Ameriprise Financial

Retirement Derailers℠ survey

Abstract

Recent research from various sources has uncovered an alarming trend in financial planning in America: As a whole, Americans nearing retirement are underprepared. An October/November 2012 survey of people ages 50–70 shows that fewer than half (46%) report feeling extremely or very confident that they'll be able to afford the essentials in retirement. Their concerns may be valid. The same study uncovered a gap of approximately $250,000 between what respondents think they need to retire comfortably and what they've set aside for their time post-career.[1]

Less studied are the reasons why Americans are so ill-equipped to fund this major life stage. What events have transpired to make retirement financially burdensome even for those who have long planned their exit from the workplace?

The *Retirement Derailers*℠ survey conducted in February 2013 explores this question. The results identify unexpected life events, or derailers, that can be culprits in disrupting plans for retirement. The study also reveals the gravity of these events, which have cost Americans an average of $117,000 in savings, and examines how respondents view this shortfall in the context of their overall preparation for retirement. Finally, it highlights how individuals in these situations plan to get their retirement savings back on track.

[1] Source: *Retirement Check-In®* survey released by Ameriprise Financial in February 2013. Koski research interviewed 1,000 working Americans ages 50–70 with at least $100,000 in investable assets in October and November 2012.

Table of contents

Introduction

Ameriprise Financial commissioned Koski Research to conduct the *Retirement Derailers*℠ survey. The survey seeks to identify specific issues or events that have made reaching financial retirement goals more difficult — that is, retirement derailers — and examine how these events affect Americans' outlook and actions to prepare for their exit from the workforce.

The survey of Americans 50–70 years old who are working or retired and have at least $100,000 in investable assets, including employer-sponsored retirement plans, unveiled intriguing trends.

- Almost everyone experiences at least one retirement derailer, and the financial impact of derailers is substantial, costing an average of $117,000 in savings.
- Despite these setbacks, a wide majority of those polled characterize their road to retirement as smooth rather than bumpy, perhaps suggesting an inconsistency between perception and reality.
- In terms of recovering from derailing events, Americans are largely depending on themselves to get back on track.

Retirement derailers are common — and costly

When it comes to preparing for retirement, it is wise to expect the unexpected. The vast majority of Americans surveyed (90%) report experiencing at least one unanticipated issue or event that may have made retirement more difficult. The average respondent experienced four of these derailers.

Not surprisingly, many derailing issues or events are related to the recession of 2008–2009.

- The most commonly cited derailer, which nearly two-thirds (63%) of survey participants report experiencing, is low interest rates that impacted the growth of their retirement assets.
- More than half (55%) say the recession significantly lowered their retirement savings due to market declines.
- One-third (33%) of respondents convey that their home equity is not going to help as much as anticipated for retirement.

Other common derailers include supporting a grown child or grandchild (23%), pension plans that are not worth as much as planned or have been discontinued (23%) and bad investments (22%).

The financial fallout from these events can be dramatic, costing Americans an average of $117,000 in savings. The figure skews higher for affluent individuals (those with investable assets of $750,000 or more), who have taken a hit of $177,000 on average. Individuals who report being derailed five or more times — 37% of all respondents — have also experienced a larger loss, averaging $144,000.

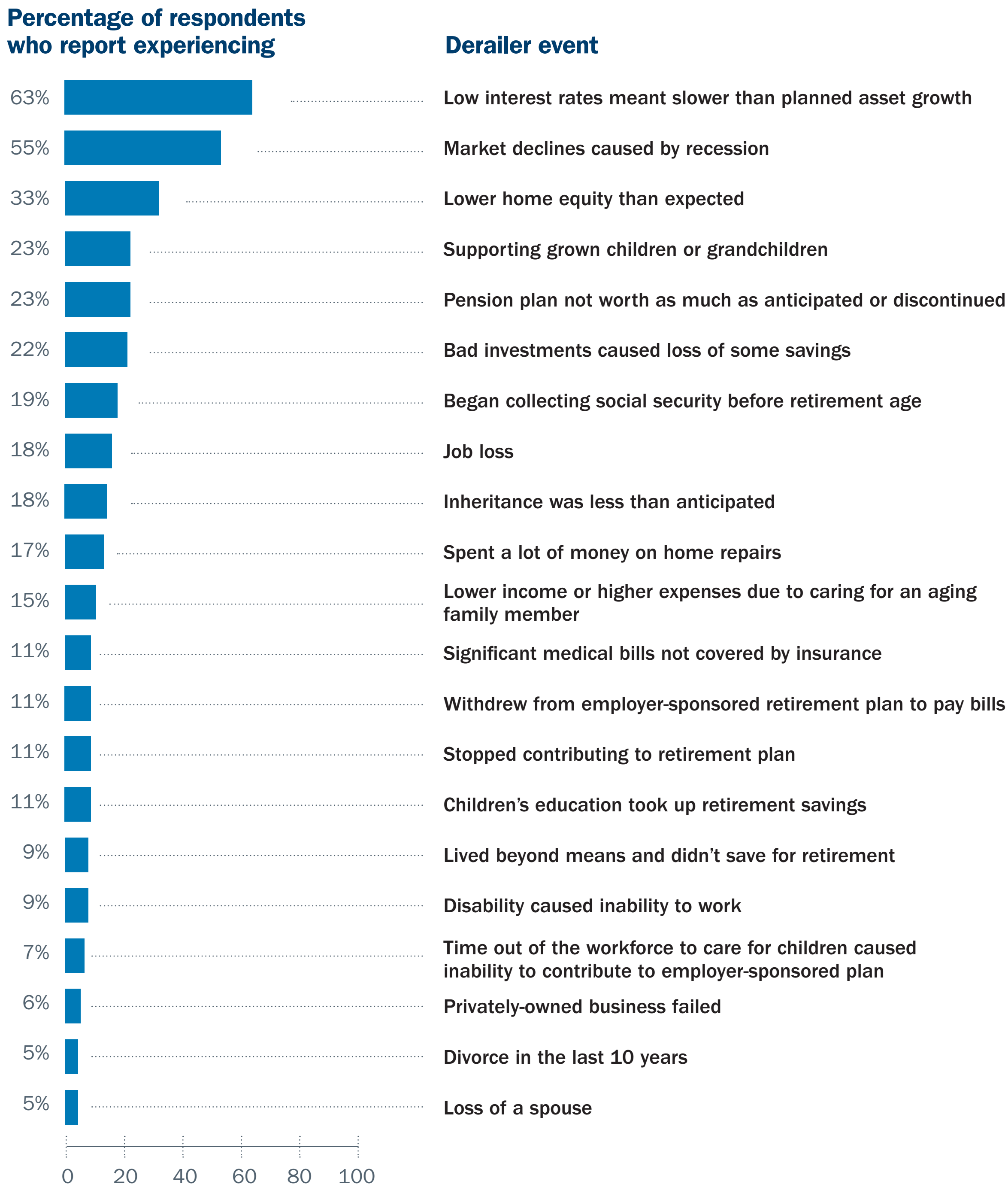
The average respondent experienced four derailers which cost an average $117,000 in savings

On the surface, boomers who have been affected by one or more derailer may be carrying on without noticeable financial strain. However, their financial preparedness for retirement may be less secure than meets the eye. Only a third (33%) of those surveyed say they are extremely or very confident they would be able to afford an unexpected expense, such as long-term care or major home repairs.

They're not alone. A recent survey by the Employee Benefit Research Institute found that only half of retired Americans (52%) say they "definitely could" afford a $2,000 unexpected expense. Another 17 percent report they "probably could," while the rest are not confident they could.[2]

[2] Source: Employee Benefits Research Institute (ebri.org) and Mathew Greenwald & Associates, Inc. 2013 Retirement Confidence Survey, released March 2013.

Respondents have experienced a wide range of derailer events



Despite being behind on savings, Americans still anticipate a stable retirement

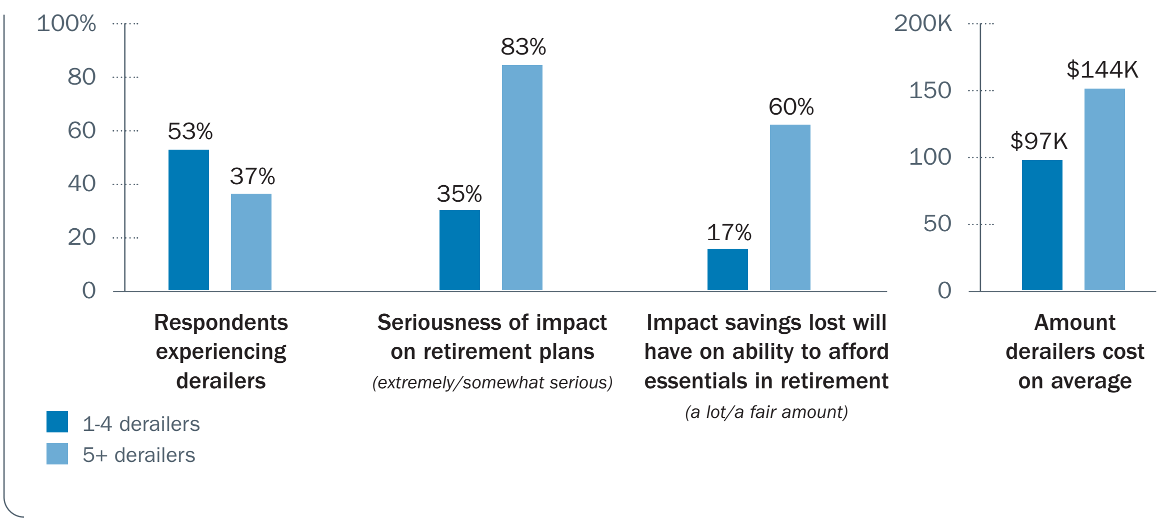
In the face of retirement derailers, Americans maintain a positive outlook for retirement. Almost two out of three (64%) characterize their road to retirement as smooth, not bumpy. And, among those who have experienced at least one derailing event, only one in three (35%) say their ability to afford essentials in retirement will be affected a lot or a fair amount.

But are their expectations rosier than reality? Only 18 percent of those surveyed say their savings are ahead of where they thought they would be ten years ago. Forty-two percent admit they are behind where they thought they would be.

Derailers may be partly to blame. More than half of respondents who have experienced at least one derailing event (55%) say the impact on their retirement plans has been extremely or somewhat serious.

This sentiment grows with successive derailers; among those who have experienced five or more of these unexpected life events, 83% say the impact has been extremely or somewhat serious.

The financial impact is more profound for those who have experienced five or more derailers



More than half of respondents who have experienced at least one derailing event (55%) say the impact on their finances has been extremely or somewhat serious

These statistics expose an apparent contradiction in the American mindset around retirement derailers. While they characterize these types of events as serious, they are reluctant to acknowledge their full impact.

Regrets? They have a few. But most rely on themselves and professionals to get back on track

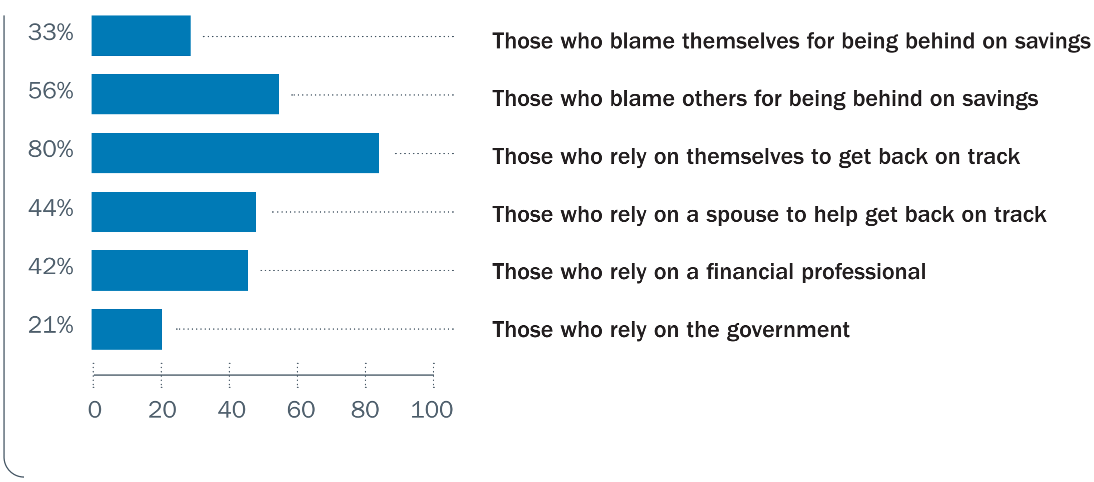
Respondents do often have regrets. Of those surveyed:

- Well over half (57%) say they wished they would have started saving earlier.
- Thirty-seven percent admit they believe they would be in better financial shape if they knew more about investing.
- One-third (33%) agree that if they had spent less on extra expenses like eating out and vacations, they may be better prepared for retirement.
- Three in ten (29%) say a written financial plan would have helped them be in better shape for retirement.
- One in four (25%) say they wish they would have used credit more wisely.

That's not to say that they take full responsibility for falling short on their savings goals. In fact, over half (56%) blame others for their situation. When it comes to getting their finances back in order, however, self-reliance kicks in.

- A large majority (80%) say they plan to rely on themselves to get back on track.
- Forty-four percent say they will seek help from a spouse.
- Nearly as many (42%) say they will rely on a financial advisor for assistance.

Many respondents are quick to blame others, but the vast majority will rely on themselves to get back on track.



Putting plans in writing helps pave a smooth path

There may be wisdom in seeking professional help. Of those surveyed who have a financial advisor, nearly three out of four (74%) report they have a written financial plan, compared with 39% of those without financial advisors.

Having a written plan in place may promote financial stability in retirement. Those who are confident that they can afford essentials and unexpected expenses are likely to have written financial plans (66% vs. 59% and 69% vs. 59%, respectively). Furthermore, those who say they have had a smooth road to retirement are more likely to have written financial plans in place than those who characterize their journey as bumpy (65% vs. 55%).

Conclusion

The *Retirement Derailers* survey confirms a common belief: The only certainty in retirement planning is the prospect of uncertainty.

Almost everyone working toward reaching this major life milestone will encounter at least one derailer along the way, and most will experience more. Understanding the disruptive nature of these events and the extent to which they can hamper savings is an important first step in preparing for the outcome. Consulting with a financial professional to write a financial plan and gain assistance with navigating these issues can help make the journey more manageable.

Methodology

Working with Koski Research, Ameriprise Financial launched a national telephone survey in February 2013.

Telephone interviews were conducted with a targeted sample of 1,000 Americans who are 50 to 70 years old, retired or employed with plans to retire at some point in their lives, and have investable assets, including employer-sponsored retirement plans, that total $100,000 or more. Interviews were conducted on both landline phones and cell phones representing the percentage of households that use cell phones only.

The sample for this study was selected from targeted lists of households that, based on self-reported data, would likely qualify on the desired age, investable assets and employment criteria.

The sample distribution closely matched recent Census data for employed and retired Americans by age, gender and region. Accordingly, no weighting was required for sample balancing purposes.

The margin of error is +/- three percentage points.

About Ameriprise Financial

At Ameriprise Financial, we have been helping people feel more confident about their financial future for over 115 years. With outstanding asset management, advisory and insurance capabilities and a nationwide network of 10,000 financial advisors, we have the strength and expertise to serve the full range of individual and institutional investors' financial needs. For more information, or to find an Ameriprise financial advisor, visit ameriprise.com.

About Koski Research

Koski Research is focused on having better conversations with key stakeholders — customers and clients, influencers, business peers and the general public. The firm combines high level proprietary custom research with research conducted for public release. All of this research relies on asking engaging questions, applying research acumen to create solid study designs and using marketing smarts to produce reports that lead to action.

Financial Planning | Retirement | Investments | Insurance | Banking

Ameriprise Financial
108 Ameriprise Financial Center, Minneapolis, MN 55474
ameriprise.com