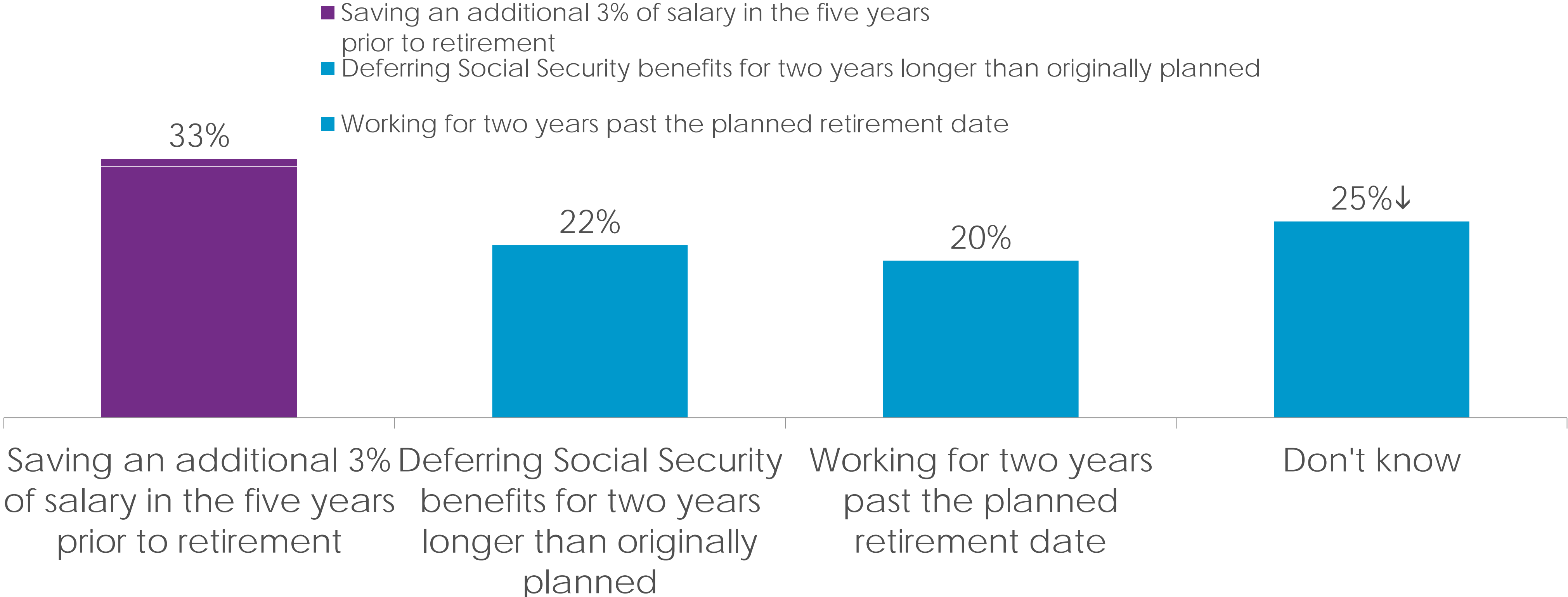
Quiz Question: A 25% negative single year return in a retirement portfolio would have the biggest impact on long-term retirement security if it occurs:



Effectiveness of Retirement Strategies

Only one in three understand it is more effective to work longer or defer Social Security than to save a bit more just prior to retirement.

Quiz Question: Which of the following strategies is least likely to improve retirement security?





How Long You Will Live

Observations

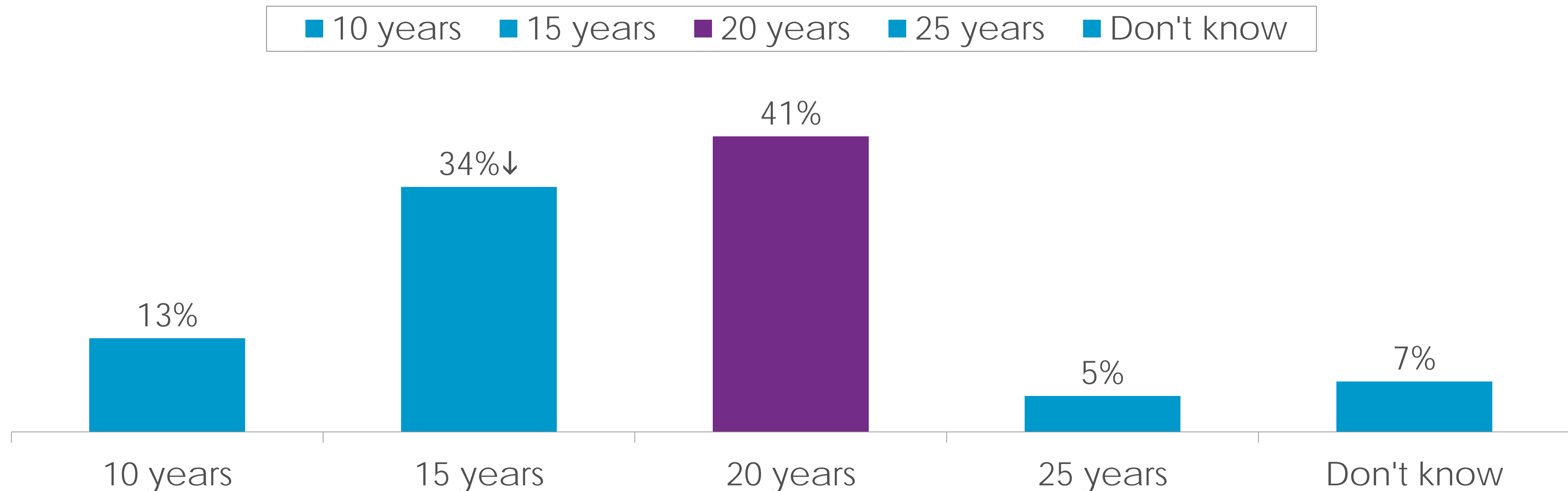
How Long You Will Live

- About half underestimate the life expectancy of a retiree.
- A 25% chance to live to a certain age is a lot different than a 10% chance, but there was little difference in the results as almost all of the respondents stated they would plan for a 10% chance.

Life Expectancy

About half underestimate the life expectancy of a retiree.

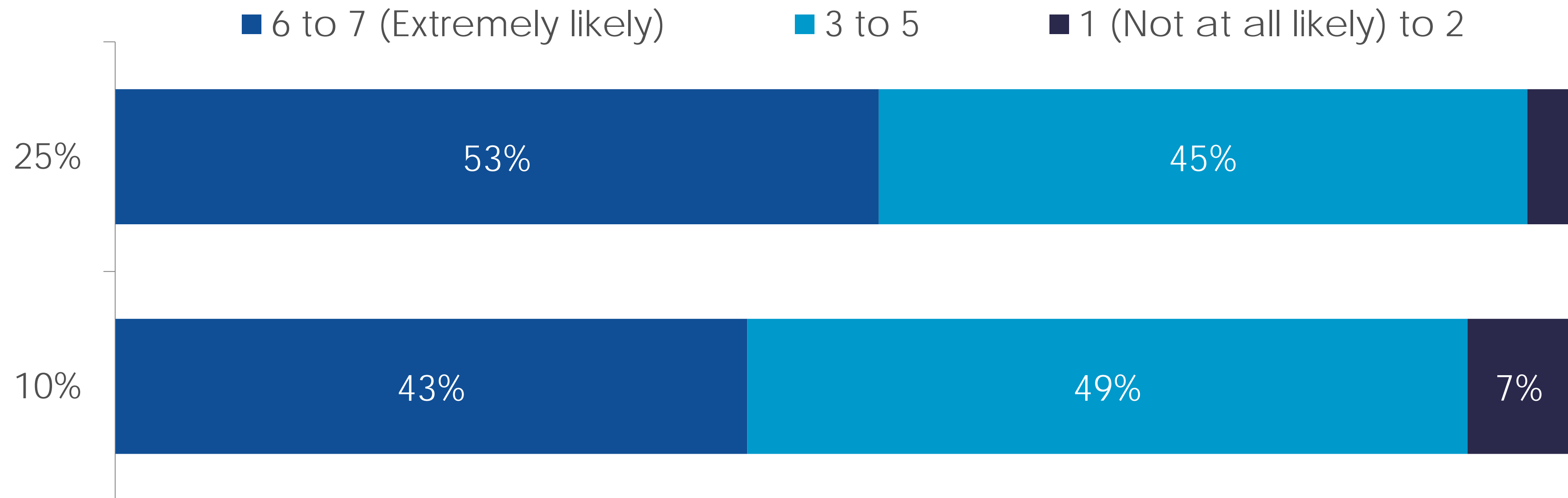
Quiz Question: A 65-year old man has an average life expectancy of approximately an additional:



Choosing a Planning Horizon

A 25% chance to live to a certain age is a lot different than a 10% chance, but there was little difference in the results as almost all of the respondents stated they would plan for a 10% chance.

If life expectancy tables said you had a (25% & 10%) chance of living to a specific age, how likely is it that you plan to make your money last until that age?



While this is not a literacy quiz question, it does demonstrate how well respondents understand longevity and the impact of planning for a longer life.



The Use of Life Insurance in Retirement Planning



Observations

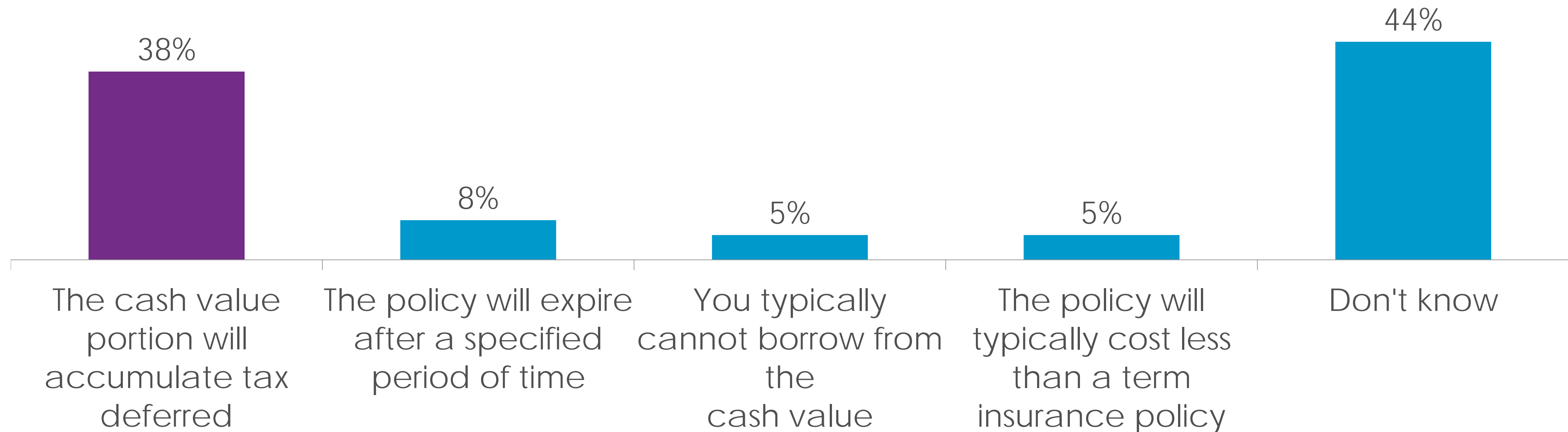
The Use of Life Insurance in Retirement Planning

- Fewer than four in ten understood the basic features of a cash value life insurance policy.
- Six in ten know that the death benefit from life insurance is tax free, while two in ten believe that it can be taxed.

Cash Value Life Insurance

Fewer than four in ten understood the basic features of a cash value life insurance policy.

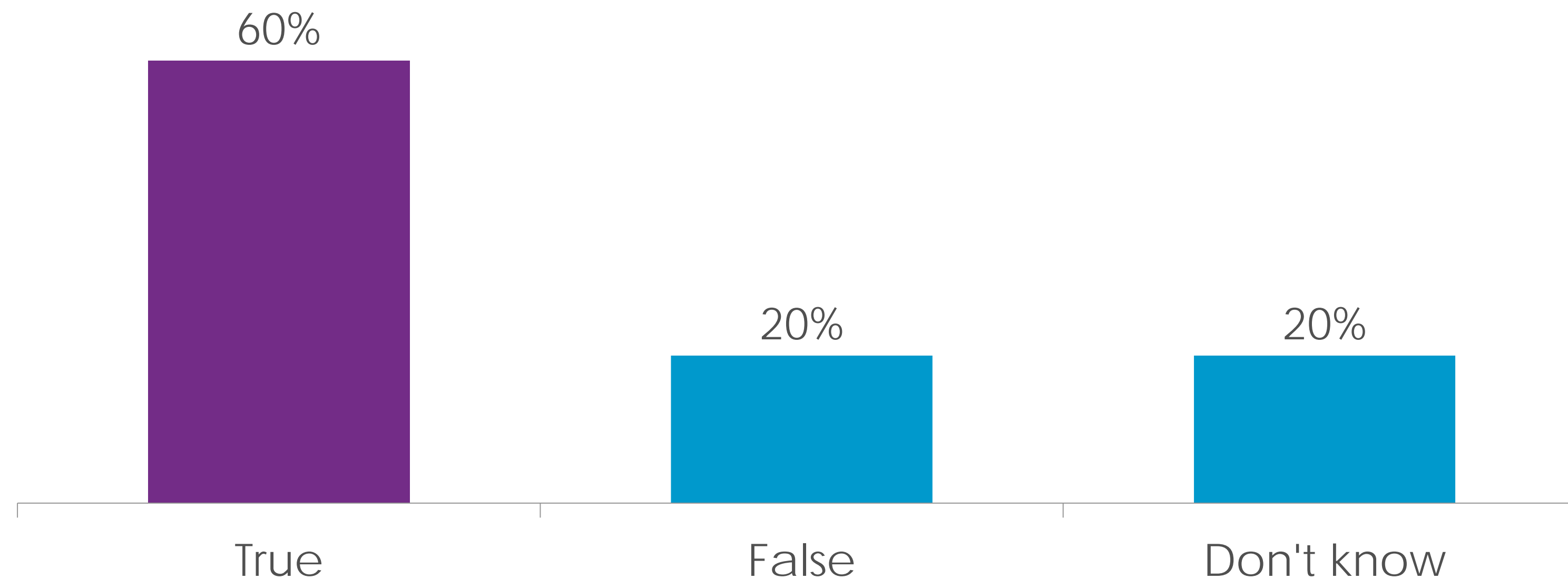
Quiz Question: Which one of the following is true about cash value life insurance?



Life Insurance Death Benefit

Six in ten know that the death benefit from life insurance is tax free, while two in ten believe that it can be taxed.

Quiz Question: True or False: The death benefit from a life insurance policy owned by an individual is income tax free.





Annuity Products in Retirement



Observations

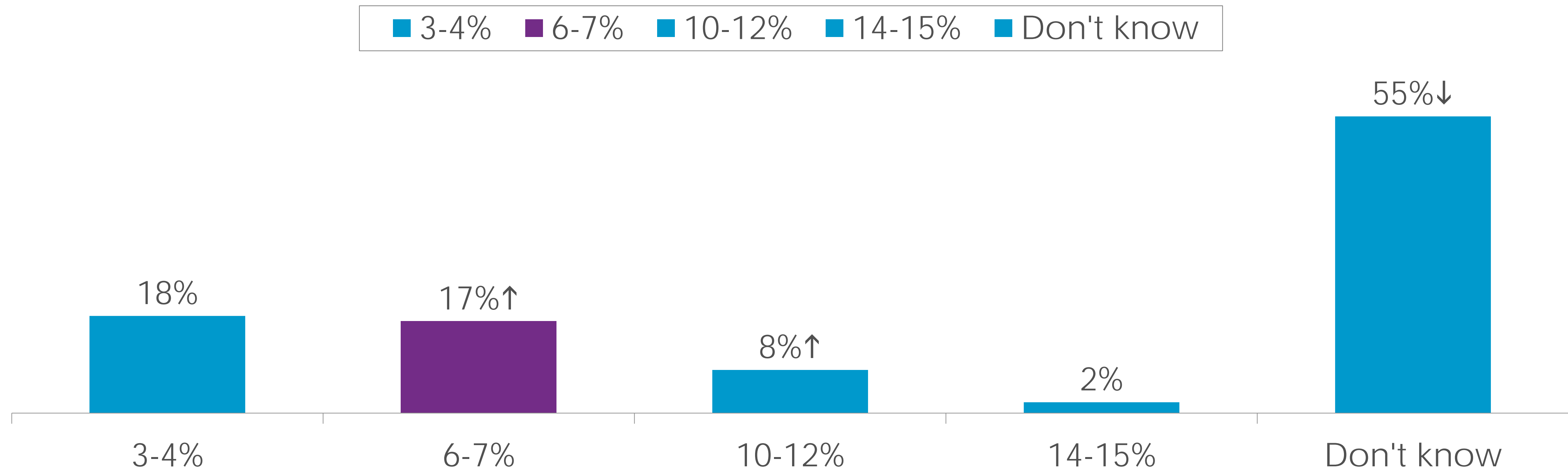
Annuity Products in Retirement

- Only one in six are aware of how much lifetime income costs by purchasing an annuity.
- Just three in ten understood that purchasing an income annuity would cost more for a younger person than an older person.
- Only 14% can identify the impact of having a guaranteed lifetime benefits on a deferred annuity.

Cost of Lifetime Income

Only one in six are aware of how much lifetime income costs by purchasing an annuity.

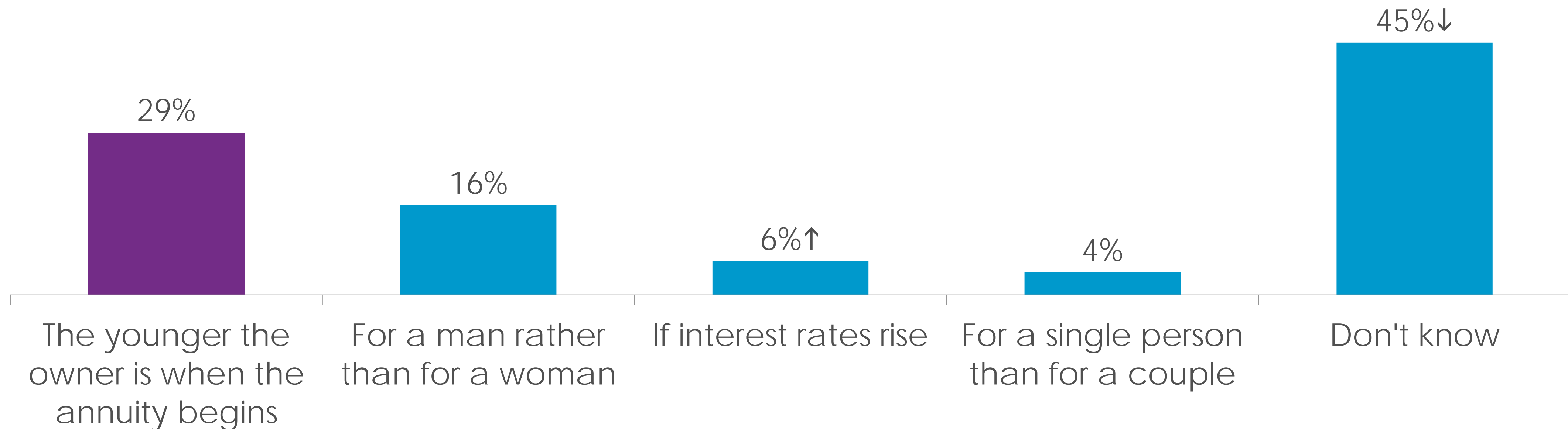
Quiz Question: The lifetime income payout rate (the annual annuity payment as a percentage of the purchase price) for an immediate income annuity for a 65-year-old male today is roughly...



Factors Impacting Cost of Income

Just three in ten understood that purchasing an income annuity would cost more for a younger person than an older person.

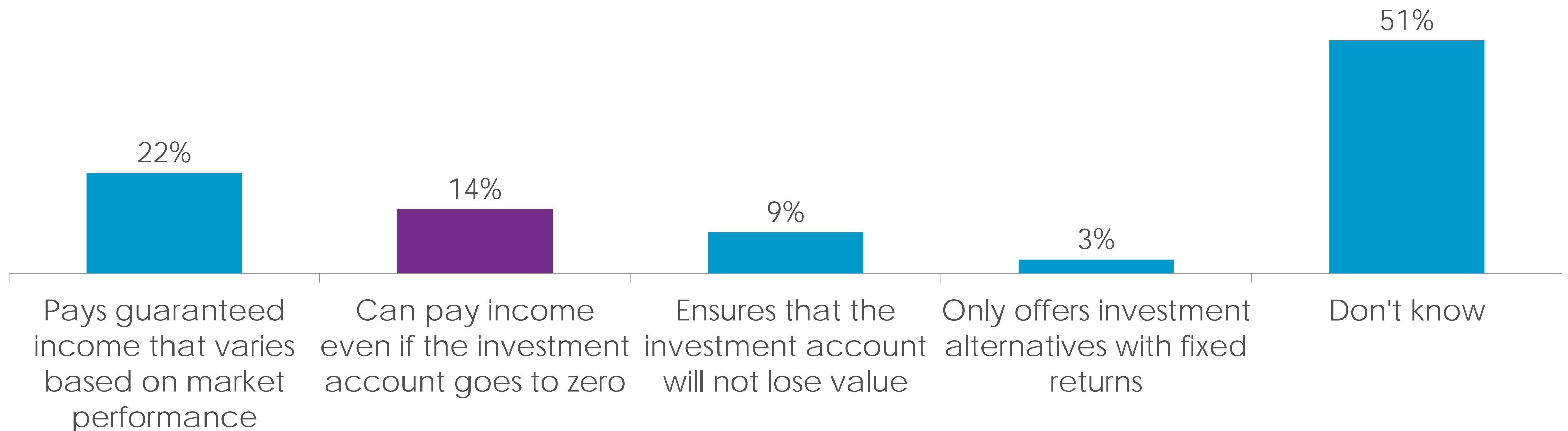
Quiz Question: An immediate income annuity that pays income of \$1,000 a month is generally going to be more expensive...



Guaranteed Lifetime Withdrawal Rider

Only 14% can identify the impact of having a guaranteed lifetime benefit rider on a deferred annuity.

Quiz Question: A deferred variable annuity with guaranteed lifetime withdrawal benefits...






How Taxes Affect Retirement Security



Observations

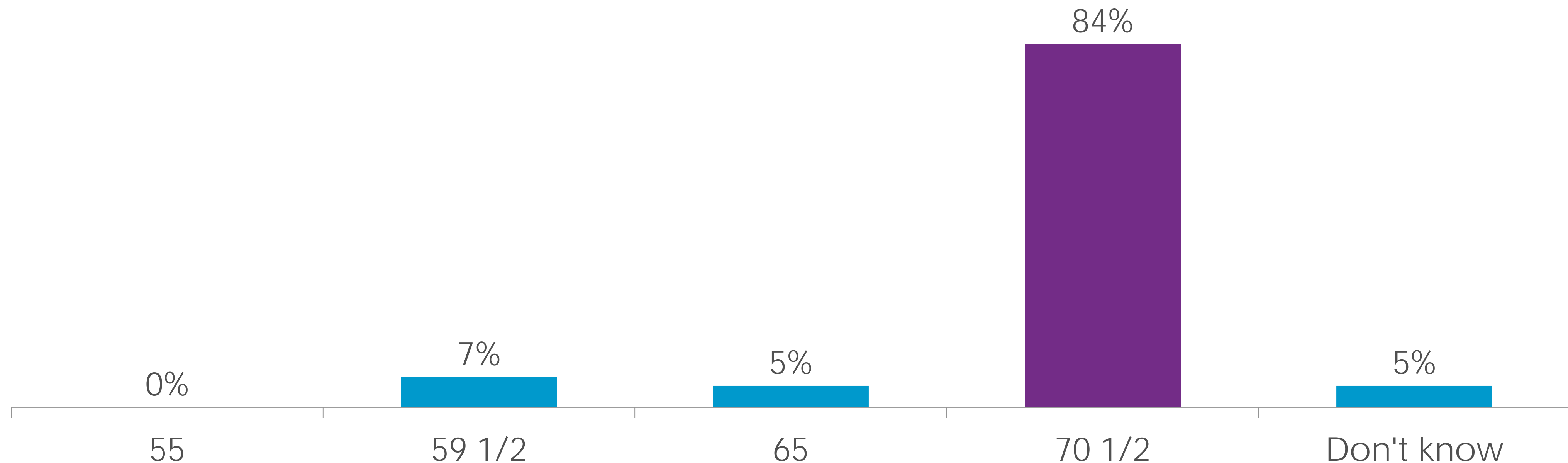
How Taxes Affect Retirement Security

- Five in six know that mandatory IRA distributions generally begin once an individual reaches age 70½.
 - Two in three know that distributions from a Roth IRA to a retiree are generally tax-free.
 - Seven in ten know that a retiree who is working part-time can generally contribute to a Roth IRA.
 - One in three know that it makes sense to convert a portion of a traditional IRA into a Roth IRA if your marginal tax rate is lower than normal for a given year.
- 

Required Minimum Distributions

Five in six know that mandatory IRA distributions generally begin once an individual reaches age 70½.

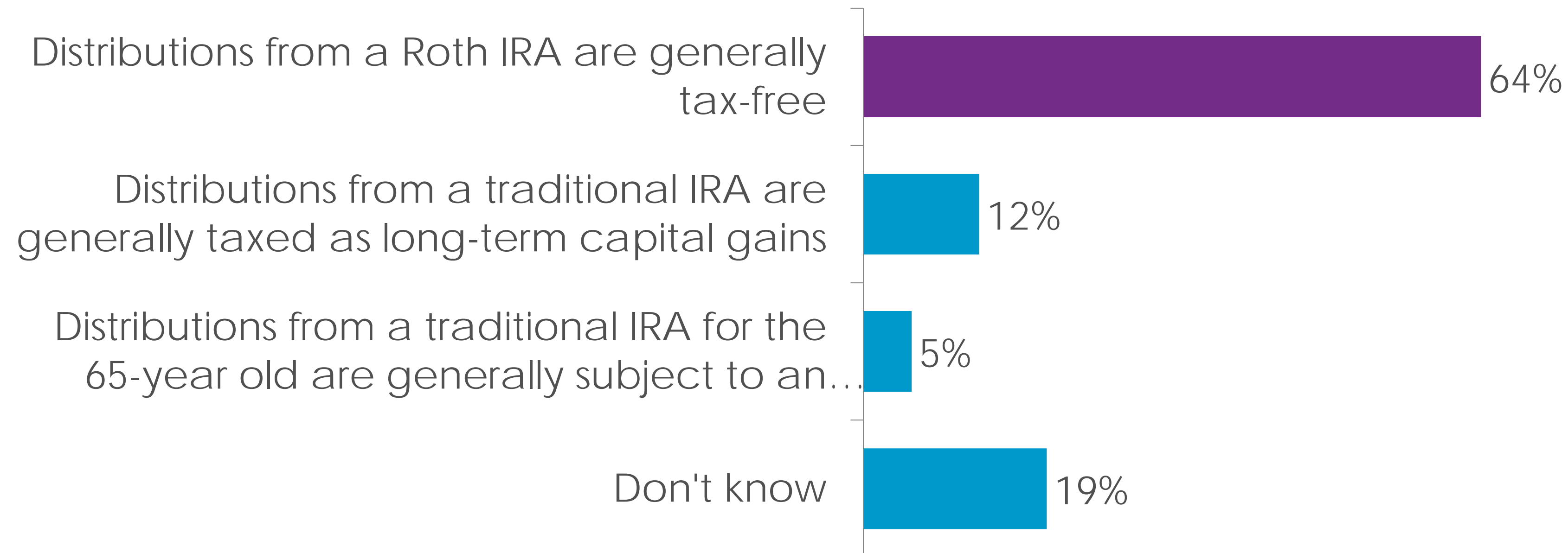
Quiz Question: Distributions from an IRA generally must be made every year once an individual has attained age...



Roth IRA Taxation

Two in three know that distributions from a Roth IRA to a retiree are generally tax-free.

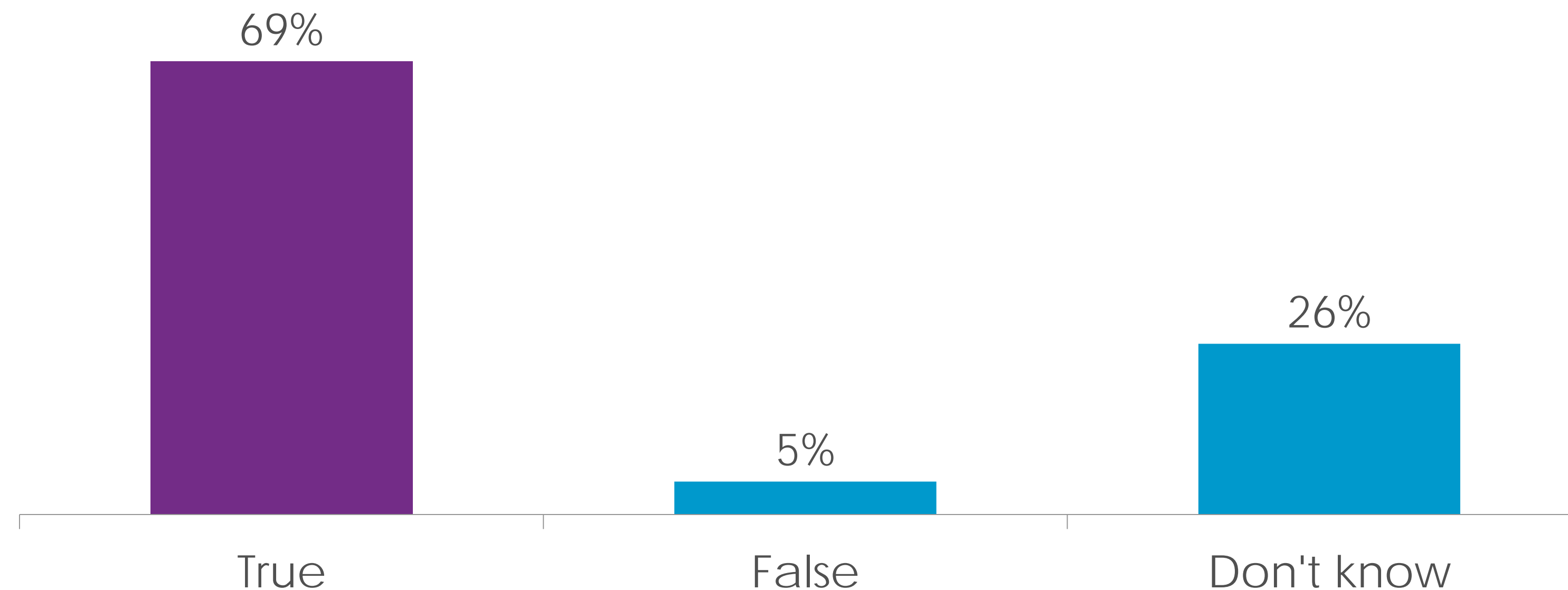
Quiz Question: Which one of the following statements concerning the federal income tax treatment of distributions to a 65-year-old retiree is true?



Roth IRA Eligibility

Seven in ten know that a retiree who is working part-time can generally contribute to a Roth IRA.

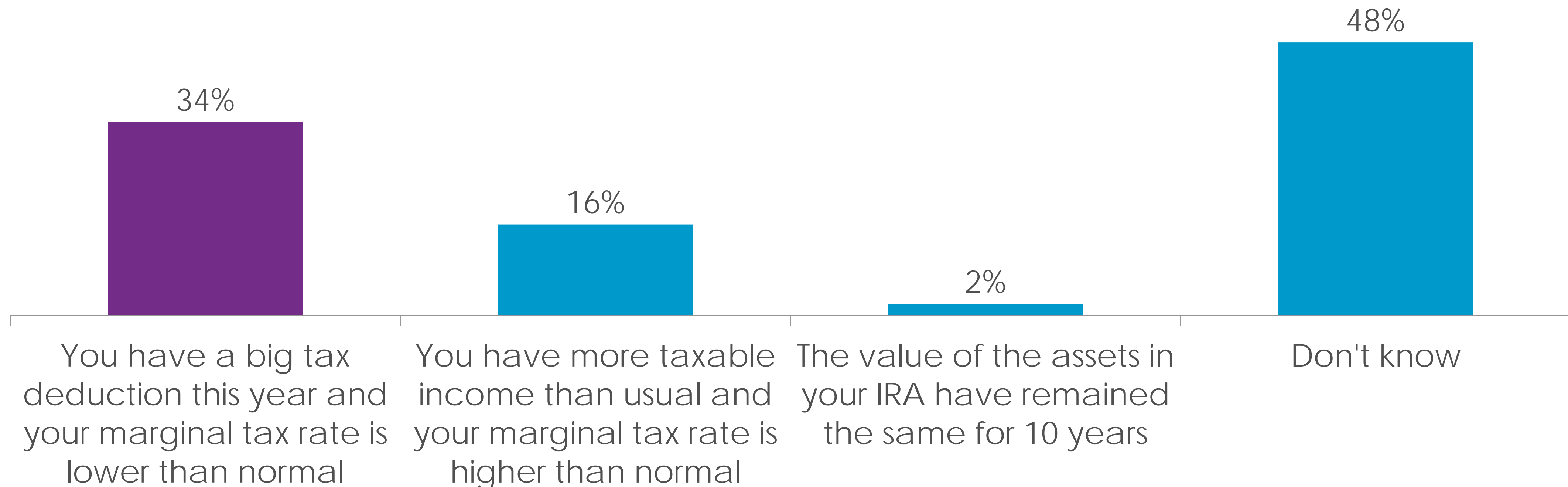
Quiz Question: True or False: A retiree who is working part-time can generally continue to contribute to a Roth IRA.



IRA Conversions

One in three know that it makes sense to convert a portion of a traditional IRA into a Roth IRA if your marginal tax rate is lower than normal for a given year.

Quiz Question: Converting a portion of a traditional IRA into a Roth IRA is a good idea this year if...






Impact of Inflation on Retirement Security



Observations

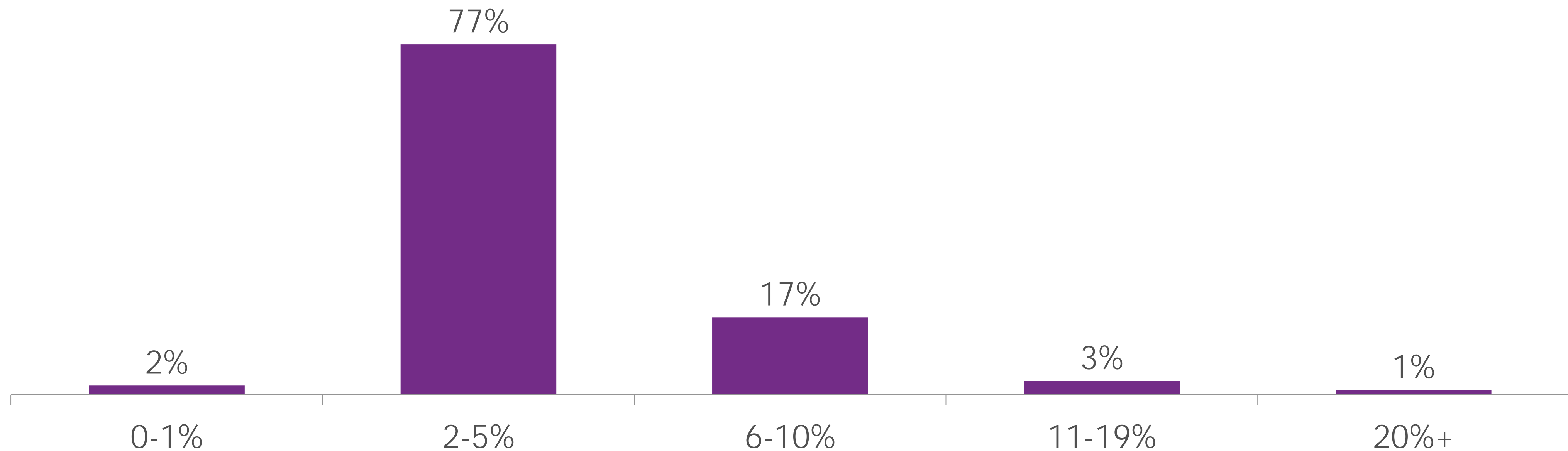
Impact of Inflation on Retirement Security

- Three in four expect annual inflation to be 2-5% per year in their retirement, though some expect it to be moderately higher.
 - Most understand that the buying power of money will decrease if inflation is higher than the rate of investment return.
 - Six in ten understand that stocks provide better protection against inflation than traditional bonds or CDs.
- 

Annual Inflation Rate Expectations

Three in four expect annual inflation to be 2-5% per year in their retirement, though some expect it to be moderately higher.

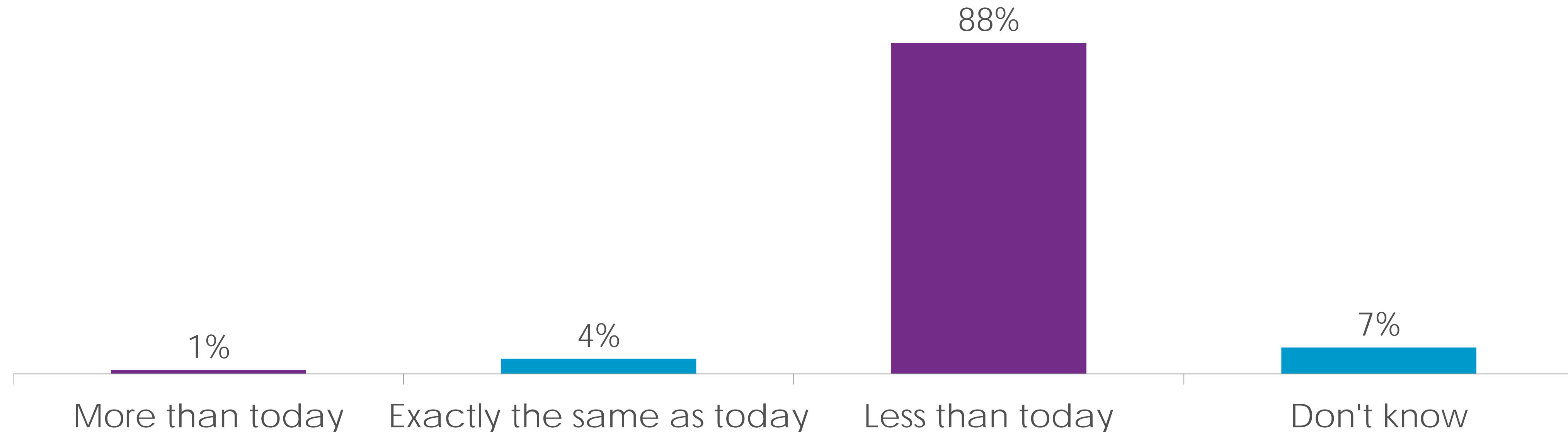
What do you expect the average annual inflation rate will be during your retirement?



Impact of Inflation

Most understand that the buying power of money will decrease if inflation is higher than the rate of investment return.

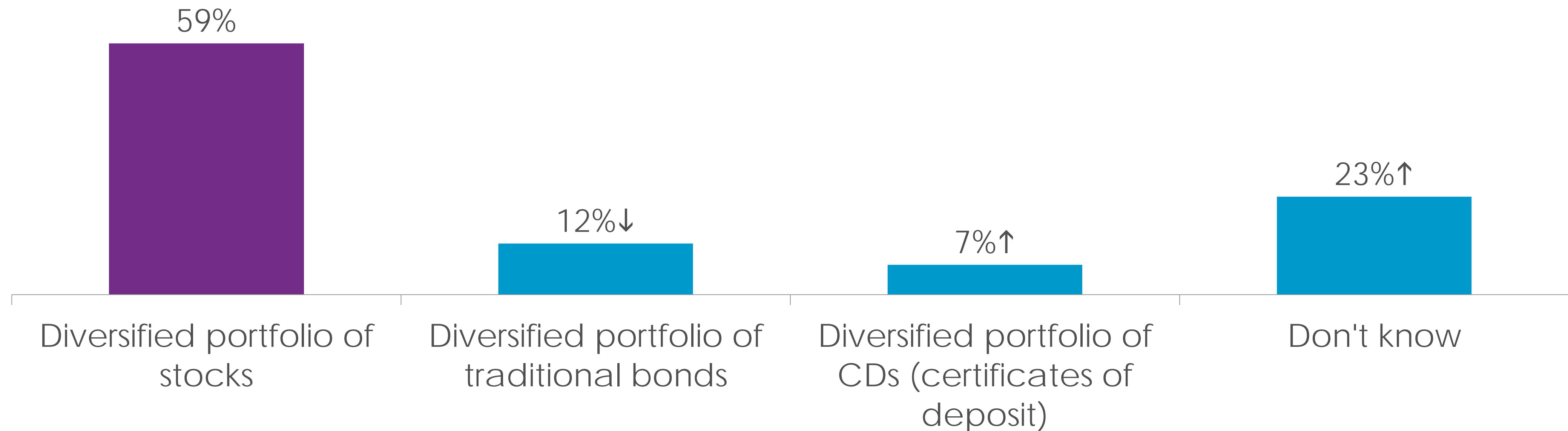
Quiz Question: Suppose that the interest rate on your savings account was 2% per year and inflation was 4% per year. After one year, would you be able to buy more than, exactly the same as, or less than today with the money in this account?



Hedges Against Inflation

Six in ten understand that stocks provide better protection against inflation than traditional bonds or CDs.

Quiz Question: Of the following options, the best way to protect against inflation is to have a...





Housing in Retirement

Observations

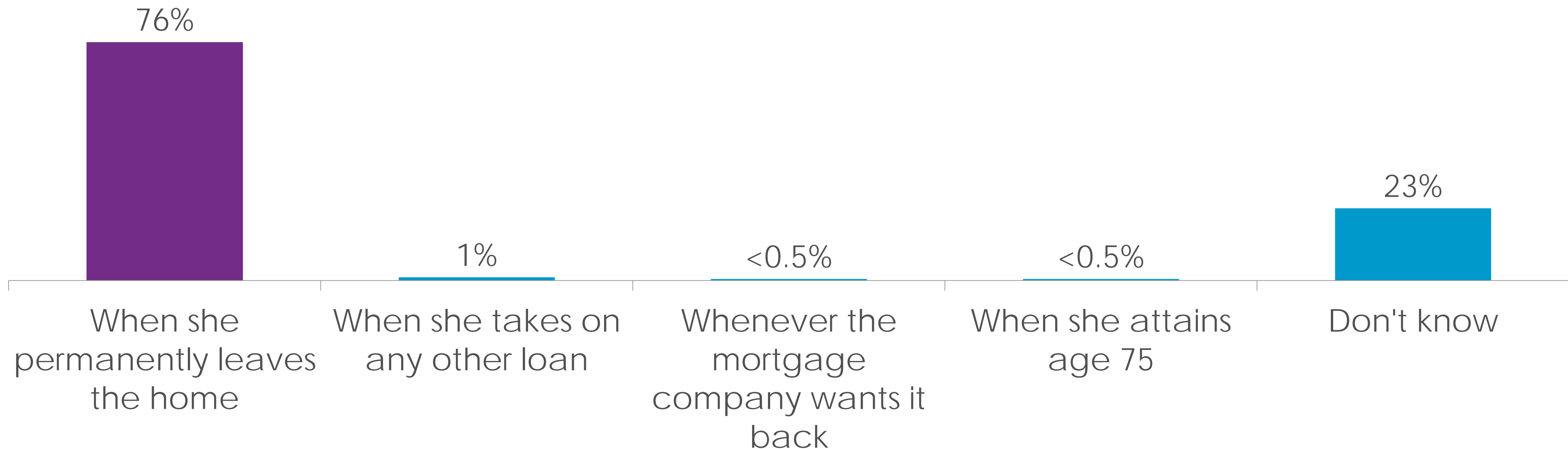
Housing in Retirement

- Three in four understand that a reverse mortgage does not need to be repaid until the borrower permanently leaves the home.
- Almost two-thirds know CCRCs always offer a range of care from independent living to nursing care.

Reverse Mortgages

Three in four understand that a reverse mortgage does not need to be repaid until the borrower permanently leaves the home.

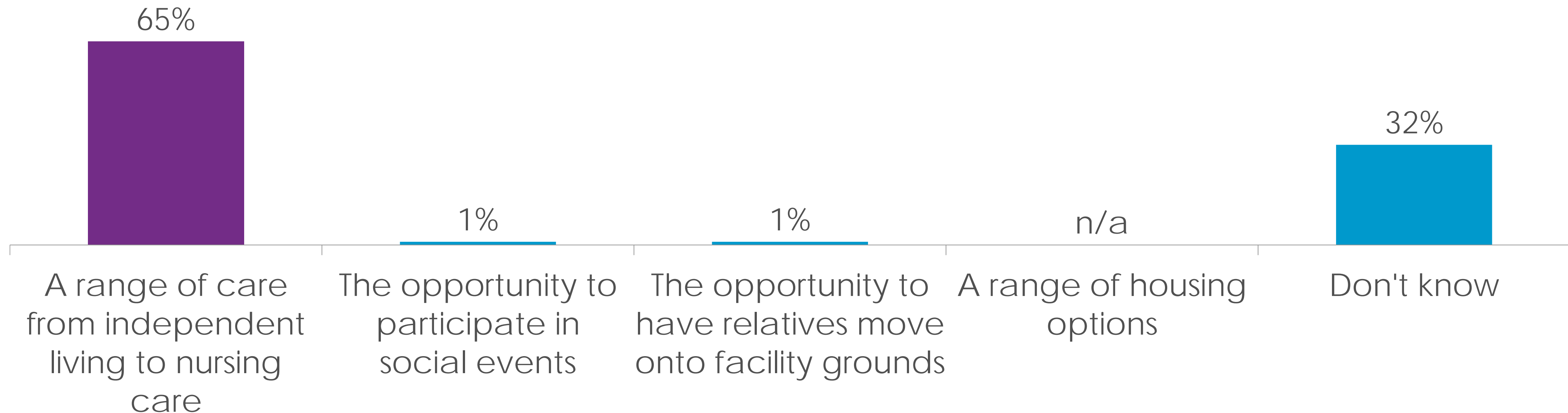
Quiz Question: Sarah is single, age 65, and takes a reverse mortgage with a lump sum payment. When does the loan have to be repaid?



Continuing Care Retirement Communities

Almost two-thirds know CCRCs always offer a range of care from independent living to nursing care.

Quiz Question: Continuing care retirement communities (CCRCs) are different than a 55-plus housing development in that CCRCs always offer...





Medicare Insurance Planning



Observations

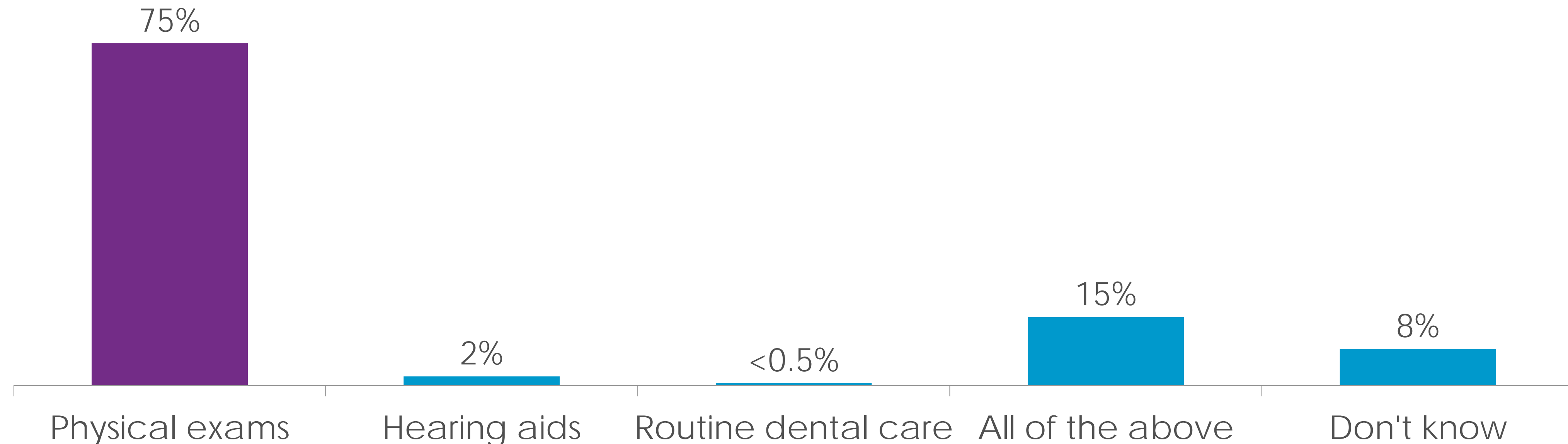
Medicare Insurance Planning

- Three in four are aware that physical exams, but not hearing aids or routine dental care, are covered by Medicare.
- Four in five understand that Medicare supplement insurance policies are most commonly purchased to cover Medicare deductibles and copays.
- Three in four know that out of pocket medical costs in retirement vary greatly from retiree to retiree.

Medicare Benefits

Three in four are aware that physical exams, but not hearing aids or routine dental care, are covered by Medicare.

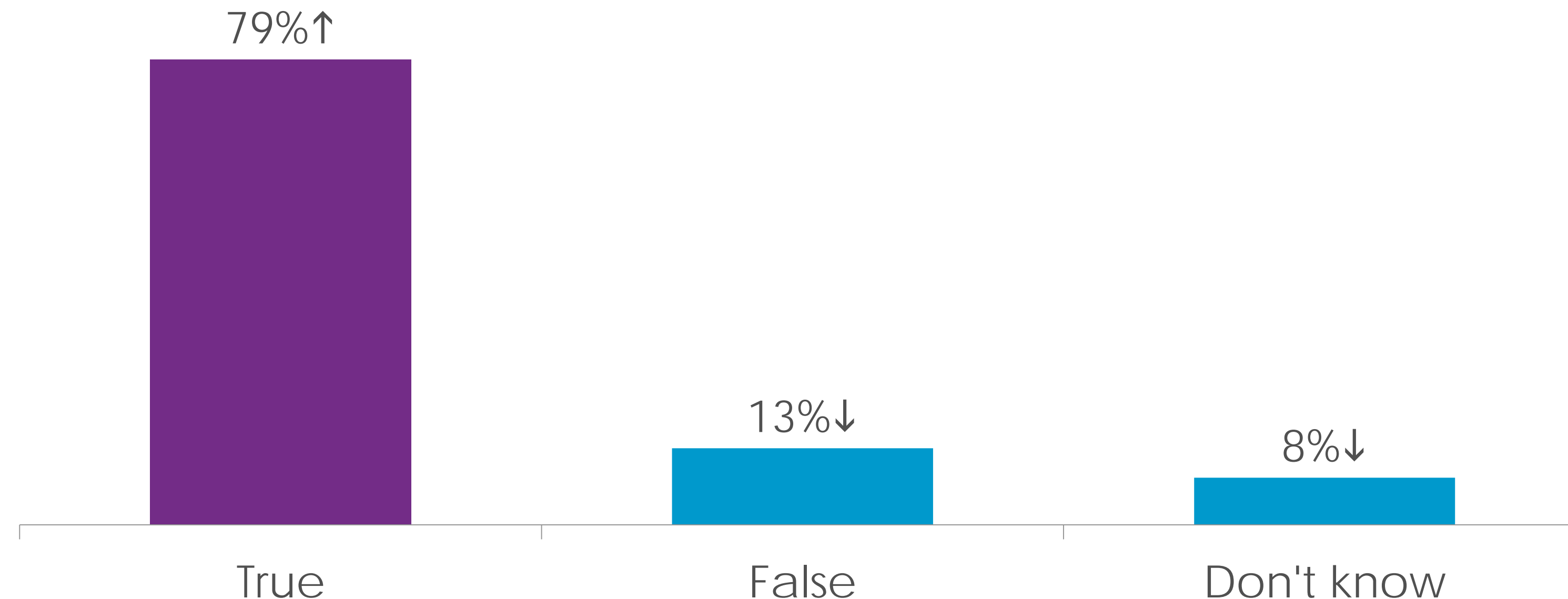
Quiz Question: Traditional Medicare will cover which of the following medical expenses?



Medicare Supplements

Four in five understand that Medicare supplement insurance policies are most commonly purchased to cover Medicare deductibles and copays.

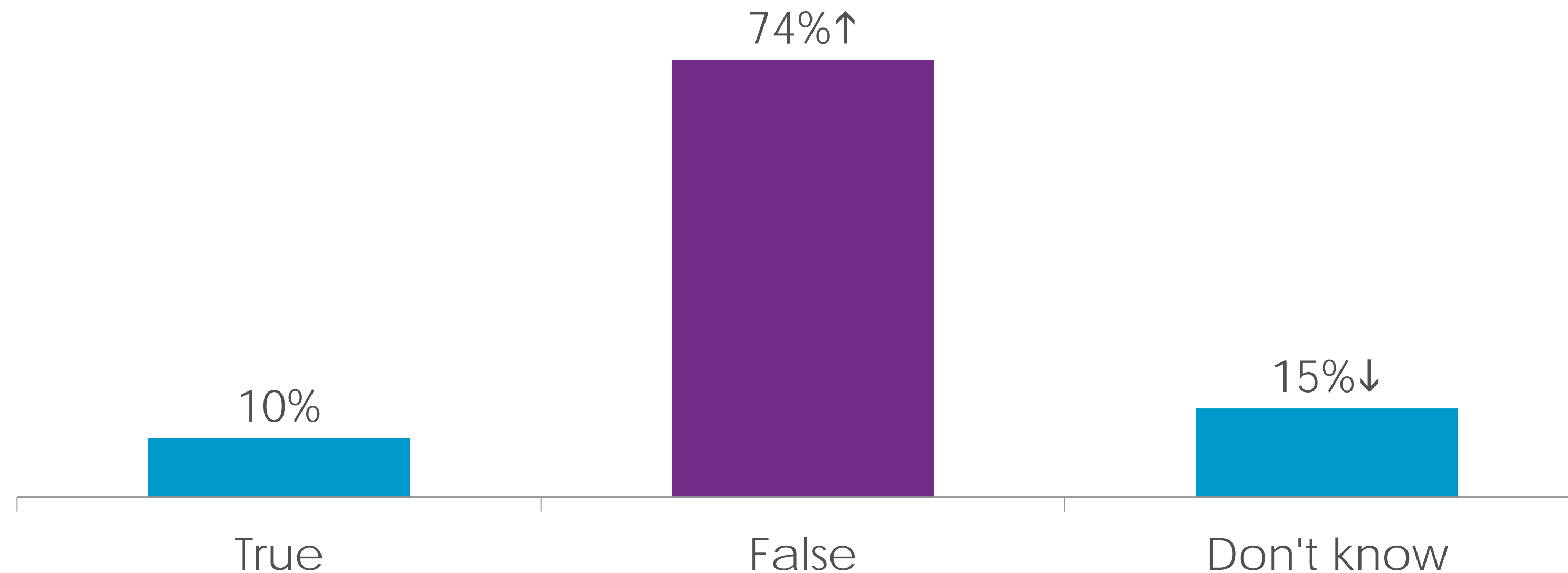
Quiz Question: True or False: Medicare supplement insurance policies are most commonly purchased to cover the deductibles and copays that are charged under Medicare Parts A and B.



Out of Pocket Medical Costs

Three in four know that out of pocket medical costs in retirement vary greatly from retiree to retiree.

Quiz Question: True or False: The total out of pocket medical costs for married couples in retirement is relatively consistent from retiree to retiree.






Paying for Long-Term Care Expenses



Observations

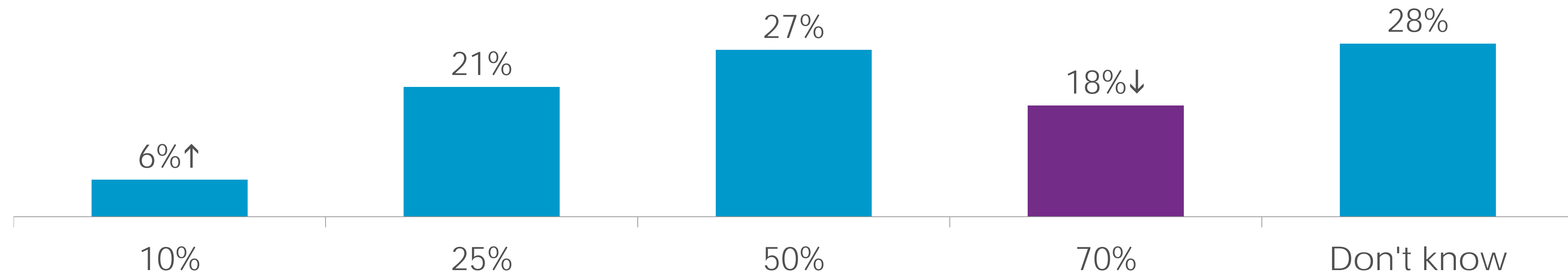
Paying for Long-Term Care Expenses

- A majority underestimate the proportion of the population that will need assistance with activities of daily living at some point.
 - One in three know that Medicaid pays for the majority of long-term care expenses at nursing homes.
 - Just three in ten know that family caregivers provide the majority of long-term care services.
 - Four in ten understand long-term care insurance covers Alzheimer's care, but not emergency room care or post-surgery hospital expenses.
 - Six in ten know that Medicare does not cover the cost of the first year in a nursing home.
- 

The Need for Long-Term Care

A majority underestimate the proportion of the population that will need assistance with activities of daily living at some point.

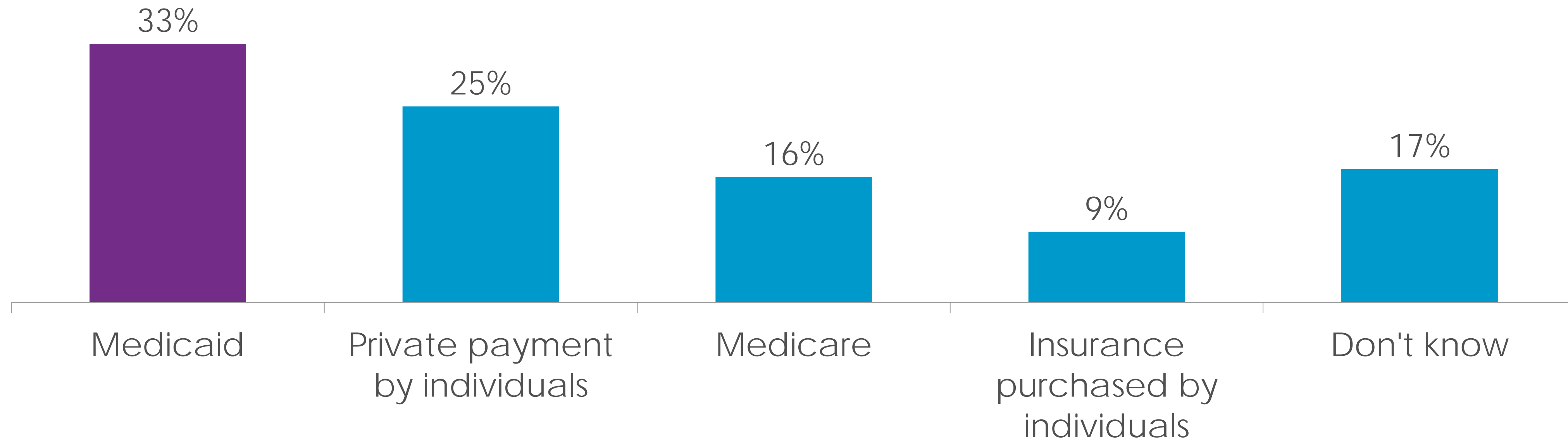
Quiz Question: What is the proportion of the population that is going to need assistance with activities of daily living (need long-term care) at some point?



Long-Term Care Funding

One in three know that Medicaid pays for the majority of long-term care expenses in nursing homes.

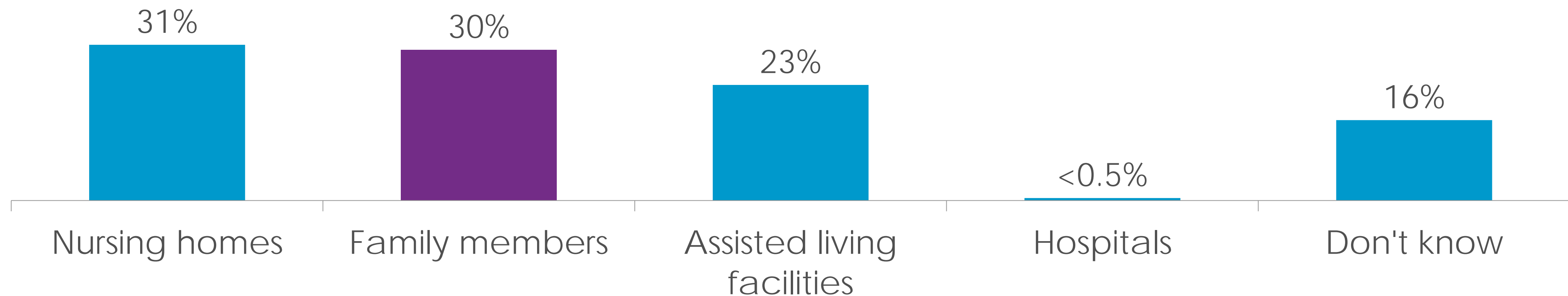
Quiz Question: Nationally, who pays for the majority of long-term care expenses provided in nursing homes?



Long-Term Care Service Providers

Just three in ten know that family caregivers provide the majority of long-term care services. A majority think most long-term care services are provided by nursing homes or assisted living facilities.

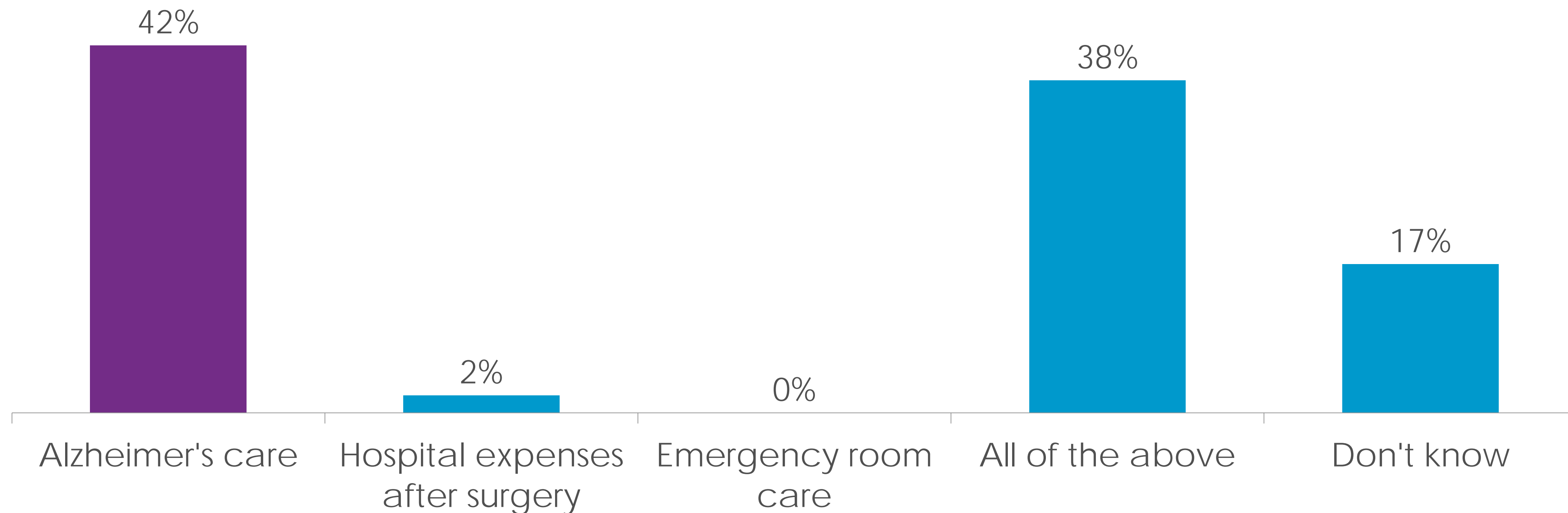
Quiz Question: Nationally, who provides the majority of long-term care services?



Long-Term Care Insurance

Four in ten understand long-term care insurance covers Alzheimer's care, but not emergency room care or post-surgery hospital expenses.

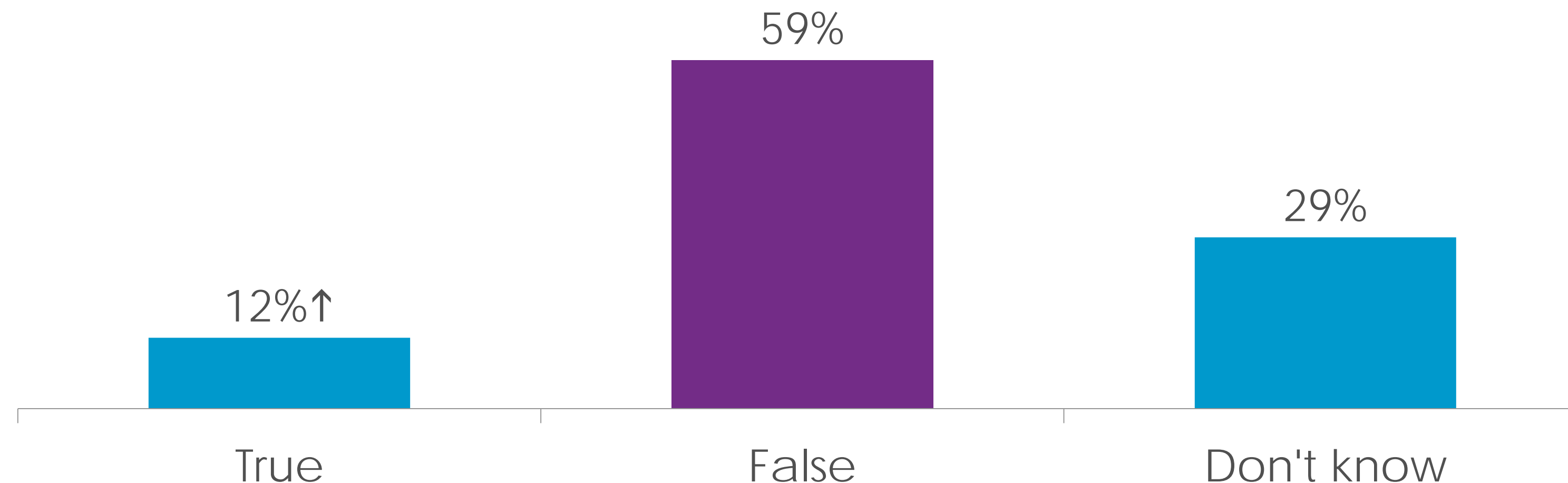
Quiz Question: Long-term care insurance is intended to cover...



Medicare and Long-Term Care

Six in ten know that Medicare does not cover the cost of the first year in a nursing home.

Quiz Question: True or False: Medicare typically pays for the costs of a nursing home for the first year.






Investment Considerations in Retirement Planning



Observations

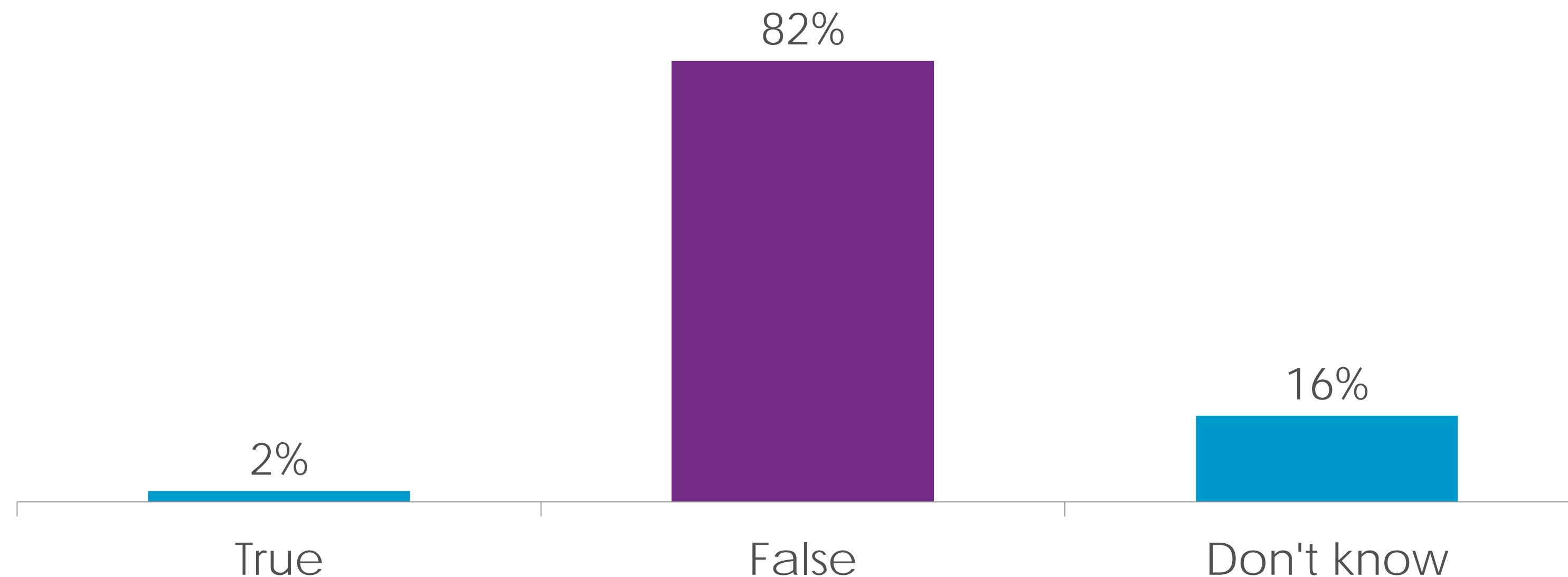
Investment Considerations in Retirement Planning

- Eight in ten understand that mutual funds provide safer returns than owning a single company's stock.
 - One in three understand that the value of a bond fund falls if interest rates increase.
 - Few know that small company stocks on average deliver higher returns than other types of stock and bond investments.
 - Only three in ten know that ETFs typically have lower fees than actively managed mutual funds.
 - Six in ten know "PE ratio" means price to earnings ratio.
 - Only one in four understand the impact of bond risk on bond yields.
- 

Investment Risk

Eight in ten understand that mutual funds provide safer returns than owning a single company's stock.

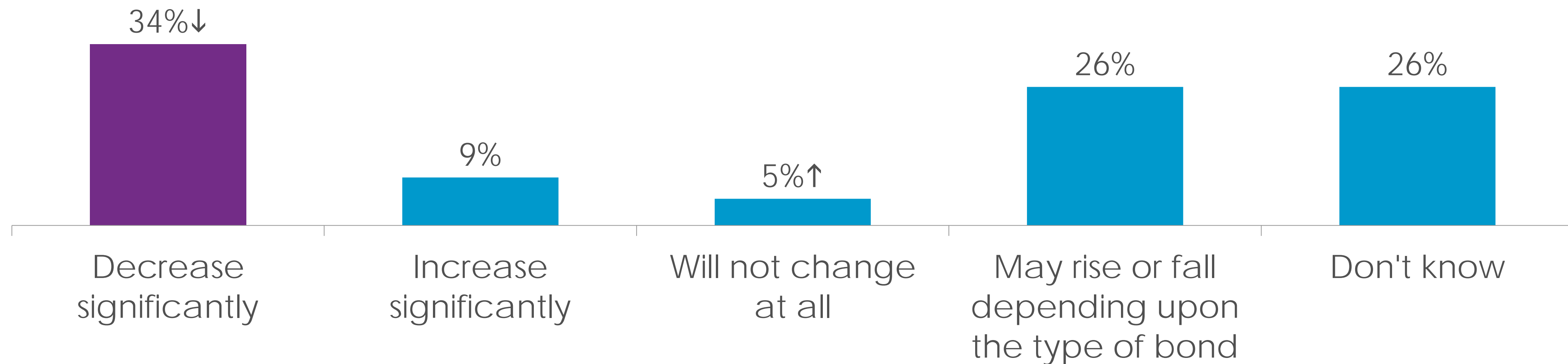
Quiz Question: True or False: Buying a single company's stock usually provides a safer return than a stock mutual fund.



Interest Rate Risk

One in three understand that the value of a bond fund falls if interest rates increase.

Quiz Question: If 100% of a mutual fund's assets are invested in long-term bonds and the investment climate changes so that interest rates rise significantly, then the value of the mutual fund shares...



Relationship Between Risk and Return

Few know that small company stocks on average deliver higher returns than other types of stock and bond investments.

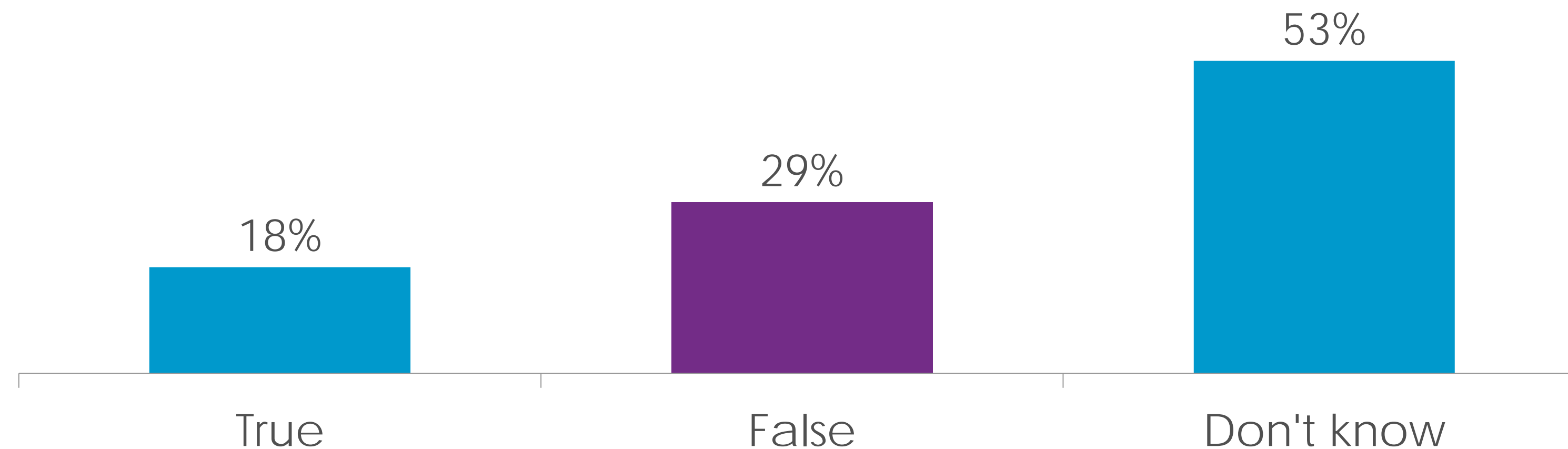
Quiz Question: Historically, which one of the following generates the highest returns over a long time period?



Investment Fees

Only three in ten know that ETFs typically have lower fees than actively managed mutual funds.

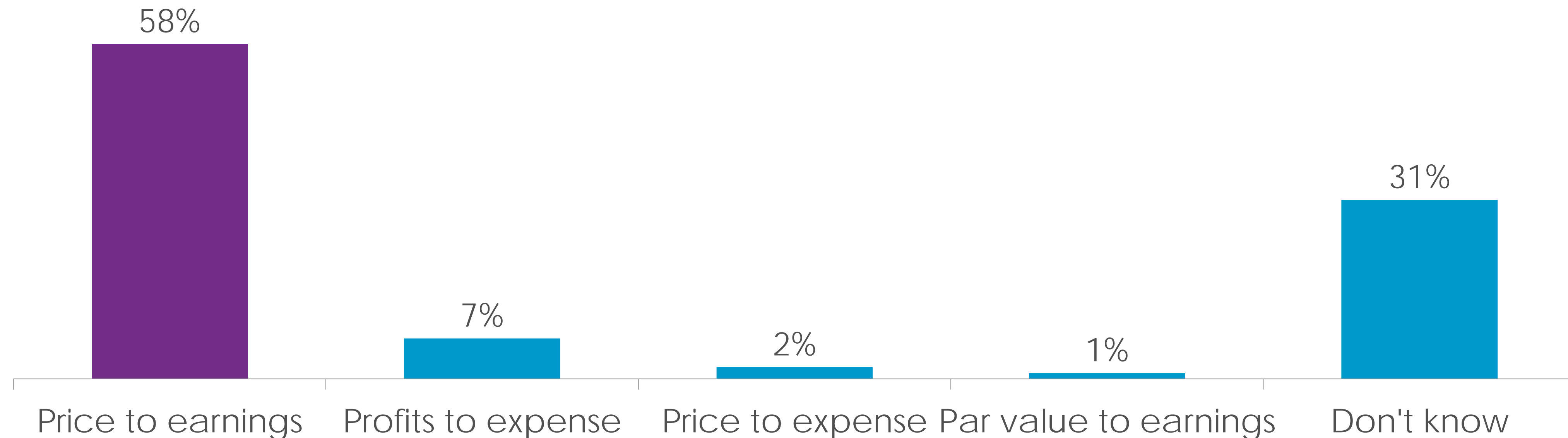
Quiz Question: True or False: Exchange traded funds generally have higher expenses than actively managed mutual funds.



Investment Ratios

Six in ten know “PE ratio” means price to earnings ratio.

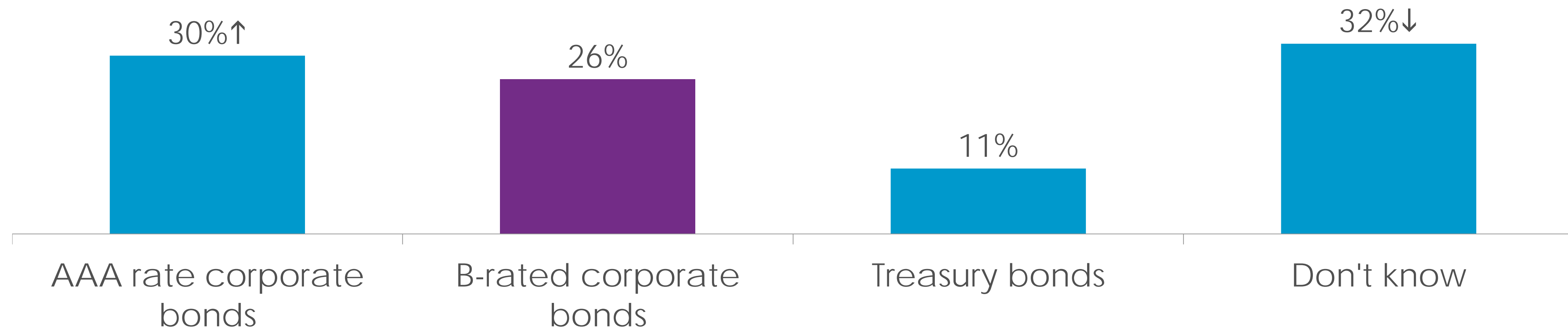
Quiz Question: A PE Ratio Means...



Bond Yields

Only one in four understand the impact of bond risk on bond yields.

Quiz Question: Which of the following types of long-term bonds typically has the highest yield?





Social Security



Observations

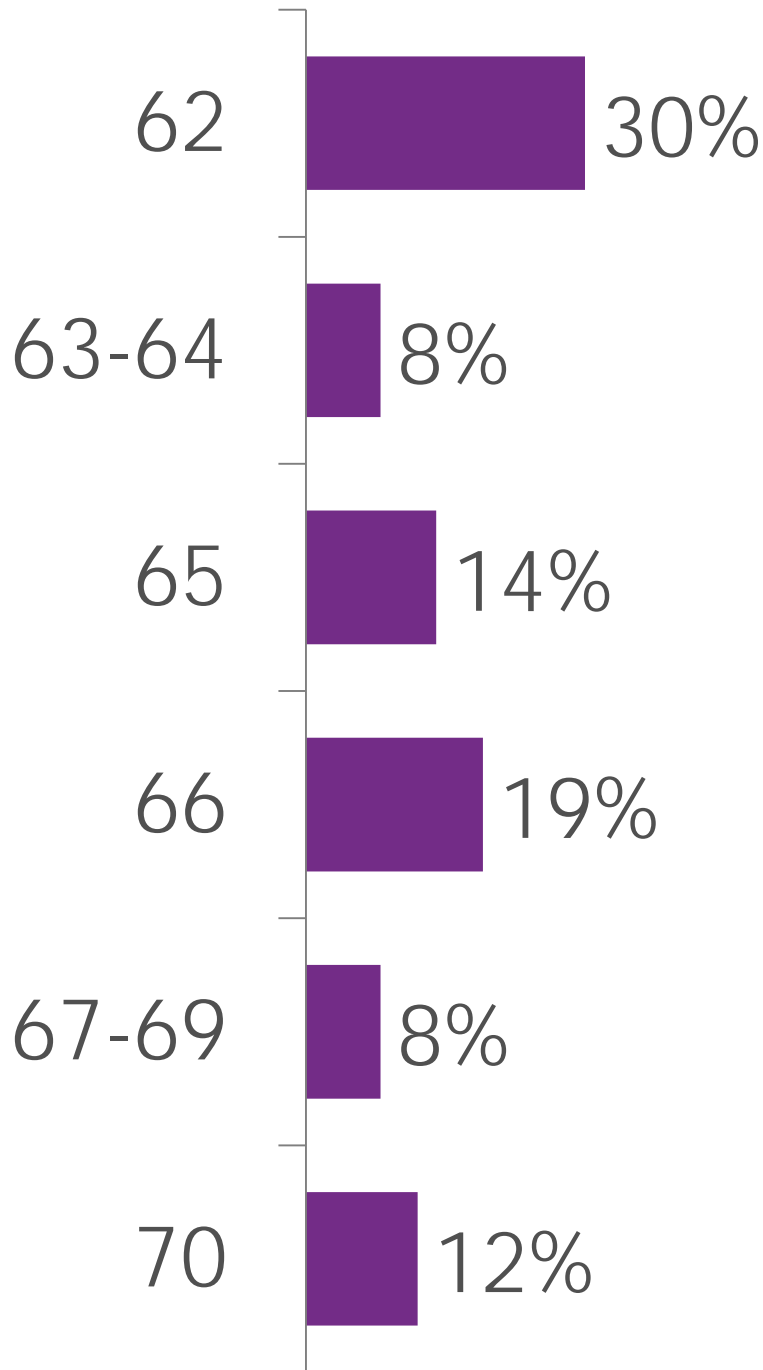
Social Security

- Looking at the expected claiming ages as compared to their reported life expectancies, it seems they do not fully understand the impact of deferring benefits.
- Six in ten know that Social Security benefits increase each year that benefits are deferred from age 62 to 70.
- Only slightly more than half appreciate that a single person who is likely to live to age 90 is generally going to be better off claiming Social Security benefits at age 70.
- One in four know that Social Security will only have funds to pay for about 75% of promised benefits in 2033.

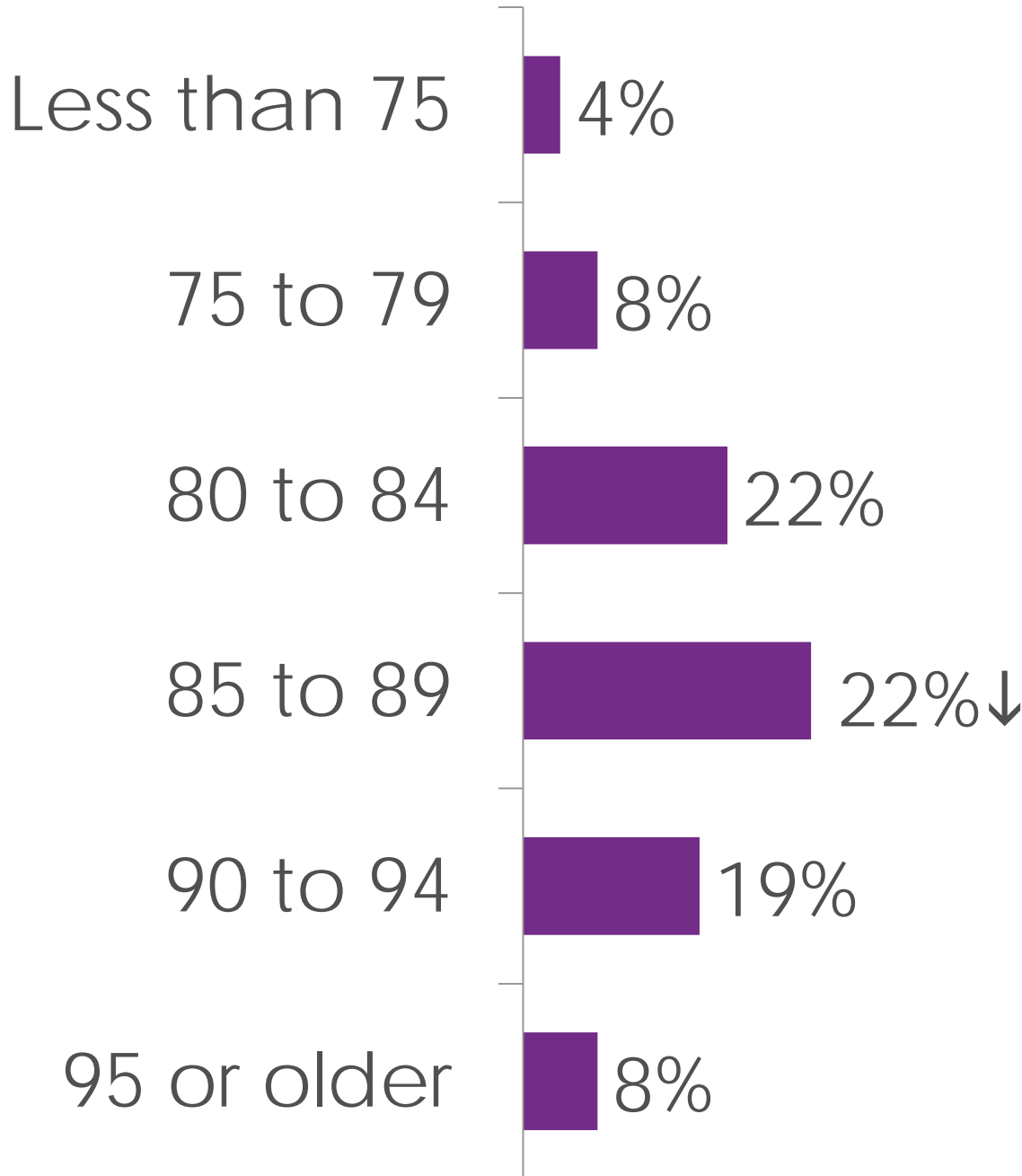
Social Security Deferral Misunderstandings

Looking at the expected claiming ages as compared to their reported life expectancies, it seems they do not fully understand the impact of deferring benefits.

Age Claimed/Plan to Claim Social Security*



Respondents' Reported Life Expectancies**



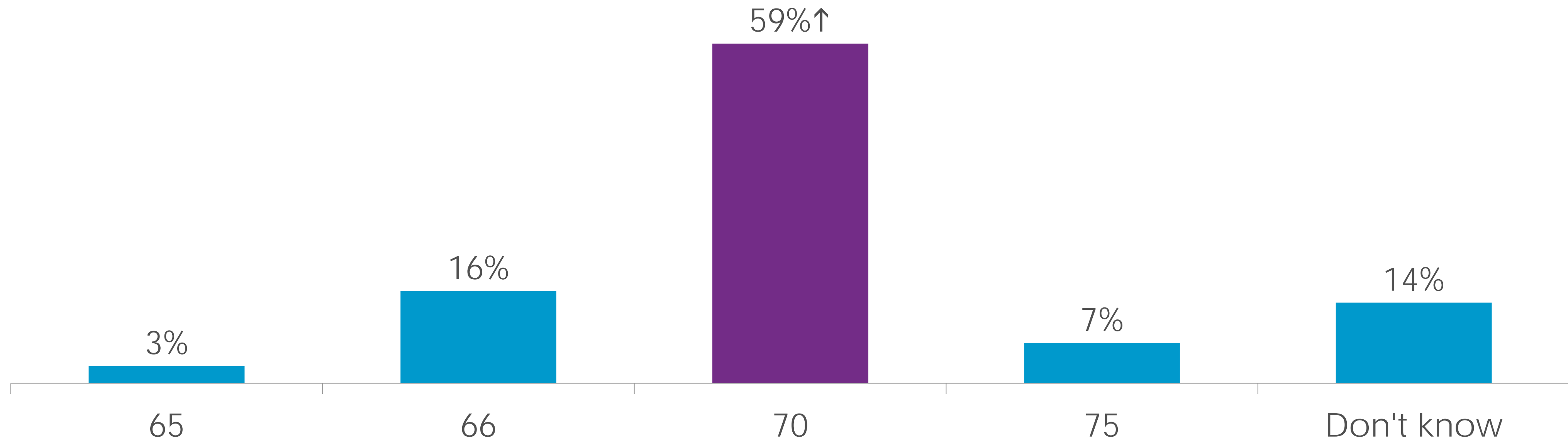
* 9% either had not decided or did not qualify for Social Security so the claiming ages only add up to 91%.

** 8% responded that they had no idea of their own expected life expectancy and were removed from this chart

Social Security Claiming Rules

Six in ten know that Social Security benefits increase each year that benefits are deferred from age 62 to 70.

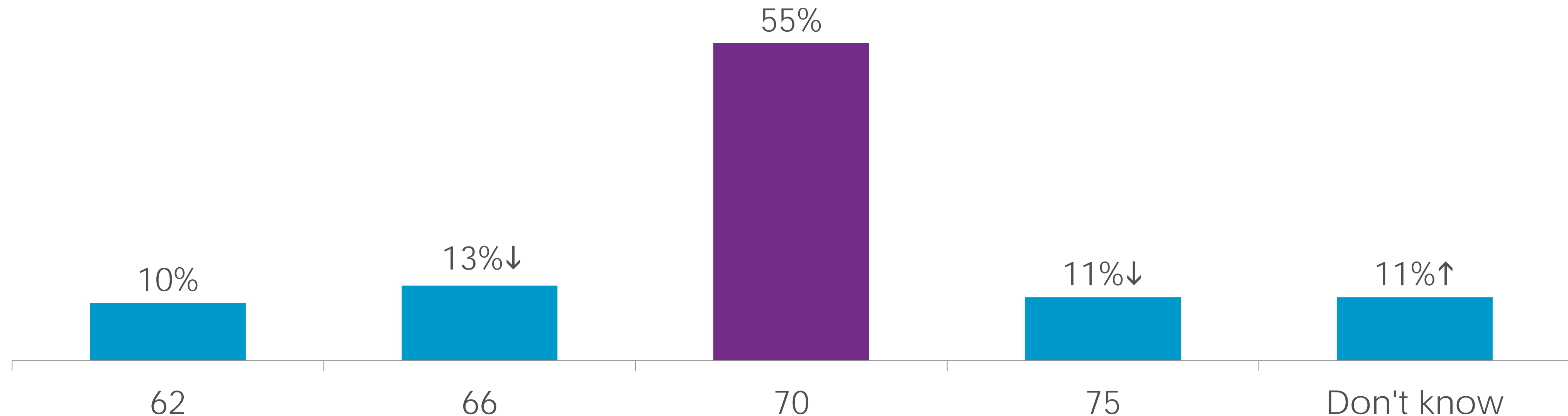
Quiz Question: Social Security workers' monthly benefits are increased for each year that benefits are deferred from age 62 to age...



Social Security Claiming Decisions

Only slightly more than half appreciate that a single person who is likely to live to age 90 is generally going to be better off claiming Social Security benefits at age 70.

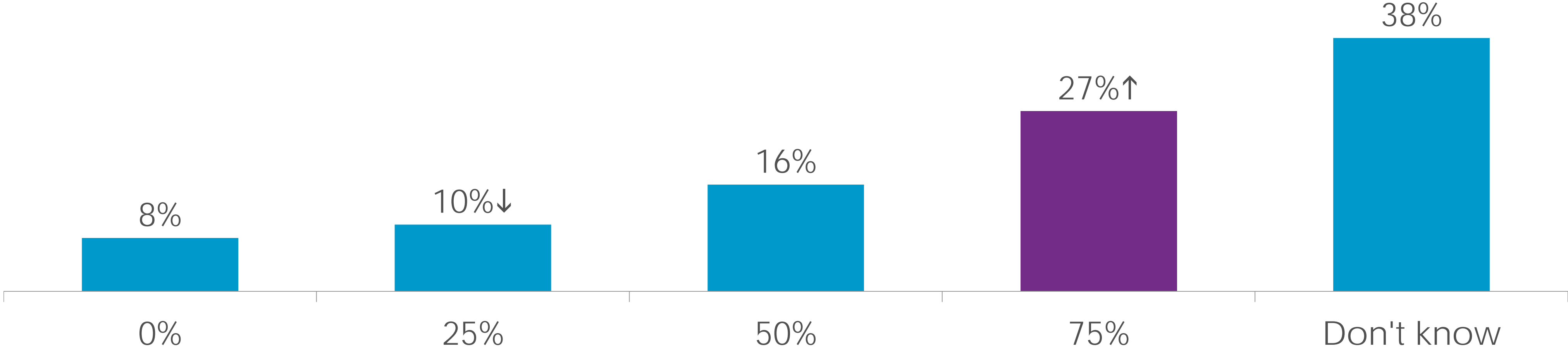
Quiz Question: A single person who is likely to live to age 90 is generally going to be better off claiming Social Security benefits at age...



Social Security Funding Status

One in four know that Social Security will only have funds to pay for about 75% of promised benefits in 2033.

Quiz Question: Please choose the response below that best completes this statement: According to the Social Security Administration, around 2033 they will only have funds to pay for approximately _____ of promised benefits.





Company Sponsored Retirement Plans



Observations

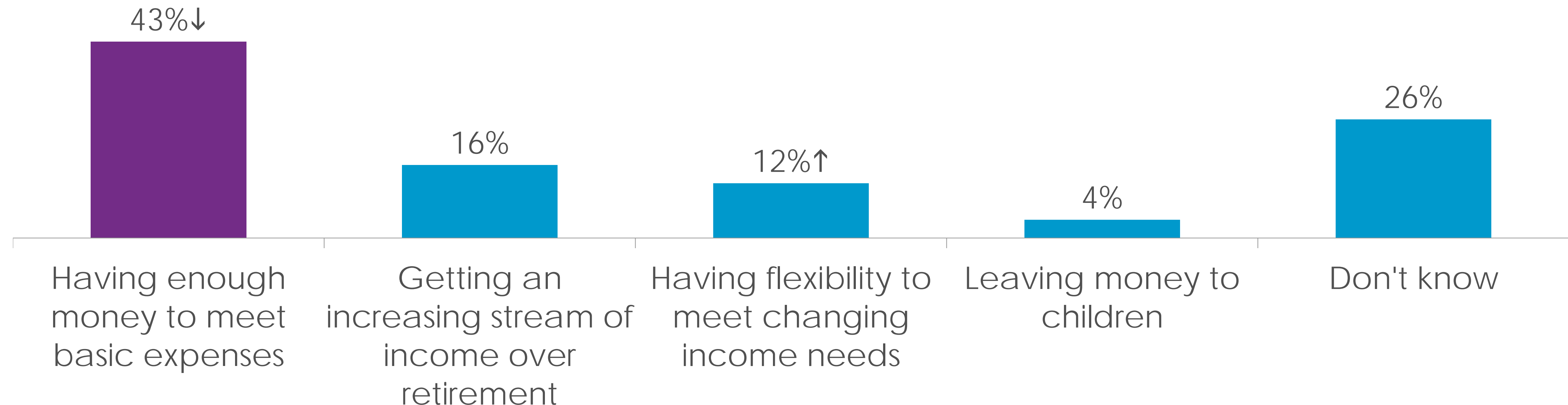
Company Sponsored Retirement Plans

- Only four in ten know a life annuity (vs. a lump sum) from a defined-benefit plan is a better choice if the participant is most concerned about having enough money to meet basic expenses.
- Only one in four know that employees are at no risk of losing their 401(k) benefits if their employer files for bankruptcy.

Defined-Benefit Distributions

Only four in ten know a life annuity (vs. a lump sum) from a defined-benefit plan is a better choice if the participant is most concerned about having enough money to meet basic expenses.

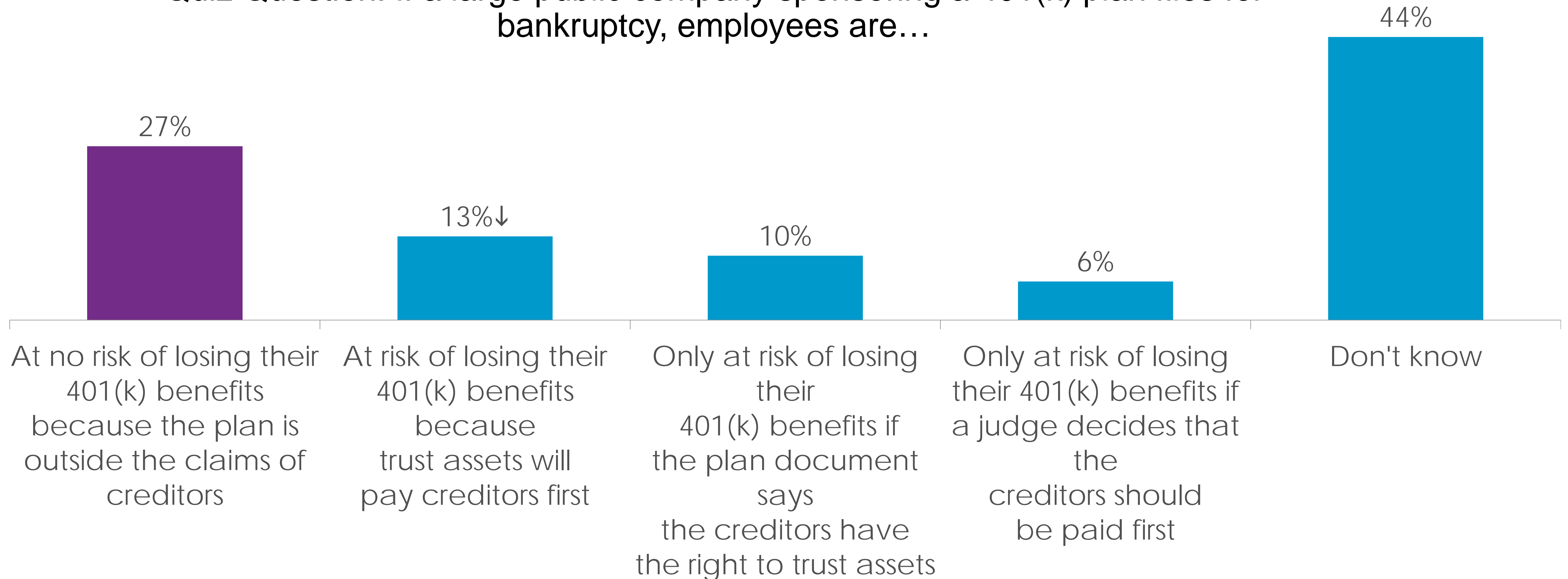
Quiz Question: If a participant is given the choice of a lump sum or a life annuity from a company sponsored 401(k) retirement plan, the life annuity is likely to be the better choice if the participant is most concerned about...



401(k) Benefit Security

Only one in four know that employees are at no risk of losing their 401(k) benefits if their employer files for bankruptcy.

Quiz Question: If a large public company sponsoring a 401(k) plan files for bankruptcy, employees are...





Concluding Thoughts & Takeaways



Thoughts and Takeaways

1. Retirement income literacy rates remain low as only 26% passed.
 - While literacy rates improved slightly since 2014, older Americans still display a worrying lack of knowledge on vital topics such as preserving assets and sustaining retirement income, investments, long-term care, Social Security, and annuities.
 - Improvement was mostly seen in areas of housing, Medicare, inflation, taxation, and life insurance.
2. Demographics play a key role in literacy scores.
 - There were significant differences in literacy rates between men and women, college educated and non-college educated, and between wealthier and less wealthy respondents.

Thoughts and Takeaways

3. Misperceptions between perceived knowledge and actual knowledge
 - 61% of respondents reported that they were very or extremely knowledgeable about retirement income planning but only 33% of them could pass the literacy quiz, with a mean score of 51.87%.
4. Strong correlations between literacy rates and other indicators of financial sophistication
 - Literacy rates appear to correlate with better retirement planning as those with higher scores were more likely to have a written plan and a long-term care plan in place.

Thoughts and Takeaways

5. Retirement income planning is specialized knowledge that goes beyond understanding basic financial principles.
 - Respondents performed very well on two questions commonly used to gauge basic financial literacy, with 88% correctly answering a basic inflation question (Q48) and 82% correctly answering a basic investment question (Q69) than the mean retirement income literacy score of 47%.

Additional Information

- The American College New York Life Center for Retirement Income
 - <http://retirement.theamericancollege.edu>
- Retirement Income Certified Professional® (RICP®) designation
 - <https://www.theamericancollege.edu/designations-degrees/RICP>
- Jamie Hopkins, Forbes contributor – Twitter – @RetirementRisks
 - <http://www.forbes.com/sites/jamiehopkins>
 - www.HopkinsRetirement.com



Appendix – Quiz Questions



Retirement Literacy Quiz Questions

Retirement Basics

Q31: A 65-year-old man has an average life expectancy of approximately an additional:

- 10 years
- 15 years
- 20 years [CORRECT]
- 25 years
- Don't know

Q51: Sarah is single, age 65, and takes a reverse mortgage with a lump sum payment. When does the loan have to be repaid?

- When she permanently leaves the home [CORRECT]
- When she takes on any other loan
- Whenever the mortgage company wants it back
- When she attains age 75
- Don't know

Q76: A single person who is likely to live to age 90 is generally going to be better off claiming Social Security benefits at age...

- 62
- 66
- 70 [CORRECT]
- 75
- Don't know

Retirement Literacy Quiz Questions (continued)

Q77: Social Security workers' monthly benefits are increased for each year that benefits are deferred from age 62 to age...

- 65
- 66
- 70 [CORRECT]
- 75
- Don't know

Q78: *Please choose the response below that best completes this statement:*

According to the Social Security Administration, around 2033 they will only have funds to pay for approximately ____ of promised benefits.

- 0%
- 25%
- 50%
- 75% [CORRECT]
- Don't know

Retirement Literacy Quiz Questions (continued)

Medical and Long-Term Care

Q52: Continuing care retirement communities (CCRCs) are different than a 55-plus housing development in that CCRCs always offer...

- A range of care from independent living to nursing care [CORRECT]
- The opportunity to participate in social events
- The opportunity to have relatives move onto facility grounds
- Don't know

Q53: Traditional Medicare will cover which of the following medical expenses?

- Physical exams [CORRECT]
- Hearing aids
- Routine dental care
- All of the above
- Don't know

Q54: True or false: Medicare supplement insurance policies are most commonly purchased to cover the deductibles and copays that are charged under Medicare Parts A and B.

- True [CORRECT]
- False
- Don't know

Retirement Literacy Quiz Questions (continued)

Q55: True or false: The total out of pocket medical costs for married couples in retirement is relatively consistent from retiree to retiree.

- True
- False [CORRECT]
- Don't know

Q60: What is the proportion of the population that is going to need assistance with activities of daily living (need long-term care) at some point?

- 10%
- 25%
- 50%
- 70% [CORRECT]
- Don't know

Q61: Nationally, who pays for the majority of long-term care expenses provided in nursing homes?

- Medicaid [CORRECT]
- Private payment by individuals
- Medicare
- Insurance purchased by individuals
- Don't know

Retirement Literacy Quiz Questions (continued)

Q62: Nationally, who provides the majority of long-term care services?

- Family members [CORRECT]
- Nursing homes
- Assisted living facilities
- Hospitals
- Don't know

Q63: Long-term care insurance is intended to cover...

- Alzheimer's care [CORRECT]
- Hospital expenses after surgery
- Emergency room care
- All of the above
- Don't know

Q64: True or false: Medicare typically pays for the costs of a nursing home for the first year.

- True
- False [CORRECT]
- Don't know

Retirement Literacy Quiz Questions (continued)

Company Retirement Plans and IRAs

Q42: Distributions from an IRA generally must be made every year once an individual has attained age...

- 55
- 59 ½
- 65
- 70 ½ [CORRECT]
- Don't know

Q43: Which one of the following statements concerning the federal income tax treatment of distributions to a 65-year-old retiree is true?

- Distributions from a Roth IRA are generally tax-free [CORRECT]
- Distributions from a traditional IRA are generally taxed as long-term capital gains
- Distributions from a traditional IRA for the 65-year-old are generally subject to an additional 10% penalty tax
- Don't know

Q44: True or false: A retiree who is working part-time can generally continue to contribute to a Roth IRA.

- True [CORRECT]
- False
- Don't know

Retirement Literacy Quiz Questions (continued)

Q45: Converting a portion of a traditional IRA into a Roth IRA is a good idea this year if...

- You have a big tax deduction this year and your marginal tax rate is lower than normal [CORRECT]
- You have more taxable income than usual and your marginal tax rate is higher than normal
- The value of the assets in your IRA have remained the same for 10 years
- Don't know

Q79: If a participant is given the choice of a lump sum or a life annuity from a company sponsored 401(k) retirement plan, the life annuity is likely to be the better choice if the participant is most concerned about...

- Having enough money to meet basic expenses [CORRECT]
- Getting an increasing stream of income over retirement
- Having flexibility to meet changing income needs
- Leaving money to children
- Don't know

Q80: If a large public company sponsoring a 401(k) plan files for bankruptcy, employees are...

- At no risk of losing their 401(k) benefits because the plan is outside the claims of creditors [CORRECT]
- At risk of losing their 401(k) benefits because trust assets will pay creditors first
- Only at risk of losing their 401(k) benefits if the plan document says the creditors have the right to trust assets
- Only at risk of losing their 401(k) benefits if a judge decides that the creditors should be paid first
- Don't know

Retirement Literacy Quiz Questions (continued)

Investment Basics

Q48: Suppose that the interest rate on your savings account was 2% per year and inflation was 4% per year. After one year, would you be able to buy more than, exactly the same as, or less than today with the money in this account?

- More than today
- Exactly the same as today
- Less than today [CORRECT]
- Don't know

Q49: Of the following options, the best way to protect against inflation is to have a...

- Diversified portfolio of stocks [CORRECT]
- Diversified portfolio of traditional bonds
- Diversified portfolio of CDs (certificates of deposit)
- Don't know

Q69: True or false: Buying a single company's stock usually provides a safer return than a stock mutual fund.

- True
- False [CORRECT]
- Don't know

Q70: If 100% of a mutual fund's assets are invested in long-term bonds and the investment climate changes so that interest rates rise significantly, then the value of the mutual fund shares...

- Decrease significantly [CORRECT]
- Increase significantly
- Will not change at all
- May rise or fall depending upon the type of bond
- Don't know

Retirement Literacy Quiz Questions (continued)

Q71: Historically, which one of the following generates the highest returns over a long time period?

- Dividend paying stock funds
- Large company stock funds
- Small company stock funds [CORRECT]
- High yield bond funds
- Don't know

Q72: True or false: Exchange traded funds generally have higher expenses than actively managed mutual funds.

- True
- False [CORRECT]
- Don't know

Q73: A PE ratio means...

- Price to earnings [CORRECT]
- Profits to expense
- Par value to earnings
- Price to expense
- Don't know

Q74: Which of the following types of long-term bonds typically has the highest yield?

- AAA rate corporate bonds
- B-rated corporate bonds [CORRECT]
- Treasury bonds
- Don't know

Retirement Literacy Quiz Questions (continued)

Strategies and Products to Maintain Assets

Q21: *Please choose the response below that best completes this statement:*

If you had a well diversified portfolio of 50% stocks and 50% bonds that was worth \$100,000 at retirement, based on historical returns in the United States the most you can afford to withdraw each year is about ____ plus inflation each year to have a 95% chance that your assets will last for 30 years.

- \$2,000
- \$4,000 [CORRECT]
- \$6,000
- \$8,000
- Don't know

Q22: *Please choose the response below that best completes this statement:*

To maximize the safe withdrawal rate from a portfolio over a 30-year retirement period, it is best to hold ____ in equities throughout retirement.

- 0-10%
- 25-35% [CORRECT]
- 50-60% [CORRECT]
- 90-100%
- Don't know

Q23: True or false: Taking a portion (20-40%) of a retirement portfolio and buying a life annuity can protect against the uncertainty of life expectancy, ensuring that a basic level of spending is available throughout retirement.

- True [CORRECT]
- False
- Don't know

Retirement Literacy Quiz Questions (continued)

Q24: A 25% negative single year return in a retirement portfolio would have the biggest impact on long-term retirement security if it occurs:

- 15 years prior to retirement
- At retirement [CORRECT]
- 15 years after retirement begins
- The timing doesn't matter
- Don't know

Q25: Which of the following strategies is least likely to improve retirement security?

- Saving an additional 3% of salary in the five years prior to retirement [CORRECT]
- Deferring Social Security benefits for two years longer than originally planned
- Working for two years past the planned retirement date
- Don't know

Q39: The lifetime income payout rate (the annual annuity payment as a percentage of the purchase price) for an immediate income annuity for a 65-year-old male today is roughly...

- 3-4%
- 6-7% [CORRECT]
- 10-12%
- 14-15%
- Don't know

Retirement Literacy Quiz Questions (continued)

Q40: An immediate income annuity that pays income of \$1,000 a month is generally going to be more expensive...

- The younger the owner is when the annuity begins [CORRECT]
- For a man rather than for a woman
- If interest rates rise
- For a single person than for a couple
- Don't know

Q41: A deferred variable annuity with guaranteed lifetime withdrawal benefits...

- Pays guaranteed income that varies based on market performance
- Can pay income even if the investment account goes to zero [CORRECT]
- Ensures that the investment account will not lose value
- Only offers investment alternatives with fixed returns
- Don't know

Retirement Literacy Quiz Questions (continued)

Life Insurance

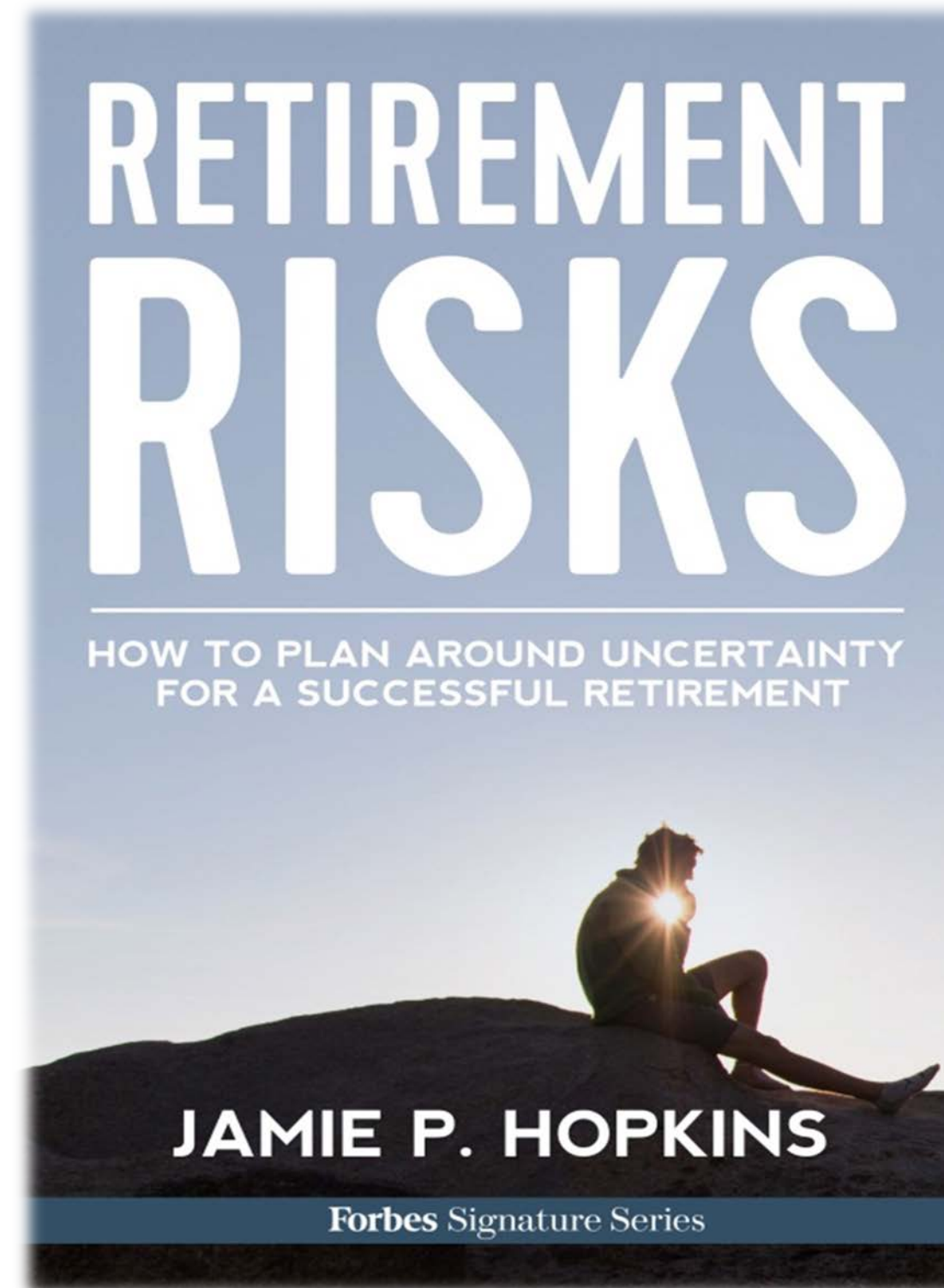
Q36: Which one of the following is true about cash value life insurance?

- The cash value portion will accumulate tax deferred [CORRECT]
- The policy will expire after a specified period of time
- You typically cannot borrow from the cash value
- The policy will typically cost less than a term insurance policy
- Don't know

Q37: True or false: The death benefit from a life insurance policy owned by an individual is income tax free.

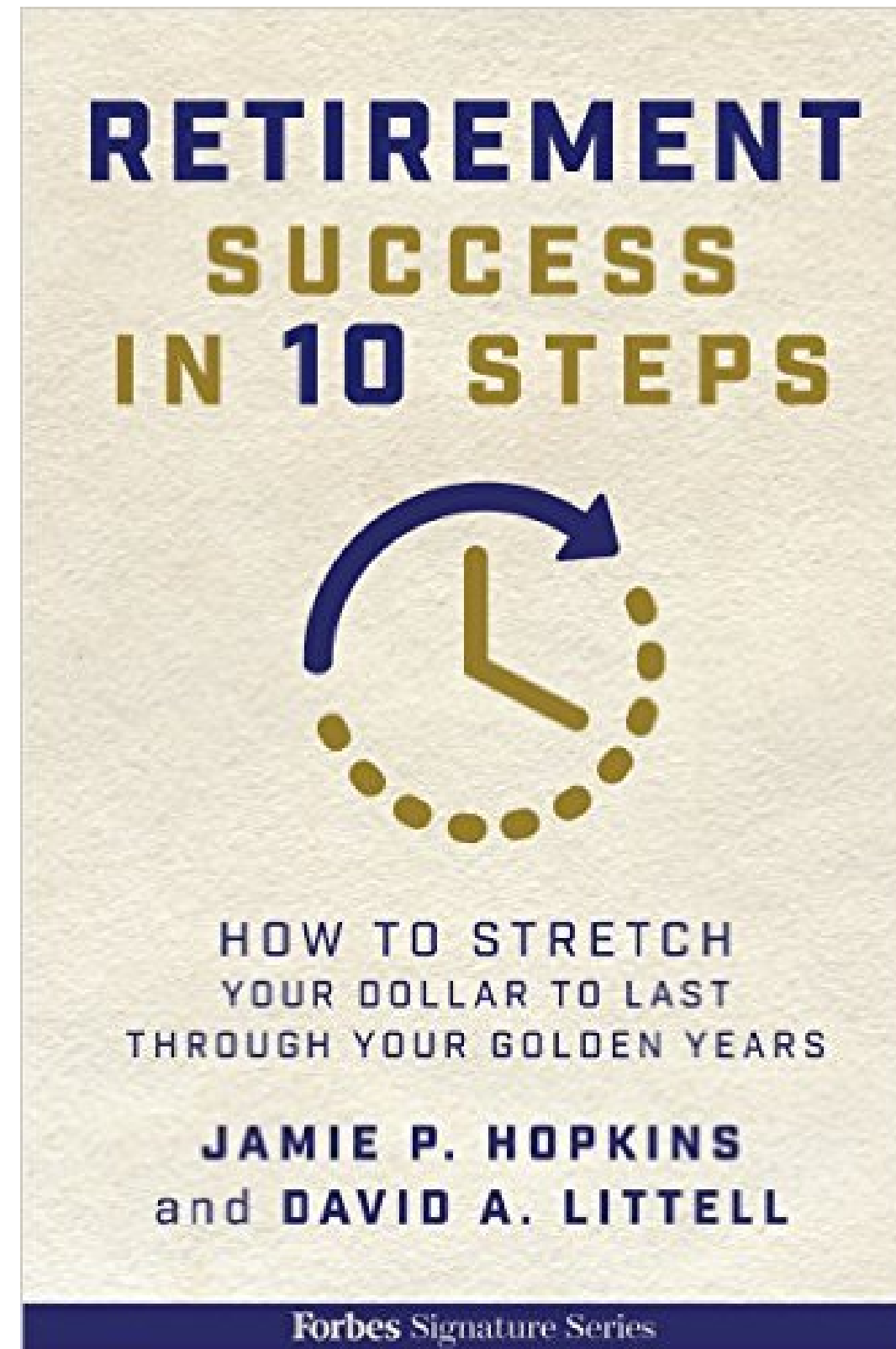
- True [CORRECT]
- False
- Don't know

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