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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Life Priorities in Retirement

As Baby Boomers turn 65, issues pertaining to longevity, funding retirement, and discussions of life priorities in later life are coming to the fore. Our recent research is examining how Americans are preparing for retirement and reshaping their lifestyles during their later years. The goal is to discover what issues respondents are thinking and worrying about as they plan for retirement. In this chapter we review our findings.

The Americans' Perspectives on New Retirement Realities and the Longevity Bonus research study of July 2015 was conducted in partnership with Age Wave via an online data collection methodology. Our sample was nationally representative by age, gender, ethnicity, income, and geography. The survey was conducted among a total of 3,694 adult respondents age 25+, and it included the Silent Generation (age 70-90), Boomers (age 51-69), Generation Xers (age 39-50), and Millennials (age 25-38). Qualitative research—six focus groups among both pre-retirees and retirees, and interviews with national thought leaders on a variety of topics related to giving—was also conducted prior to the quantitative research.

This research with individuals living in the United States led us to identify seven life priorities most important to today's pre-retirees and retirees: Health, Home, Family, Work, Giving, Finances, and Leisure. To summarize findings from our research on several of these priorities, we conclude 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 also cause for concern. 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. 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. With many are already thinking differently about their lives, it is of utmost importance to make sure that their financial planning takes the above factors into consideration.

Health Challenges

As Baby Boomers move into retirement, health has become the ultimate retirement wildcard. Indeed, 81 percent of retirees cite health as the most important ingredient for a happy retirement (Merrill Lynch and Age Wave 2014a). For many, health can be the difference between a period of opportunity and independence, or one of worry and financial challenges. Health challenges are also 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 become confusing and overwhelming. This underlines the importance of financial planning, as respondents increasingly seek guidance to help them make informed decisions for themselves and their families.

Although health care costs in retirement are a deep financial concern, a majority of respondents has not factored these costs into their retirement planning. For instance, we found that seven out of ten couples age 50+ had not discussed how much they might need to save to cover health care costs during retirement. Additionally, more than half of retirees retired earlier than they expected, and the number one reason for their early retirement was a health problem. Only 19 percent of current Medicare recipients felt they had a strong grasp of what health care costs their Medicare options cover.

Boomers' approach to health. On a positive note, we found that Baby Boomers are redefining the role of health care consumers by taking charge of their health and health care decisions (Merrill Lynch and Age Wave 2014b). Compared to their parents' generation, Boomers are more than twice as likely to say they are proactive about their health, and they are four times more likely to actively research health information. 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. Boomers are also highly optimistic about their health, with nearly 80 percent expecting that their generation will be healthy and active at the age of 75.

The threat of health costs. Regardless of their wealth levels, 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 (Merrill Lynch and Age Wave 2014a). In fact, respondents age 50+ were nearly twice as worried about the cost of retirement health care as they were about the actual quality of care they might receive. This underlines the importance of preparing financially for the prospect of living longer and facing more health challenges with old age. Moreover, survey respondents were concerned about the financial impact of spousal serious illness, and some were more worried about this than their own illness. Women, who are likely to live longer and are more apt to spend savings on their spouse's health care, were more concerned than men about the financial impact of their spouse developing a serious health problem.

Early retirement. Fewer than one in four (23 percent) of adults age 50+ said that 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 respondents 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 spouses.

Increasing life expectancy coupled with the aging of the large Boomer generation has also given rise to a growing number of older adults confronting chronic disease such as hypertension, heart disease, diabetes, cancer, Alzheimer's, and arthritis. In addition, as we live longer, the natural deterioration of cognitive capabilities will have an impact on how we live the additional 20 to 30 years and the quality of that time.

In fact, more survey respondents cited Alzheimer's as the disease about which they were most worried (see Figure 5.1). When asked what concerned them most about Alzheimer's, survey respondents cited becoming a burden on their family and loss of dignity.

Insert Figure 5.1 here.

Confidence, knowledge and communication gaps. Unfortunately, many retirement planners fail to factor in the cost of health care. Moreover, few people have attempted to forecast how much they might need to cover health care or long-term care expenses in retirement, and many felt the information available to them was overwhelming, confusing, and frustrating. One indicator of this profound challenge is the growing demand for elder care in the US.

Health and home in later retirement. Though respondents said they enjoyed many new freedoms during retirement, health and healthcare can become significant factors when choosing where to live, particularly as people move into their 80s. Among our survey respondents age 85+, three-quarters had difficulties with daily activities including housework or getting around the home. While the average age of respondents entering assisted living is 85.7, respondents overwhelmingly preferred to receive extended care, if needed, in their own homes (NCAL 2009).

New Perspectives on The Home

With increasing longevity and greater freedom, it is not surprising that many retirees deserve to make their homes more fulfilling. Yet people must carefully consider expenses associated with current and future priorities, including potential frailty in later years. In the next decade, the number of age 65+

households will increase by nearly 11 million in the US, while growth in the number of households across all other age groups will be less than two million (Joint Center for Housing Studies 2014).

Over most people's lives, where they reside has been determined mainly by work and family responsibilities. Yet 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. How and where the 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.

Our research has found that (1) 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 vs. 30 percent), and (2) four out of five (81 percent) of the age 65+ are homeowners. Among them, 72 percent have fully paid off their mortgages (US Census Bureau 2013).

This freedom to decide where they want to live has led many retirees to move, with an estimated 4.2 million retirees moving to new homes each year. In our survey, 76% of the age 50+ retirees owned a home. Top motivations for moving included being closer to family (29 percent), reducing home expenses (26 percent), changes in health (17 percent), and changing marital status (12 percent) (see Figure 5.2).

Insert Figure 5.2 here

Interestingly, while many survey respondents assume they will downsize once retired, we found that half (49 percent) of retirees did not downsize in their last move: in fact, 30 percent moved into larger homes. 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 of six retirees (16 percent) had a 'boomerang' child who had moved back in with them.

Of course, there are retirees who will not move during retirement for various reasons, the most popular being an emotional connection with their homes (Merrill Lynch and Age Wave 2015a). Prior to age 55, more homeowners say the financial value of their homes outweighs its emotional value. As people age, however, they become far more likely to say their home's emotional value is more important; cited by nearly two out of three respondents age 75+ in our survey. Other reasons for not moving included staying in close proximity to family and friends, wanting to remain independent, or simply not being able to afford to move (Merrill Lynch and Age Wave 2015a).

Home improvements. With age and retirement often come more flexibility, time, and financial resources for home improvements, as indicated by the fact that households age 55+ account for nearly half of all spending on home renovations (Merrill Lynch and Age Wave 2015b). While some retirees said they did modify their home to make it more age-friendly, many renovated to make it more attractive or versatile. For instance, renovations made by retiree homeowners age 50+ who planned to stay in their homes in retirement and wanted to create their dream home included (1) creating a home office for convenience, (2) improving curb appeal for enjoyment and ultimate resale (3) upgrading a kitchen or bathroom to modify living arrangements, (4) adding safety features to accommodate aging concerns and mobility, and (5) modifying homes to live on one floor should there be trouble with stairs.

Many retirees were also interested in new technologies making their homes more convenient, connected, secure, and easier to maintain. For instance, 80 percent were interested in innovative ways of reducing their home expenses, such as smart thermostats or apps to control appliances, while 58 percent were interested in technologies to help maintain their homes such as cleaning robots or heated driveways (Merrill Lynch and Age Wave 2015b).

Family Support

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. During the last five years, three out of five Americans age 50+ have provided financial assistance to members of their family, including adult children, parents, grandchildren, siblings, or other relatives (Merrill Lynch and Age Wave 2013b). But assistance can represent a hidden risk to retirement and place elders' long-term financial security in jeopardy.

The average level of financial assistance provided to family members during the last five years totaled nearly $15,000, and the figure was significantly higher among wealthy families (Figure 5.3; Merrill Lynch and Age Wave 2013b). Often this support helped relatives meet a one-time need or ongoing assistance, and it was generally given without expecting anything in return. But few respondents age 50+ had factored such support for family into their financial planning. Moreover, we also found a dangerous absence of proactive discussion among family members as they navigated these interdependencies.

Insert Figure 5.3 here.

Family bank. Nearly three in five survey respondents age 50+ believed that a member of their family was the 'family bank,' meaning someone their extended family was most likely to turn to for financial help. This person was often someone who was most financially responsible, had the most money, or was the easiest to approach (Merrill Lynch and Age Wave 2013a).

Generosity and inheritance. Few of those helping family members financially did so because they expected future help or payback (Merrill Lynch and Age Wave 2013a). Respondents age 50+ were 20 times more likely to say they were helping family because 'it is the right thing to do' rather than because 'family members will help them in the future'; they were also five times more likely to stop support because a recipient did not use the money wisely, than because of worries about being paid back. More than one-third said they would accept a less comfortable retirement lifestyle to help family financially.

Half of pre-retirees age 50+ said they would make major sacrifices to help family members that could impact their retirement. Among them, 60 percent said they would retire later and 40 percent would return to work after retiring to help out (Merrill Lynch and Age Wave 2013a).

Such individuals also expressed stress due to such family caregiving responsibilities. We found that the vast majority of respondents age 50+ had not prepared for potential family events and challenges which could affect their retirement, including remarriage and blended families.

Family structure dynamics. Close to half of married retirees said that their marriages were more fulfilling and loving in retirement, and only 11 percent reported them being more boring or contentious (Merrill Lynch and Age Wave 2013b). Yet divorce has become increasingly common among older adults. One in seven respondents age 50+ who had married were now divorced and single – a seven-fold increase since 1960.

Rising divorce rates have also contributed significantly to a rise in blended families (Brown and Lin 2013). Nearly two in five respondents age 50+ are now part of a blended family (Merrill Lynch and Age Wave 2013b), and almost one-third of respondents age 50+ with stepchildren say this complicates financial planning. This percentage was equal to those who said they and their spouse had different financial priorities for their own children than they had for their stepchildren.

One in five parents age 50+ had at least one ‘boomerang’ adult child who moved back with them (Merrill Lynch and Age Wave 2013b). More than two-thirds of parents age 50+ had 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.

The Changing Role of Work

Our research also found changes in retirees’ willingness to continue working (Merrill Lynch and Age Wave 2014b), which will better equip respondents to pursue their goals. We found that nearly three out of four pre-retirees 50+ said their ideal retirement included some work, often in new, more flexible, and fulfilling ways (see Fig 5.4). With half of current retirees already having worked or planning to work in retirement, it will become increasingly common for survey respondents to seek work during this stage of their lives (Munnell 2011).

Insert Figure 5.4 here

The new retirement workscape. Previous generations viewed retirement as a permanent end of work, followed by continuous leisure. By contrast, modern-day reality for many pre-retirees and retirees can be defined as 'the new retirement workscape,' represented by four different phases (Merrill Lynch and Age Wave 2014b):

Pre-retirement. Five years before retiring, 37 percent of pre-retirees who wanted to work in retirement had already taken some meaningful steps to prepare for their post-retirement career; this rose to 54 percent among those within two years of retirement.

Career intermission. Most pre-retirees do not seek to move directly from pre-retirement work to retirement work. Instead, they want a break or a sabbatical, giving them time to relax, recharge, and retool. More than half of working retirees said they took a break when they first retired, with such career intermissions averaging 2.5 years.

Reengagement. We also found that the re-engagement phase lasted nine years and included a new balance of work and leisure. Compared to those in their pre-retirement careers, respondents working in 'FlexCareers' were 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, respondents welcomed the opportunity to rest, relax, socialize, travel, and focus on other priorities. Leaving work was generally due to health challenges (77 percent) or simply not enjoying work as much (61 percent). When working retirees were asked to share their advice for respondents seeking work during retirement, the most popular advice was to 'be open to trying something new' and 'be willing to earn less to do something you truly enjoy.' Other tips to help prepare for a successful retirement career included 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.

Giving Opportunities

Today's retirees are in a position to make significant lasting contributions and define their legacies. 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 that retirement is the best time in life to give back. Over the next two decades there will be a giving surge in the United States, valued at an estimated $8 trillion. This is due to the aging baby boomer generation, increasing life expectancy, and high rates of giving among retirees (Merrill Lynch and Age Wave 2015a).

We also found that more respondents age 65+ donated money or goods than any other age group, and gave the most (more than double that of younger adults, see Figures 5.5 and 5.6).

Figure 5.5 and 5.6 here.

Retirees bring a lifetime of experience when they give back, and 84 percent of retirees reported that an important reason they can give more in retirement is that they have greater skills and talents compared to when they were younger. Although slightly fewer (24 percent) older adults volunteered compared to other age groups, those who did volunteer contributed more than twice as much time. The research found volunteers age 65+ gave an average of 133 hours per year, compared to those ages 25-34 and 35-44 who volunteered an average 55 and 58 hours per year, respectively. For this reason, 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 (Merrill Lynch and Age Wave 2015a).

Moreover, retirees said they were positioned to give in ways that better matched their personal priorities and passions, were more thoughtful and focused (64 percent), and had a more meaningful impact (Merrill Lynch and Age Wave 2015a). Retirees were three times more likely to say helping others makes them happier than spending money on themselves. Retirees were also nearly six times more likely to say ‘being generous’ defines success for them than ‘being wealthy.’

We also found that for many, giving was a key factor enhancing retirement. Compared to those who did not volunteer or donate, retirees who gave said they had a stronger sense of purpose, higher self-esteem, and were both happier and healthier, than those who did not contribute.

Giving can also be an important source of social connections in retirement. Although before retirement, people say they will miss a reliable income most after leaving the workforce, afterwards, retirees say that it is the social connections that they miss the most. Eighty-five percent of retiree volunteers in our study said they had developed important new friendships through their giving and volunteering activities (Merrill Lynch and Age Wave 2015b).

Our research also showed that retired women were more likely than men to say retirement was the best time to give back, and more retired women donated and volunteered to charitable causes than men. Additionally, women are increasingly taking control of inheritance and giving decisions 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. Among our respondents age 55+, unmarried women contributed nearly half of all charitable bequests (Merrill Lynch and Age Wave 2015a).

Challenges to giving. Retirees worry about the trustworthiness of charitable organizations changing, too many options to choose from, and financial limitations as barriers limiting their giving. When seeking advice for how best to give, retirees reported needing a guide who understands their values and priorities, and someone to help them research and identify which charities and causes to support. When individuals and families did take the time to develop a giving strategy, they gave more and felt more fulfilled. We found that knowledgeable and engaged donors experienced greater personal fulfillment and gave larger amounts to charitable causes (Merrill Lynch and Age Wave 2015a).

Financial Goals

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 as likely to say their financial goal is ‘saving enough to have financial peace of mind’ versus ‘accumulating as much wealth as possible.’ This new focus on peace of mind is likely due to several factors. For instance, the fact that the 2008-9 financial crisis and recession was a financial wake-up call, exposing the dangers and risks of aggressive investment strategies. Another factor has been the movement of the Boomer generation from the accumulation years into the retirement years, when it is seeking to responsibly manage savings and income, while supplementing this with meaningful activity including work on its own terms. And finally, the rise in longevity is creating greater uncertainty regarding how much people need to save and prepare for retirement.

While a longer life is generally viewed positively, pre-retirees and retirees worry about unexpected life events due to a lengthier retirement. In fact, when asked they worried about most, 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. Many pre-retirees and retirees are seeking to adopt more conservative financial strategies. When considering investments or insurance, survey respondents age 45+ said that having guaranteed income and protecting assets was almost four times more important than achieving higher-risk returns (Merrill Lynch and Age Wave 2013a).

Troubling lack of discussion. We also found a significant lack of proactive discussion and engagement between family members on key financial topics, which can negatively impact retirement and financial well-being. Across all relationships, the most common catalyst for such discussions was usually the death or illness of a family member or friend, and the top barriers for having an open conversation included fear of family conflict and the fact that such topics were just too uncomfortable to discuss. Respondents who did have these discussions with family members were, on average, nearly twice as likely to say they would be well prepared financially if faced with a family challenge (Merrill Lynch and Age Wave 2013a).

Proactive discussions and coordination with family help alleviate the challenges of retirement. While such topics can be difficult to discuss, there is a clear benefit to having family conversations and planning ahead.

Conclusion

Population aging is creating the most powerful demographic revolution our nation has ever seen. Despite this, many respondents are poorly prepared for the possibility of longer retirement. Our nationally representative survey of Americans age 25+ has identified several key challenges to health, home life, family support, the measuring of work, giving, and finances. Each of these is shaping financial security at older ages.

Acknowledgements

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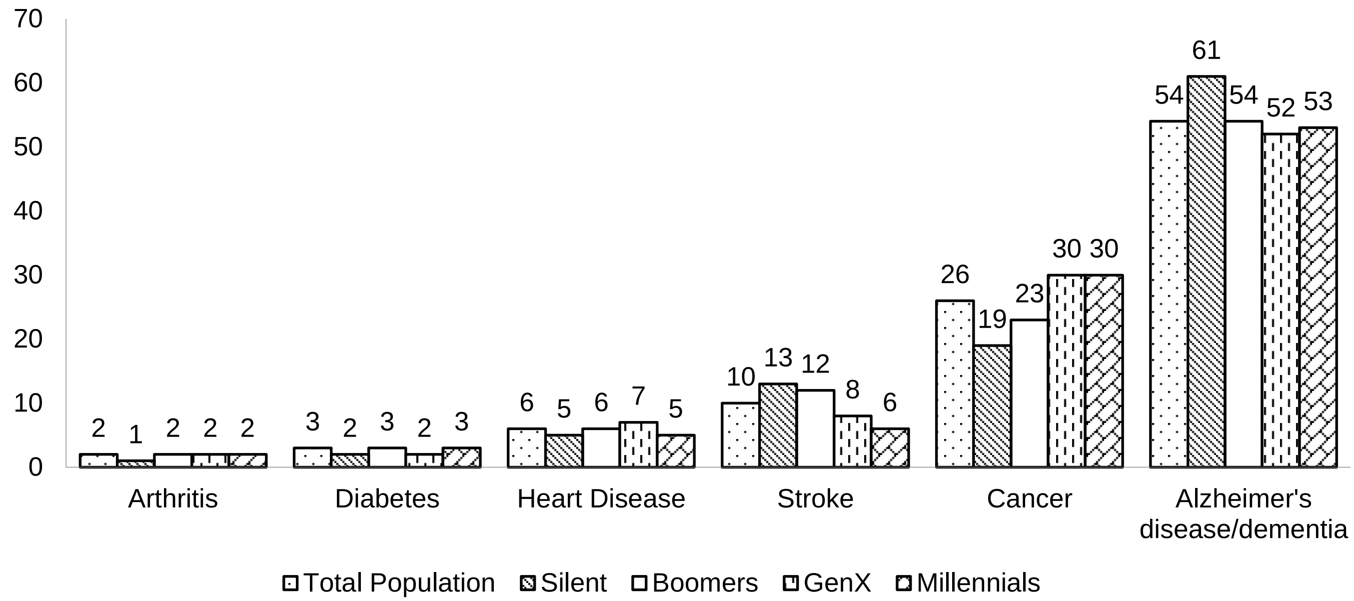

Figure 5.1. Percent identifying the most frightening disabling prospect in later life.

Source: Merrill Lynch and Age Wave study (2013a).

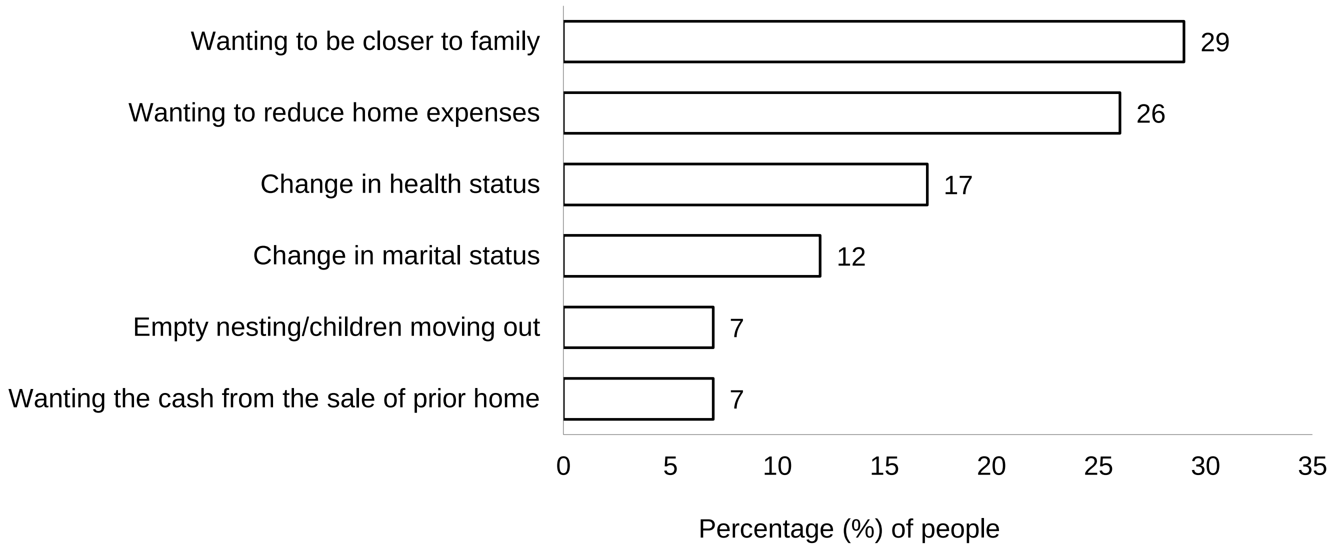

Figure 5.2. Reasons for moving in retirement.

Source: Merrill Lynch and Age Wave (2015a).

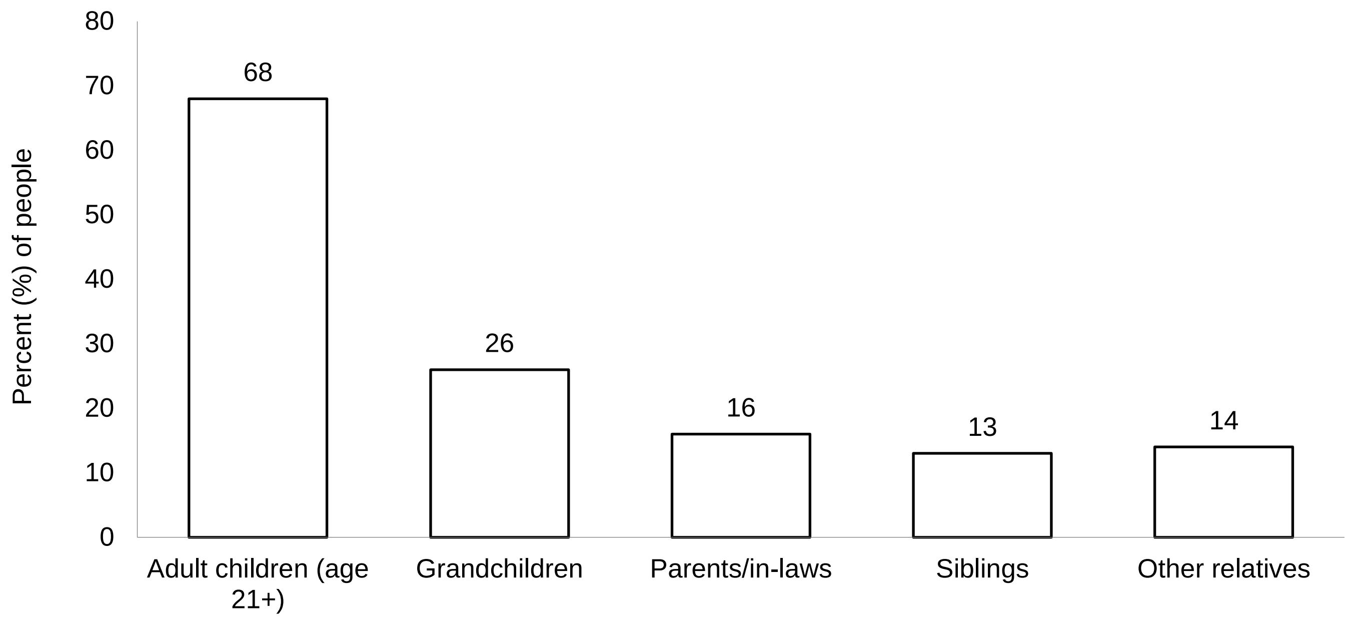

Figure 5.3. Percent of older respondents providing financial support to family members in the last five years.

Source: Merrill Lynch and Age Wave (2013b)

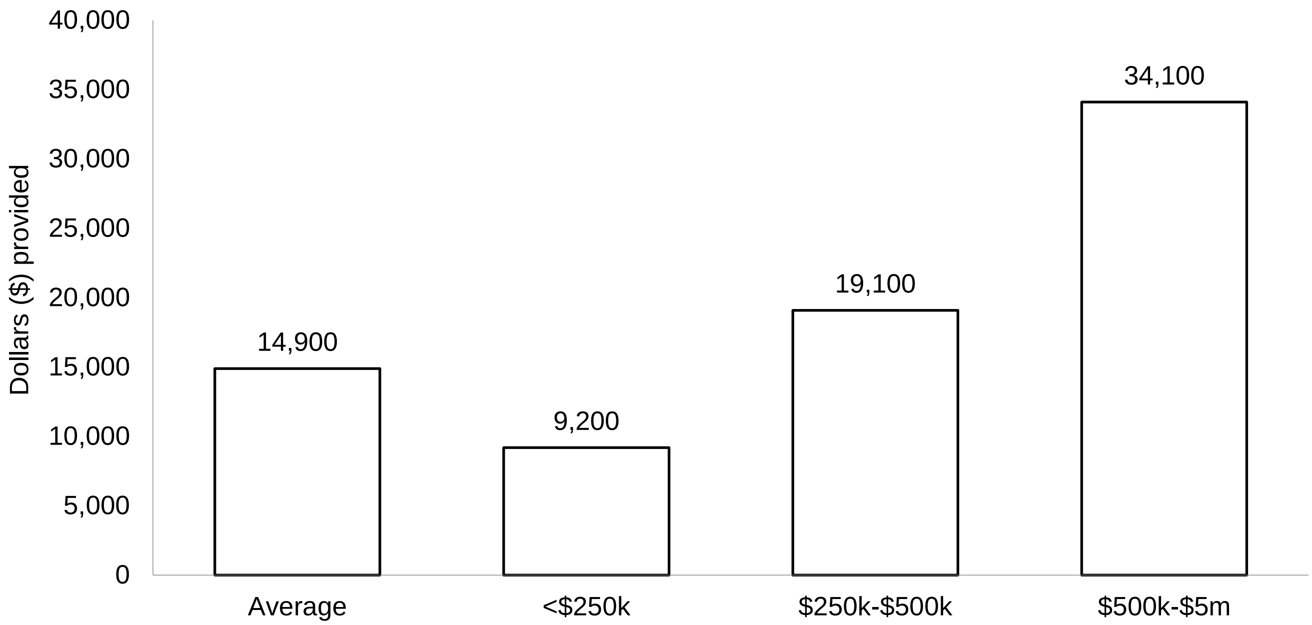

Figure 5.4. Financial support provided by people age 50+ provided to family members in the last five years, by investable assets.

Notes: The data in this chart reflect the following number of survey respondents (by column): (1) 3796 total respondents, (2) 71% with less than $250k in investable assets, (3) 12% with $250k-$500k in investable assets, and (4) 17% with $500k-$5m in investable assets.

Source: Merrill Lynch and Age Wave Study: "Family & Retirement: The Elephant in the Room", Nov 2013

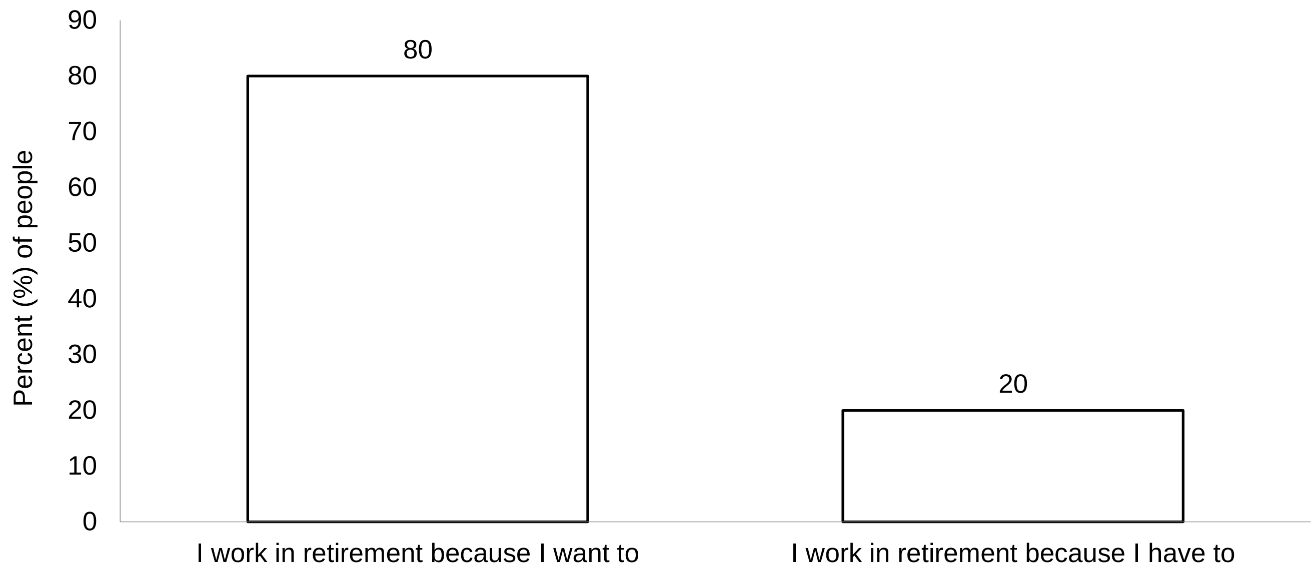

Figure 5.5. Percent of working retirees who agree to each statement.

Source: Merrill Lynch and Age Wave (2014b)

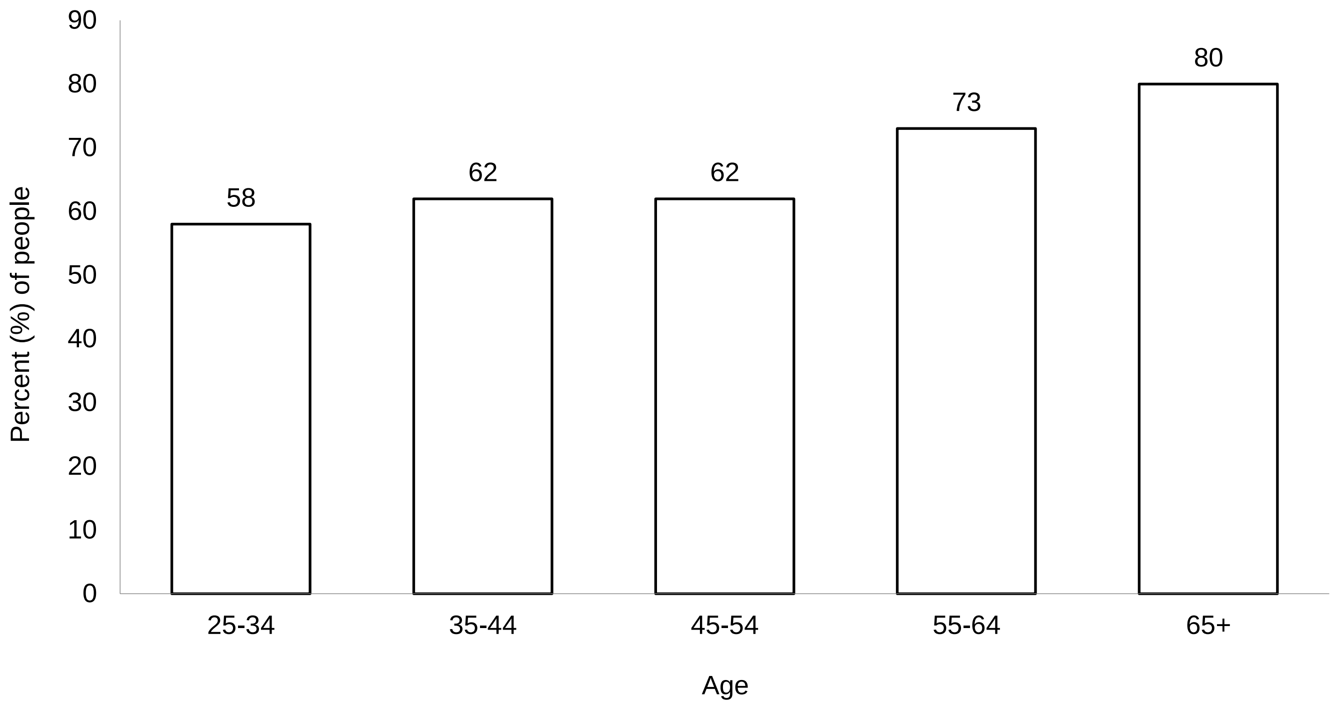

Figure 5.6. Percent by age of respondents who give money/goods to charities, nonprofits, or other causes.

Source: Merrill Lynch and Age Wave (2015a).