Seven Life Priorities in Retirement

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Abstract

As more and more Baby Boomers turn 65 and reach retirement age, they are reshaping the landscape of the retirement phase with a shift in their mindset; they are pursuing old dreams, exploring new opportunities, and thinking about retirement in an entirely new manner. Bank of America Merrill Lynch partnered with Age Wave to examine how Americans are preparing for retirement and analyze the seven life priorities that are most important to today's retirees: Health, Home, Family, Work Giving, Finances, and Leisure. Although there is much optimism and opportunity that comes with this new wave of retirement, there is new concern as well. As the average lifespan increases, health issues are also becoming more prevalent. In this piece, we explore the many issues, both positive and negative, that both create and are a result of this new take on the retirement life stage.

Keywords: Retirement, longevity, aging, Baby Boomers, health, home, family, work, giving, finances, leisure.

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As Baby Boomers turn 65, issues pertaining to longevity, funding retirement, and discussions of life priorities in the next phase of their lives are coming to the fore. In a series of national thought leadership studies, Bank of America Merrill Lynch partnered with Age Wave to examine how Americans are preparing for retirement and reshaping their lifestyles during their later years. Our goal was to discover the issues that people are thinking and worrying about as they plan for their retirement.

A starting point for understanding these issues is examining and analyzing the areas, pre-retirees and retirees say are most significant to their lives. After conducting research with individuals living in the United States, we identified seven life priorities that are most important to today's pre-retirees and retirees: Health, Home, Family, Work, Giving, Finances, and Leisure. In this paper, we summarize findings from our research on four of these priorities; research on the final Leisure priority will be published in May 2016 and bringing all together with Finances later in the year.

One of the most important underlying conclusions we found is that today's 'retirees' are not simply retiring- they are exploring new options, pursuing old dreams, and living life to the fullest. They are taking advantage of longer life spans to devote energy to pursuits they may not have had the time or freedom to chase during the 'career' portion of their lives. They are staying active, engaging in new pastimes, and strengthening and expanding their social networks.

While our research found much reason for optimism around retirement, there is cause for concern as well. Still, too many Americans are dying early on account of physical and mental health issues. Far too many have reached their retirement years with chronic diseases that are often associated with or caused by bad diet and poor exercise habits. Lastly, and perhaps most importantly, many lack financial security.

The need for financial security is a common thread that runs throughout our research; each of the life priorities has financial implications that need to be thought through in planning discussions, from the increasing cost of healthcare to relocating expenses. We are confident that the insights from this study

have applications across the life course. With the majority of the population already thinking differently about their lives, it is of upmost importance to make sure their financial planning takes the above factors into consideration.

Health

As the baby boomers move into their later years, health becomes the ultimate retirement wildcard. Indeed, 81 percent of retirees cite health as the most important ingredient for a happy retirement (Bank of America Merrill Lynch and Age Wave; 2014). For many, health can be the difference between a retirement of opportunity and independence or one of worry and financial challenges. Health challenges can be a double threat to retirement financial security: between unpredictable and costly health care expenses and unexpected early retirement due to health problems, planning ahead can be confusing and overwhelming. This underlines the importance of financial planning, as people increasingly seek guidance to help them make informed decisions for themselves and their families (Bank of America Merrill Lynch and Age Wave; 2014).

Although health care costs in retirement are the greatest financial concern, the majority of people have not factored these costs into their retirement planning.

- Seven out of 10 couples age 50 and older have not discussed how much they may need to save to pay for health care during retirement (Bank of America Merrill Lynch and Age Wave; 2014).
- More than half of retirees retired earlier than they expected, and the number one reason for their early retirement was a health problem (Bank of America Merrill Lynch and Age Wave; 2014).
- Just 19 percent of current Medicare recipients feel they have a strong grasp of what health care costs their Medicare options cover (Bank of America Merrill Lynch and Age Wave; 2014).

Boomers reshaping approach to health. Baby Boomers are redefining the role of health care consumers by taking charge of their health and health care decisions. Compared to their parents' generation, Boomers are more than twice as likely to say they are proactive about their health, and are four times more likely to actively research health information (Bank of America Merrill Lynch and Age Wave; 2014). They are also far more likely to say they view their doctors as partners who work with them to optimize their health, as opposed to an authority who gives them a plan to follow (Bank of America Merrill Lynch and Age Wave; 2014). Boomers are also highly optimistic about their health, with nearly 80 percent expecting their generation will be healthy and active at the age of 75 (Bank of America Merrill Lynch and Age Wave; 2014).

Double threat of health challenges. Regardless of their wealth level, health care expenses rank as the most pressing financial concern in the stage we call retirement, exceeding even the fear of outliving one's money (Bank of America Merrill Lynch and Age Wave; 2014). In fact, people age 50 and older are nearly twice as worried about the cost of retirement health care as they are about the actual quality of care they might receive (Bank of America Merrill Lynch and Age Wave; 2014). This underlines the importance of preparing financially for the prospect of not only living longer, but also facing more health challenges that comes with old age.

Additionally, people are very concerned about the financial impact of a spouse's serious illness-some even more so than their own illness. Women, who are likely to live longer and are more apt to spend savings on their spouse's health care, are more concerned than men about the financial impact of their spouse developing a serious health problem (Bank of America Merrill Lynch and Age Wave; 2014).

Early Retirement. Less than one in four (23 percent) of adults age 50 and older say they would be prepared financially if they or their spouse were forced to retire early because of a health problem,

despite the fact that one-third of people in the US who retire early do so for health reasons. This stresses the importance of financial planning early on, as retirees not only have to consider their own health, but also that of their spouse's (Bank of America Merrill Lynch and Age Wave; 2014).

Alzheimer's, the most worrisome disease of later life. Increasing life expectancy coupled with the aging of the large Boomer generation has given rise to a growing number of older adults confronting chronic diseases, such as hypertension, heart disease, diabetes, cancer, Alzheimer's, and arthritis. In addition, as we live longer, the natural deterioration of our capabilities has an impact on how we live the additional twenty to thirty years and the quality of that time.

While many chronic diseases can disrupt health and wealth in retirement, across all generations, more people cite Alzheimer's as the disease about which they are most worried, see figure 1 (Bank of America Merrill Lynch and Age Wave; 2014). When asked what concerns them most about Alzheimer's, people cited becoming a burden on their family and loss of dignity (Bank of America Merrill Lynch and Age Wave; 2014).

Figure 1 here.

Confidence, knowledge and communication gaps. Unfortunately, most retirement planning today does not factor in the cost of health care. Few have attempted to forecast how much they may need to cover health care or long-term care expenses in retirement, and many say the information available to them is overwhelming, confusing, or frustrating (Bank of America Merrill Lynch and Age Wave; 2014). Open conversations are critical to help effectively prepare for retirement health care. One emerging indicator of this profoundly changing condition is the need for elder care in different settings.

Health and home in later retirement. Though people enjoy many new freedoms during retirement, health and care can become significant factors when choosing where to live, particularly as people reach their 80s. Among people age 85 and older, three-quarters (74 percent) have difficulties

with daily activities, including housework or getting around the home (Bank of America Merrill Lynch and Age Wave; 2014). While the average age of people entering assisted living is 85.7, people overwhelmingly prefer to receive extended care, if needed, in their own home (AAHSA et al. 2009).

Home

With increasing longevity and greater freedom, it's not surprising that so many retirees are striving to make their homes even more fulfilling. Achieving a dream home in retirement requires careful forethought and preparation, as well as significant finances. Whether moving or staying put, it's important to carefully consider expenses associated with current goals and future priorities, including potential challenges during later years.

During the next decade, the number of age 65-and-above households in the US will increase by nearly 11 million, while growth in the number of households across all other age groups will be less than two million (Joint Center for Housing Studies of Harvard University, 2014). This tremendous growth among older households is driven by powerful demographic forces, including the massive Baby Boomer generation now moving into their retirement years, partnered with increasing longevity, which leads to longer retirements.

How and where our nation's aging population chooses to live will have widespread implications on the way homes are designed, the resources people will need, and how communities and businesses nationwide should prepare. For most retirees, their home is more than just a financial consideration – it's a place where family and community come together and can represent treasured memories or independence. With newfound freedom from work and family restrictions, fewer home-related financial concerns, and unprecedented longevity, retirees are more empowered to pursue a home that fits their desired lifestyle needs and changing priorities.

Home free in retirement. Throughout the majority of people's lives, where they reside is determined in large part by work and family responsibilities. However, as people enter their late-50s and 60s they approach the 'Freedom Threshold,' with retirement representing a gateway to unprecedented freedom to choose where to live. We found that:

- Retirees are more than twice as likely to say they are free to choose where they want to live when compared to pre-retirees (67 percent vs. 30 percent) (Bank of America Merrill Lynch and Age Wave, 2015).
- Four out of five (81 percent) Americans age 65 and older are homeowners, and among them, 72 percent have fully paid off their mortgage (US Census Bureau).

Retirees on the move. Additionally, with new freedom to decide where they want to live, many retirees move to a different home, community, or part of the country, with an estimated 4.2 million retirees moving into new homes last year alone. Retirees' top motivations for moving include being closer to family (29 percent), reducing home expenses (26 percent), changes in health (17 percent), and a change in marital status (12 percent), see figure 2 (Bank of America Merrill Lynch and Age Wave, 2015).

- Many people assume they'll downsize once retired. However, we found that half (49 percent) of retirees did not downsize in their last move – and, in fact, 30 percent moved into larger homes (Bank of America Merrill Lynch and Age Wave, 2015).
- Retirees' top reasons for upsizing were to have a home large and comfortable enough for family members to visit (33 percent) or even live with them (20 percent). One out of six retirees (16 percent) has a 'boomerang' child who has moved back in with them, which could compel them to upsize (Bank of America Merrill Lynch and Age Wave, 2015).

Figure 2 here.

However, there are retirees who have not and do not plan to move during retirement for various reasons, the most popular being their emotional connection with their home. Prior to age 55, more homeowners say the financial value of their home outweighs its emotional value (Bank of America Merrill Lynch and Age Wave, 2015). As people age, however, they become far more likely to say their home's emotional value is more important – as cited by nearly two out of three people age 75 and older (Bank of America Merrill Lynch and Age Wave, 2015). Other reasons for not moving include staying in close proximity to family and friends, wanting to remain independent, or that they simply cannot afford to move (Bank of America Merrill Lynch and Age Wave, 2015). The last point furthers the notion of needing to take all factors into consideration when planning for retirement.

Home improvements. With age and retirement often come more flexibility, time, and financial resources for home improvements. In fact, age 55 and older households account for nearly half of all spending on home renovations – about $90 billion annually (Bank of America Merrill Lynch and Age Wave, 2015). While some retirees modify their home to make it more age-friendly, many also renovate to make it more attractive or versatile. For instance, renovations made by retiree homeowners age 50 and above who plan to stay in their home throughout retirement include:

- Creating a home office
- Improving curb appeal
- Upgrading a kitchen or bathroom
- Adding safety features to accommodate aging
- Modifying home to live on one floor should there be trouble with stairs

Many retirees are also interested in new technologies that can make their homes more convenient, connected, secure, and easier to maintain. For instance, 80 percent are interested in innovative ways of reducing their home expenses, such as smart thermostats or apps to control

appliances, while 58 percent are interested in technologies to help maintain their home, such as cleaning robots or heated driveways (Bank of America Merrill Lynch and Age Wave, 2015).

The underlying factor for success in the Home life priority, as with all other priorities, is responsible fiscal planning. Whether it is relocating to an entirely new house or renovating a current residence, all changes require finances and foresight.

Family

Given the challenging economic climate during the past several years, it is not surprising that so many Americans have extended financial support to their loved ones. However, such willingness to assist family members is a hidden risk to retirement and can place one's own long-term financial security in jeopardy. During the last five years, three out of five Americans age 50 and older have provided financial assistance to members of their family, including adult children, parents, grandchildren, siblings, or other relatives (Bank of America Merrill Lynch and Age Wave, 2013).

The average financial assistance provided to family members during the last five years totaled nearly $15,000, and the figure was significantly more amongst the nation's wealthiest families, see figure 3 (Bank of America Merrill Lynch and Age Wave, 2013). This support may have been to help relatives meet a one-time need or ongoing assistance over the course of many years, and was often given without expecting anything in return. However, the vast majority of people age 50 and older have not factored such support for family into their financial planning (Bank of America Merrill Lynch and Age Wave, 2013). We also found a dangerous absence of proactive discussion and establishment of safe boundaries among family members as they navigate these interdependencies.

Figure 3 here.

Family Bank. Nearly three in five people age 50 and above believe a member of their family is the 'Family Bank,' meaning someone who their extended family is most likely to turn to for financial help. This person is often the one who is most financially responsible, has the most money, or is the easiest to approach (Bank of America Merrill Lynch and Age Wave, 2013).

Sacrificing Retirement for Family. Half of pre-retirees age 50 and older say they would make major sacrifices that could impact their retirement to help family members. Among these pre-retirees, 60 percent would retire later and 40 percent would return to work after retiring (Bank of America Merrill Lynch and Age Wave, 2013).

Generosity & Inheritance. Those helping family members financially rarely do so because they expect future help or payback. People age 50 and older are 20 times more likely to say they are helping family because 'it is the right thing to do' rather than because 'family members will help them in the future'; they are also five times more likely to stop support because a recipient is not using the money wisely than because of worries about being paid back (Bank of America Merrill Lynch and Age Wave, 2013). More than one-third say they would accept a less comfortable retirement lifestyle to help family financially. These individuals also express stress due to family caregiving responsibilities (Bank of America Merrill Lynch and Age Wave, 2013).

We found that the vast majority of people age 50 and older have not prepared for potential family events and challenges, including remarriage and blended families, which could affect their retirement (Bank of America Merrill Lynch and Age Wave, 2013).

Marriage in Retirement. Close to half of married retirees say their marriage is more fulfilling and loving in retirement, and just 11 percent say it is more boring or contentious (Bank of America Merrill Lynch and Age Wave, 2013). However, divorce is becoming increasingly common among older

adults. One in seven people age 50 and older who were once married are now divorced and single – a seven-fold increase since 1960 (Bank of America Merrill Lynch and Age Wave, 2013).

Blended Families. Rising divorce rates doubled between 1990 and 2010 among people age 50 and older, have contributed significantly to the rise in blended families (Brown, SL and Lin I-F, 2013). Nearly two in five people age 50 and older are now part of a blended family (Bank of America Merrill Lynch and Age Wave, 2013). Nearly one-third of people age 50 and above with stepchildren say it complicates financial planning, a percentage equal to those who say they and their spouse have different financial priorities for their own children than they have for their stepchildren (Bank of America Merrill Lynch and Age Wave, 2013).

Perpetual Parenthood & Boomerangs. One in five parents age 50 and above have at least one 'boomerang' adult child who has moved back in with them. More than two-thirds of parents age 50 and older have provided some form of financial support to their adult children during the last five years – among which, 36 percent did so without knowing how their money was being used (Bank of America Merrill Lynch and Age Wave, 2013).

Work

Another trend in our research is retiree's willingness to continue working. By embracing the new realities and attitudes toward work in retirement, everyone from policy makers to employers and the financial industry will be better equipped to help people pursue their goals. In our study related to Retirement and Work, we found that nearly three out of four pre-retirees over the age of 50 say their ideal retirement will include working – often in new, more flexible and fulfilling ways, see figure 4 (Bank of America Merrill Lynch and Age Wave, 2014). With half of current retirees already having worked or are planning to work during their retirement years, it will become increasingly common for

people to seek work during this stage of their lives (Munnell A., 2011), (Bank of America Merrill Lynch and Age Wave, 2014).

Figure 4 here.

The New Retirement Workscape. Results from our research indicate that previous generations viewed retirement as a permanent end of work followed by continuous leisure. However, modern-day reality for many pre-retirees and retirees is a dynamic future that we defines as '*The New Retirement Workscape,*' represented by four different phases:

- Pre-retirement – Five years before retiring, 37 percent of pre-retirees who want to work in retirement will have already taken some meaningful steps to prepare for their post-retirement career; this rises to 54 percent among those within two years of retirement.
- Career intermission – Most pre-retirees do not seek to go directly from pre-retirement work to retirement work. They want a break, a sabbatical: they need some time to relax, recharge and retool. More than half of working retirees say they took a break when they first retired. These career intermissions average 2.5 years.
- Reengagement –The study found that, on average, this phase lasts nine years and includes a new balance of work and leisure. Compared to those in their pre-retirement careers, people working in these 'FlexCareers' are nearly five times more likely to work part-time and three times more likely to be self-employed.
- Leisure – In the fourth phase of retirement, people welcome the opportunity to rest, relax, socialize, travel, and focus on other priorities. Working retirees expect health challenges (77 percent) or simply not enjoying work as much (61 percent) to be the most likely causes of their stopping work permanently (Bank of America Merrill Lynch and Age Wave, 2014).

When working retirees were asked to share their best advice for people who want to work during retirement, the most popular pieces of advice were to ‘be open to trying something new’ and ‘be willing to earn less to do something you truly enjoy’ (Bank of America Merrill Lynch and Age Wave, 2014). Other tips to help prepare for a successful retirement career include keeping up with technology – with seven times as many working retirees citing the importance of this versus trying to appear younger as a means of improving their ability to work in retirement (Bank of America Merrill Lynch and Age Wave, 2014).

While technological innovation and its impact on the workplace are commonly discussed, an equally important consideration is the impact of longevity. The longevity phenomenon not only reshapes the composition of the workforce, but also introduces new issues that may not have been prevalent prior to the Boomer generation.

Giving

Our research reveals a potential giving surge in the United States over the next two decades valued at an estimated $8 trillion, due to the aging baby boomer generation, increasing life expectancy, and high rates of giving among retirees (Bank of America Merrill Lynch and Age Wave, 2015). Our research shows that retirement unleashes new opportunities that can positively impact the world. Today’s retirees are in a position to make significant, lasting contributions, and define their legacy. We believe we are going to see older adults contributing to society in new and meaningful ways. We found that with more time, savings, and skills to contribute to the charities and causes they care about, 65 percent of retirees agree retirement is the best time in life to give back (Bank of America Merrill Lynch and Age Wave, 2015).

Figure 5 here.

Retirement: The best time to give. According to our research, older Americans have more time, money, and skills to contribute to causes they care about than younger adults, see figure 5. For instance, more people age 65-plus donate money or goods than any other age group, and give the greatest amount – more than double that of younger adults, see figure 6 (Bank of America Merrill Lynch and Age Wave, 2015).

Figure 6 here.

Retirees bring a lifetime of experience when they give back. Eighty-four percent of retirees 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 (Bank of America Merrill Lynch and Age Wave, 2015).

Although slightly fewer (24 percent) older adults volunteer compared to other age groups, those who do volunteer contribute more than twice as much time. The research found volunteers over age 65 volunteer an average of 133 hours per year, compared to those ages 25-34 and 35-44 who volunteer an average 55 and 58 hours per year, respectively (Bank of America Merrill Lynch and Age Wave, 2015).

Retiring boomers are a new and growing force in the giving space that cannot be ignored. Our study found that retirees not only give more, but also believe they are able to give better by being more focused, hands-on, and impact-oriented (Bank of America Merrill Lynch and Age Wave, 2015).

Now that they are in retirement, retiree respondents say they are positioned to give in ways that better match their personal priorities and passions, are more thoughtful and focused (64 percent), and have a more meaningful impact (Bank of America Merrill Lynch and Age Wave, 2015). Retirees are three times more likely to say helping others makes them happier than spending money on themselves (Bank of America Merrill Lynch and Age Wave, 2015). Retirees are also nearly six times more likely to say ‘being generous’ defines success for them than ‘being wealthy’ (Bank of America Merrill Lynch and Age Wave, 2015).

Giving gives back: Success redefined. We found that for many, giving is a key ingredient to a better retirement. Compared to those who do not volunteer or donate, retirees who give say they have a stronger sense of purpose, higher self-esteem, and are both happier and healthier than those who do not contribute (Bank of America Merrill Lynch and Age Wave, 2015).

Giving can also be an important source of social connections in retirement. Although pre-retirees predict a reliable income is what they will miss most after leaving the workforce, in reality, retirees say that it is the social connections that they miss. Eighty-five percent of retiree volunteers say they have developed important new friendships through their giving and volunteering activities (Bank of America Merrill Lynch and Age Wave, 2015).

The more generous gender. In our research we found that retired women are even more likely than men to say retirement is the best time to give back and that generosity defines success over wealth (Bank of America Merrill Lynch and Age Wave, 2015). Also, we found more retired women donate and volunteer to charitable causes (Bank of America Merrill Lynch and Age Wave, 2015). Women are increasingly taking control of inheritance and giving decisions, both to family and charitable causes, in part because of their superior longevity. Women are three times more likely than men to be widowed in later life, and therefore often decide how and where to pass on assets (Bank of America Merrill Lynch and Age Wave, 2015). Among people age 55 and over, unmarried women contribute nearly half of all charitable bequests (Bank of America Merrill Lynch and Age Wave, 2015).

Challenges to giving. Retirees cite concern about the trustworthiness of charitable organizations, too many options to choose from, and financial limitations as the top barriers that limit their giving, according to the research.

When seeking advice for how best to give, the report found retirees say that, above all, they are seeking a guide who understands their values and priorities, and someone who can help them research

and identify which charities and causes to support (Bank of America Merrill Lynch and Age Wave, 2015).

When individuals and families take the time to develop a giving strategy based on what's meaningful to them and the impact they want to have, they give more and feel more fulfilled. We found that knowledgeable and engaged donors experience greater personal fulfillment and give larger amounts to charitable (Bank of America Merrill Lynch and Age Wave, 2015).

Finances

In previous decades, 'getting rich' and 'retiring early' were often heralded as the ideal retirement plan. Today, pre-retirees and retirees are more than seven times more likely to say their financial goal is 'saving enough to have financial peace of mind' versus 'accumulating as much wealth as possible'. The new focus on peace of mind is likely driven by a number of converging forces, including:

- The financial wake-up call of the recent recession, which exposed the dangers and risks of aggressive investment strategies.
- The movement of the boomer generation from their accumulation years into their retirement years — when they are seeking to responsibly manage savings and income and supplementing it with meaningful activity including work, but on their terms.
- Increasing life expectancy, creating greater uncertainty regarding how much people need to save and prepare for retirement.

As life expectancy continues to increase, people find themselves spending more time in retirement than they had originally planned. While a longer life is generally viewed positively, pre-retirees and retirees are expressing concerns about unexpected life events due to a lengthier retirement.

In fact, when asked what might be their biggest worries about living a long life, 70 percent of men and 68 percent of women said serious health problems and 47 percent of men and 61 percent of women said running out of money (Bank of America Merrill Lynch and Age Wave, 2013).

Many pre-retirees and retirees seek to adopt more conservative financial strategies. When considering investments or insurance, people age 45 and older now say having guaranteed income and protecting assets are almost four times more important than achieving higher-risk returns (Bank of America Merrill Lynch and Age Wave, 2013).

Troubling lack of discussion. We also found a significant lack of proactive discussion and engagement between family members on key financial topics. This can negatively impact various aspects of one's retirement and overall financial security.

Across all relationships, the most common catalyst for such discussions is the death or illness of a family member or friend, and the top barriers for having an open conversation include fear of family conflict and the fact that such topics are just too uncomfortable to discuss. People who do have these discussions with family members are, on average, nearly twice as likely to say they would be well prepared financially if faced with a family challenge (Bank of America Merrill Lynch and Age Wave, 2013).

Proactive discussions and coordination with family members can be the difference between smooth sailing and significant hardship when confronting financial challenges leading up to and through retirement. Although many of these topics can be difficult to discuss, there is a clear benefit to having family conversations and planning ahead. We help our clients prepare for and work through such important issues, so that their families' needs are addressed and their goals can still be achieved.

Conclusion

Today, the Longevity Revolution centers on people living into their 80s and 90s. Coupled with the retirement of the baby boomers, these two forces are creating the most powerful demographic wave our industry has ever seen. The longevity revolution is about profound social and economic changes that will impact our institutions and public policy. What is also clear is how many people are under-prepared for the possibility of longer retirements. The new reality is that at the same time risks are rising, client expectations are rising. The question we face is how we bridge the realities of today's risks with people's hopes.

One way to do it is to understand retirees' aspirations much more deeply. The insights from our research can be the basis to develop a holistic, relevant, and productive conversation about the new retirement realities.

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Figure 1: Percent who say the scariest disabling condition of later life is…

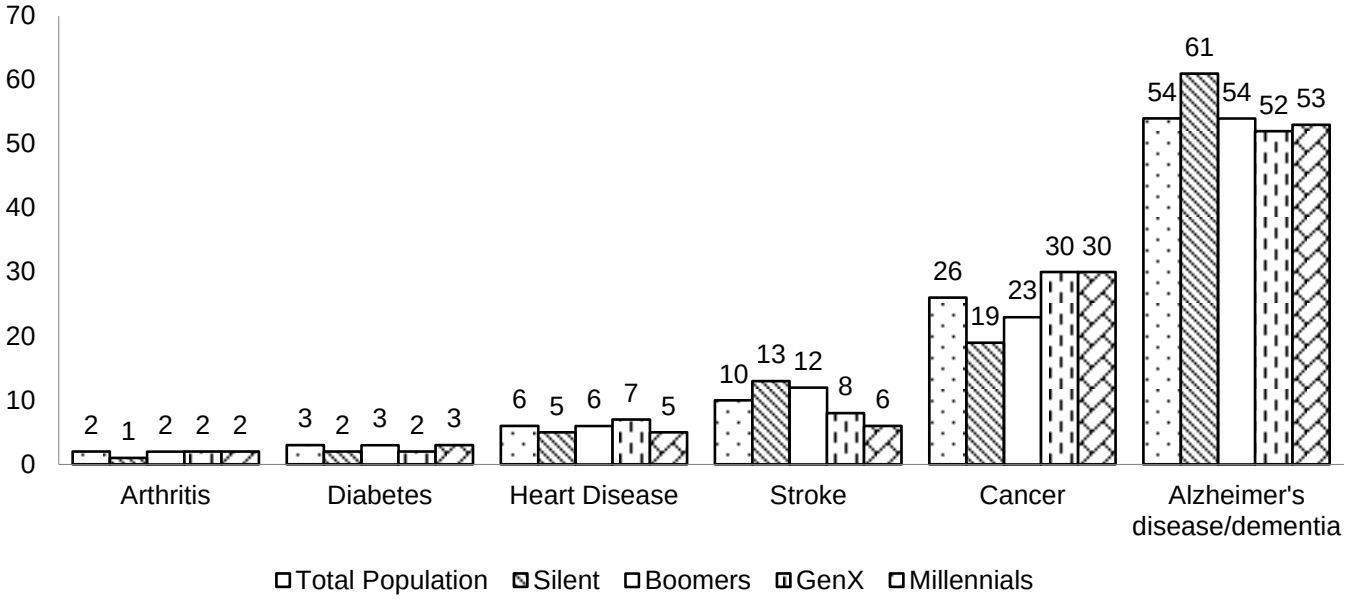


Figure 2: Reasons for moving in retirement

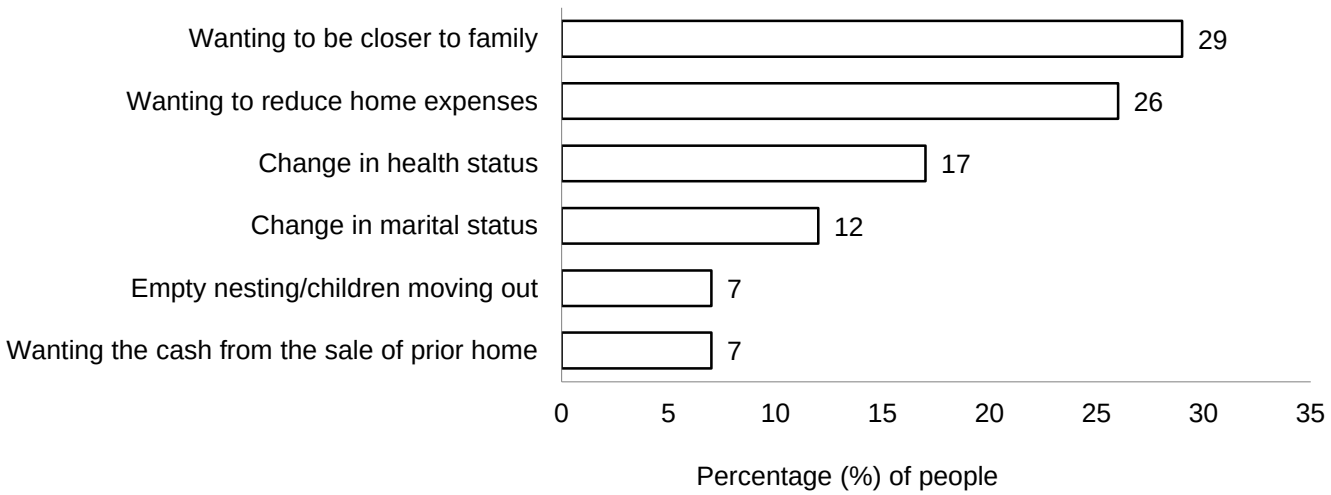


Figure 3: Percent who provided financial support to family members in the last five years

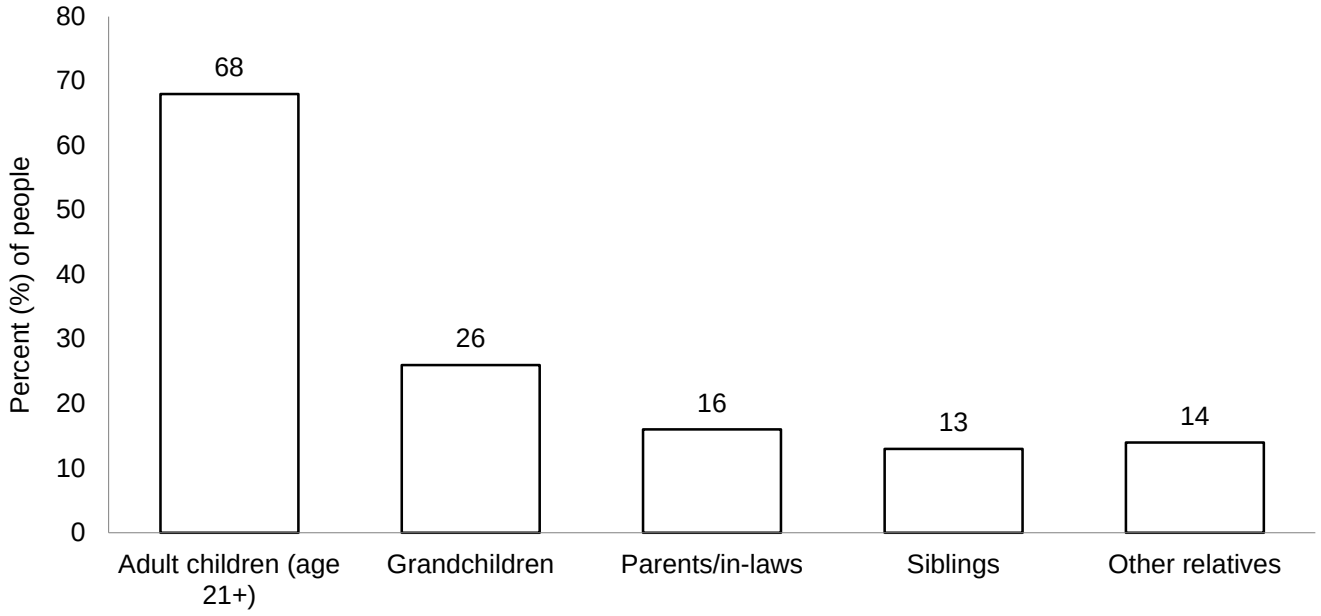


Figure 4: Financial support provided to family members in the last five years, by investable assets

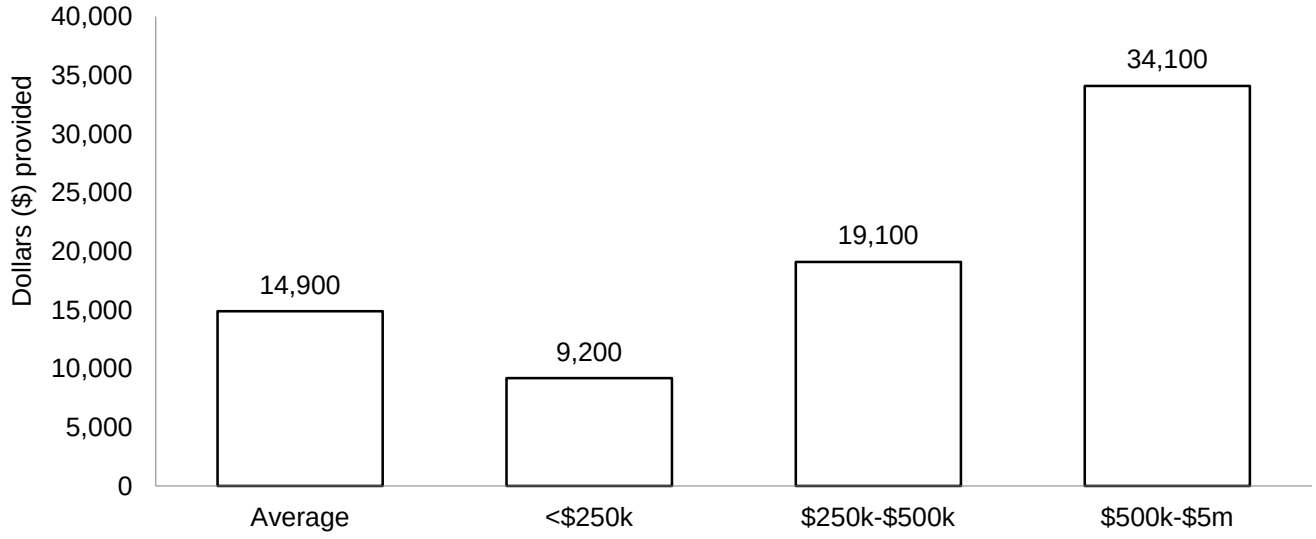


Figure 5: Percent of working retirees who agree...

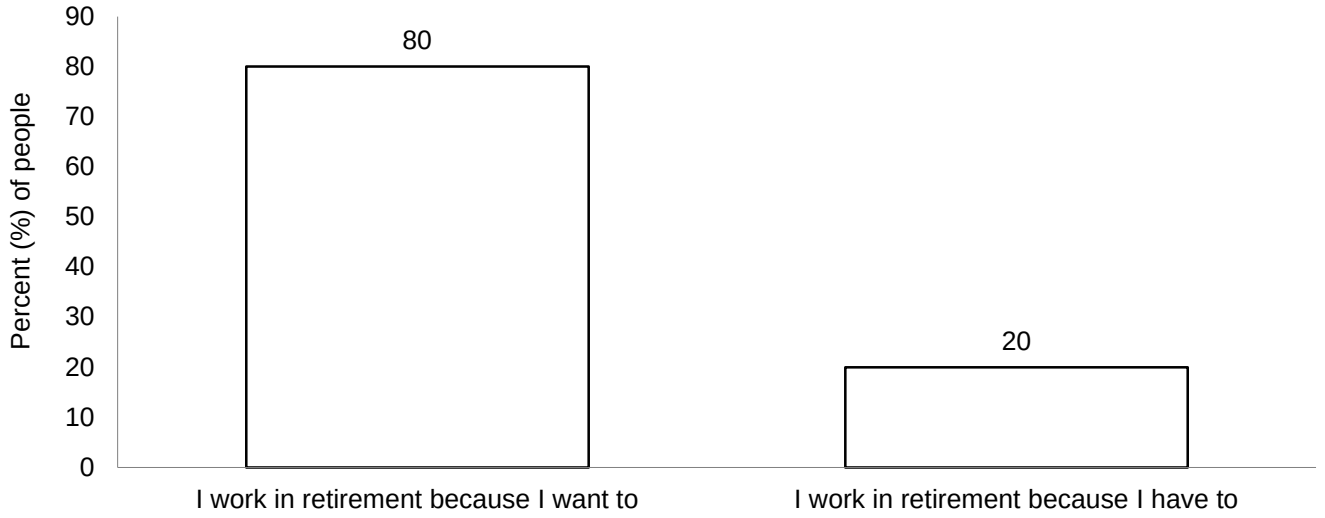
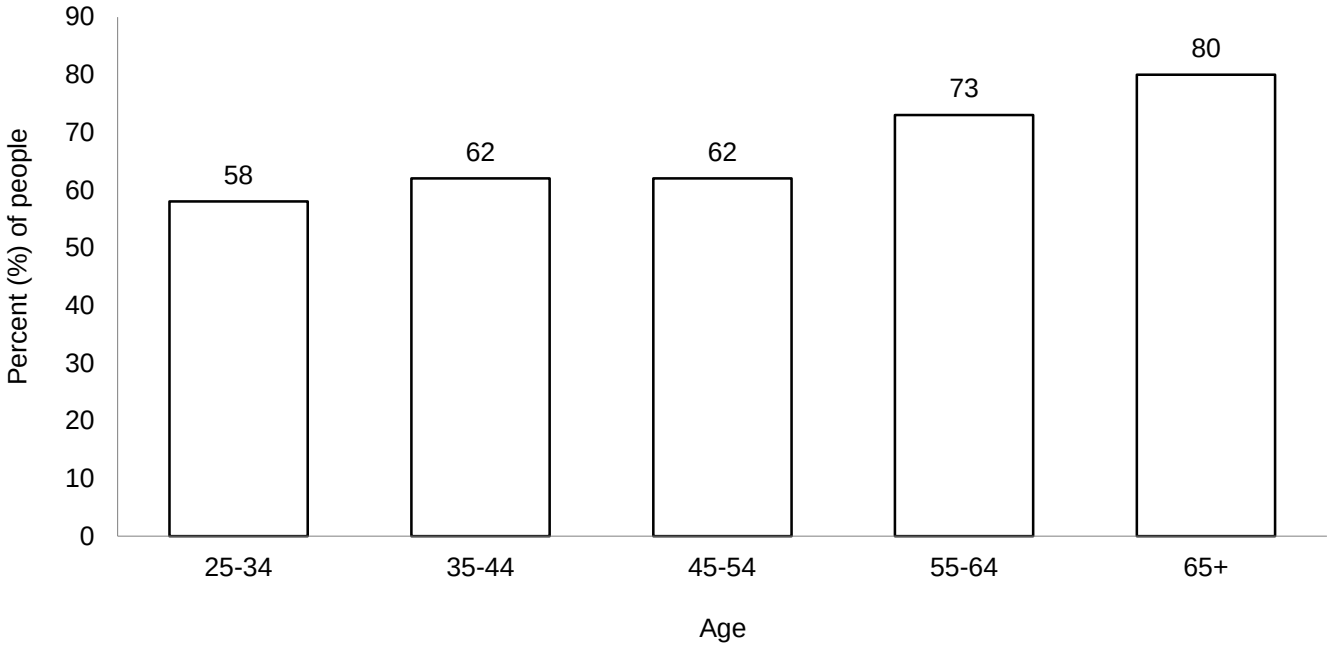


Figure 6: Percent who give money/goods to charities, nonprofits, or causes, by age



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