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Article 2

<u>New Solutions to Fund Your Retirement</u>

By Ken and Maddy Dychtwald

You've probably heard the news: Americans are not saving enough for retirement. By a long shot. Countless studies have pointed to this fact, and the advice they offer is often the same: "just save more." But that message doesn't seem to be changing things much. Savings rates remain low, while retirement is looming larger and longer than ever before.

Our company, Age Wave, in partnership with Merrill Lynch, was determined to break this cycle and investigate how to plan for retirement differently. Our goal was to investigate practical solutions across a host of life priorities. What we discovered was that no matter what your financial circumstances, goals, or timeline for retirement, you can improve the retirement financial outlook for you, your family, and your future-self.

Rather than viewing retirement planning as merely a financial exercise, in our first-of-its-kind, four-year, 50,000-respondent investigation into the changing lifescape of retirement, we took a more holistic approach. We conducted a series of eight studies in total, viewing retirement through the lenses of seven interconnected life priorities: health, family, work, home, giving, leisure and, our just completed capstone study, *Finances in Retirement: New Challenges, New Solutions*.

This is the second of two articles in which we'll describe specific tradeoffs, adjustments, and course corrections you can adopt right now to give yourself a more financially comfortable and enjoyable retirement, no matter how old you might be. Although starting young offers you the advantage of accumulating more retirement funds over time, there are a myriad of options and choices you can make in your 50s or 60s to bolster your financial security in retirement. If you haven't had a chance to read part one, here's the link to yesterday's article.

One of the most reassuring findings revealed in our study is that most Americans remain quite hopeful, resilient, adaptable, and positive when it comes to retirement. We're willing to consider a wide range of adjustments and course corrections. As tens of millions of Boomers migrate into retirement, we're likely to see these adjustments proliferate. Before we delve into specific course corrections below, let us add that these kinds of choices are very personal, based on each individual's circumstances, priorities, needs, values, and attitudes. A good course correction for one person might be a non-starter for another.

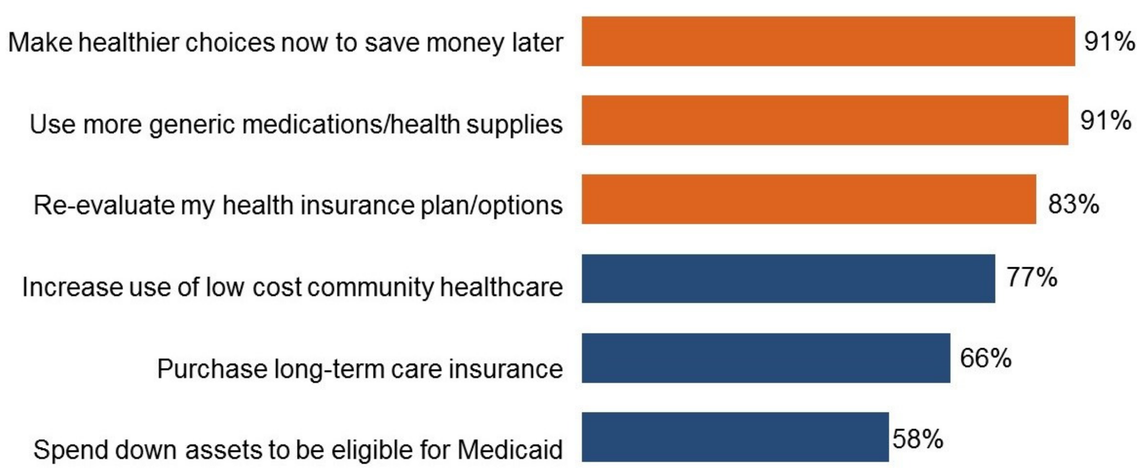
A New, More Personal Approach to Funding Retirement

In our study, we asked Americans what actions they'd be willing to consider to live a more financially secure and comfortable retirement. Here's what they told us. Which adjustments might you be willing to make?

1. **Health:** Current retirees tell us that health is the #1 ingredient for a happy retirement. Conversely, it's the #1 financial worry of retirees that becomes even more worrisome as we get older. And for good reason: health costs in retirement are high. Health care alone may cost a couple $259,000 in retirement—that's out of pocket, beyond what Medicare covers. And that doesn't include the cost of long-term care.

   Almost all participants said they would be willing to make healthier choices now that could potentially reduce health care expenses as they age, also opening up opportunities for them to engage more fully in leisure and work or remain in the family home. (FIG 1)

Figure 1: What <u>Health</u> Course Corrections Would You Be Willing to Make?



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

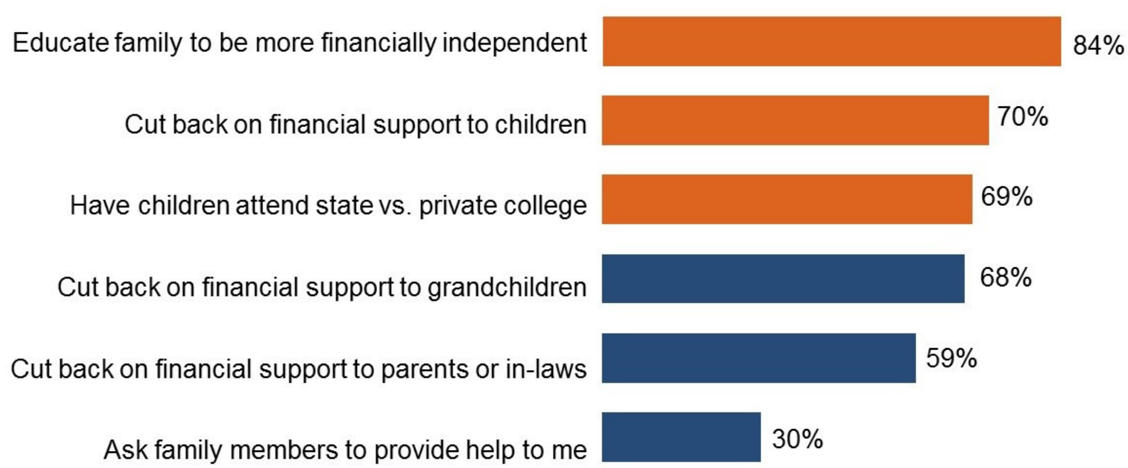
Let's look at an example of how a health course correction earlier in life can lead to a more secure retirement. Imagine a 35-year-old man who is about to become a first-time parent. This motivates him to quit his pack-a-day smoking habit, not only for his own health and well-being, but for the health of his child and his partner. Besides lowering his risk for disease, this health change has a significant financial impact—not purchasing cigarettes, avoiding the smoker's penalties on health and life insurance, and benefiting from the average wage differential for non-smokers—of $12,000 annually. By age 65, that adds up to $360,000, a significant amount to help fund his retirement.

Source: Based on Age Wave calculations, 2016

2. Family: Although family is the most satisfying life priority for most retirees, family finances can be a sensitive issue. Why? In part because people who are near or in retirement are enormously generous and willing to lend financial support to children, grandchildren, and other family members. As it turns out, there may be a point of too much generosity, which can jeopardize a retiree's own financial security and well-being in retirement. This is especially important to consider, because retirees told us that they absolutely do not want to be a burden on their families.

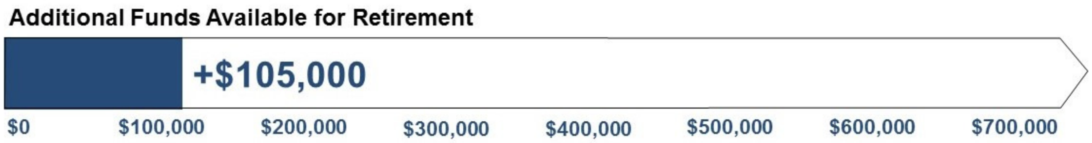
When we asked people what they would consider doing in terms of family to be more financially comfortable in retirement, they said that the #1 action they'd be eager to take is to "educate family on ways to be more financially independent." They're also willing to cut back on support to siblings and children. (FIG 2)

Figure 2: What <u>Family</u> Course Corrections Would You Be Willing to Make?



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

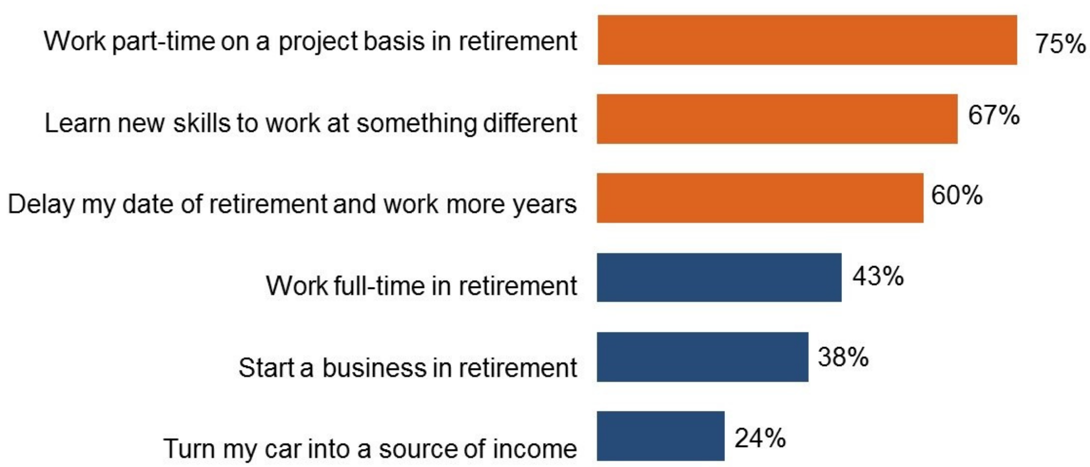
What could be the financial impact of making one of these adjustments? Let's consider a 50-year-old couple who have a 22-year-old son completing college. They decide not to provide additional financial support to their son after he graduates. Instead of giving the average of $6,800/year of post-college financial support to their son during their remaining working years, they will save that money for retirement. They expect to retire at age 65, when their additional funds saved would amount to around $105,000.



Source: Based on Age Wave calculations, 2016

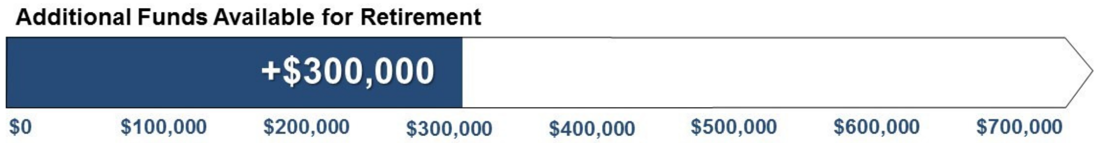
3. **Work:** Work in retirement may sound like an oxymoron, but it's becoming a key part of the new retirement landscape and an obvious way to adjust your retirement funds in a positive direction. Three-quarters of those we asked would be willing to work longer, preferably part time, to shore up their savings. Two-thirds would be open to learning new skills to be able to work at something different. More than half would delay retirement or try to adjust their jobs for better pay and benefits. And, surprisingly, one-quarter of Americans told us they'd consider driving for Uber, Lyft or other ride sharing options to tap into the rapidly growing gig economy. (FIG 3)

Figure 3: What Work Course Corrections Would You Be Willing to Make?



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

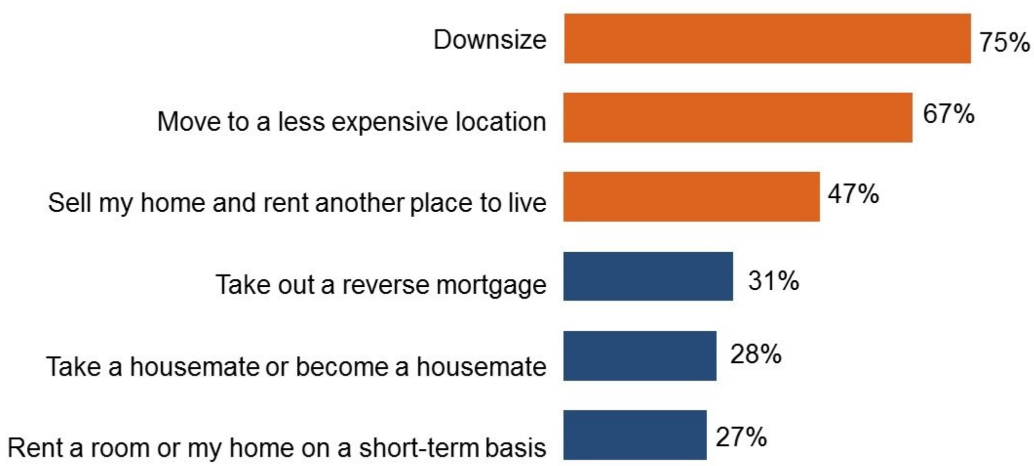
Here's an example of how working past traditional retirement age can boost your financial security for your entire retirement: A couple who had always planned to retire by age 60 recently decided, instead, to transition gradually from work so they could stay connected with work friends, as well as continue to earn income. 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 half time for just five years, they improve their retirement finances by around $300,000 after taxes. The employment income also enables them to consider postponing receipt of Social Security in order to receive higher monthly benefits when they fully retire.



Source: Based on Age Wave calculations, 2016

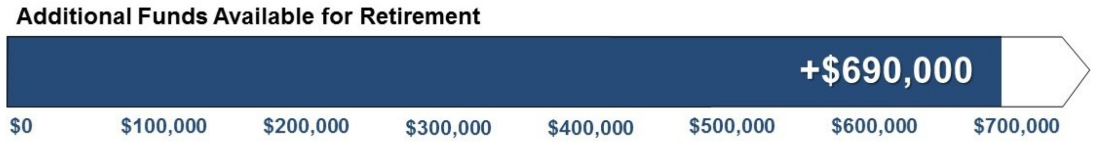
4. **Home:** Home is where the heart is, as well as many of our assets. Making a home move can be among the most significant one-time changes to your financial future. Downsizing or moving to a less expensive location can both reduce living expenses and free up funds to be invested or spent. Three-fourths of Americans are willing to downsize. 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 a home equity loan or refinancing. And, one quarter of Americans age 50+ would be willing to rent a room or part of their home on a short-term basis through Airbnb, VRBO, or similar sites for the extra income. (FIG 4)

FIGURE 4: What <u>Home</u> Course Corrections Would You Be Willing to Make?



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

Let's envision a 62-year-old couple who want to retire, but know they don't have enough retirement savings. They are, however, willing to relocate from New Jersey, where they can sell their home for $325,000, to South Carolina to be closer to their grandchildren, and where they can buy a home for $210,000. That will immediately free up $115,000 to invest and live mortgage-free in their new home. Over the next 15 years, home ownership cost savings, including lower real estate taxes and cost-of-living savings, will average about $28,000 annually—a total of about $420,000 to spend or invest. If one spouse lives in the house until age 90, the aggregate value of this course-correction grows to $690,000.

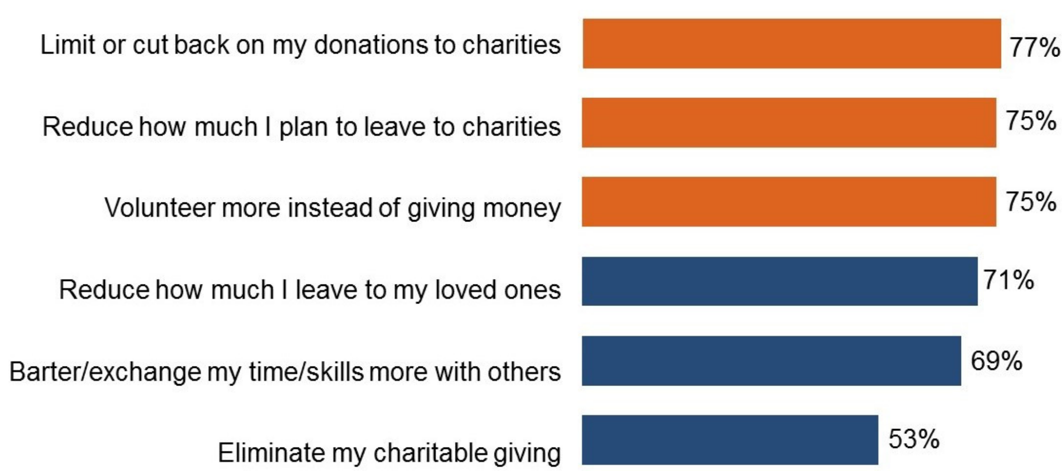


Source: Based on Age Wave calculations, 2016

5. Giving: Two-thirds of retirees say retirement is the best time in life to give back. Retirees are generous with their time and money, and giving provides retirees with a sense of purpose. However, 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 in place of donating 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.

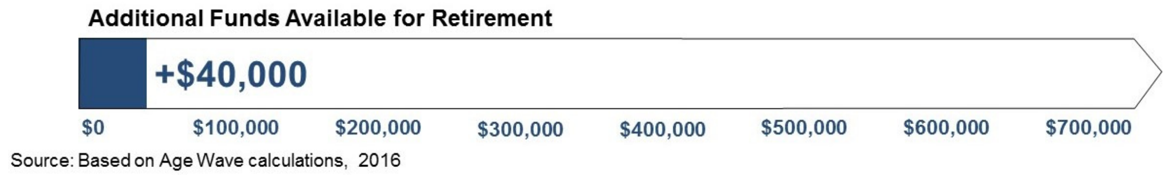
About three-fourths of Americans would be willing to cut back on donations to charities or bequests to family, or to substitute more volunteer time in place of money donated. Roughly two-thirds would be willing to monetize their efforts through bartering services like babysitting or home repair with others or doing paid work for the institutions they support. (FIG 5)

FIGURE 5: What Giving Course Corrections Would You Be Willing to Make?



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

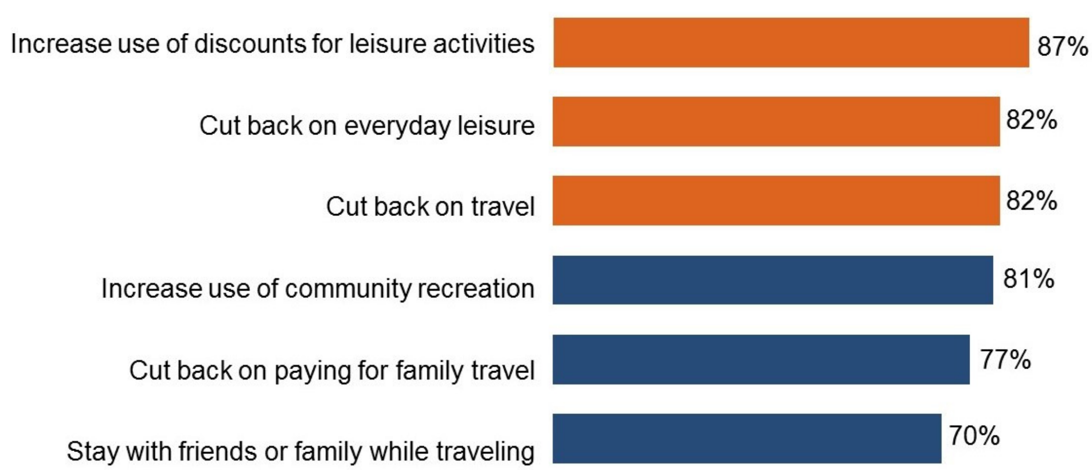
Here's an example of how that might work. Let's take a recently retired 62-year-old woman who had been earning $60,000 annually and giving 5% of her income, $3,000, to charities. She feels she can't sustain that donation amount in retirement, so she cut back financial contributions by two-thirds, saving $2,000 annually or $40,000 over the course of the next 20 years. To maintain her commitment to the organizations she cares about, she doubles her volunteer time from two hours to four hours weekly.



6. Leisure: Rather than a "winding down," retirement is becoming a source of everyday relaxation, sought-after "peak experiences," and a great deal of fun. No matter what their financial situation might be, retirees—across the socio-economic spectrum—agree that retirement is a time of greater freedom and flexibility to do what they want. They overwhelmingly value new experiences over acquiring new things, and they deepen connections with friends and family through those experiences.

What leisure-related changes are people willing to make in order to have a more financially comfortable retirement? When it comes to leisure, people are very flexible. More than 80% say they would increase use of discounts like Groupon and LivingSocial, scale back everyday leisure activities or leisure travel, and increase use of community recreation. (FIG. 6)

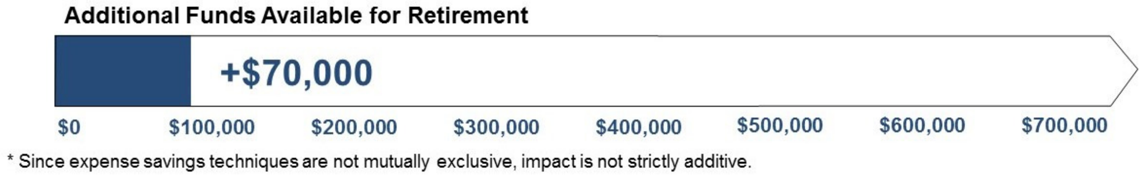
FIGURE 6: What Leisure Course Corrections Would You Be Willing to Make?



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

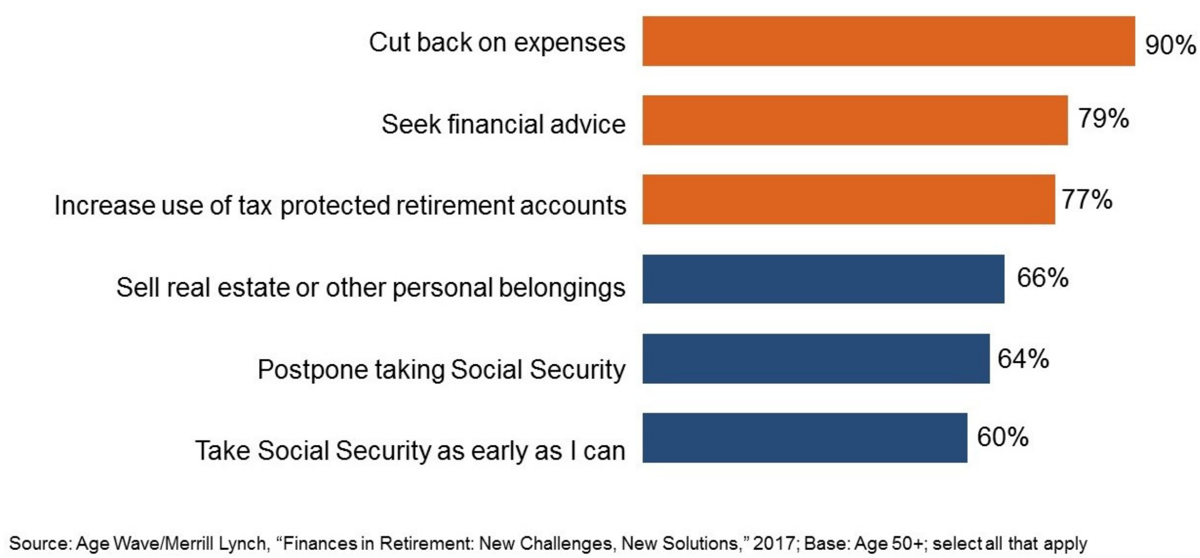
Planning ahead for leisure activities can also have a big benefit, enabling retirees to maximize what they get for their leisure dollars. For example, let's say a 65-year-old newly retired couple wants to travel in retirement, and hopes to take four airplane trips and 30 days away each year. However, the estimated yearly cost of $14,000 is well over their budget. So they find discounts and deals that cut their travel cost by about 10%.

Since they are retired, they also have the flexibility to adjust their travel schedule to take advantage of off-peak travel, lowering their cost by another 25%. These adjustments made things more affordable, and the accumulated savings over ten years amounts to $70,000.



7. Finances: The biggest worry in retirement is finances, and financial decisions are often second-guessed. The goal for most is to attain financial peace of mind. In our study, 90% of people would be willing to cut back on basic expenses to save more; 77% would increase use of tax protected retirement accounts; two-thirds would sell some of their belongings or real estate to simplify their lives; and six in ten would adjust the timing of their Social Security benefits. (FIG 7)

Figure 7: Course Corrections - Finance



Beyond simple belt-tightening, many financial course corrections can be complex, and people recognize they may need guidance to make the smartest decision for their personal situation. A good example has to do with the complexities of when to begin to draw down Social Security benefits: Is it better to claim Social Security early or late? Let's take a 61-year-old couple who wants to optimize their Social Security benefits claiming strategy. One spouse is eligible for relatively high benefits (about $2,600/monthly at the Social Security full retirement age). The other is eligible for average benefits (about $1,300/monthly). With some guidance, they chose NOT to claim their benefits as early as possible at age 62. Instead, they'll initiate benefits at age 70 and 68 respectively. Why this strategy? It will increase their total lifetime benefits by $215,000, even after the delay.

Source: Based on Age Wave calculations, 2016

New Challenges, New Solutions

This study underscores that thriving in the new retirement benefits from looking through the interconnected lenses of all major life priorities—family, health, home, work, leisure, giving, and finances—and anticipating how you want to live, what matters most to you, and the tradeoffs and course corrections you can make today to more generously fund your future-self. As Kevin Crain, Head of Workplace Financial Solutions at Bank of America Merrill Lynch explains, “In order to better experience the great ‘upside of aging’ and the new freedoms retirement can offer as we all live longer lives, people can take steps now to better understand their options, more openly discuss financial topics, and make the course corrections that can help them feel secure financially in their retirement.”