

Surprises in Retirement Income: Overlooked and Coveted Nest Eggs

Using Retirement Insights to Shape Personalized Products and Advice Solutions

(June 19, 2018, Rye, NY) – Surprises in retirement income sources range from oversized roles for dividends and taxable brokerage to overly high expectations for retirement accounts in new findings from **Hearts & Wallets**, the source for retail investor data and insights.

This analysis goes beyond national averages for a detailed look at retirement income sources of current retirees and those anticipated by future retirees, expanding upon the new Hearts & Wallets *Retirement & Funding: Building Informed Expectations About Sources of Income in Retirement* insight module report. This report examines expectations of the yet-to-retire consumer and current retiree realities. The data details consumer work plans and retirement lifestyles, including anticipated and actual income replacement rates and sources of funding. Also included are employer-sponsored plan data and metrics on retirement preparedness and spending in retirement.

Written by Hearts & Wallets subject matter experts with decades of operating experience in retail finance, consumer packaged goods and technology development, and acumen honed at the nation's finest business schools, the report is drawn from the latest fielding of the Hearts & Wallets Investor Quantitative™ Database (IQ™ Database). The IQ™ Database is the largest single dataset on U.S. retail consumer attitudes, behaviors and buying patterns with over 40,000 U.S. households.

Show Me the Income

Retirement funding sources are undergoing significant shifts as investable assets are anticipated to more than double as an income source for future retirees with the significant decline of pensions as a funding source for consumers under age 60. Most analyses look at income sources at the national household level and highlight the important role that Social Security plays in delivering half of current retiree income.

Going beyond national averages, an analysis can identify important specific streams of retirement income by group. Nationally, dividends from stocks and mutual funds represent only 4% of retirement income for all current retirees. The story is much different when focusing only on the subset of retirees who have this particular source of income and excluding retirees without any income from stocks and mutual funds. For retirees who have dividends, dividends represent almost one-fifth of their income (19%) across all asset levels, and over one third (34%) of income for retirees with \$2 million and more in investable assets. Future retirees holding dividends anticipate obtaining 16% of income from this source with the wealthiest future retirees saying it will represent only about a quarter (27%) of their income.

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The wide variance between national averages and specific groups who have these income sources is also seen in taxable brokerage accounts. Nationally, taxable brokerage account withdrawals represent only 2% of income for all retirees. Yet, for retirees who take withdrawals from taxable brokerage accounts, this source jumps to 21% of income, 23% for retirees with \$500,000 to \$2 million in investable assets, and 29% for retirees with over \$2 million in investable assets.

“Dividends and taxable brokerage accounts are quiet sources of retiree income,” Laura Varas, CEO and founder of Hearts & Wallets, said. “Retirement account withdrawals, in contrast, have gotten lots of attention with whole infrastructures built around them. Different sources of retirement income are the threads that retirees weave together to form a protective blanket for their senior years. Patterns vary greatly depending on the types and amounts of each thread used in the individual’s blanket. By studying actual retirees, we gain important insights into income sources for specific groups that can shape personalized product and advice solutions going forward.”

Big Dreams for Retirement Accounts

Withdrawals from retirement accounts, such as IRAs, 401(k)s, 403(b) and 457 plans follow a similar pattern for current retirees nationally and for people who hold these accounts. The main difference is the significant expectations that future retirees have for tapping into such accounts. Retirement account withdrawals are expected to be four times as large a source of income as they are for today’s retirees, 16% vs. 4%. Twice as many future retirees think they will have retirement account income as currently have such income among all retirees nationally. Potential tax implications of retirement account withdrawals may not be reflected in the consumer’s expectations.

For retirees who have these accounts, retirement account withdrawals represent about 22% of income, 24% for retirees with \$500,000 to \$2 million in investable assets, and 30% for retirees with over \$2 million.

Work and Retirement

Employment is an important source of income in retirement at the national level, representing 8% of income for all current retirees or their spouses, representing about the same percentage for all asset levels. Focusing specifically on retirees who have this income source, employment jumps to 36% of their income.

For future retirees, employment is anticipated be a bigger piece of the retirement pie at 10% nationally, and 13% for households with under \$100,000 in investable assets. Focusing the lens more narrowly on only future retirees who say they plan to work in retirement, this income source represents 25% of income for all asset levels, 30% for households with under \$100,000, 16% for households with assets of \$500,000 to \$2 million, and 25% for households with \$2 million plus.

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Consumers with pensions seem to be the most predisposed to consider stopping full-time work. Half (50%) of those with pensions that will represent 20% or more of their retirement income say they want to “stop working/retire at a certain age” as compared 32% of non-pensioners.

“Consumers may want to work longer as a retirement of 20, 30 or more years isn’t necessarily practical,” Amber Katris, Hearts & Wallets Subject Matter Expert and report author, said. “These expectations must be tempered as work opportunities can run out for older consumers. Our qualitative research also demonstrates age discrimination is very real. When older people can continue to work, this income source is extremely important in retirement. Flexible, personalized roadmaps can help consumers achieve their goals and build resiliency to cope with uncertainties.”

Real Estate Resources

Real estate income is another source that appears insignificant (1%) at the national level for all current retirees, and it is only 3% for all future retirees. But for current retirees who derive some income from real estate this resource can be important, representing 22% of income for retirees of all asset levels, 20% for retirees with less than \$100,000 in investable assets, and 24% for retirees with \$500,000 to \$2 million.

What Really Matters

“Consumers want to optimize their last chapter,” Varas said. “This report provides a roadmap to help develop personalized advice and guidance that incorporates income sources, family dynamics, work status and other factors to help consumers grapple with the ultimate uncertainty, life expectancy, to gain the most joy out of their life by using their assets to achieve their goals.”

Methodology

Hearts & Wallets *Retirement & Funding: Building Informed Expectations About Sources of Income in Retirement*, Insight Module report is drawn from the section of the Hearts & Wallets Investor Quantitative™ Database (IQ™ Database) that analyzes U.S. consumer attitudes, behaviors, work plans, income sources, replacement rates, workplace retirement plan and funding metrics related to retirement for the not-yet-retired and those who have already retired.

About Hearts & Wallets

Hearts & Wallets is a data and consulting firm focused on understanding the drivers behind retail investor decision making. Combining a consumer marketing framework with financial services operating experience, the company is a catalyst for consumer-driven innovation in retail investing and saving. Hearts & Wallets works with leading financial providers to improve the effectiveness of their marketing communications, solution design and service delivery. For more information visit www.heartsandwallets.com.

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