Finances in Retirement: New Challenges, New Solutions

A Merrill Lynch Retirement Study, conducted in partnership with Age Wave

Merrill Lynch
Bank of America Corporation

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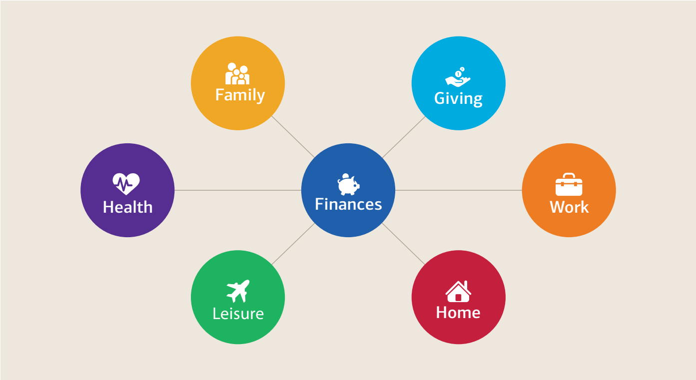
Introduction

Life Priorities in Retirement

In 2012, Merrill Lynch and Age Wave began a strategic collaboration to understand and address the most important areas of life to better guide Americans towards a satisfying and financially comfortable retirement. The initiative has been a multi-year, multi-disciplinary, multi-layered investigation into the changing landscape of retirement.

A series of studies looked through the lenses of seven major priorities—Family, Health, Home, Work, Leisure, Giving, and Finances—and probed the values, experiences, preferences, worries, opportunities, and aspirations of retirees and pre-retirees (FIG 1). The seven Life Priorities form a dynamic constellation, with all priorities constantly in motion and influencing each other, often with financial implications. Their relative positions and importance change over time. Most importantly, the constellation is different for every individual.

FIGURE 1: The Seven Life Priorities



In this capstone study, *Finances in Retirement: New Challenges, New Solutions*, we summarize how the financial landscape of retirement is changing, integrate the financial implications and challenges of each of the Life Priorities in retirement, and examine the choices and changes that people can make to become more financially secure in retirement.

Individually, each of these studies is groundbreaking. Collectively, they provide perspectives, unprecedented in both comprehensiveness and insight, into how Americans can thrive as they move into and through retirement.

New Retirees, New Retirement.

Increasing longevity offers potentially more years in retirement. The massive retirement wave of Baby Boomers is amplifying the opportunities and challenges of retirement in America. With the Baby Boomers' attitudes, behaviors, and ambitions, retirement is transforming into a time of new beginnings, new challenges, and new choices.

New Freedoms — The Upside of Aging.

Today's retirees are more "time affluent" than previous generations and have new freedoms to live where they want, work on their own terms, connect with family and friends, engage in leisure of their choosing, invest in their health, contribute to activities and causes they care about, and make lifestyle changes to suit their individual needs.

Financing Retirement.

Preparing for and funding retirement is more than ever a personal responsibility, and many Americans are worried that a financially secure retirement may be out of reach. Their challenges start with not knowing how much money they'll need and not being disciplined about saving. They are also hampered by the fact that talking about personal finances remains socially taboo.

Seven Life Priorities in Retirement.

Retirement preparation is about more than just reaching financial targets. The Life Priorities framework offers a uniquely holistic and insightful approach for individuals to anticipate how they want to live in retirement, what they want to accomplish, how they can prepare for life's challenges, and how the most important elements of their lives intersect and interact.

Course Corrections.

When faced with financial and other retirement challenges, most Americans are generally resilient, adaptable, and hopeful. Each of the Life Priorities offers assets, liabilities, and currencies that can be traded, balanced, and modified. By making well-informed course corrections, within and across the Life Priorities, people can better fund and enjoy life in retirement.

About This Report

This report first confirms the changing challenges Americans commonly face in financing their retirements. We review:

- Why growing numbers of retirees must find new ways to fund their lengthening retirements—and take more personal responsibility to do so.
- How Americans expect the retirement funding formula to continue to evolve, and how much they worry about not being financially comfortable in retirement.
- How they underestimate the cost of retirement, don't know how much they need to save, and put aside far less than the amount they think they should.

We then look across the seven Life Priorities, sharing key findings and themes from this and the earlier studies, and charting what people can do to improve their overall financial well-being in retirement. Highlights include:

Finances are the greatest worry of many Americans, and financial decisions are often second-guessed. Their objective is financial peace of mind, but many lack the financial knowledge, role models, and disciplined behaviors to attain it.

Health is the biggest wildcard in retirement, sending ripple effects across the other Life Priorities. Two of the most important investments Americans can make in retirement are to maintain good health and cover its uncertain costs.

Family is the greatest source of satisfaction for most retirees. They want to enjoy more family time, may be ready to support family members today, and want to avoid becoming a burden on their family in the future.

Work in retirement, which growing numbers of retirees choose to do part-time or flex time, offers opportunities to supplement income, maintain social connections, and contribute in ways people feel passionate about.

Home is where the heart is—and often where the assets are. Most retirees own and enjoy their homes, but exercising the freedom to downsize, upsize, renovate, and relocate can have broad lifestyle and financial impact.

Giving provides retirees with added purpose. They are generous with their time, experience, and money. Their collective financial and volunteering contributions over the next twenty years are projected to create an $8 trillion "Longevity Bonus" for the nation.

Leisure for retirees is a source of everyday relaxation, occasional adventure, and overall fun. They overwhelmingly value having new experiences over acquiring new things, and they deepen connections with family and friends through leisure activities.

Methodology

***Finances in Retirement: New Challenges, New Solutions* culminates the *Life Priorities in Retirement* series.** *As is the case in all previous studies in this series, the sample is nationally representative of age, gender, ethnicity, income, and geography. The study was conducted by Merrill Lynch in partnership with Age Wave and executed by TNS via an online data collection methodology.*

This survey was conducted in August 2016 among a total of 4,854 adult respondents age 25+. The general population sample consists of 3,718 respondents, including: 674 Silent Generation (age 71+), 2,117 Baby Boomers (age 52-70), 516 Generation Xers (age 40-51), and 411 Millennials (age 25-39).

Qualitative research—six focus groups among both pre-retirees and retirees, and interviews with national thought leaders on a variety of topics related to finances—was conducted prior to the quantitative research. Also incorporated are results of an online omnibus panel survey conducted in September 2016 on the general population (n=2,500) to assess worries and priorities in their lives.

Across the eight studies in the Life Priorities in Retirement series, conducted by TNS or Harris Interactive, we had over 50,000 survey respondents. We conducted a total of 43 focus groups of retirees and pre-retirees across the country, including people of various income and asset levels. We also interviewed more than 140 subject matter experts on retirement and the individual Life Priorities.

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About Merrill Lynch Global Wealth Management

Merrill Lynch Global Wealth Management is a leading provider of comprehensive wealth management and investment services for individuals and businesses globally. With 14,416 Financial Advisors and $2 trillion in client balances as of June 30, 2016, it is among the largest businesses of its kind in the world. Merrill Lynch Global Wealth Management specializes in goals-based wealth management, including planning for retirement, education, legacy, and other life goals through investment, cash and credit management. Within Merrill Lynch Global Wealth Management, the Private Banking and Investment Group focuses on the unique and personalized needs of wealthy individuals, families and their businesses. These clients are served by more than 175 highly specialized Private Wealth Advisor teams, along with experts in areas such as investment management, concentrated stock management and intergenerational wealth transfer strategies. Merrill Lynch Global Wealth Management is part of Bank of America Corporation. For more information, please visit www.ml.com/retire.

Age Wave

About Age Wave

Age Wave is the nation's foremost thought leader on population aging and its profound business, social, financial, healthcare, workforce, and cultural implications. Under the leadership of Founder/CEO Dr. Ken Dychtwald, Age Wave has developed a unique understanding of new generations of maturing consumers and workers and their expectations, attitudes, hopes, and fears regarding retirement. Since its inception in 1986, the firm has provided breakthrough research, compelling presentations, award-winning communications, education and training systems, and results-driven marketing and consulting initiatives to over half the Fortune 500. For more information, please visit www.agewave.com. (Age Wave is not affiliated with Bank of America Corporation.)

Source: Bank of America. Merrill Lynch Global Wealth Management (MLGWM) represents multiple business areas within Bank of America's wealth and investment management division including Merrill Lynch Wealth Management (North America and International), Merrill Lynch Trust Company, and Private Banking & Investments Group. As of June 30, 2016, MLGWM entities had approximately $2 trillion in client balances. Client Balances consists of the following assets of clients held in their MLGWM accounts: assets under management (AUM) of MLGWM entities, client brokerage assets, assets in custody of MLGWM entities, loan balances and deposits of MLGWM clients held at Bank of America, N.A. and affiliated banks.

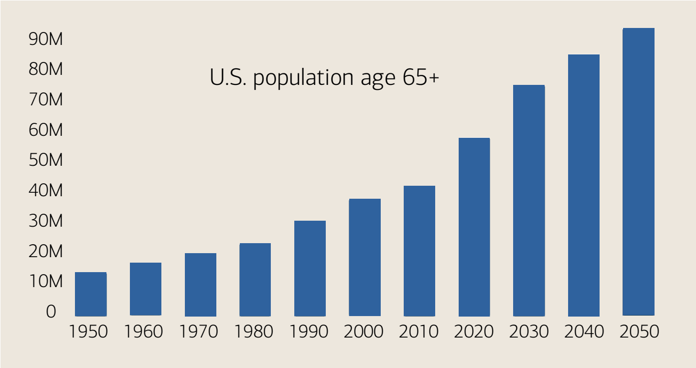
Financing the Retirement Wave

The fast-growing ranks of American retirees need to find new ways to fund longer retirements, and many are worried about their ability to do so. They don't know the full cost of retirement or how much they need to save, but they save far less than they think they should.

Retirement Funding in Transition

Three major forces are transforming the challenge of funding retirement. First, the massive Baby Boomer retirement wave is dramatically increasing the retiree population (FIG 2), adding about 10,000 new retirees a day. The U.S. population age 65+ will continue its dramatic rise, increasing by half over the next 30 years.

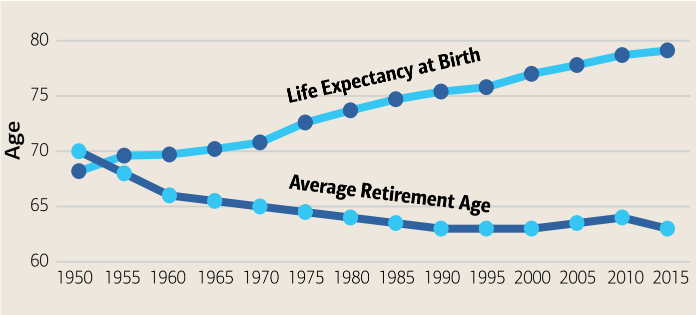
FIGURE 2: The Fast-Rising Population of Older Americans



Source: U.S. Census Bureau, 2015

Second, longevity continues to climb. Average life expectancy at birth is up to 79 years and is projected to continue to rise, adding nearly two years per decade.[1] However, the average retirement age is little changed (FIG 3). That means more retirees will need to fund longer retirements.

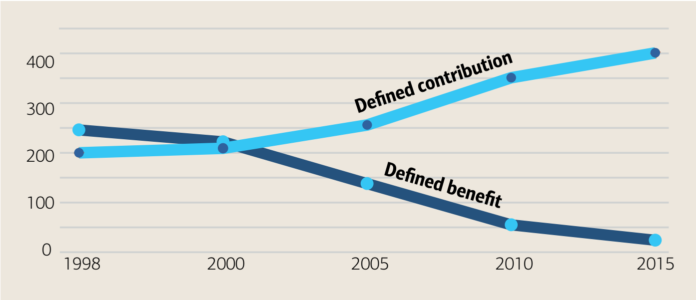
FIGURE 3: Life Expectancy and Retirement Age



Source: U.S. Census Bureau; 2016; Boston College, 2015

Third, the retirement funding formula is shifting dramatically. Most employers have discontinued guaranteed defined benefit pensions in favor of 401(k) and other forms of defined contribution accounts (FIG 4). And the long-term viability of Social Security benefits is in question.[2]

FIGURE 4: Pension Plans in Fortune 500 Companies



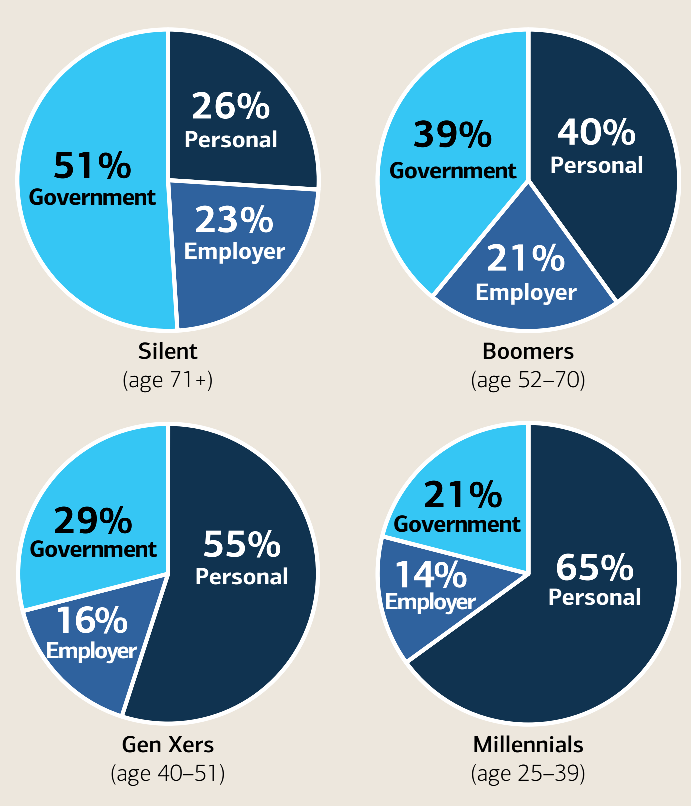
Source: Willis Towers Watson, 2016

Americans need more funding for longer retirements, yet the "three-legged stool" traditionally used for funding retirement—Social Security, employer pension, personal savings—is getting very wobbly for many people. They will need to rely more on personal sources of income, and so the responsibility for managing retirement funding resides more than ever with the individual.

Sources of Retirement Funds

Americans know that the retirement funding formula is changing. Our study reveals that the Silent Generation, (children born between 1925 and 1945) almost all retired at this point, counts on Social Security for half their income, with roughly a quarter each from employer pensions and personal sources (FIG 5). Each younger generation in turn anticipates less reliance on government programs and employer pensions, and more on personal sources. Millennials expect 65% of their retirement income to come from personal sources. A few industries and government organizations generally continue to provide defined-benefit pensions. However, for the overwhelming majority of Millennials—and most of today's other pre-retirees—the defined benefit pensions leg of the stool will contribute little or nothing.

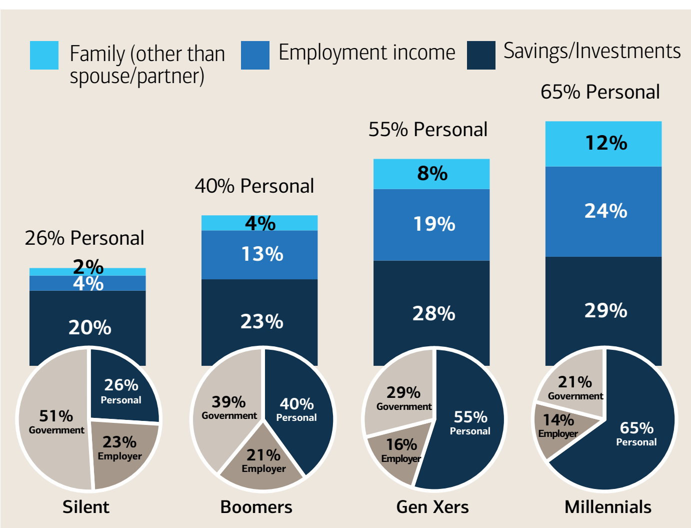
FIGURE 5: Americans' Anticipated Sources of Retirement Income



Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017; Base: Age 25+

As personal sources play an increasing role in funding retirements, the mix is also shifting within that category (FIG 6). Savings and investments are still the largest component, but younger generations expect increasing reliance on income from continued employment in their retirement years, as well as on support from family. In fact, Millennials expect one-fourth of their retirement funding to come from continuing to work in retirement.

FIGURE 6: Sources of Retirement Income

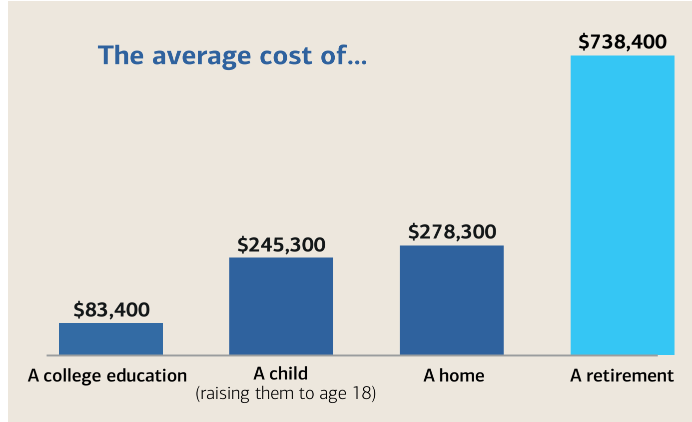


Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017; Base: Age 25+

The Purchase of a Lifetime

Americans are rightly concerned about funding a comfortable retirement, yet most aren't aware of what it will cost. Compared to life's other biggest expenses—buying a home, raising a child, paying for college—retirement carries the highest average price tag. The average cost of retirement is over $700,000 or about 2.5 times that of the average house (FIG 7). It's truly the purchase of a lifetime.

FIGURE 7: Retirement Has the Highest Price Tag



Source: CollegeData.com, 2016; USDA/Consumer Expenditure Survey, 2014; U.S. Census Bureau, 2015-2016; Fidelity.com

Many big variables go into financial planning for retirement. How much income per year do I need to live comfortably? How much can I save before retiring? How might my investments perform? The answers are different for each of us; however, the uncertainty about getting them right affects almost everyone. Eighty-one percent of Americans say they don't know how much money they'll need to fund their retirement.

The biggest unknown variable is how long each of us will live in retirement. When we asked, "To what age would you like to live?" the average response was around 90 years (and older people expressed the wish to live even longer). Retiring at 65 and living to 90 means 25 years in retirement, yet few are prepared for a retirement lasting that long (FIG 8). Only 16% of age 50+ pre-retirees say they are financially prepared for a retirement lasting 20 years, and merely 27% say they are prepared for a ten-year retirement.

FIGURE 8: Ready for a Lengthy Retirement?

Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017; Base: Age 50+ pre-retirees; T1B

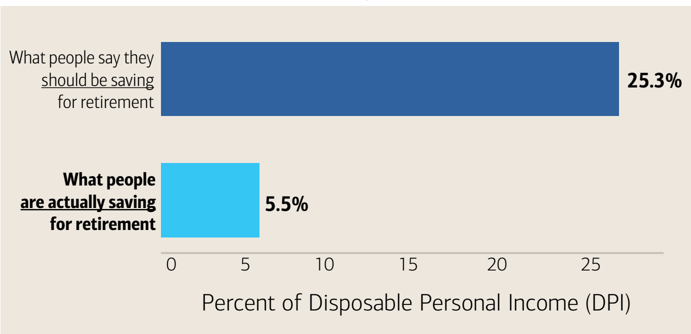
This lack of preparedness extends even to the wealthy. Of those with at least $1M in investable assets, only 60% say they feel prepared for a 30-year retirement. Among those with $500K to $1M, it drops to 37%.

The Intention-Action Gap

Americans seem to know what they should be doing to build their retirement savings. Roughly two-thirds know they ought to start saving early and live within their means, so they don't have to tap into their retirement savings prematurely. A majority also say they know the importance of maintaining the discipline to save regularly.

However, there's a big difference between theory and practice. On average, Americans said they think they should be saving about 25% of their disposable (after tax) income each year. But the average annual savings rate in the U.S. is only 5.7% (FIG 9).[3] The savings rate has moved up from a low of about 3% during the recent recession, but it's still less than half the peak rate of 13% in the early 1970s.[4] In fact, Americans are saving less than one-fourth of the amount they think they should be saving for retirement.

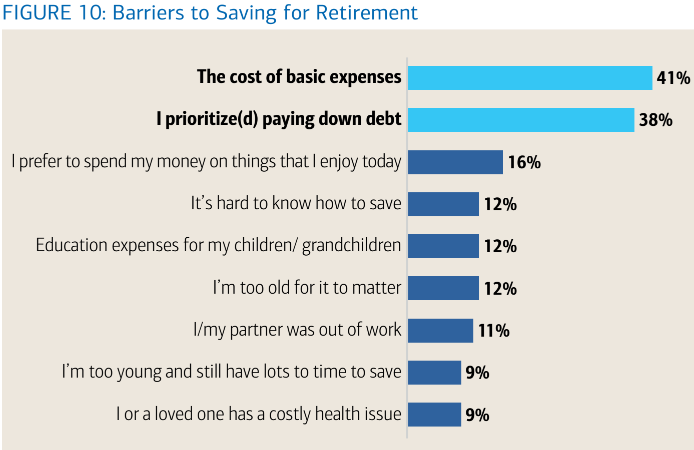
FIGURE 9: Intended versus Actual Savings Rates



Source: Federal Reserve, 2016
Base: Age 25+; mean; total answering; Age Wave calculations

People offer a variety of reasons for not saving for retirement (FIG 10). They say their top two barriers are not having enough money left after paying basic expenses (41%) and paying down debt (38%).

FIGURE 10: Barriers to Saving for Retirement

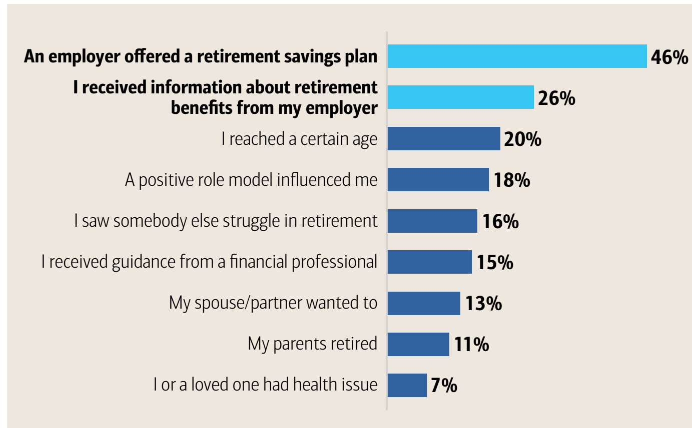


Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017;
Base: Age 25+; select all that apply

Saving and Leaking

Among Americans who are saving regularly for retirement, by far the most common trigger is the employer that offers a plan and provides information on how to take advantage of it (FIG 11). Thirty-nine percent of adult Americans have 401(k) or other types of defined contribution plans, with combined employee/ employer contributions averaging around $5,600 a year.[5] But only 12% of participants contribute the maximum amount allowed[6] ($18,000 in 2017[7]), and 22% of those eligible for plans do not contribute to them at all. Moreover, these accounts often suffer "leakage" when people tap into them (and bear the tax and penalty consequences) before reaching age 59½, often when changing jobs.[8]

FIGURE 11: Triggers to Saving for Retirement



Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017;
Base: Age 25+ who have started saving for retirement; select all that apply

A significant number of Americans aren't saving for retirement at all. One-third of adults have no savings for retirement.[9] That includes the 42% of Millennials who haven't started to save yet. Another 23% of the population has less than $10,000 saved for retirement. So more than half the U.S. population is basically unfunded for retirement in terms of savings. Only 13% have saved $300,000 or more.[9]

Against a backdrop of economic uncertainty, financial hurdles, and growing concern about income inequality, younger generations feel that a financially secure retirement is falling out of reach (FIG 12). More than half of Millennials are pessimistic in this regard; however, they also have the longest lead time for learning what to do and taking action.

> ***"My husband and I have always tried to do the right things: lived within our means, maxed out our 401 Ks, and even put off retirement for a few years, but who knows how long we'll live? Who knows what might happen to our health? We are worried we will outlive our savings, and that is a scary thought."***
>
> ***— Focus Group Participant***

FIGURE 12: Is a Secure Retirement Falling Out of Reach?

Source: Age Wave/Merrill Lynch, “Finances in Retirement: New Challenges, New Solutions,” 2017; Base: Age 25+; T2B

New Challenges, New Solutions

To recap the situation, Americans need to fund longer retirements. The retirement funding formula is changing, and responsibility is shifting more and more to the individual. Retirement is the most expensive purchase most people will ever make, yet most are not saving enough to fund it adequately.

Resolving this situation requires a new approach. It requires new knowledge, new attitudes, and new behaviors, starting with more informed and disciplined management of finances. There are also opportunities across each of the Life Priorities to make course corrections that can help individuals attain a more financially comfortable and secure retirement.

Life Priorities in Retirement

Retirement planning is about a lot more than having target numbers for net worth and retirement income. It's about how individuals want to live in retirement. This research across the Life Priorities shows that, even in the face of financial and other challenges, today's retirees are resilient, adaptable, and hopeful.

Examining the Seven Life Priorities

The Merrill Lynch/Age Wave studies collectively developed and examined the multi-disciplinary framework of the seven Life Priorities in retirement—Family, Health, Home, Work, Leisure, Giving, and Finances. These Life Priorities are best examined:

- Specifically – Within each Life Priority, what are people's needs and preferences? Their ambitions and constraints? Where are they flexible, and what are their non-negotiables?
- Holistically – What are the interconnections among the Life Priorities? How might positive or negative changes, for example in health or work status, reverberate across other priorities? Or how might downsizing a home in retirement provide more resources to help fund a grandchild's education?

This constellation of Life Priorities is in constant motion. The relative importance of Life Priorities — and one's preferences and goals within them — may change throughout a lifetime. For most people, some of the biggest changes occur as they approach, enter, and adjust to retirement.

Upon close examination of their individual Life Priorities, people can make three basic kinds of helpful course corrections:

- Small adjustments that could add up over the years
- Direct tradeoffs of one activity/expense for another
- Larger, often one-time, changes to financial status and future cost of living

These course corrections are very individual — based on circumstances, values, needs, preferences, and aspirations. One person's clear choice can be another's non-starter. There are many options within and across the Life Priorities.

Looking Ahead

In each of the following sections, we share key insights from our suite of studies of the Life Priorities. We examine the financial facets of each Life Priority, and we explore with examples some of the course corrections, large and small, that Americans might consider making in order to have more financially comfortable retirements.

The resounding theme as we look across the Life Priorities is people's resilience, adaptability, and hopefulness. A majority of survey respondents are willing to consider most of the selected actions we polled them on. In Health, Family, Leisure, and Giving, virtually all the course correction options are in play for a majority of people. Some of the course corrections around Home, Work, and Finances are a bit more difficult for older Americans to consider. Many are less willing to do things that are emotionally or socially awkward, like seeking help from relatives and providing services to strangers, or that might seriously deplete their assets. But overall, the good news is that people find ways to adapt and enjoy their retirement.

Finances in Retirement — Seeking Peace of Mind

Finances are the #1 worry of many Americans. Although money is on their minds, they are reluctant to discuss it. Their financial knowledge is low, and most don't have financial role models. So the financial peace of mind they seek can be elusive.

Financial Objectives

We found that, for the overwhelming majority of people, the financial objective is not wealth per se, but peace of mind. Given the choice, 88% say they would like to save enough to have financial peace of mind, while only 12% say they would like to accumulate as much wealth as possible.[10]

Financial peace of mind, however, can mean different things to different people (FIG 13). For a 57% majority, it means being able to live comfortably within one's means. For many, financial peace of mind also includes a strong element of freedom to live as one chooses, confidence in being able to handle an unexpected expense, or freedom from the burden of debt.

What is most likely to diminish financial peace of mind? More than 80% of those age 50+ said "a health disruption for my partner or myself" and "a large unexpected expense." More than half cited "a loved one requiring ongoing financial support."

FIGURE 13: What Financial Peace of Mind Means

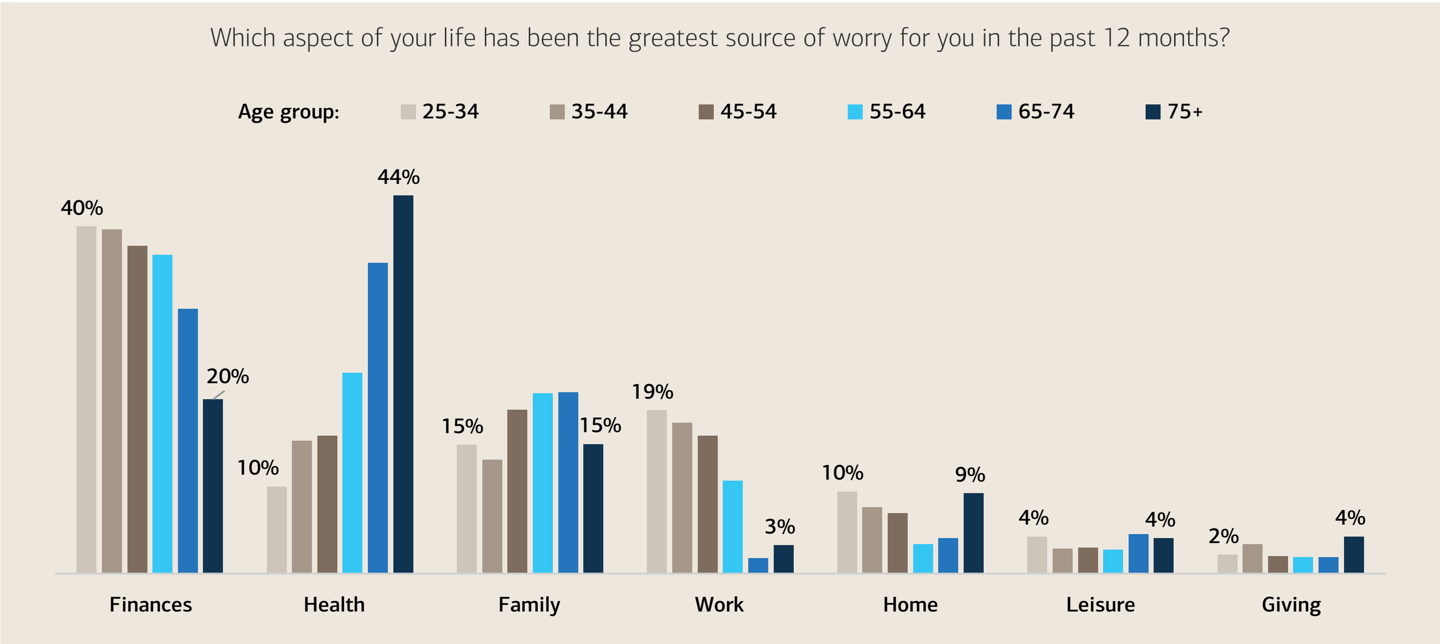
Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017; Base: Age 50+; select two

Financial Worries

Amid all the major political, economic, environmental, and social challenges faced today, Americans are more likely to say their number one worry is their personal and family finances. Two-thirds of those we surveyed said that they are more worried about their finances than the nation's finances.

Looking across the seven Life Priorities, people are most anxious about their finances and, as they age, their health (FIG 14).

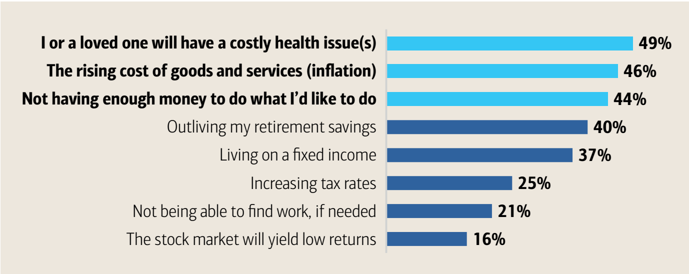
FIGURE 14: Worry About the Life Priorities



Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017; Base: Age 25+ omnibus; select one

We asked Americans of all ages specifically about their financial worries in retirement (FIG 15). These start with unexpected costs for health care, the rising cost of goods and services, and lack of money to do the things they want to do. These basic financial hurdles outweigh concerns about tax rates and stock market performance.

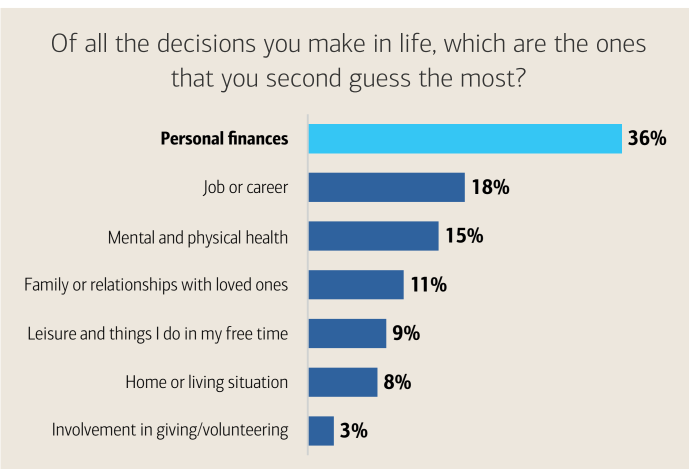
FIGURE 15: Financial Worries in Retirement



Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017; Base: Age 25+; select three

To complicate matters further, people lack confidence in their financial decisions. Our survey found that, by a wide margin, decisions around personal finances are the ones people second guess the most (FIG 16). At the same time, people want to project financial confidence to their family and friends: Sixty percent say, "It's important that others think I'm in control of my finances."

FIGURE 16: What Decisions Are Second Guessed?

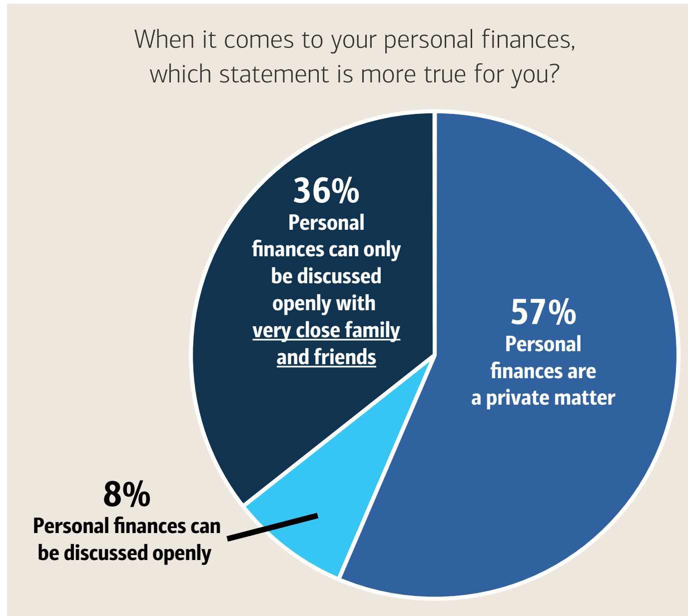


Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017; Base: Age 25+; select one

Talking About Finances Is Socially Taboo

We live in an era of increased transparency and sharing via social media, but not when it comes to personal financial situations. Fifty-seven percent of Americans consider their finances a private matter, and another 36% feel that finances can be discussed only with very close family and friends (FIG 17), typically, just one's spouse or partner. Eighty-two percent say they know a lot about their spouse or partner's financial situation, while only 30% know about their children's, 13% their siblings', and a mere 8% their best friend's. In fact, many people are more uncomfortable talking about their financial status than discussing their preferences for end of life.

FIGURE 17: Finances Are a Private Matter



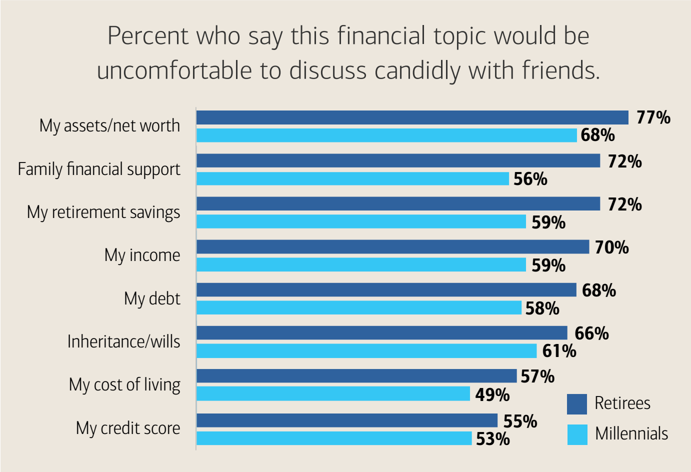
Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017; Base: Age 25+; sums to >100% due to rounding

Some financial topics are more taboo than others (FIG 18). Over 70% of retirees say they would be uncomfortable discussing with friends their net worth, retirement savings, or income. Credit scores and cost of living are more readily talked about, but still uncomfortable topics of discussion. A shift is under way, however. With each generation, there's more openness to discussing money. The Millennials are most transparent, but discomfort is still the rule.

"The implications of a bad financial decision could be devastating to me and my family. Yet making smart financial decisions is incredibly confusing and complex. How am I supposed to know the answer?"

— Focus Group Participant

FIGURE 18: Different Degrees of Taboo



Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017; Base: Age 50+ retirees, Millennials

Knowledge Is Low, Role Models Few

Personal unease may be at the heart of Americans' difficulty discussing and dealing with financial matters, but other factors are at work, too. People find the language of finance confusing: Sixty-five percent of Americans say that most of the language used by the finance industry is not user-friendly.

The world of financial instruments and strategies can be complicated, and many people's "financial IQ" isn't high. Only six in ten of Americans age 50+ say they clearly understand the two terms most associated with saving for retirement—IRA and 401(k). Far fewer understand the process of asset decumulation or the problem of 401(k) leakage. Only 17% give themselves high grades for understanding how Social Security works.

Many Americans know they're not doing a good job with their retirement finances. When we asked those age 50+ to grade their own financial behaviors, only a third gave themselves As or Bs for how much they were saving, using tax-advantaged accounts, optimizing Social Security benefits, or learning how to manage finances to last a lifetime. The average grade was C-.

Half of age 50+ pre-retirees say they don't have positive role models when it comes to money and financial planning. Among those with role models, it's most often a parent or parent-in-law, or a financial advisor.

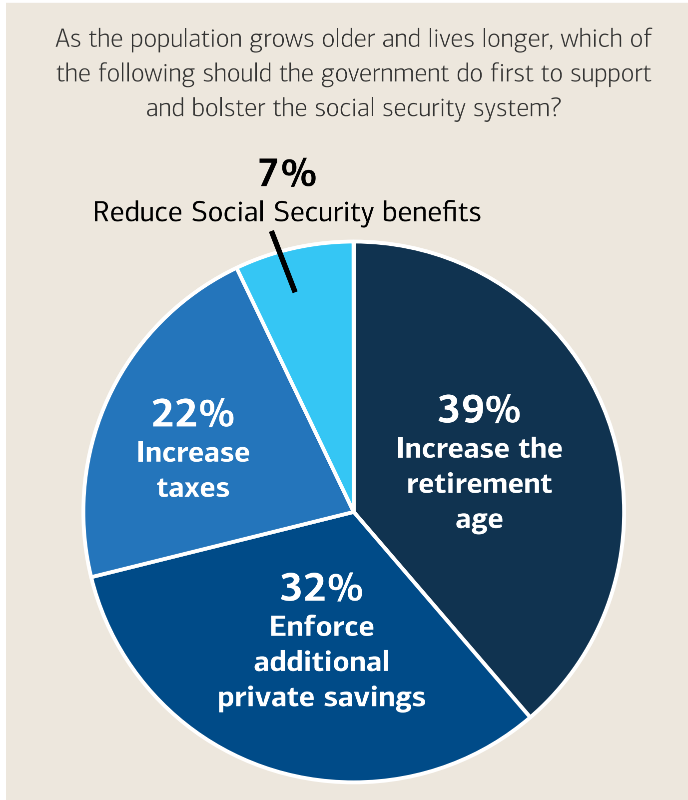
Help Us Help Ourselves

Nine in ten Americans say basic financial management should be a standard part of the high school curriculum. That's currently the case in only five states,[11] in contrast with the 36 states that require sex education.[12] America's youth would be benefited by learning about how to manage their money early, so they can start saving early and be motivated to live within their means from the start.

"My friends and I talk about almost everything except money. It just seems so uncomfortable to focus on that."
—Focus Group Participant

Many Americans are open to public policy changes to improve the financial picture for an aging population. We asked people of all ages what they suggest the government do to improve retirement preparedness. Thirty-nine percent say to raise the retirement age, keeping it more aligned with increasing longevity (FIG 19). Thirty-two percent recommend enforcing additional private savings, ensuring that everyone has a retirement account. The less popular options are raising taxes (22%) and reducing Social Security benefits (only 7%) to make the program and its funds last longer.

FIGURE 19: What Americans Want: Potential Government Actions to Improve Retirement Solvency

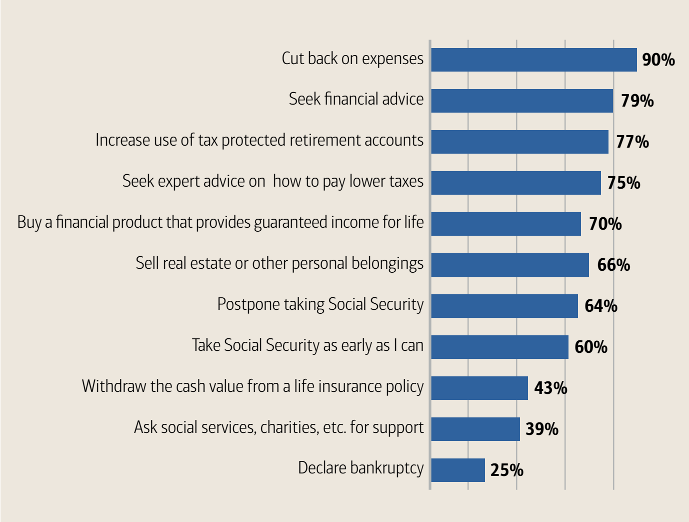


Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017; Base: Age 25+; total answering

Making Course Corrections

What finance-based changes are people willing to make in order to have a more comfortable and secure retirement? Ninety percent say they would start with cutting back on basic expenses (FIG 20). Three in four would seek professional advice on money management or minimizing taxes, or would increase use of tax-protected retirement accounts. Seventy percent would look at financial products like annuities that provide the opportunity for a guaranteed income. Six in ten would adjust the timing of Social Security benefits. They are more willing to sell real estate or personal belongings (66%) than to withdraw cash value from life insurance policies (43%). Seeking help from social services and declaring bankruptcy are at the bottom of the list, but one in four would consider the latter.

FIGURE 20: Course Corrections – Finances



Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017; Base: Age 50+; select all that apply

Beyond simple belt-tightening, many financial course corrections can be complex, and people recognize that they may need guidance. For example, is it better to claim Social Security early or late? Additional changes must be made with care because they involve one-time decisions that may carry long-term implications, for example, selling a home or purchasing an investment that provides the opportunity for a guaranteed income.

Hypothetical Example of a Helpful Finances-Related Course Correction

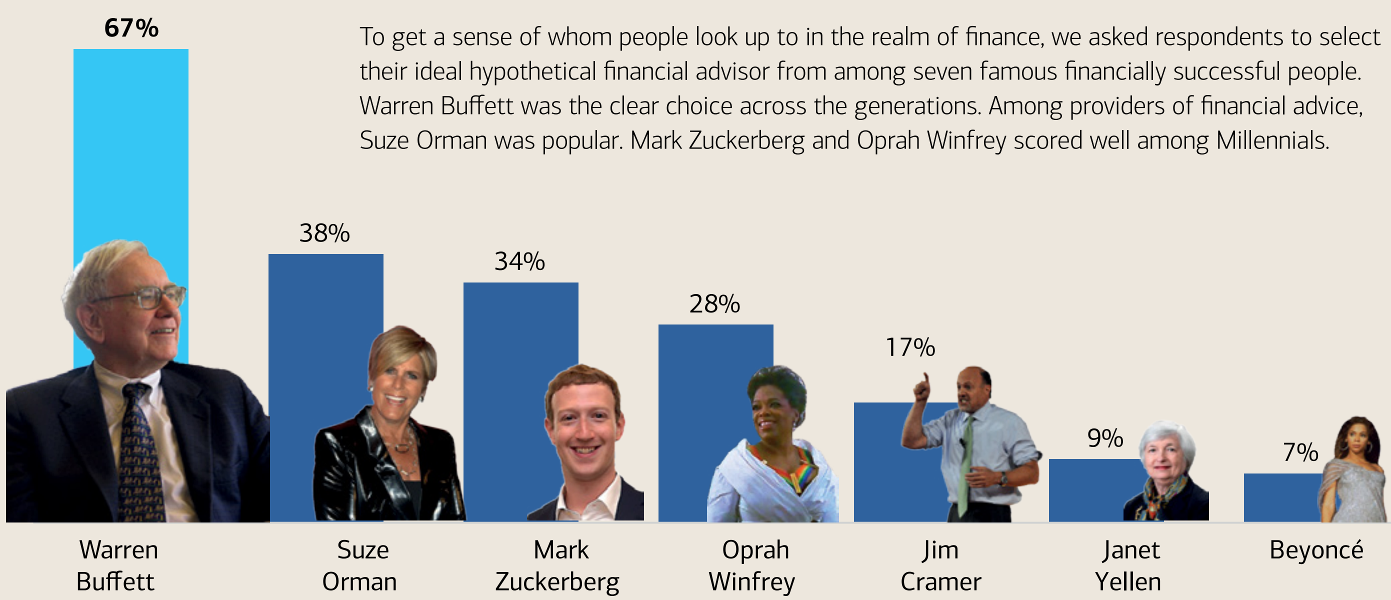
A 61-year-old couple living in San Diego optimized their Social Security benefits claiming strategy. One spouse is eligible for relatively high benefits (about $2,600/month at the Social Security full retirement age[13]) and expects to live to average life expectancy. The other is eligible for average benefits (about $1,300/month) and expects to live a long life. If they decided not to claim their benefits as early as possible at age 62, as many people do.[14] Instead, initiating benefits at ages 70 and 68 respectively, it will result in an estimated $215,000 in greater total lifetime benefits, even after the delay.

Additional Funds Available for Retirement

Source: Based on Age Wave calculations, 2016

Celebrity Financial Advisors

To get a sense of whom people look up to in the realm of finance, we asked respondents to select their ideal hypothetical financial advisor from among seven famous financially successful people. Warren Buffett was the clear choice across the generations. Among providers of financial advice, Suze Orman was popular. Mark Zuckerberg and Oprah Winfrey scored well among Millennials.



Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017; Base: Age 25+; select two

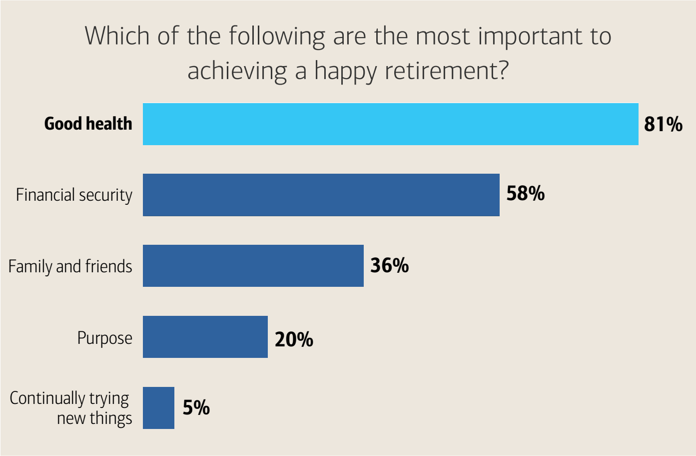
Health in Retirement — The Biggest Wildcard

Today's retirees tell us that the #1 ingredient for a happy retirement is health, which can have a far-reaching impact on quality of life, family relationships, and financial security. At the same time, the uncertain and potentially high cost of health care is their #1 financial worry of retirement.

Healthy Choices

Retirees know the importance of good health. Eighty-one percent put it at the top of the list for a happy retirement (FIG 21). Eighty-six percent agree that maintaining or improving their health could minimize out-of-pocket health related expenses in retirement, and 78% say their retirement could be better if they took excellent care of their health. Most retirees know (if not always practice) the behaviors that lead to good health. Our study found that the retirees who report their health as excellent or very good are twice as likely as those whose health is fair or poor to be exercising, eating nutritiously, maintaining a healthy weight, and, critically, staying socially connected.[15]

FIGURE 21: Keys to a Happy Retirement



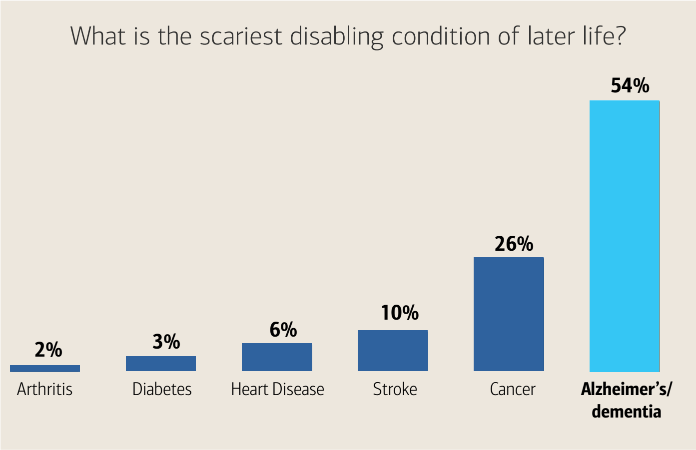
Source: Age Wave/Merrill Lynch, "Health & Retirement: Planning for the Great Unknown," 2014; Base: Age 50+ retirees; select two

Major Worries About Health

Serious health problems are retirees' greatest worry about retirement.[16] Increasing life expectancy, coupled with the aging of the large Baby Boom generation, will potentially give rise to growing numbers of older adults confronting chronic diseases, such as arthritis, hypertension, heart disease, stroke, diabetes, cancer, and Alzheimer's. Health care and long-term care costs can put at risk years of retirement preparation. And unexpected early retirement due to health problems can reduce earning years and retirement savings potential.

Age 50+ Americans surveyed told us that, assuming financial sufficiency, their greatest fear in living a long life is losing their physical and cognitive abilities. That translates into compounded fears, including not being able to live independently, being a burden on family, and not being able to do things they enjoy. Among the common serious health conditions of later life, Alzheimer's is by far the scariest (FIG 22). It was cited by 54% of Americans, more than all other major diseases combined.

FIGURE 22: Alzheimer's Is Feared Most of All



Source: Age Wave/Merrill Lynch, "Health and Retirement: Planning for the Great Unknown," 2014; Base: Age 25+

Health Care Costs Can Be High

Health care expenses are the biggest financial worry of many retirees. And it's a worry that extends to children, parents, and siblings whose health conditions can become a family expense. Half of retirees say they're concerned they won't have enough money to cover out-of-pocket health-related expenses. It's a valid concern given that health care cost inflation continues to exceed overall inflation.[17]

Many retirees don't fully understand their health insurance and coverage. Forty-three percent erroneously believe that Medicare will cover nearly all their health care costs in retirement. Few correctly anticipate the total potential cost. If a married couple wants to have 90% certainty that they can cover their out-of-pocket health-related expenses in retirement, they'll need $259,000—more than the average home equity and more than the median household net worth of Americans 65 and older.[18] And that figure does not include long-term care. Only 37% of people think they'll need long-term care. Yet, in reality, seven in ten will need it at some point in their lifetimes—on average lasting three years.[19]

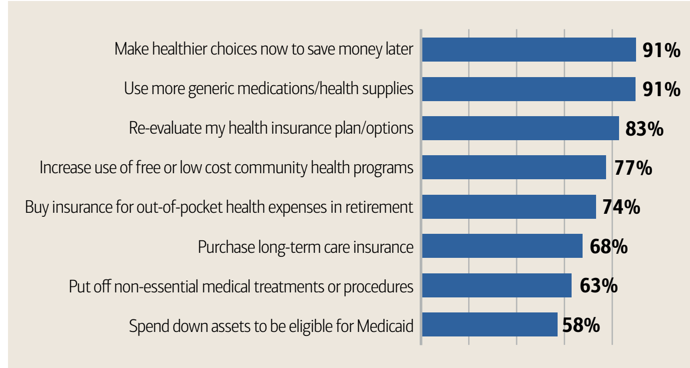
We found that many pre-retirees struggle to get a handle on health care costs because information on costs and insurance can be complex and confusing. Many want advice about Medicare and supplemental plans, long-term care, and how much money they may need to cover health care in retirement. Yet few (less than 15%) feel they have a trusted resource to help them understand, prepare for, or manage retirement health-related expenses. Some 70% of married pre-retirees have not even discussed with their spouses health care in retirement and how to pay for it.

Making Course Corrections

What health-related changes did respondents say they are willing to make in order to have a more financially comfortable retirement? They are near-unanimous in saying they would be willing to make healthier choices that could reduce expenses later on, and that they would use generic medications and supplies (FIG 23). Three-fourths or more would make adjustments to their health insurance plans. Sixty-eight percent would consider long-term care insurance. At the bottom of the list, but still seen as possibilities for over half, are postponing treatments and even spending down assets in order to be covered by Medicaid.

"I've seen the numbers about what health care can cost and it's hard to wrap your head around. I haven't even started thinking about that when saving for retirement."
— Focus Group Participant

FIGURE 23: Course Corrections – Health



Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017; Base: Age 50+; select all that apply

Positive adjustments to health can carry over to other Life Priorities and open up opportunities, for example, to engage in leisure and work or remain in the family home. And some adjustments have a relatively larger impact for those with lower income because (Medicaid excepted) health expenses and insurance are generally independent of income and assets.

Holistic planning for retirement should include anticipating and preparing for potential health care costs. However, healthcare is often a missing link in retirement planning. Fewer than one in six pre-retirees (15%) have ever attempted to estimate how much money they might need for health care and long-term care in retirement. Only 42% have health care directives.

Hypothetical Example of a Helpful Health-Related Course Correction

Nearly 17% of Americans smoke. A 35-year-old man living in New Mexico was about to have his first child and decided to quit his pack-a-day habit. The financial impact—not purchasing cigarettes, avoiding the smoker's penalties on health and life insurance, and benefiting from the average wage differential enjoyed by non-smokers—is $12,000 per year.[20] By age 65, the value of this course correction amounts to $360,000. Some of the savings may go toward child rearing or household expenses, but if the cigarette fund becomes a retirement investment fund, the long-term financial and lifestyle benefits will be great.

Additional Funds Available for Retirement

Source: Based on Age Wave calculations, 2016

Additional Key Findings from
Health and Retirement: Planning for the Great Unknown

The Baby Boom generation at large has taken a more empowered approach to health and health care. But they still fall into four distinct segments:

- Healthy and Proactive (29%) consistently engage in key health behaviors.
- Lucky but Lax (10%) do not take great care of themselves but thus far have avoided chronic conditions.
- Course-Correcting and Motivated (29%) have conditions that served as wake-up calls to take better care of their health.
- Challenged and Concerned (32%) may have conditions that keep them from doing everything they enjoy, but only two in five engage in key health behaviors.

Source: Age Wave/Merrill Lynch "Health and Retirement: Planning for the Great Unknown," 2014

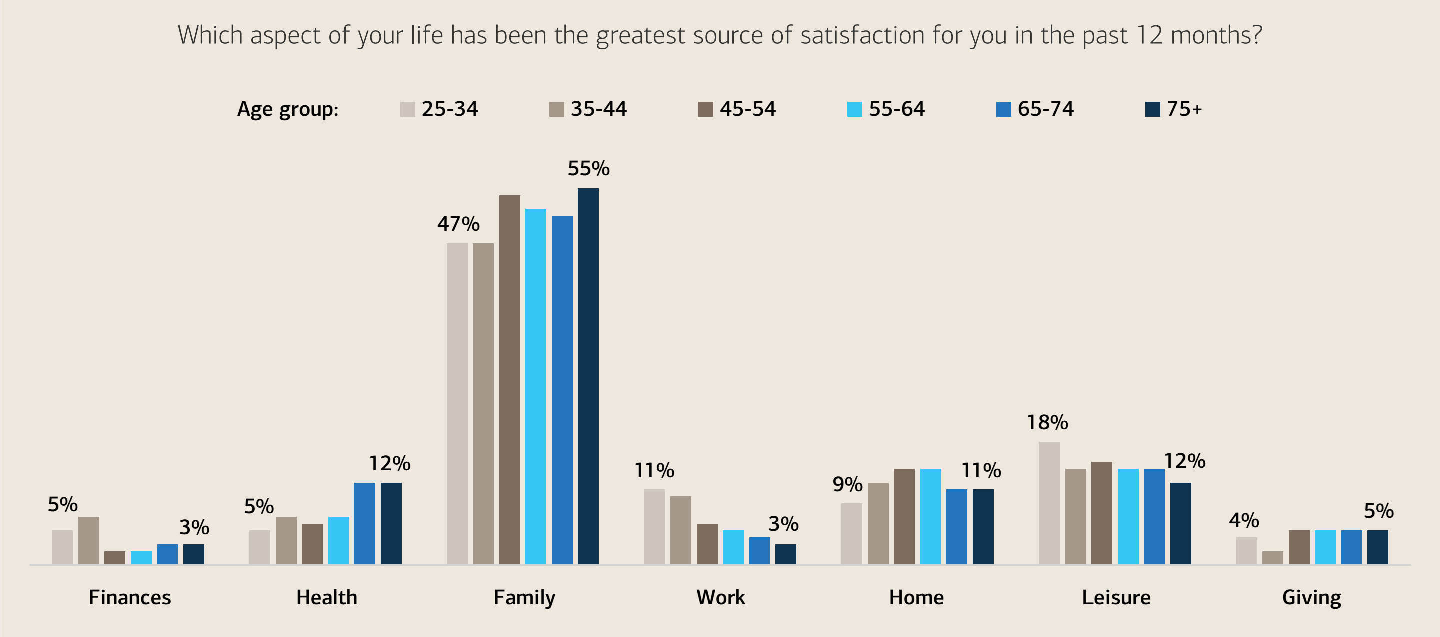
Family in Retirement — Love, Ties, Tensions

Family is the most nourishing, complex, and emotion-laden of the Life Priorities. Family finances can be generous and empowering, or awkward and contentious. The connections and interdependencies within families can complicate retirement and its planning, but it's better to navigate than ignore them.

Satisfaction plus Concern

Looking across the Life Priorities, we find that family provides the greatest satisfaction for people of all ages (FIG 24).

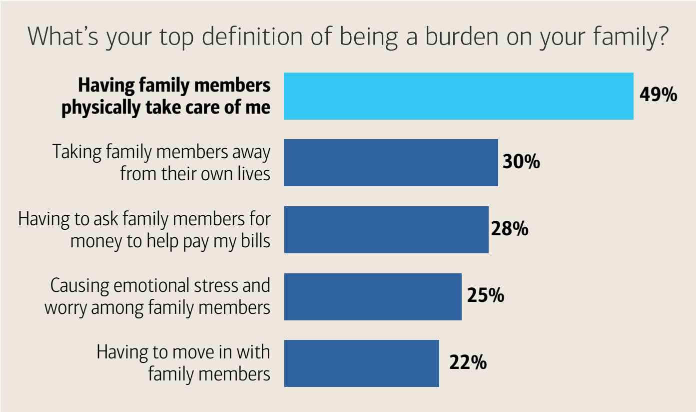
FIGURE 24: Family Is the Source of Highest Satisfaction



Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017; Base: Age 25+; select one

Meantime, 60% of middle-aged and older Americans told us that one of their greatest worries is becoming a burden on their families. When asked what it means to be a burden, they said they're worried not only about needing physical care, but also about interfering with the lives, finances, and emotional well-being of family members (FIG 25).

FIGURE 25: What It Means to Be a Burden on Family



Source: Age Wave/Merrill Lynch, "Family in Retirement: The Elephant in the Room," 2013; Base: Age 50+; select up to two

It Gets Complicated

Today's families have unprecedented complexities. They are:

- **Multigenerational.** With greater longevity, there are more grandparents—and great-grandparents—than ever before.
- **Geographically dispersed.** For the many families whose members are living all over the nation and around the globe, staying emotionally close and supportive can be challenging.
- **Blended and dynamic.** While the overall divorce rate has stabilized, gray divorce (among those age 50 and older) increased 700% from 1960 to 2010.[21] Most of those who divorce remarry, creating complex and fluid family structures.

Parenthood doesn't retire. Adult children, often struggling with careers, relationship transitions, and finances, are increasingly returning home or seeking a helping hand. Meanwhile, the elder parents of today's pre-retirees and retirees are living longer than any prior generation and often require emotional, physical, and financial support. That leaves many pre-retirees and retirees sandwiched—stretched financially and stressed emotionally—as they attempt to balance the priorities and tradeoffs of planning and financially managing their own retirement with helping both younger and older family members.

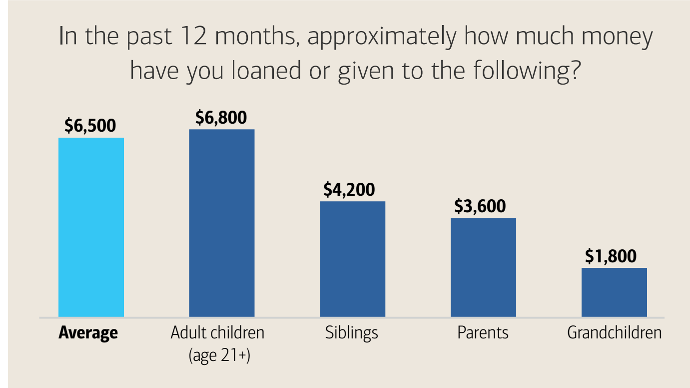
Financial concern is a family affair:

- 48% of Americans age 50+ say they're willing to overextend themselves financially to give their children a more comfortable life.[21]
- 60% say they would delay retirement, and 40% would return to work after retiring, in order to financially support family members.
- 35% of people say they might need to have their children help them out financially in retirement. Baby Boomers are twice as likely (30%) as the Silent Generation (17%) to feel this need.

The Family Bank

One of the most challenging roles in terms of family finances is serving as the "family bank." Sixty-two percent of people age 50+ have provided financial support to family members in the last five years. While half say they felt it was an obligation, 80% say it was also "just the right thing to do." Those who have given or loaned money to family members in the last year gave an average total of $6,500 (FIG 26). Which family members are relied upon for financial support? Those who are the most financially responsible, have the most money, or are easiest to approach.

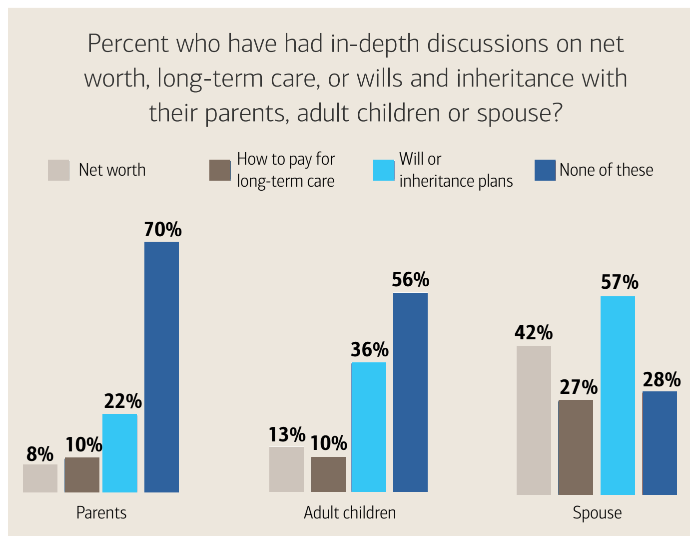
FIGURE 26: Money Given or Loaned to Family Members



Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017; Base: Age 50+ who loaned or gave to relative in past 12 months; has relatives (bases vary); average dollar amount given/loaned

Even with these financial interdependencies, talking about finances can still be taboo. People often avoid discussing financial topics, even with their spouses (FIG 27). They may be secretive, or find the topics uncomfortable, but the number one reason is to avoid family conflict. When discussion happens, it's often triggered by an illness or death of a family member or close friend, or by family members' specific financial problems coming to the fore. Despite any reluctance, discussing financial matters is important to financial well-being. Those who have discussed key financial topics with a spouse or partner are almost twice as likely to feel better prepared for retirement.

FIGURE 27: Lack of Communication on Financial Matters



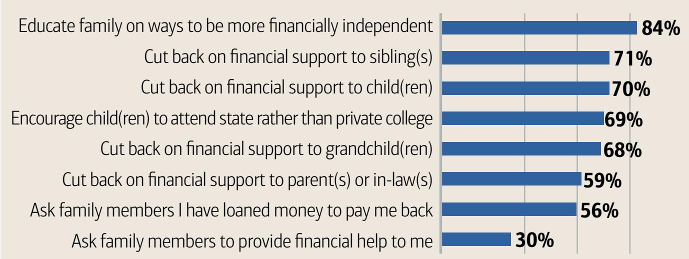
Source: Age Wave/Merrill Lynch, "Family & Retirement: The Elephant in the Room," 2013; Base: Vary by column groups: age 25+, age 50+ with adult children, age 50+ and married

Family situations and challenges are seldom budgeted for in retirement, not even providing support for elderly parents when the need is easily anticipated. Planning and budgeting—and clarity of intention—can be especially important in blended families, because Americans tend to feel more financially responsible for their direct relatives than for their step-relatives. And there are often financial strains associated with gray divorce. After a divorce, household income typically drops by 25% for men and more than 40% for women. That can push divorced pre-retirees and retirees closer to needing family financial help.

Making Course Corrections

What family-related changes are Americans willing to make in order to have a more financially comfortable retirement? Eighty-four percent said they would like to educate family members to help make them more financially independent, which is also a way to get overdue conversations started (FIG 28). When it comes to cutting back financial support, most would reduce support for siblings and children before parents and grandchildren. Sixty-nine percent would encourage their children to attend less expensive state schools rather than private colleges. Twice as many respondents would ask for loaned money back than would ask for financial help directly.

FIGURE 28: Course Corrections – Family



Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017; Base: Age 50+; select all that apply

Many adjustments people would consider entail setting clearer boundaries and guidelines about the expectations and terms of financial support. Retirees should carefully consider how much they can afford to give or loan without compromising their own retirement finances—and potentially becoming a burden to their family members in the future. Too generous today can mean strapped tomorrow. They should also consider budgeting for specific larger family expenditures, such as group vacations or helping to finance grandchildren's education.

Hypothetical Example of a Helpful Family-Related Course Correction

A 50-year-old couple living in Pennsylvania have a son completing college at age 22. The parents decide they will not provide additional financial support after graduation. Instead of an average of $6,800/year of post-college financial support to their son during their remaining working years, they will save that money for their retirement. They anticipate retiring at age 65, when their additional funds amount to around $105,000.

Additional Funds Available for Retirement

Source: Based on Age Wave calculations, 2016

Additional Key Findings from
Family and Retirement: The Elephant in the Room

- The most common reasons for giving money to adult children are to help them pay for housing and purchase or lease a car.
- Roughly 14% of Americans age 50+ are divorced and single; in 1960 it was only 2%.
- More than half of people age 50+ are grandparents, and 28% have given money directly to their grandchildren in the last five years.
- Grandparents see their primary roles as passing on family values and simply having fun together with their grandchildren.

Work in Retirement — Paycheck, Productivity, People

For some people, the essence of retirement is to be free of work. Those at the opposite end of the spectrum can't imagine ceasing to work at something they're good at and passionate about. The line between work and retirement has blurred, and those who choose to work in retirement reap a variety of rewards—financial, social, physical, and psychological.

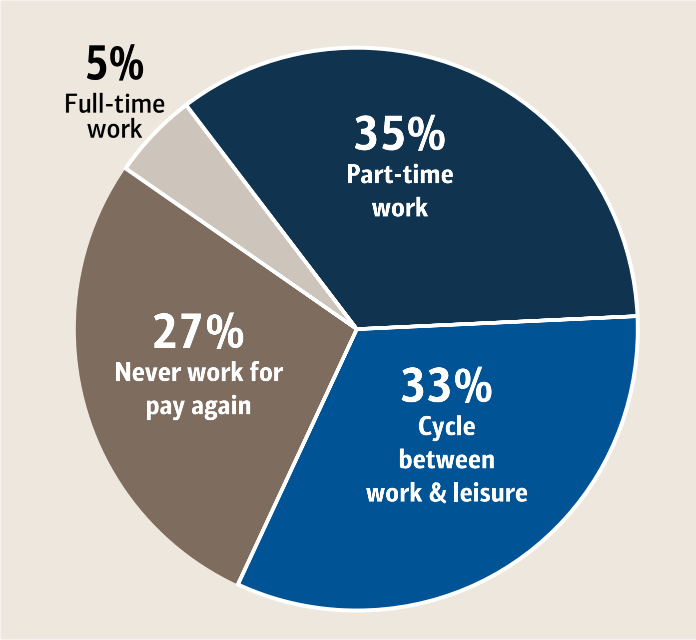
Work Is on Today's Retirement Agenda

Nearly half of today's retirees currently work, have worked, or plan to work in retirement.[22] Seven in ten pre-retirees say they plan to work in retirement, and the fastest growing segment of the total American workforce is those age 55 and older. And, as we've seen, younger generations anticipate generating a growing proportion of their retirement income from work.

Some people work in retirement out of necessity to make ends meet, and work can interfere with their preferred retirement activities. For most Americans, however, working part-time can be a viable and enjoyable facet of retirement—a source of extra money, social connections, and the opportunity to stay mentally and physically sharp. Many retirees are shifting from full-time, often workaholic, careers to part-time work on their own terms in roles they enjoy.

To most pre-retirees, the ideal working arrangement in retirement is flexible, either regular part-time or cycling back and forth between periods of work and leisure (FIG 29). Project-based work in many kinds of organizations is a good fit with the latter.

FIGURE 29: Flex Retirement Is the New Ideal

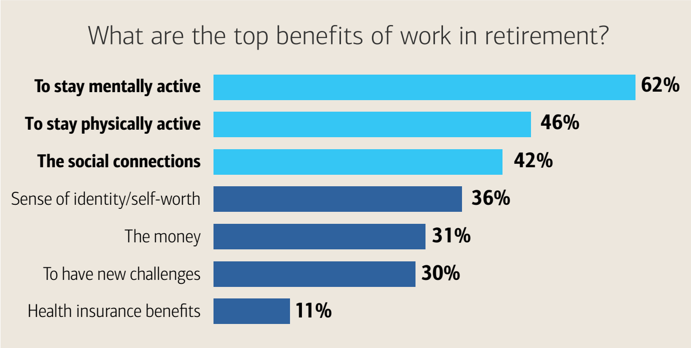


Source: Age Wave/Merrill Lynch, "Work in Retirement: Myths & Motivations," 2014;
Base: Age 50+ pre-retirees; sums to >100% due to rounding

Working with Purpose

While working in retirement can significantly improve one's finances, work has great value beyond the paycheck. The large majority of working retirees in our study said they work because they want to, not because they have to (80% vs. 20%). The top reasons for working in retirement are staying mentally and physically active and maintaining social connections (FIG 30). While pre-retirees think a reliable income is what they'll miss most when not working, the non-working retirees say it's actually the social connections in the workplace that they miss most.

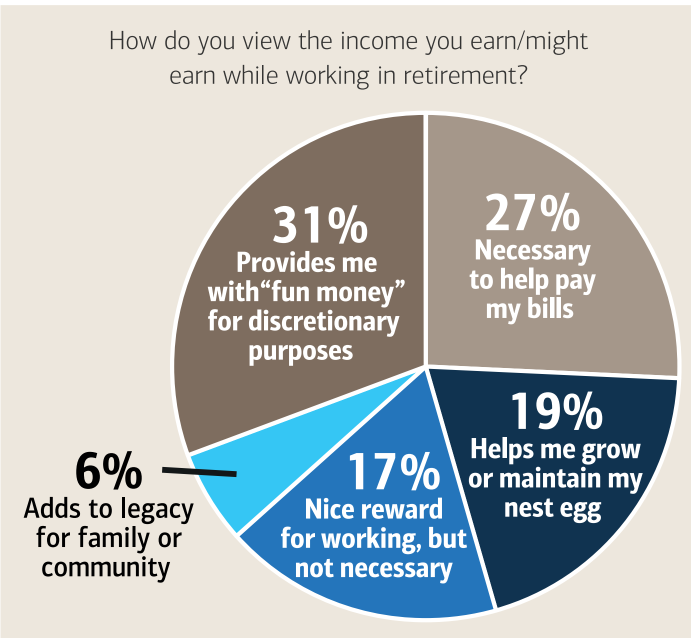
FIGURE 30: Top Reasons for Working in Retirement



Source: Age Wave/Merrill Lynch, "Work in Retirement: Myths & Motivations," 2014;
Base: Age 50+ working retirees; select all that apply

We asked working retirees for their advice to pre-retirees who are considering employment in retirement. Three-fourths recommend being open to trying something new and being willing to earn less in order to do something you truly enjoy. Working retirees view the income they earn in a variety of ways. It helps protect or grow the nest egg while providing "fun money" for discretionary purposes (FIG 31).

FIGURE 31: Roles of Retirement Income



Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017;
Base: Age 50+ retirees

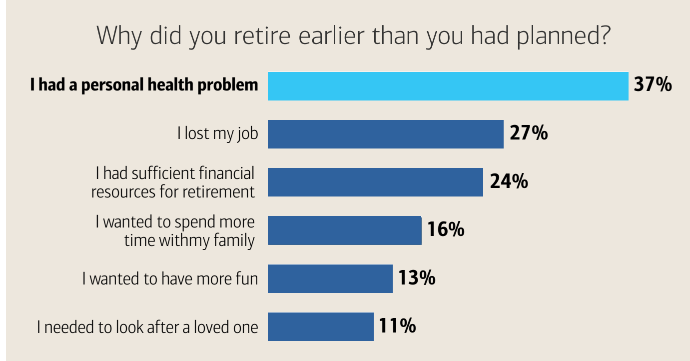
"Not working, that was for my parents' generation. I can't imagine not doing anything for 30 years. Nor could I afford to."

— Focus Group Participant

Work disruption.

Fifty-five percent of today's retirees retired earlier than planned, health problems being the most common reason for doing so (FIG 32).

FIGURE 32: Reasons for Retiring Early

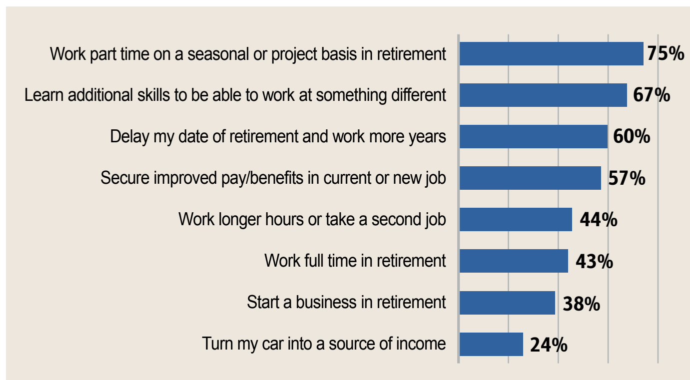


Source: Age Wave/Merrill Lynch, "Health & Retirement: Planning for the Great Unknown," 2014;
Base: Age 50+ who retired earlier than planned

Making Course Corrections

What work-related changes are people willing to make in order to have a more financially comfortable retirement? Three-fourths of our age 50+ respondents said they're willing to work part-time, and two-thirds say they'd learn new skills in order to work at something different (FIG 33). More than half would delay retirement or try to adjust their jobs for better pay and benefits.

FIGURE 33: Course Corrections – Work



Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017;
Base: Age 50+; select all that apply

Working in retirement, typically part-time, is one of the most obvious and direct adjustments Americans can make for both immediate and longer term financial benefit. As money is earned, more savings can be preserved. But it's essential to anticipate how the income may impact taxes, Social Security, or other elements of one's retirement financial plans.

Hypothetical Example of a Helpful Work-Related Course Correction

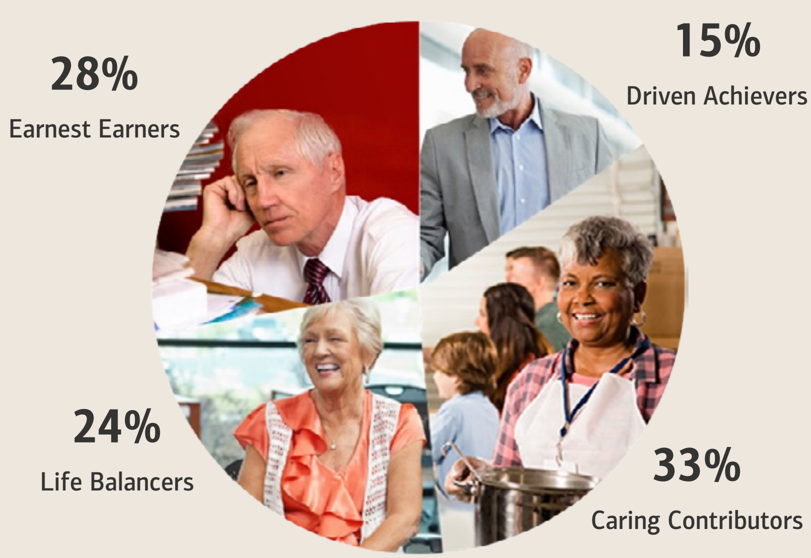
A couple in Seattle met their goal of being able to retire at age 60. However, they desired to transition gradually and stay connected with friends at work. Each arranged to work 20 hours a week for their former employer, she as a dental hygienist at $38/hour and he as a claims adjuster at $33/hour. If they continue working for their planned five years, they improve their retirement finances by around $300,000 after taxes. The employment income also enables them to consider drawing Social Security later in favor of higher monthly benefits when they fully retire.

Additional Funds Available for Retirement

Source: Based on Age Wave calculations, 2016

Additional Key Findings from
Work in Retirement: Myths and Motivations

- More than half of working retirees took a “career intermission” before returning to work—to relax, recharge, retool, and give retirement a “trial run.”
- Retirement is a time for new beginnings on the work front. A majority enter a different line of work in retirement, and a third are self-employed.
- Compared to their pre-retirement careers, people describe their retirement work as much more flexible and fun, and much less boring and stressful.
- There are four types of working retirees:
  - Driven Achievers (15%) keep right on working and accomplishing.
  - Caring Contributors (33%) find ways to give back, often by working for nonprofits.
  - Life Balancers (24%) keep working largely for the friendships and social connections.
  - Earnest Earners (28%) keep working primarily to pay the bills, and with less satisfaction than the other types.



Source: Age Wave/Merrill Lynch “Work in Retirement: Myths and Motivations” 2014; Base: Age 50+ working retirees

Home in Retirement—Right Size, Right Place, Right Lifestyle

Retirees can often be very emotionally attached to their homes. However, if they choose to change—downsize, upsize, relocate—it can significantly impact their lifestyle, their cost of living, and how they fund their retirement. Home choices may often be shaped by other Life Priorities—health needs, family proximity, and convenient access to leisure activities and perhaps part-time work.

A Multi-Faceted Asset

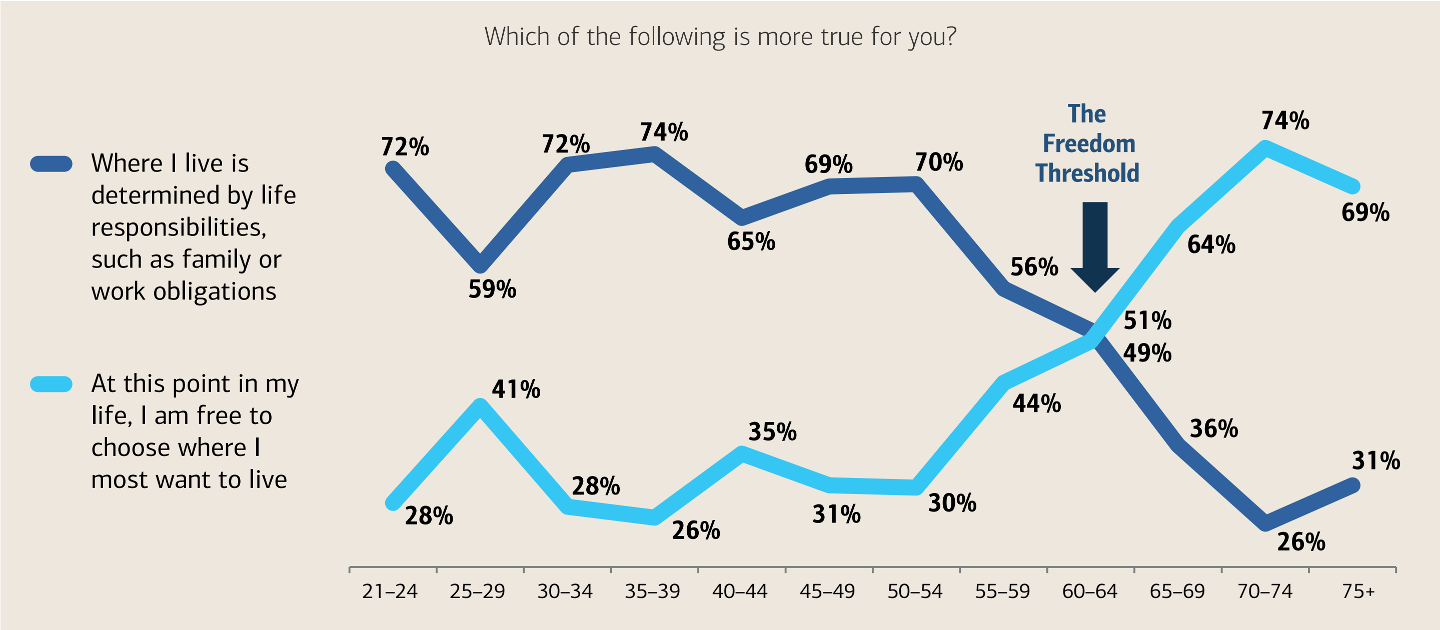
Eighty percent of Americans age 65+ own their homes, and 72% of those no longer have mortgages.[23] Their average home equity is over $200,000. But a home is usually much more than a financial asset. Most retirees age 65+ say the emotional value of their home is greater than its financial value. It may be a center for gatherings of family and friends. If a long-time residence, it may hold much of a lifetime's memories. Retirees are more likely than others to say their home is comfortable, in a safe community, and a good place to accommodate family visits.

One of the freedoms of retirement is to live where you choose. At around age 60, people cross a threshold where location is no longer determined primarily by responsibilities such as family and work (FIG 34).

Two-thirds of retirees tell us they have freedom of location, and 64% have moved or anticipate moving in retirement. The number one reason for moving is to be closer to family (cited by 29%), followed by wanting to reduce expenses (26%). The number one reason retirees would not move is that they simply love their homes (54%), followed by the fact that family is already close by (48%).

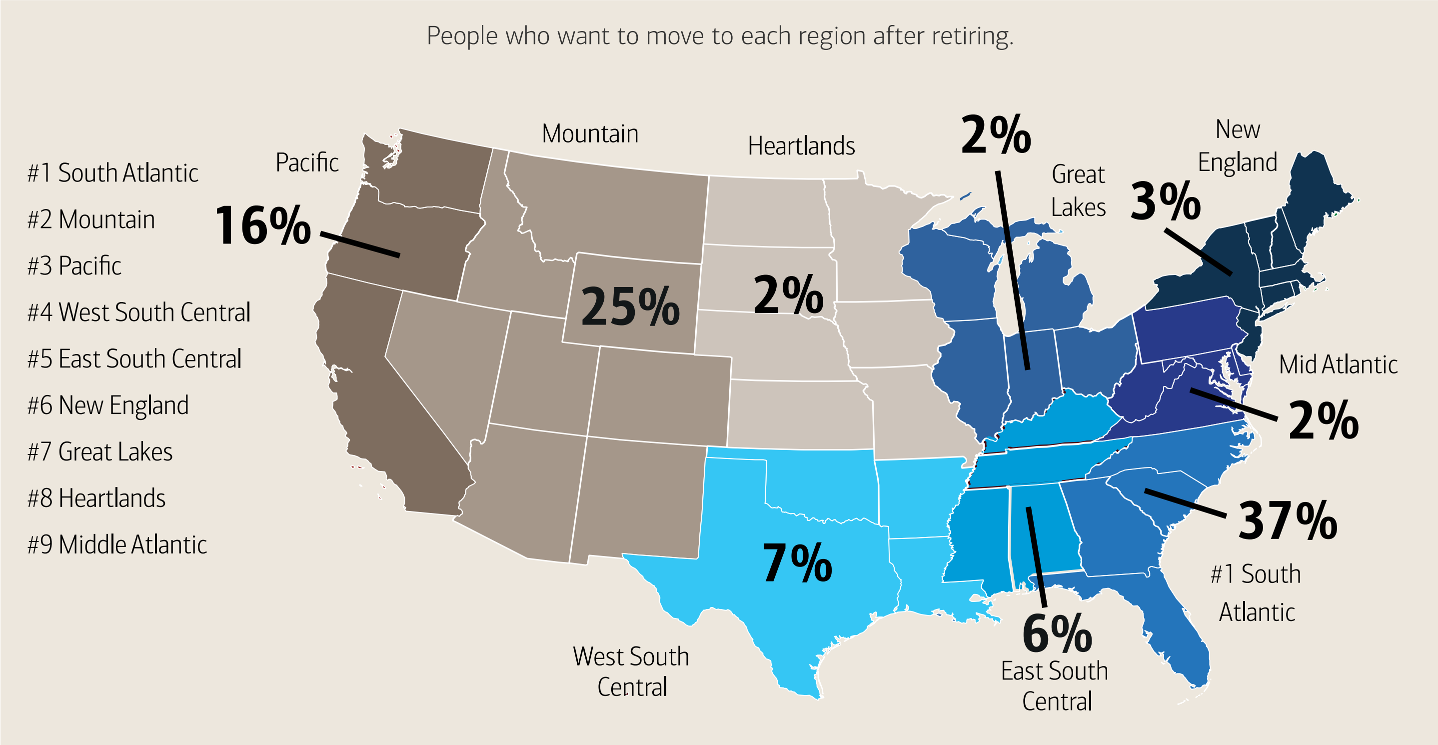
Where do people want to relocate? Pre-retirees who want to move favor the South Atlantic and Mountain regions (FIG 35). Those most likely to want to stay put are in the South Atlantic and Pacific regions.

FIGURE 34: The Freedom Threshold



Source: Age Wave/Merrill Lynch, "Home in Retirement: More Freedom, New Choices," 2014; Base: Age 21+

FIGURE 35: Regional Destinations in Retirement

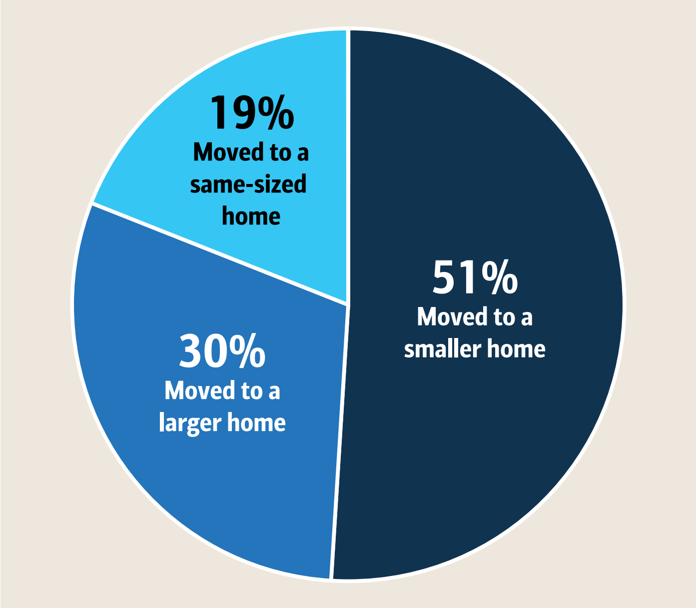


Source: Age Wave/Merrill Lynch, "Home in Retirement: More Freedom, New Choices," 2014; Base: Age 50+ pre-retirees

Downsize, Upsize, Renovate

Among those who have already moved, just over half downsized to reduce the cost and effort of home ownership (FIG 36). But we found that a surprising 30% chose to upsize into a larger home, most often to accommodate family members who visit, or even move in. According to our study, just 7% of retirees have moved into age-restricted retirement communities. However, there is growing diversity of retirement communities designed to meet the needs and aspirations of new generations of retirees, for example, through ties to universities.

FIGURE 36: Downsize or Upsize?



Source: Age Wave/Merrill Lynch, "Home in Retirement: More Freedom, New Choices," 2014, Base: Age 50+ retirees who have moved since retiring

Many retirees want to turn their current homes into their dream homes. Americans age 55+ spend roughly $90 billion on home renovations annually, 47% of the national total. Among those who have renovated, the most common projects include creating a home office and upgrading kitchens and bathrooms.

Less common, but perhaps more important in the long term, are renovations to make homes more "aging friendly" with accommodations such as no-step entry, wide doorways, single-floor living, lever-style handles, and bathroom safety features. Twenty-eight percent of renovators have added safety features to their bathrooms, and 15% have made adjustments to enable living on a single floor. Overall, however, less than 2% of America's housing stock is aging friendly.[24]

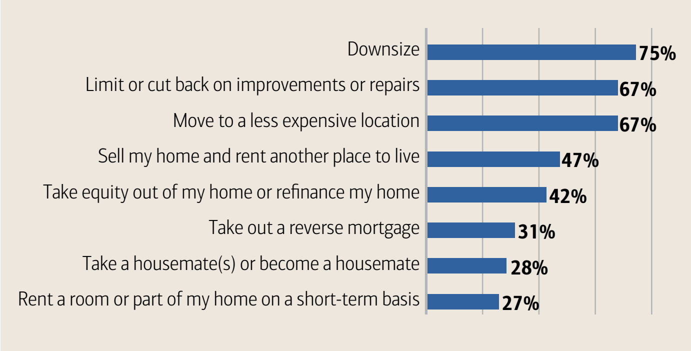
Making Course Corrections

What home-related changes are people willing to make in order to have a more financially comfortable retirement? Three-fourths are willing to downsize (FIG 37). Two-thirds are willing to move to a less expensive location or cut back on home improvements or repairs. Nearly half would consider selling or renting their homes, and 42% would consider home equity loans or refinancing. Less popular, but still under consideration by one in four, is taking boarders, either permanently or occasionally.

"In retirement, you have the chance to live anywhere you want. Or you can just stay where you are. There hasn't been another time in life when we've had that kind of freedom."

— Focus Group Participant

FIGURE 37: Course Corrections – Home



Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017; Base: Age 50+; select all that apply

Making a home move can be among the most significant one-time changes to a retiree's financial picture. Downsizing or moving to a less expensive location can both reduce living expenses and free up funds to be invested or spent. Most retirees prefer those options to financial adjustments like reverse mortgages. If home equity represents a significant portion of net worth or an essential source of retirement funding, retirees should consider the options. They should also consider how home needs and preferences may change with advancing age.

Hypothetical Example of a Helpful Home-Related Course Correction

A 62-year-old couple was ready to retire, but they knew their nest egg was too small. They were willing to relocate and sold their $325,000 home in New Jersey, purchased 15 years ago, and still carrying a mortgage. They bought a $135,000 home in South Carolina. That immediately freed up $115,000 to invest and left them mortgage free. Over the next 15 years, home ownership cost savings, including lower real estate taxes, plus cost of living savings, averaged $28,000 annually—a total of about $420,000 to spend or invest. If one or both spouses live in the house to age 90, the aggregate value grows to $690,000.

Additional Funds Available for Retirement

Source: Based on Age Wave calculations, 2016

Additional Key Findings from
Home in Retirement: More Freedom, New Choices

- Two-thirds of retirees say they are now, many with the benefit of relocation or remodeling, living in the best home of their lives.
- Two-thirds also say they prefer neighborhoods with people of diverse ages and generations.
- Due in part to adult children returning home, the number of multigenerational family households doubled between 1980 and 2010, from 11% to 22%.
- What home technologies interest retirees?
  - Technologies to reduce home expenses, such as smart thermostats – 80%
  - Technologies to monitor health at home – 76%
  - Technologies to connect with family and friends, such as video chat – 64%
  - Technologies to help maintain the home, such as cleaning robots – 58%

Giving in Retirement — Money, Minutes, Meaning

Two-thirds of retirees say retirement is the best time in life to give back.[25] As longevity increases and the massive Baby Boom generation retires, the cumulative potential of their generosity is likely to surge. Over the next 20 years, America could receive a "Longevity Bonus" of retiree donations and effort worth an estimated $8 trillion between 2016 and 2035.

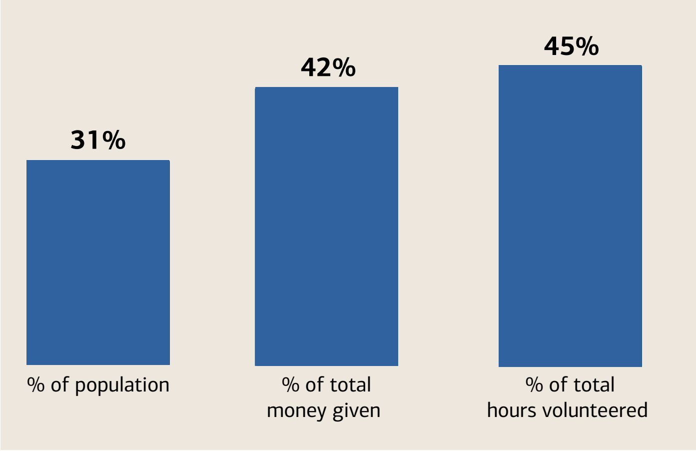
Retirement: Time for Generosity

What constitutes giving in retirement? The three M's:

- Money: making charitable contributions or giving money to loved ones
- Minutes: volunteering time, skills, and effort
- Meaning: passing along values and life lessons

Today's retirees are extremely generous, donating a disproportionate share of both time and money (FIG 38). Eighty percent of those age 65+ donate money and goods to charity, and their average donation per year of $1,672 is highest among age groups. While people in their 30s and 40s are more likely to be donating time, those volunteers in their 50s and 60s donate many more hours per year.

FIGURE 38: Retirees Are the Most Generous



Source: Age Wave/Merrill Lynch, "Giving in Retirement: America's Longevity Bonus," 2015; calculations based on U.S. Census and survey data

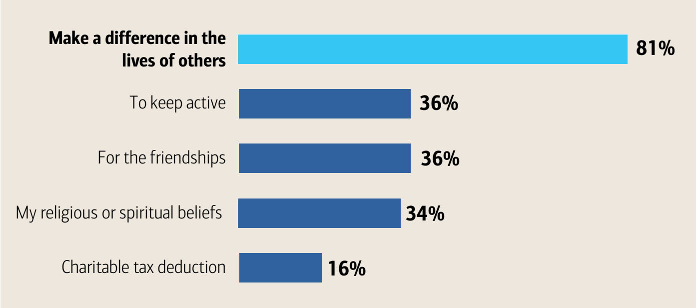
"Before I retired, I just wrote checks to charities. I didn't have time for anything else. In retirement, I give of my money, my time, and myself. Now I can really feel the difference I am making."

— Focus Group Participant

The ingredients for extraordinary contribution are in place:

- Retirees have the time. With an average of 7.5 hours of leisure per day, they are by far the most "time affluent" age group.[26]
- Many also have the money. Age 50+ households control 83% of America's personal assets, and the median household net worth of those age 65+ is significantly higher than that of younger cohorts.[27]
- They have the skills and experience. Eighty-four percent of survey respondents say an important reason they are able to give more in retirement is that they have greater skills and talents compared to when they were younger.
- They have the motivation. Eighty-five percent define success in retirement as being generous rather than being wealthy. Their motivations for giving have everything to do with making a difference and having purpose, and little to do with taking charitable tax deductions (FIG 39).

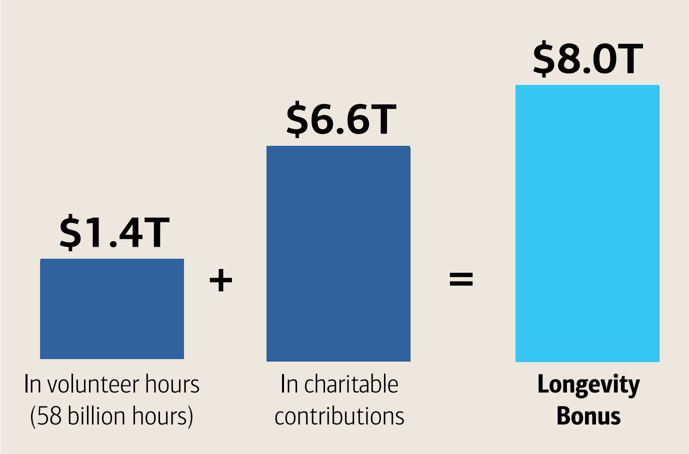
FIGURE 39: Motivations for Giving and Volunteering



Source: Age Wave/Merrill Lynch, "Giving in Retirement: America's Longevity Bonus," 2015; Base: Age 50+ retirees; select three

We calculate that those ingredients add up to the $8 trillion Longevity Bonus of retiree donations and effort over the next 20 years (FIG 40).

FIGURE 40: America's Longevity Bonus, 2016–2035



Source: Age Wave/Merrill Lynch "Giving in Retirement: America's Longevity Bonus," 2015; Age Wave calculations

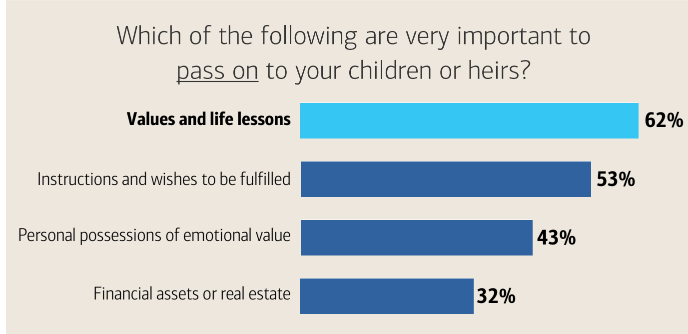
Surveyed retirees said they can now be more focused in their giving than they were in pre-retirement. They have more time to determine what they really care about, more freedom to give as they choose (instead of how others expect them to), better strategies for giving time and money, and more impact through their giving. Different from their parents, the Baby Boom generation says they're much more likely to investigate how charities use the money they take in, as well as specify how their personal donations are used.

Giving gives back in a big way. Seventy-six percent say they get greater happiness helping people in need than spending money on themselves. Retirees who donate and volunteer report having a stronger sense of purpose than those who don't, and say they're happier and healthier, too.

The Gift of Family Legacies

Giving to family is more than just about wills and inheritances, financial assets and real estate. Retirees believe—and younger generations agree—that it's about leaving a personal legacy of values, experience, and life lessons (FIG 41). One of those values is often generosity, and retirees can be role models by sharing their giving experiences and why they are meaningful. As to the financial side of things, "giving while living" is becoming more the norm. Seventy-seven percent of retirees now say it's better to pass on inheritances while still alive.

FIGURE 41: The Most Valuable Legacies



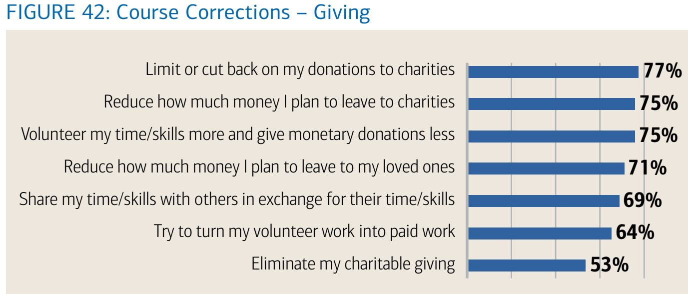
Source: Age Wave/Merrill Lynch, "Giving in Retirement: America's Longevity Bonus," 2015; Base: Age 50+ retirees

However, giving can have financial complications when not balanced with the financial needs of a potentially long life in retirement. The majority of retirees say they give less to charity than they'd like to because they're afraid of outliving their savings. Thirty-eight percent worry that their generosity could hurt them financially in their later years. And giving while living introduces a new challenge: As we mentioned earlier, retirees must balance generosity toward family with their own financial needs to avoid requiring support from family down the road.

Making Course Corrections

What giving-related changes are people willing to make in order to have a more financially comfortable retirement? About three-fourths would be willing to cut back on donations to charities or bequests to family, or to substitute more volunteer time in place of money donated (FIG 42). Roughly two-thirds would be willing to monetize their efforts through bartering among volunteers or doing paid work for the institutions they support.

FIGURE 42: Course Corrections – Giving



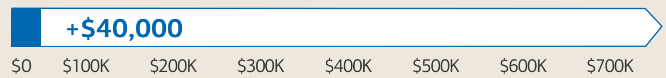
Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017; Base: Age 50+; select all that apply

Giving back is important to the majority of retirees, but giving is a relatively discretionary and flexible Life Priority. Retirees are willing to impose limits as needed and to substitute the currencies of their time and effort for donating their money. It helps to be clear about objectives in giving, discuss them with a spouse or partner, and to budget both time and money commitments.

Hypothetical Example of a Helpful Giving-Related Course Correction

A recently retired woman, 62 years old, had been earning about $60,000 a year and giving 5% of that, or $3,000 a year, to charities including two local service organizations. That level of generosity did not look sustainable on her retirement income, so she cut back financial contributions by two-thirds. That saves $2,000 a year or $40,000 over the next 20. To maintain her commitment, she tripled her volunteer time to the local service organizations, from four hours a week to 12, and took on tasks with more responsibility, including bookkeeping. At a conservative wage equivalent of $20/hour, the charities' added benefit amounts to $12,000/year or $240,000 over 20 years.

Additional Funds Available for Retirement



Source: Based on Age Wave calculations, 2016

Additional Key Findings from
Giving in Retirement: America's Longevity Bonus

- Retirees find the giving experience most fulfilling when they donate both money and time to a charity, non-profit, or cause.
- People working part-time in retirement often have "encore careers" in jobs that enable them to give back.
- The top reason why retirees limit their giving is worries about the trustworthiness of charities.
- Women are in the lead:
  - More likely than men to give both time and money
  - More motivated by gratitude, faith, or passion—and less by pride or obligation
  - More likely to prefer giving while living
  - More likely to be the spouse making decisions about giving

Leisure in Retirement—Into the Freedom Zone

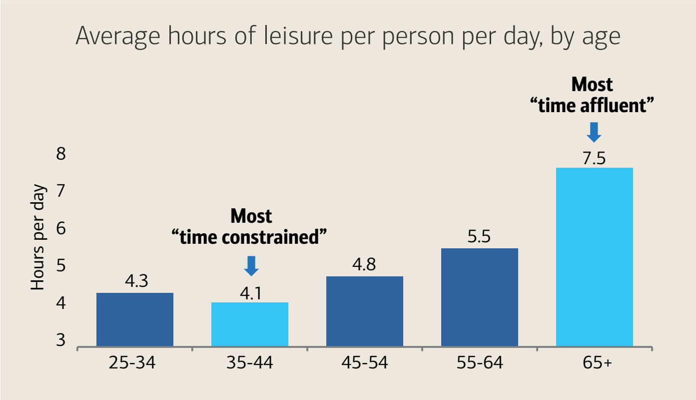
Leisure can be very limited during people's prime working and childrearing years, but in retirement people go from time constrained to "time affluent." Collectively, American retirees will enjoy 126 billion hours of leisure this year.[28] Rather than a "winding down," retirement is becoming a time of life for new experiences and a great deal of fun.

Leisure at Last

On the job, many Americans tend toward workaholism. We're a "no-vacation nation" when compared to the rest of the industrialized world, averaging just 11 vacation days per year (and the government doesn't mandate any). Forty-one percent of Americans don't use all the vacation days that are available to them, and 83% of employed Americans say they do work-related activities when on vacation.

Leisure in retirement is very different. Retirees become far more time affluent (FIG 43), averaging 7.5 hours of leisure per day. But leisure can take some getting used to. The newly retired can have difficulty structuring their time, and our survey found that it can take two to three years to fully hit one's stride in retirement.

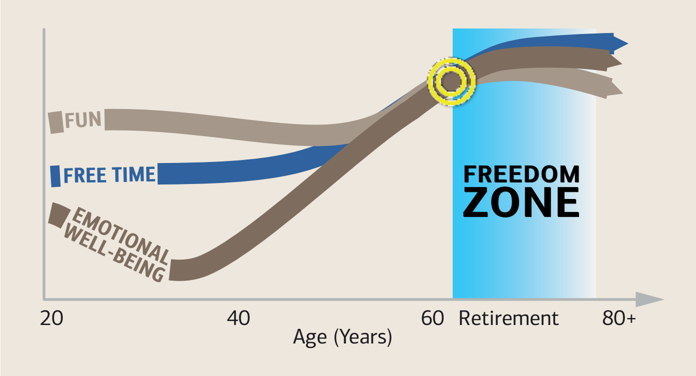
FIGURE 43: Retirees Become Time Affluent



Source: Age Wave/Merrill Lynch "Leisure in Retirement: Beyond the Bucket List," 2016; calculations based on Bureau of Labor Statistics, 2015; US Census Bureau, 2015

But it's not just about time. Emotional well-being can also rise dramatically in retirement, while anxiety plummets. If health remains strong, retirees are truly in the Freedom Zone (FIG 44).

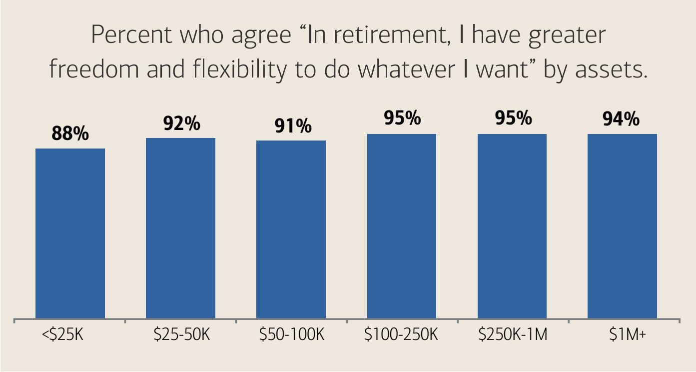
FIGURE 44: Entering the Freedom Zone



Source: Age Wave/Merrill Lynch, "Leisure in Retirement: Beyond the Bucket List," 2016

Over 90% of retirees have positive experiences with leisure—more freedom and flexibility to do what they want—and that's regardless of net worth (FIG 45). Enjoyable leisure doesn't have to cost a lot. Eighty-six percent say it's easy to find inexpensive leisure activities they enjoy. And if retirees are flexible with timing (as many can be), the travel industry offers discounts. Leisure is a currency available to all.

FIGURE 45: Enjoyment of Leisure Is Independent of Wealth



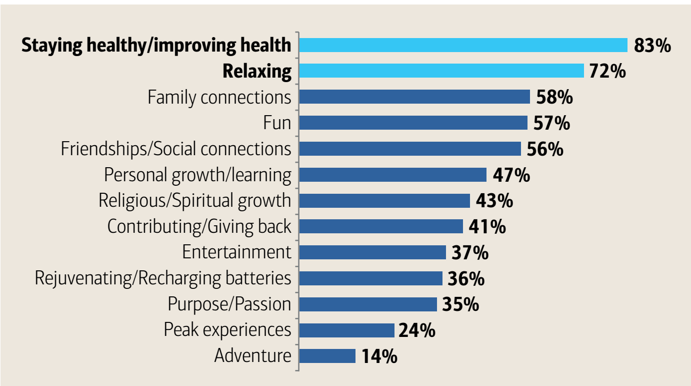
Source: Age Wave/Merrill Lynch, "Leisure in Retirement: Beyond the Bucket List," 2016; Base: Age 50+ retirees; T2B, by level of investable assets

Eighty-eight percent of retirees say that retirement is a time for new beginnings. Sixty-six percent say they prefer trying new things to leisure activities they've already done. Seventy-seven percent want to visit places they've never been before. And there's so much to do, from local events and hobbies old and new, to adventure or nostalgia travel, educational programs and tours, and voluntourism. Leisure in retirement is ultimately about experiences. Ninety-five percent of retirees say it's more important to have new experiences than to acquire more things.

Classifying Leisure: Everyday Activities versus Special Occasions

Retirees distinguish clearly between two types of leisure activities. In everyday leisure they want activities that help them to stay healthy and relaxed (FIG 46), and as they get older, these priorities grow in importance.

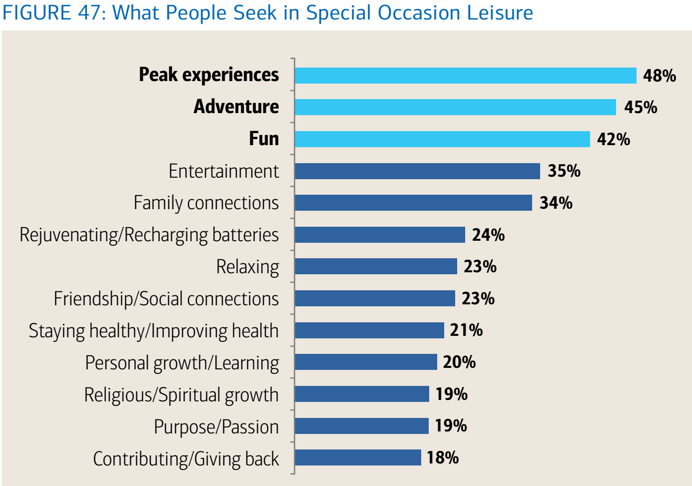
FIGURE 46: What People Seek in Everyday Leisure



Source: Age Wave/Merrill Lynch, "Leisure in Retirement: Beyond the Bucket List," 2016;
Base: Age 50+ retirees; select all that apply

For special occasion leisure—such as travel, celebrations, and important milestones—retirees want to break out of the ordinary (FIG 47). They want to have special experiences with special people. They most want "peak experiences," what psychologist Dr. Abraham Maslow defined as experiences that are "unique or rare and give them lasting memories."[29]

FIGURE 47: What People Seek in Special Occasion Leisure



Source: Age Wave/Merrill Lynch, "Leisure in Retirement: Beyond the Bucket List," 2016;
Base: Age 50+ retirees; select all that apply

Family and fun feature prominently in both everyday and special occasion leisure. Today's retirees report having more fun in retirement, especially at ages 65-74, than at any other stage of their lives. Eighty-two percent have their most enjoyable leisure experiences with their spouse or partner, and 84% say that a family vacation is an important way to make special memories. More than one-third of retirees have gone on a multigenerational trip in the past year. Sixty percent prefer leisure experiences with their grandchildren over experiences with their children.

Making Course Corrections

What leisure-related changes are people willing to make in order to have a more financially comfortable retirement? In this Life Priority, people are very flexible (FIG 48). More than 80 percent say they would increase use of discounts, scale back everyday leisure activities or leisure travel, and increase use of free or low-cost community activities. Seventy-seven percent would cut back on spending on family members' leisure, but only 23 percent would ask family members to pay for their travel. Six in ten would consider turning a hobby into a source of income—combining their Life Priorities.

FIGURE 48: Course Corrections – Leisure

Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017;
Base: Age 50+; select all that apply

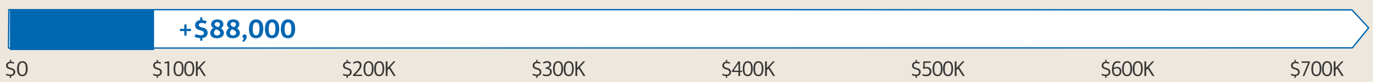
Planning for leisure, particularly special occasion leisure, can have a big benefit, enabling retirees to maximize what they get for their leisure dollars. But many retirees miss the opportunity. Two-thirds don't budget for leisure activities.

> ***"Before retirement, I defined myself by my work. Now, I define myself by what I do with my leisure—I'm now a grandmother, a French student, a cook, and a volunteer. I seek out new ways to define myself, to become who I want to be."***
>
> ***—Focus Group Participant***

Hypothetical Example of a Helpful Leisure-Related Course Correction

A 65-year-old newly retired couple living in Atlanta was looking forward to travel in retirement, planning on four airline trips and 30 days away each year. But the estimated travel expenditure of about $14,000 a year might stress their overall budget. So they systematically find discounts and deals that cut their travel costs by about 10%. They also have the flexibility to adjust their travel behaviors, such as traveling off-peak or taking trips on short notice, which lowers the cost by another 25%. These adjustments make travel more affordable, and the accumulated savings over ten years amount to $70,000. Planning to halve their days away from home starting at age 75 brings the total to $88,000.[30]

Additional Funds Available for Retirement



Source: Based on Age Wave calculations, 2016

Additional Key Findings from
Leisure in Retirement: Beyond the Bucket List

- 61% of retirees feel that “Who I engage in my leisure experiences with” is more important than the leisure activities themselves.
- 66% percent of retirees say health has a greater impact on their leisure than wealth, and 75% say that health limitations do not substantially affect their leisure activities.
- The retiree travel economy will surge over the next two decades. Americans age 55+ already account for 39% of consumer spending on airfare, 46% on lodging, and 67% on cruises.
- There are four stages of retirement leisure:
  - Winding down and gearing up—where many still feel constrained by work but are looking forward to more leisure activities
  - Liberation and self-discovery—where retirees enjoy newfound free time but are sometimes challenged to adjust to the freedom
  - Greater freedom and new choices—where retirees are in the groove of leisure in retirement and enjoyment peaks
  - Contentment and accommodation—where people focus on their health, independence, family, and friends

The Four Stages of Retirement Leisure

Source: Age Wave/Merrill Lynch, “Leisure in Retirement: Beyond the Bucket List,” 2016

How an Early Course Correction Compounds in Value

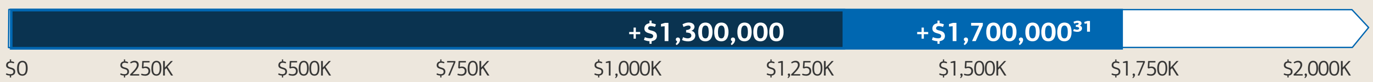
Actions taken early in one's life can profoundly shape retirement finances. Responsibility for retirement funding is shifting more and more to the individual. Those who exercise that responsibility, have the discipline to save, and take full advantage of employer programs and tax-deferred retirement plans will substantially raise the likelihood that they'll accumulate a large nest egg for retirement.

For example, a 23-year-old recent college graduate starts full-time employment in Boston and is auto-enrolled in his company's 401(k) plan with a 3% deferral rate and no company match. For our purposes, we assume a 5% annual average return on investments.

- If he maintains that savings rate throughout his working career, upon retirement he will have a 401(k) balance of $265,000. That is a significant amount of money but, as we have seen, not nearly enough to fund the average retirement.
- If he immediately changes his deferral rate to 15% and maintains it throughout his working career, upon retirement he will have a 401(k) balance of $1,300,000.
- If he works for companies that match the first 4% of his salary deferral, his 401(k) balance at retirement would be $1,700,000.

Many of our survey respondents said they cannot afford to save for retirement at this point in their careers. But can they afford not to?

401(k) Funds Available for Retirement



Source: Based on Age Wave calculations, 2016

Summary

Finances in Retirement: New Challenges, New Solutions is the capstone of eight groundbreaking studies of the transformation of retirement in America conducted by Merrill Lynch and Age Wave. This pioneering series explored the experiences, values, preferences, worries, opportunities, and aspirations of Americans, and we've painted a comprehensive, detailed, and holistic portrait of how pre-retirees can prepare for and retirees can thrive in retirement.

Major demographic forces—increasing longevity and the influx of retiring Baby Boomers—are swelling the ranks of retired Americans. Retirement for most of them is becoming a time of new beginnings, unprecedented freedoms, and great enjoyment.

Thriving in retirement requires looking through the lenses of all of the major Life Priorities—Family, Health, Home, Work, Leisure, Giving, and Finances—and anticipating how you want to live, what you want to accomplish, and how you can fund your future self. The Life Priorities form a constellation of elements continually in motion and exerting "gravitational pull" on each other. The nature and relative importance of the Life Priorities shift across a lifetime, and some of the most profound changes occur around the point of retirement.

In this concluding, study of the Finances Life Priority, we explored the imperative to fund lengthier retirements through greater reliance on personal funding sources, including savings and investments, employment, and support from family. Older Americans seek financial peace of mind over wealth per se, but that level of comfort can be elusive for a variety of reasons.

Retirement costs more than most people anticipate, and most save significantly less than they might need. They also often lack financial knowledge, education, and role models—and there can be a social taboo on discussing personal finances even with those closest to them.

This capstone study also wove the Life Priorities together through the common thread of personal finances and an examination of the large and small course corrections that people can—and are generally willing to—make to be more financially comfortable in retirement. We found that today's retirees and pre-retirees are extremely resilient, adaptable, and hopeful when faced with financial and other challenges. They are willing to cut back where they must, adopt healthier behaviors, calibrate family spending, supplement funds through work, downsize their homes, remix their leisure activities, and substitute time for money for the causes they support.

The potential course corrections are different for each of us, and many of us may not be aware of—or seriously consider—all of the available options. Retirees and pre-retirees should consider the range of possibilities, examine their immediate and longer term financial impact, and anticipate how they may reverberate across other Life Priorities. By making regular and well-informed actions course corrections into and through retirement, Americans can become more comfortable financially and enjoy retirement even more. *The Life Priorities in Retirement series shows the way.*

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[31] Note that since expense savings techniques are not mutually exclusive, impact is not strictly additive.