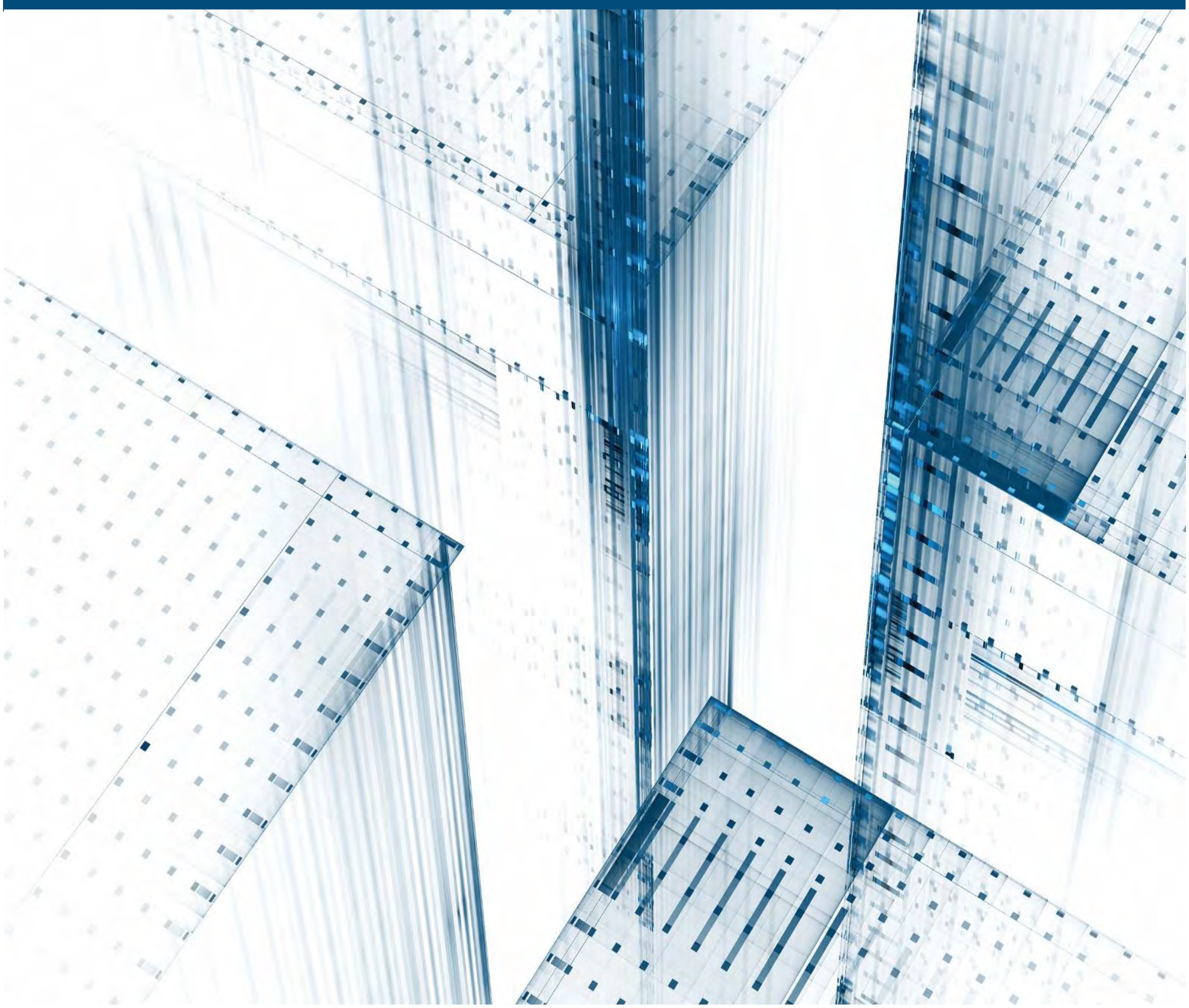
SOCIETY OF ACTUARIES

Aging and Retirement

Financial Priorities, Behaviors and Influence on Retirement



October 2018

Whether a Millennial, part of the Silent Generation or somewhere in between, there are financial challenges to be faced. At different stages in their financial lives, members of each generation have a unique set of priorities and points of focus. Through a large multi-generational survey conducted by Greenwald & Associates, the Society of Actuaries (SOA), and its new Aging and Retirement Strategic Research Program, has achieved insights into how each generation is focusing on their key financial priorities, preparing for a financially secure retirement and, once retired, maintaining financial security.

While planning financially for retirement is a key issue for each generation, this study reveals important differences between the generations pertaining to financial planning.

- Millennials (ages 20–38) are struggling to establish themselves financially. They express a lack of confidence in making financial decisions, with 64% reporting that their planning horizon is 12 months or less. They have a unique set of financial pressures including building up an emergency fund, saving for a home and paying off their credit card debts and student loans.
- Gen Xers (ages 39–53) exhibit significantly more confidence and are focused on saving for retirement. Few report student loans, enabling them to shift their focus to the longer term.
- Late Boomers (ages 54–63) are the most focused on planning, with the majority of this generation gearing up for retirement and 51% reporting their planning horizon is three or more years. They are targeting investments to grow their money and produce income both now and in retirement.
- Early Boomers (ages 64–72) are most likely to be working with a financial adviser and are the most financially stable of these groups with six in 10 being able to afford an unexpected expense of $10,000. Approximately three-quarters of Early Boomers report being retired.
- The Silent Generation (ages 73–83) has much fewer savings priorities and tends to think of their finances in terms of the rest of their lives, not surprisingly as almost all say they are already retired. In addition to Millennials, the Silent Generation is the most likely to express a lack of financial stability—highlighting the financial vulnerability of this group.

Some of these differences are clearly driven by the stage of life that each generation is currently in, while others seem to be driven by the unique circumstances and characteristics of their generation.

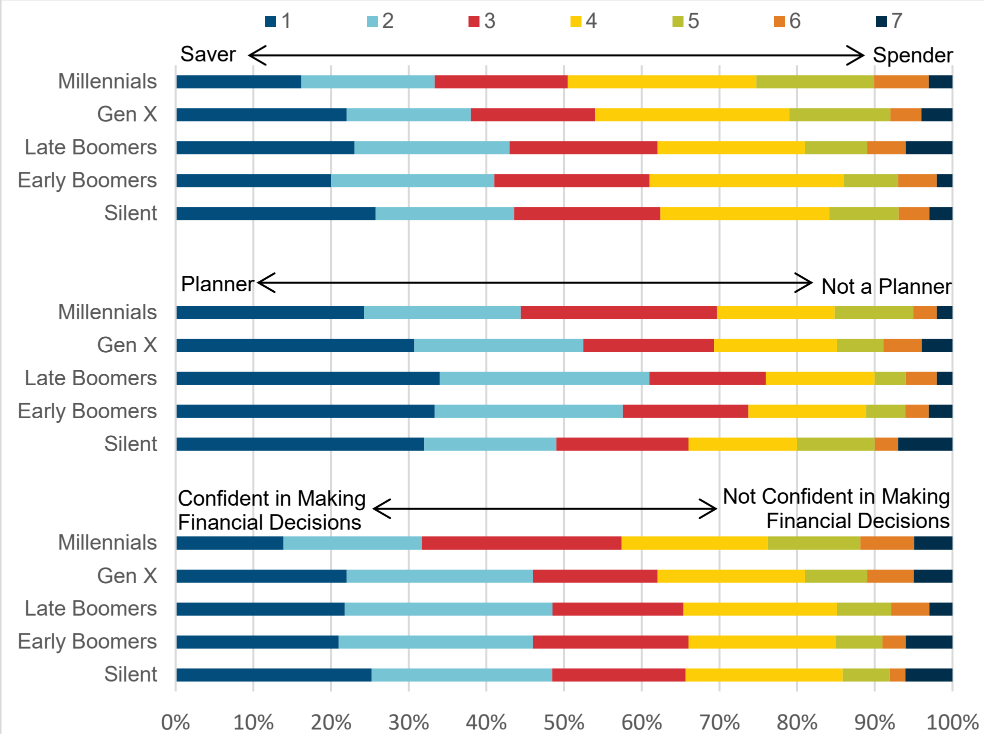
This report is the first in a series that analyzes financial priorities across generations. Using results from an online survey of 2,001 individuals, including 398 Millennials, 399 Gen Xers, 403 Late Boomers, 401 Early Boomers and 400 members of the younger portion of the Silent Generation, key financial issues around financial goals, concerns and retirement preparedness are examined. A full report with detailed data by generation can be found at https://www.soa.org/research-reports/2018/financial-perspectives-aging-retirement/.

Roles in Financial Planning

To understand how each generation prioritizes and plans financially, it is important to see how they view their own financial mindset. While all generations see themselves more as savers than spenders, Millennials are more likely than Boomers and the Silent Generation to describe themselves as spenders (Figure 1). All generations align themselves with being more budget-driven and thrifty, but few from any generation call themselves "investment pros." Confidence in making financial decisions increases with age, with Millennials the most likely to claim they are not confident in making financial decisions. And while all generations lean toward planning, a focus on planning seems to peak with Late Boomers.

Figure 1

SAVERS, PLANNERS AND CONFIDENCE BY GENERATION

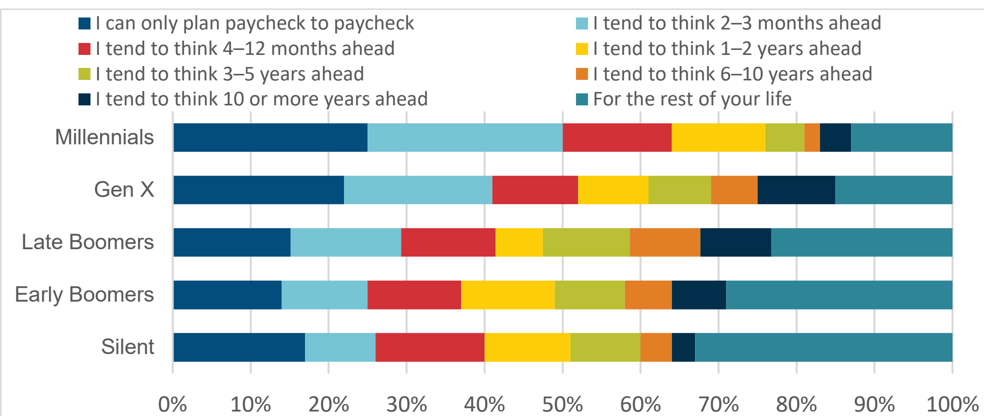


Please check the box that best describes where you stand in the continuum between each of the following pairs of opposing words. (Millennials, n = 398; Gen X, n = 399, Late Boomers, n = 403; Early Boomers, n = 401, Silent, n = 400)

Furthermore, there is significant variation in the time frame individuals are planning for financially. Half of Millennials and two in five Gen Xers say they tend to plan financially at most two to three months ahead. On the other hand, older generations have longer planning horizons with Early Boomers and the Silent Generation most likely to plan for the rest of their life (Figure 2).

Figure 2

FINANCIAL PLANNING TIME FRAME BY GENERATION



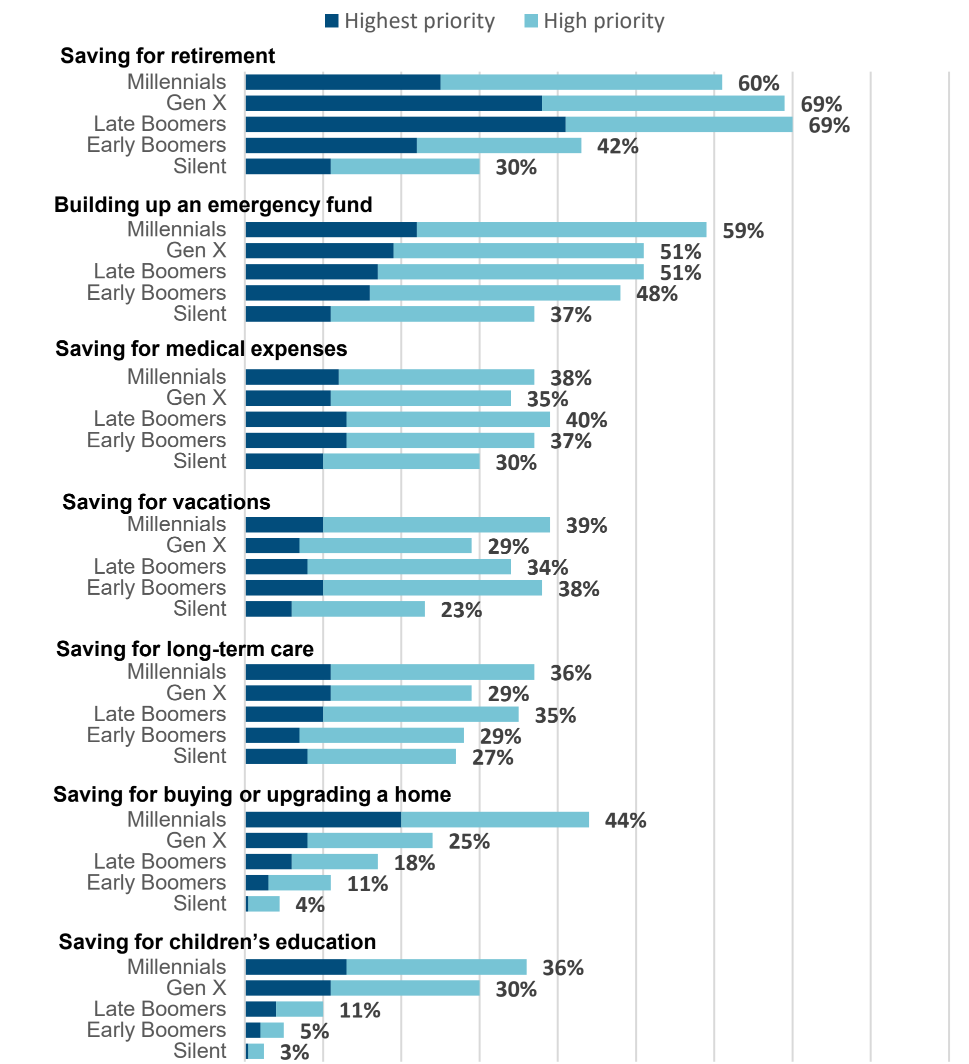
When you are reviewing your financial situation and looking ahead for planning purposes, what time frame do you tend to consider? (Millennials, n = 398; Gen X, n = 399, Late Boomers, n = 403; Early Boomers, n = 401, Silent, n = 400)

Financial Priorities and Strategies

In general, the number of high financial priorities declines with age, with the Silent Generation voicing few current high financial priorities. When looking at priorities with savings in mind, retirement savings is most often cited as a high priority (Figure 3). Gen Xers and Late Boomers were most likely to place a high priority on retirement saving and, fortunately, the emphasis on retirement savings spans all generations.

Figure 3

SAVINGS PRIORITIES BY GENERATION



Thinking of your current financial situation, how much of a priority is each of the following? (Millennials, n = 398; Gen X, n = 399, Late Boomers, n = 403; Early Boomers, n = 401, Silent, n = 400)

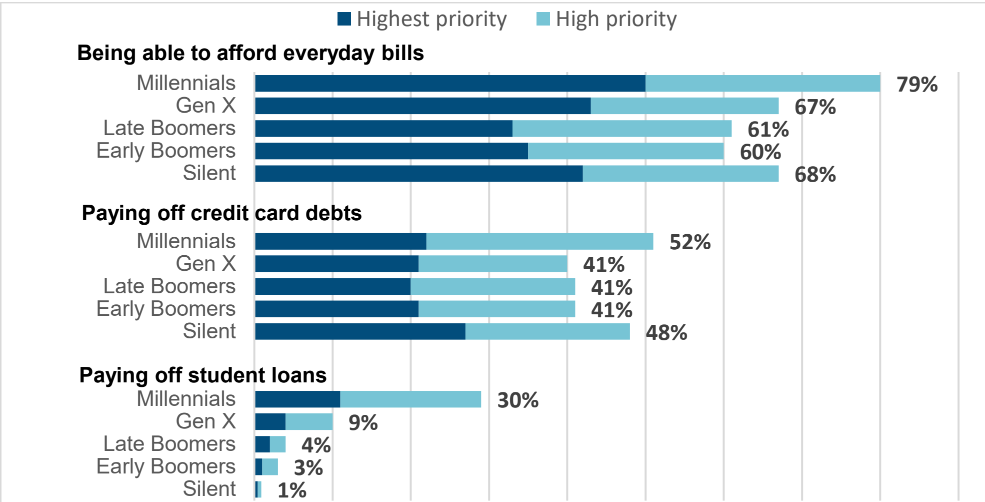
Saving for long-term care and medical expenses are relatively low across generations despite substantial risks of needing long-term care. For instance, the average estimated monthly costs for long-term care in 2017 can range from $1,500 for daytime health care to $8,000 for a private room in a nursing home.[1] Additionally, 63% in this study are concerned they may not have enough money to pay for adequate

[1] Society of Actuaries. Planning Your Retirement Trip. *Age Wise Infographic Series*, *www.soa.org/research/age-wise/*.

health care or have enough money to pay for a long stay in a nursing home. Given that so few are emphasizing saving for long-term care or medical expenses, this a major uncovered risk for financial stability.

Millennials have some distinct saving priorities, especially when it comes to saving to buy or upgrade a home—a high priority for 44%. In terms of today's priorities, half of Millennials focus on paying off their credit card debts and another three in 10 prioritize paying off student loans (Figure 4). About 31% of Millennials report holding student loans, significantly higher than earlier generations. Also, Millennials, albeit at higher rates, and older generations rank being able to afford everyday bills as a high priority. Despite current obligations being a significant issue, saving for the future—including retirement—is not forgotten across generations.

Figure 4
PRIORITIES OF TODAY BY GENERATION

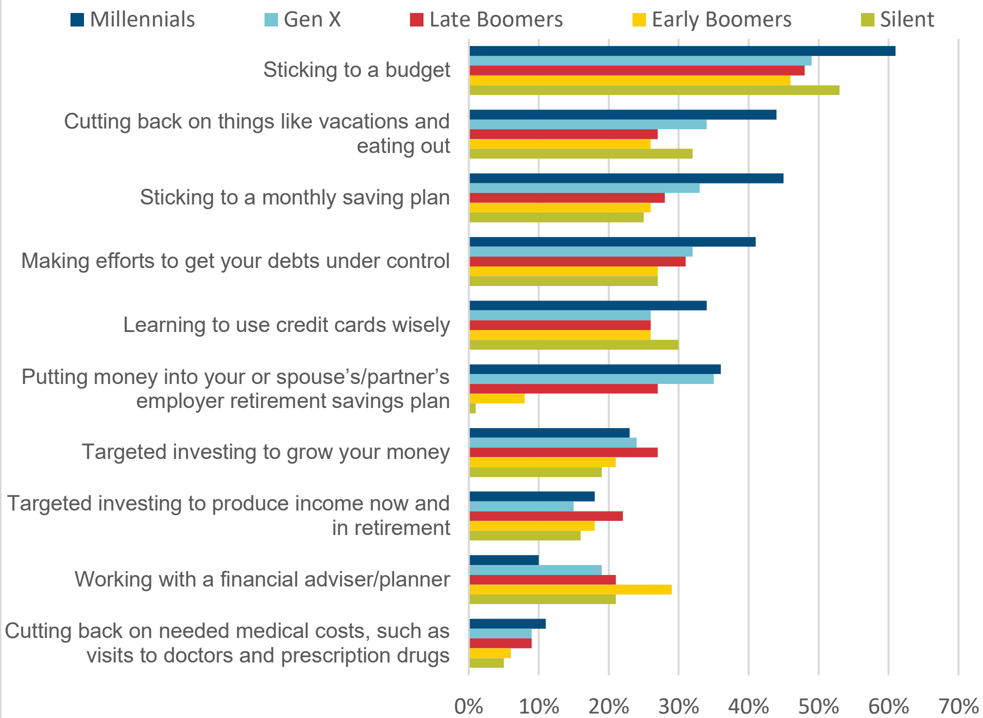


Thinking of your current financial situation, how much of a priority is each of the following? (Millennials, n = 398; Gen X, n = 399, Late Boomers, n = 403; Early Boomers, n = 401, Silent, n = 400)

Actions Taken to Address Priorities

While Millennials have a substantial number of priorities, they are attempting to tackle these issues through a variety of steps. Out of 10 possible action items for addressing their financial priorities, Millennials are most likely to be doing seven of them relative to their older counterparts (Figure 5). Since they are less likely to describe themselves as savers or planners, these steps, including cutting back on spending and sticking to a monthly savings plan, are important to obtaining financial security.

Figure 5
METHODS OF ADDRESSING FINANCIAL PRIORITIES THIS YEAR BY GENERATION



Which of the following things are you doing this year to address your financial priorities? (Millennials, n = 398; Gen X, n = 399, Late Boomers, n = 403; Early Boomers, n = 401, Silent, n = 400)

Early Boomers, with retirement planning foremost on their current priorities, are more likely to work with a financial adviser to address their priorities than younger generations. Late Boomers are significantly more likely than those in other generations to say they are using targeted investing to grow their money. At a point where many in this generation are still working but are not far from retirement, they seem most sensitive about trying to grow their asset level.

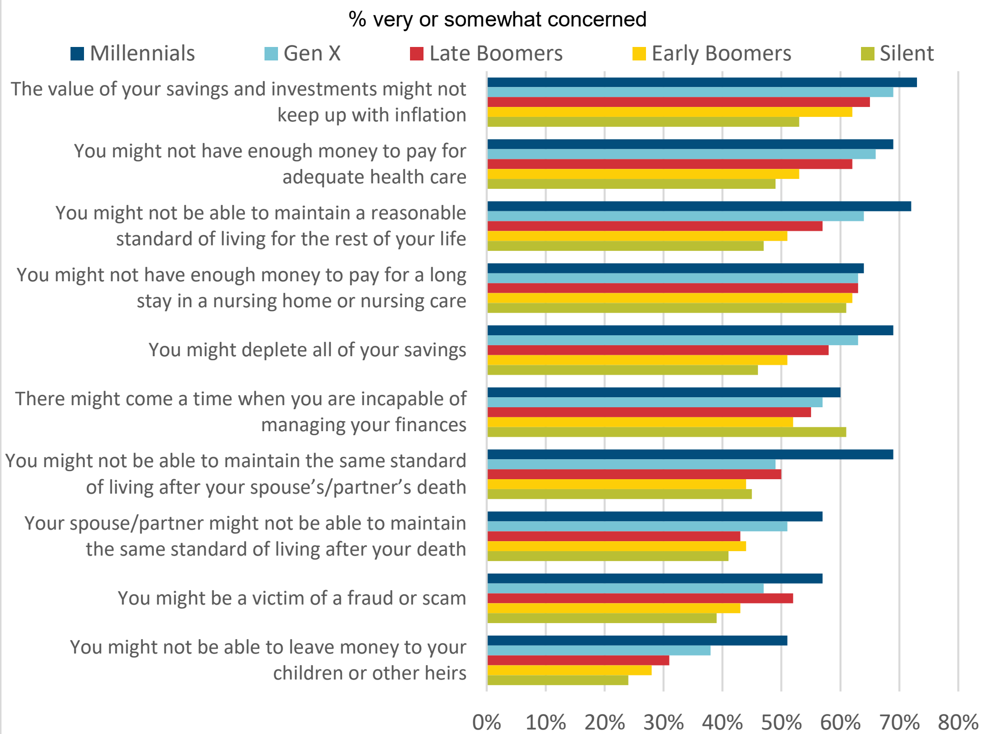
Retirement Planning and Concerns

Three in five believe they are on track in planning for a financially secure retirement. Of those currently working, 77% of Millennials, 80% of Gen X and 69% of Late Boomers have access to an employer-sponsored retirement plan. Of these, a majority of employers offer matching funds and most employees are taking full advantage by contributing enough for the maximum match from their employer, with Late Boomers the most likely to make contributions high enough to qualify for the maximum employer match.

Still, concerns around retirement are high, especially for younger generations. In total, two out of three are very or somewhat concerned that the value of their savings and investments might not keep up with inflation and 63% say the same about being able to maintain a reasonable standard of living for the rest of their lives (Figure 6).

Figure 6

CONCERNS FOR RETIREMENT



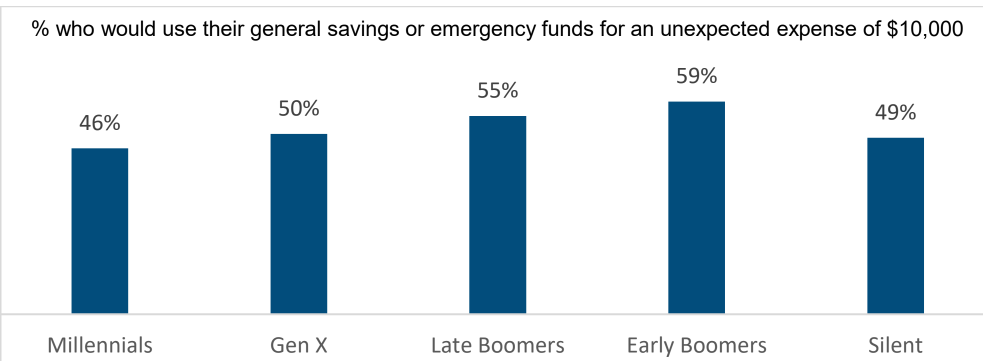
How concerned are you about each of the following in retirement? (Millennials, n = 398; Gen X, n = 399, Late Boomers, n = 403; Early Boomers, n = 401, Silent, n = 400)

Financial Stability

Despite efforts to tackle the financial priorities of today as well as tomorrow, unexpected expenses can unravel even the best-laid plans. Stability against unforeseen expenses increases with age, peaking with Early Boomers and then declining for the Silent Generation. Almost 60% of Early Boomers could afford a $10,000 expense using only their savings or emergency funds (Figure 7).

Figure 7

AFFORDING UNEXPECTED EXPENSES



If you had an unexpected expense of $10,000 that had to be paid immediately, how would you cover it? (Millennials, n = 398; Gen X, n = 399, Late Boomers, n = 403; Early Boomers, n = 401, Silent, n = 400)

The youngest and oldest generations are the most likely to express a lack of stability. Only 46% of Millennials would use their savings for an unexpected expense of $10,000, not surprising since they have lower assets and more competing financial priorities. That said, an additional 33% of Millennials would be able to use their savings for an unexpected expense of $1,000. Those in the Silent Generation are particularly vulnerable, with half not being able to use their savings for an unexpected $10,000 expense. Almost 15% of the Silent Generation indicated they would turn to their retirement savings for a $10,000 expense, severely impacting their security for other financial needs.

Methodology

The report presents the results of research conducted by Greenwald & Associates, on behalf of the Society of Actuaries. Using Research Now's panel, Greenwald conducted an online survey of 2,001 individuals: 398 Millennials, 399 Gen Xers, 403 Late Boomers, 401 Early Boomers and 400 Silent Generation. The survey was conducted from July 17 through July 27, 2018.

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 30,000 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 policymakers 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 nonactuaries from a range of industry sectors and organizations. A rigorous peer-review process ensures the quality and integrity of our work.

Relevance: The SOA provides timely research on public policy issues. Our research advances actuarial knowledge while providing critical insights on key policy issues, and thereby provides value to stakeholders and decision makers.

Quantification: The SOA leverages the diverse skill sets of actuaries to provide research and findings that are driven by the best available data and methods. Actuaries use detailed modeling to analyze financial risk and provide distinct insight and quantification. Further, actuarial standards require transparency and the disclosure of the assumptions and analytic approach underlying the work.

Society of Actuaries
475 N. Martingale Road, Suite 600
Schaumburg, Illinois 60173
www.SOA.org