

New Retirement Realities

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Discussion Topics

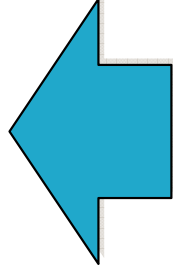
- About AARP
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 - Retirement Accounts
 - Employment of Older Workers
 - Healthcare Cost
- AARP Work, Priorities & Resources

About AARP

- Nonprofit, nonpartisan membership organization for people 50+
- Roughly 38 million members (approximately 50% of the membership are still working)
- At least one offices in all 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands
- *Vision: A society in which everyone ages with dignity and purpose, and in which AARP helps people fulfill their goals and dreams.*

“New” Retirement Realities

- Individuals are more responsible for their retirement security
- Have to bear the burden to save and mitigate their own risk



- Impact of the market downturn:
 - Retirement Accounts
 - Employment of Older Workers
 - Healthcare Cost
 - Home Prices

Different Age Groups, Different Recessions

- The recession's impact has been felt by all:
 - Workers and their families (both young and old)
 - Retirees
- Adults 65 and older—“who have already retired and downsized their lifestyles—have escaped its full fury.”
- Younger adults have taken the worst lumps in the job market, but remain relatively upbeat about their financial future.
- *Adults in late middle age (50-64) “have seen their nest eggs shrink the most and their anxieties about retirement swell the most.”*

Middle Aged Workers Feeling the Squeeze

50 – 64 year olds

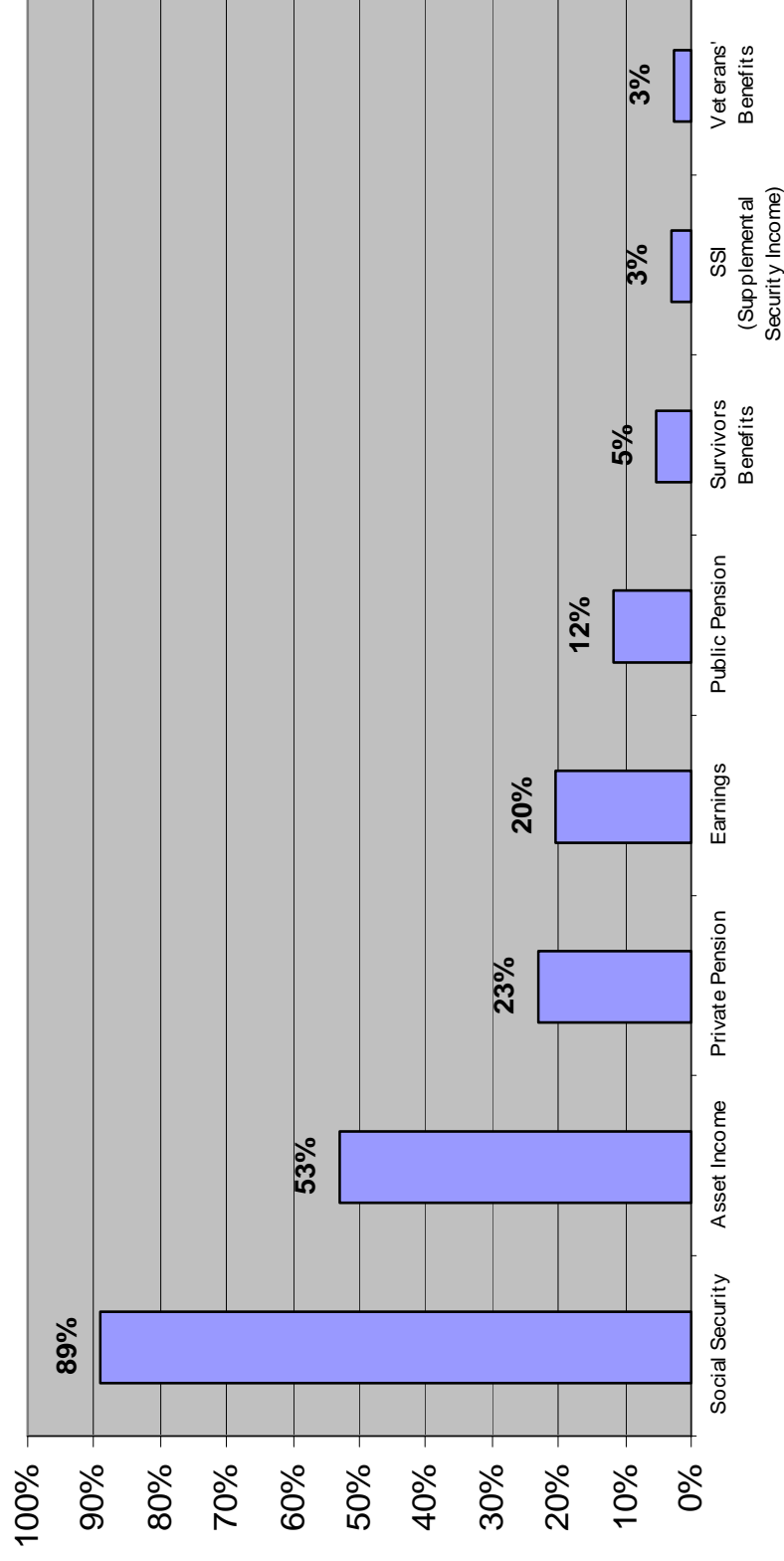
- 75% say that the nation’s current economic problems will make it more difficult for them to afford retirement.
- 66% say they lost money in mutual funds, individual stocks or 401(k)-type accounts.
 - Of those with losses, 2 in 10 say they lost more than 40% of their investments value. Nearly 4 in 10 say they lost 20% to 40%.
- 59% cut back on spending in the past year.
- 21% had trouble affording medical care in the past year.
- 22% are “very satisfied” with their financial condition.
- 58% say recession has caused stress in the family.

Adults Age 65+

- 26% of retirees say their retirement income declined in 2009 [71% said it did not]
 - Retirees with higher family income more likely to report that their income declined [35% of those with income of \$50,000 or more vs. 20% of those with family income of \$20,000 or less]
- Older adults less likely to have cut back on spending than younger adults and are more likely to be confident that they have enough to live on in retirement.
- But there is a significant race gap among older adults [that does not exist among younger adults]
 - Percent of adults age 65+ who have cut spending in the past year because money was tight: whites 34%, blacks 42%
 - Percent that are confident they have enough to live on in retirement: whites 75%, blacks 59%

Sources of Retirement Income

Percentage of 65+ Receiving Income From Specified Source,
2007



Source: U.S. Census Bureau, Current Population Survey, 2008

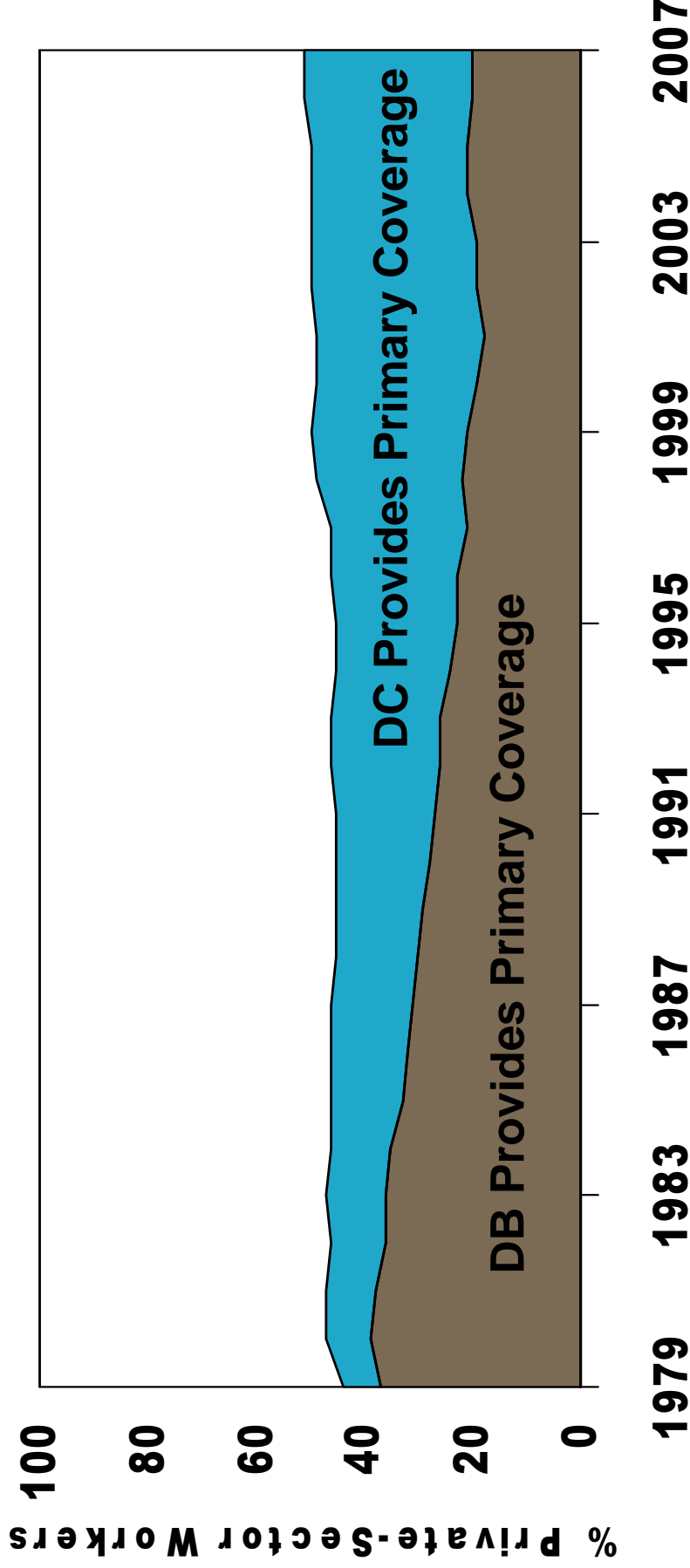
Wealth of a Typical Household Approaching Retirement

Source of Wealth	Amount in Dollars	Percent of Total
Social Security	\$ 298,800	44%
Primary House	138,600	20%
Defined Benefit	122,100	18%
401(k)/IRAs	50,500	7%
Financial Assets	29,600	4%
Other Non-Financial Assets	21,000	3%
Business Assets	15,900	2%
Total	\$ 676,500	100%

Sources: Center for Retirement Research, 2007 Survey of Consumer Finance

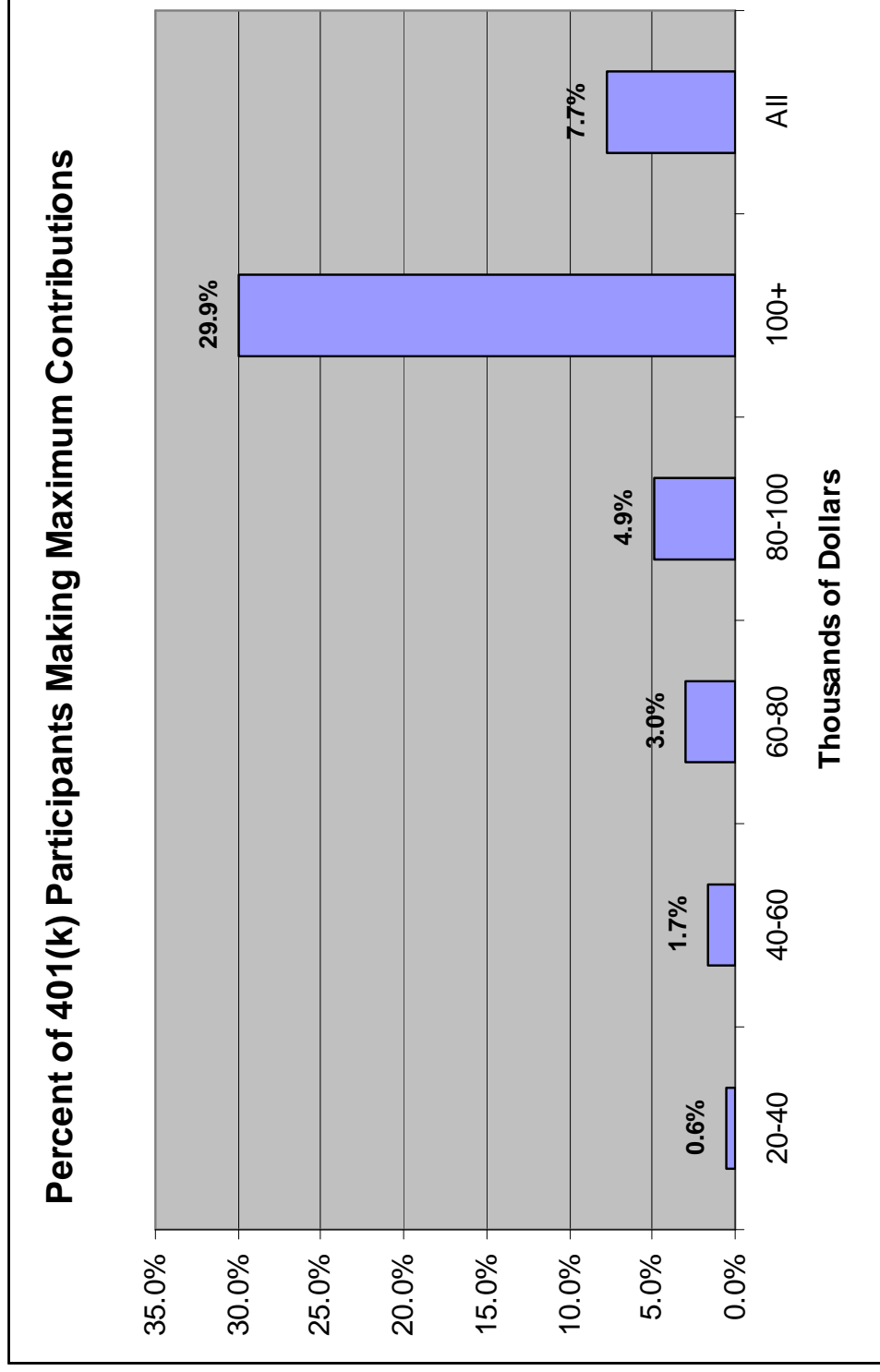
Changes in Retirement Plan Participation

(Shift from DB to DC), 1979-2007



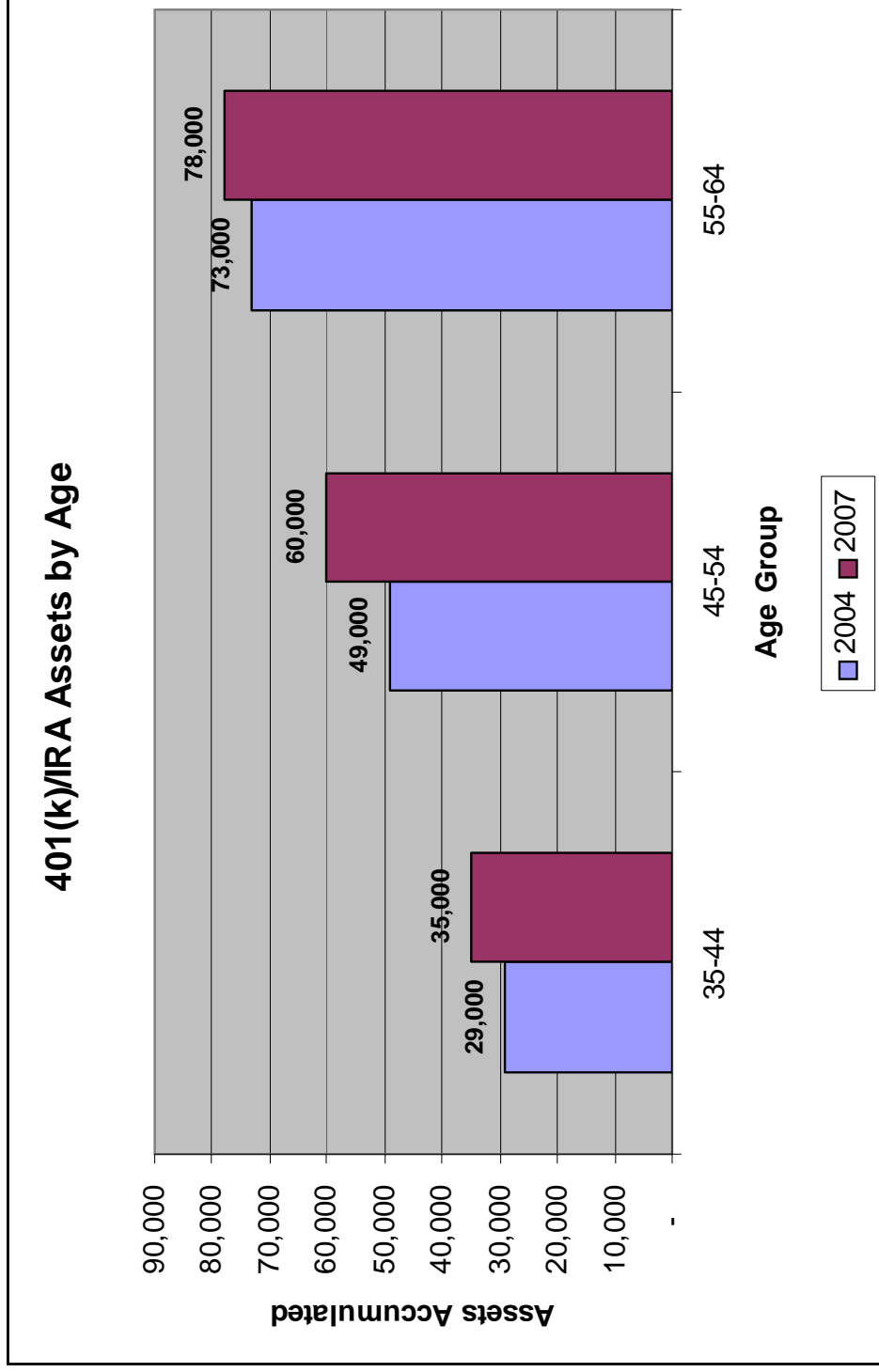
Source: U.S. Dept. of Labor, Employee Benefit Security Administration; Center for Retirement Research at Boston College; U.S. Dept. of Labor, Bureau of Labor Statistics.

Retirement Savings in 401(k)s/IRAs



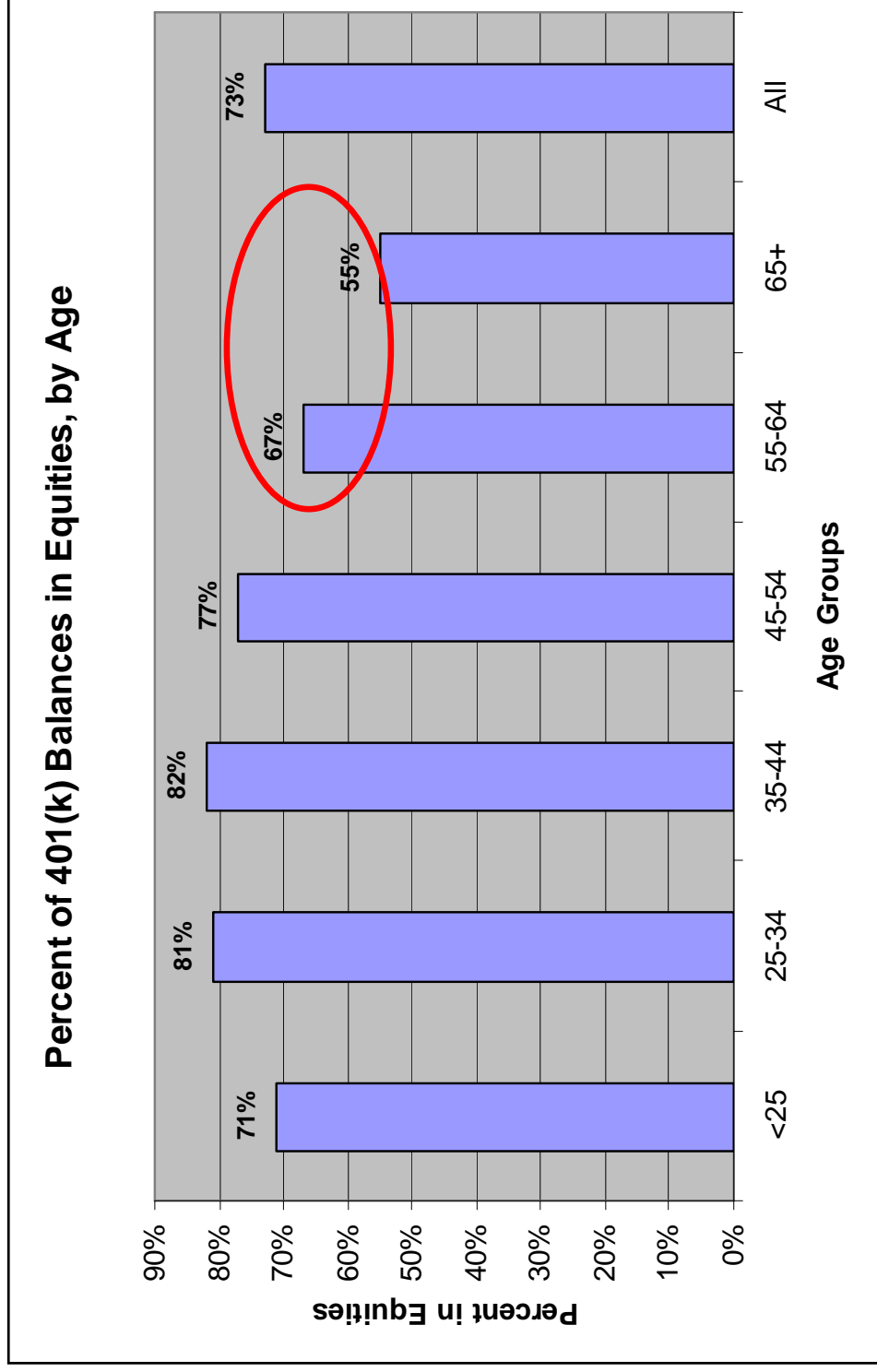
Sources: Center for Retirement Research, 2007 Survey of Consumer Finance

Retirement Savings in 401(k)s/IRAs



Sources: Munnell and Sunden, 2007 Survey of Consumer Finance

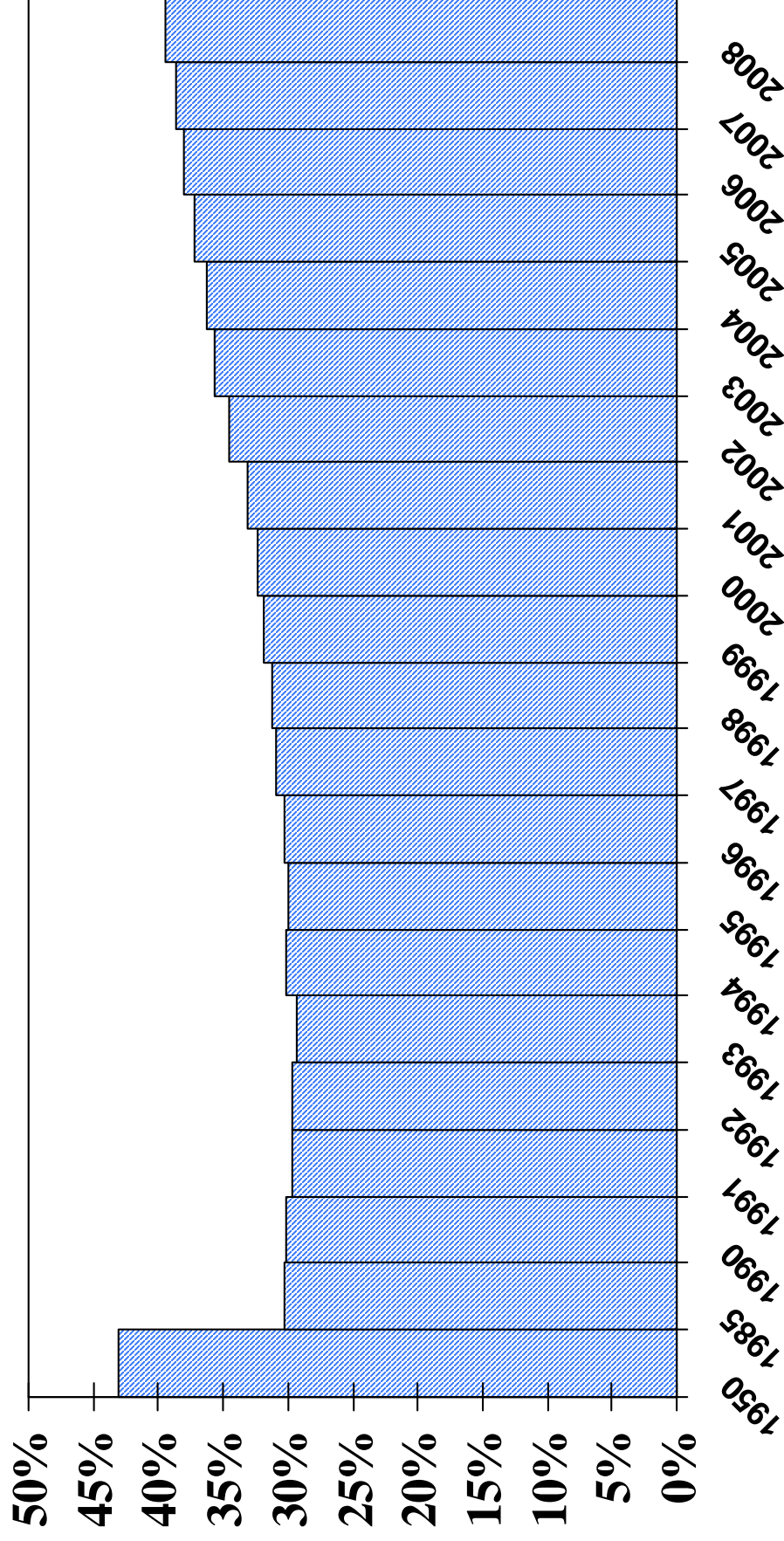
Retirement Savings in 401(k)s/IRAs



Source: Vanguard 2008

Working Longer

Labor Force Participation Rates of Persons Aged 55+, 1950, 1985, 1990-2008



Source: U.S. Bureau of Labor Statistics, *Handbook of Labor Statistics*, 1985; *Employment and Earnings*, January issues, 1986-2009.

Working Longer

Labor Force Participation Rates of Persons Aged 65-69, 1985-2008 (in percentages)

Year	Both Sexes	Men	% Increase Men	Women	% Increase Women
1985	18.4	24.4	N/A	13.5	N/A
1995	21.8	27	10.7%	17.5	29.6%
2005	28.3	33.6	24.4%	23.7	35.4%
2008	30.7	35.6	6.0%	26.4	11.4%

Source: Bureau of Labor Statistics

Working Longer

- Workers say that they expect to continue working in retirement—upwards of 69% depending on the survey.
- Making ends meet and need access to health care (for pre-retirees) are cited as the most important reason for continued work.
- A substantial proportion of workers end up retiring or leaving the labor force earlier than anticipated due to reasons beyond their control. In the end, more workers say they expect or want to work in retirement than actually do.

Number of Unemployed Men and Women Age 55+

October, 2010

- Nearly 2.2 million people aged 55 and older were unemployed in October, 2010.
- At 7.3 percent, the unemployment rate for this age group was little changed from September's 7.2 percent.
- Older men experienced an increase in their unemployment rate from 7.9 percent in September to 8.3 in October.
- For older women, that rate fell from 6.4 to 5.9 percent.

Other Employment Indicators

- Older workers are not just experiencing higher rates of unemployment, more are:
 - **Working part-time for economic reasons**
 - Working part-time for economic reasons has more than doubled among older workers since the start of the recession. In April 2009, **5%** of workers age 55+ were working part time because they could not find full-time work, compared to only **2.4%** in December 2007.
 - **Discouraged and exiting the labor force**
 - People age 55+ represent **18.7%** of the labor force, but **20.7%** of discouraged workers (not actively looking for work in the prior 4 weeks because: thinks no work available, could not find work, lacks schooling or training, employer thinks too young or old, and other types of discrimination.)
 - **Experiencing longer periods of unemployment**
 - Once unemployed, older workers continue to remain out of work longer than their younger counterparts. In April, the average duration of unemployment was **26.6** weeks for the unemployed aged 55 and over and **22.9** weeks for those under age 55.

Healthcare Coverage for People Age 50-64

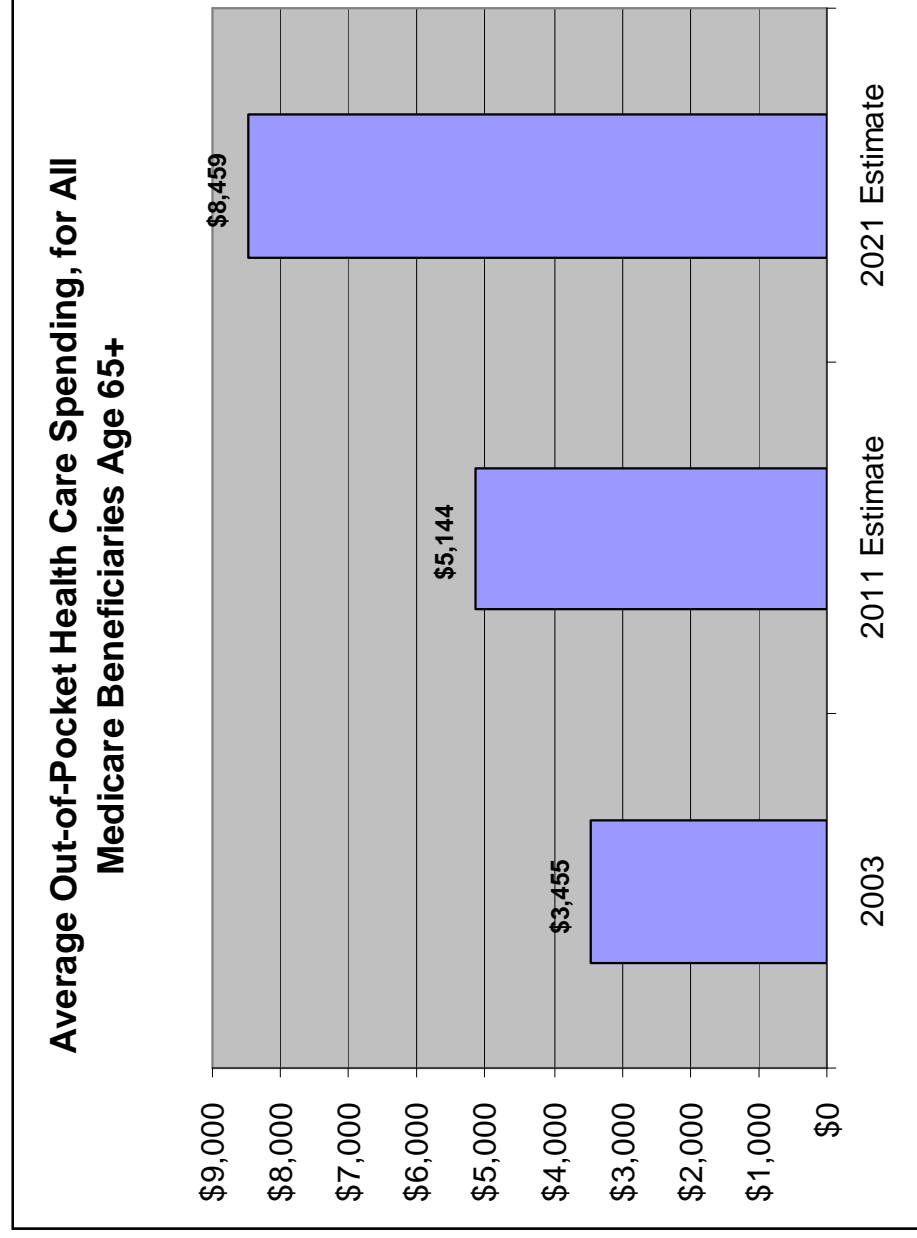
- 45.7 million (15.3%) people of all ages were uninsured and 7.1 million adults (13%) age 50-64 were uninsured in 2007.
- 1.9 million more 50-64 uninsured than in 2000, representing a 36% increase.
- Baby Boomers represent nearly 20% of the population within the next 7 years, finding a common-sense solution for this group is critical to holding down costs and improving health and financial security.

Medicare Coverage

- Medicare provide health coverage to 44 million people 65 and older, people with disabilities and people with end stage renal disease.
- People on Medicare spend about 30% of their incomes, on average, on out-of-pocket health costs – six times more than people with employer coverage.
- Medicare rarely covers the costs of long-term care, which is very expensive. The average cost of a semi-private room in a nursing home is almost \$70,000 per year. For assisted living facilities, the yearly cost is over \$36,000.

Out of Pocket Healthcare Cost

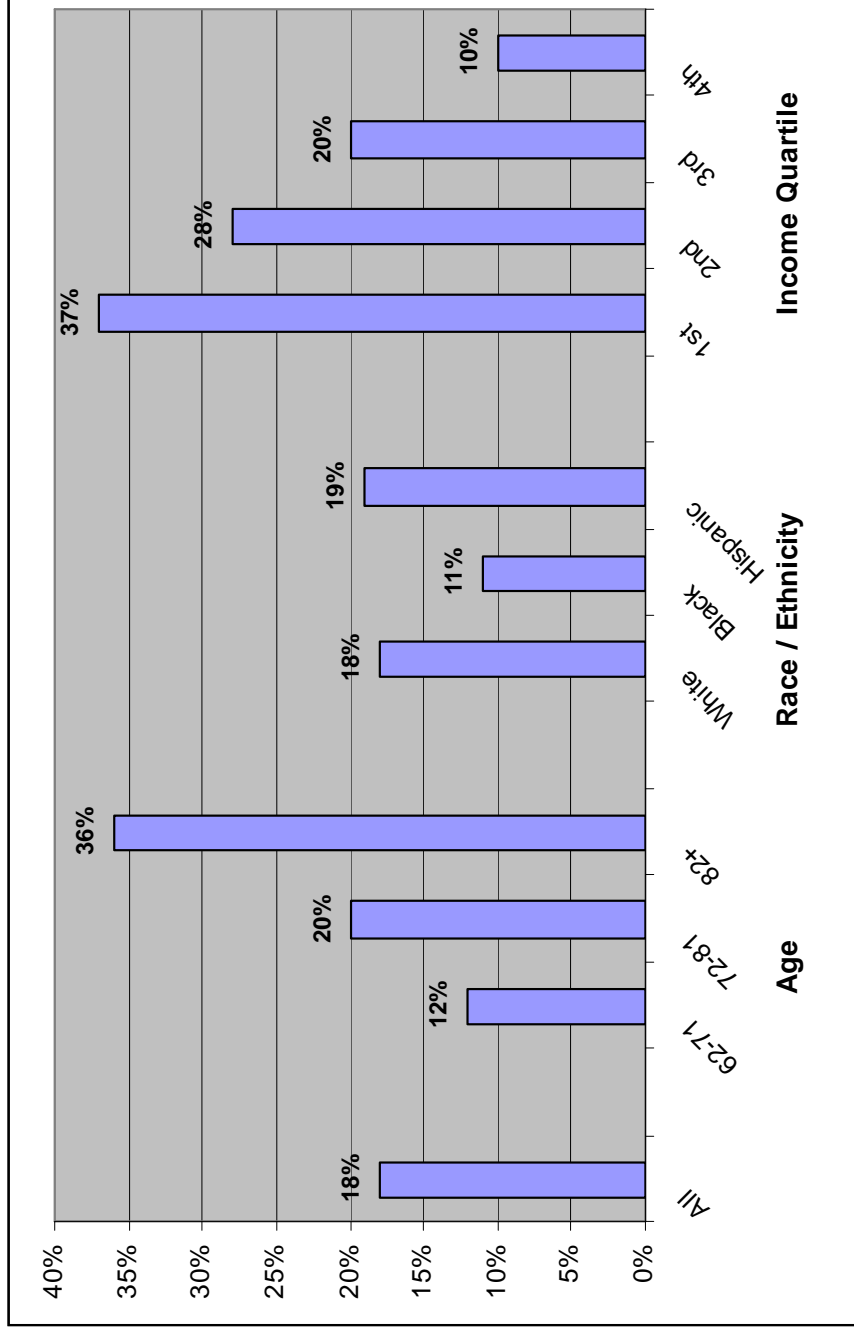
- Healthcare costs continue to rise when key sources retirement income remain flat or decreases. Social Security benefits will receive no COLA increases in 2010, 2011 and a modest increase in 2012.



Source: The MetLife Market Survey of Nursing Home & Assisted Living Costs, October 2008.

Change in Income from Reverse Mortgages

Potential Median Change in Income from Reverse Annuity Mortgages Homeowners 62+, 2006



Source: Zedleswski, Cushing-Daniels, and Lewis (2008), Health and Retirement Study Data

Financial Capability in the United States

- Levels of financial capability are lower among adults with:
 - No post-secondary education
 - Household income below \$25k
- Financial knowledge and decision making answers correct:

➤ Mortgage question	70%
➤ Interest rate question	65%
➤ Inflation question	64%
➤ Risk question	52%
➤ Bond price question	21%

Source: FINRA Investor Education Foundation National Survey, December, 2009

Financial Security's education & outreach objectives:

- Help people build adequate personal retirement savings, manage their retirement assets, and protect their retirement nest eggs through:
 - Consumer behavior change: providing resources and financial education support to 50+ consumers
- **Financial Freedom** – multicultural financial education and outreach
- **Free Lunch Monitor** – ‘mystery’ shopping investment seminars
- **Outsmarting Investment Fraud** – FINRA’s investor protection education program
- **Retirement Income** – resources focused on managing money in retirement (e.g., SS claiming decision)

Financial Security's education & outreach objectives:

- Help people build adequate personal retirement savings, manage their retirement assets, and protect their retirement nest eggs through:
 - Systemic solutions: influencing macro changes (i.e., intermediaries, marketplace, etc.) through education and outreach
- **Retirement Made Simpler** (Automatic 401ks) - engaging and influencing employer behavior to foster better retirement savings plans,
- **For Financial Pros** - engaging and influencing financial service industry behavior,
- **Auto-IRA / Financial Regulatory Reform** - supporting legislative activities and reform,

AARP Resources

Consumers:

- www.HealthActionNow.org
- www.AARP.org/Realrelief
- www.AARP.org/money
- www.AARP.org/NoFreeLunch

Institutions:

- www.RetirementMadeSimpler.org
- www.aarp.org/money/work/employer_resource_ctr/
- www.AARP.org/Workforceassessment
- www.AARP.org/forfinancialpros