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New Retirement Realities and Longer Life Expectancy Cause Many to Rethink Their Approach to Planning for Later Years

Merrill Lynch Affluent Insights Survey Finds Individuals Grappling with Lifestyle Tradeoffs, Rising Health Care Costs and Longevity When Considering Retirement Income Needs

NEW YORK – Average life expectancy has risen dramatically during the last century. The U.S. Census Bureau estimates that the number of centenarians, people who live to be 100, rose from 2,300 in 1950 to nearly 80,000 in 2010, and will exceed 600,000 by 2050. And according to the Society of Actuaries, a 65-year-old couple now has a 31 percent chance of at least one spouse living past the age of 95.

According to findings from the latest [Merrill Lynch Affluent Insights Survey](#)[™], announced today, the majority of affluent Americans (58 percent) have a positive view of the prospect of living to be 100. However, three out of four (75 percent) would approach their money management differently if they knew today that they were going to live that long. To financially accommodate a longer life, they would:

- Continue to work at least part-time during retirement (39 percent).
- Work with their financial advisor to reevaluate their savings and investment strategies (37 percent).
- Invest in a lifetime income product, such as an annuity (32 percent).
- Contribute more to a 401(k), IRA or other retirement savings vehicle (32 percent).
- Purchase long-term care insurance (29 percent).
- Retire closer to age 85 than 65 (25 percent).

In light of longer life expectancies, the majority of respondents (59 percent) also believe that the age at which Americans are eligible to collect Social Security should be raised.

This Merrill Lynch survey, which began in 2009 to examine the goals, values and financial concerns of affluent Americans, also finds that, when it comes to retirement, age is far less of a factor today. In fact, only 14 percent of respondents over the age of 50 cite “hitting a certain age” as the factor that would most lead them to retire. Instead, two factors more likely to lead them to retire include feeling confident that their assets will grant them the lifestyle they want throughout their remaining years (25 percent), and a possible health condition (18 percent) – their own or that of a family member.

“We hear from our clients that retiring isn’t about their age or a magic number, but rather an ongoing assessment of the lifestyle, goals and assets they desire for their later years,” said Andy Sieg, head of Global Wealth and Retirement Solutions for Bank of America Merrill Lynch. “And most don’t view this life stage as a straight stretch of highway so much as a winding road that requires close attention and frequent course corrections.”

Expecting to live considerably longer than their grandparents' generation, affluent Americans find themselves in uncharted territory. Many are uncertain about how to adequately save for retirement and how to turn assets into sustainable income once retired, with more than half (55 percent) concerned about being able to afford the lifestyle they want in retirement.

"Helping individuals and families optimize their financial resources and quality of life during retirement is not a math problem solved solely with a calculator or single product," said David Tyrie, head of Personal Wealth and Retirement for Bank of America Merrill Lynch. "Achieving greater financial security and positive outcomes during retirement is a lifelong challenge solved through insight, planning, shared responsibilities and an array of solutions that can empower you to own the road, instead of the other way around."

Affluent prefer delayed retirement over tradeoffs to their current lifestyle

If given the choice, half of affluent Americans (51 percent) not yet retired would rather retire later than make tradeoffs to their current lifestyle. However, when push comes to shove, and tradeoffs are needed to help ensure their assets sustain them throughout retirement, 81 percent would make them, including a combination of:

- Trimming day-to-day expenses (38 percent).
- Purchasing fewer personal luxuries (35 percent).
- Limiting budgets for vacations (32 percent).
- Keeping the same car longer (27 percent).
- Leaving less of an inheritance (25 percent).
- Downsizing their home (24 percent).

Among those preparing to retire in the next five years, many are taking additional steps to ensure their assets last throughout their lifetime, including saving more (39 percent), developing a plan for monthly expenses and other financial needs once retired (36 percent), consolidating assets with fewer financial institutions (20 percent), clipping more coupons (19 percent) and providing less financial support to their adult-age children (15 percent).

Longevity and the desire to work later in life, because they have to or want to, is redefining the meaning of retirement. The survey found that only one out of four (24 percent) define retirement as never working again. The reality is that three out of four (73 percent) respondents not yet retired view this life stage as a second act during which they intend to work part- or full-time. Among this group, 30 percent plans to cycle between work and leisure after reaching the point previously thought of as retirement.

Rising cost of health care tops list of financial concerns, but few have a plan

For the third year in a row, survey respondents cite rising health care costs as their top financial concern (79 percent). One-third of respondents went so far as to say that they are more concerned about the financial strain associated with a significant health situation, such as a chronic illness or disability, than they are about how it may compromise their quality of life. Despite these concerns, 62 percent of respondents over the age of 50 have not yet estimated what their health care costs may amount to during retirement.

Survey respondents believe future health care costs (26 percent) and life expectancy (25 percent) to be the most difficult unknowns when planning for future financial needs.

“Rising health care costs must become part of a holistic planning process that can lead to greater confidence and an improved sense of financial security throughout one’s lifetime,” added Tyrie.

Greater retirement concerns on Venus than Mars

On average, women today live more than five years longer than men¹. This may be one of the reasons affluent women (66 percent) are more concerned than men (54 percent) about their retirement assets lasting throughout their lifetime. Women surveyed are also more concerned (76 percent) about the future of Social Security benefits than men (59 percent), and about what the prospect of caring for an aging parent could do to their own financial security (37 percent of women, 25 percent of men).

Also, while many baby boomers are struggling to save for and fund their retirement, most respondents (79 percent) believe that Americans under the age of 35 today won’t have it any easier. Likely to live longer and to depend less on government entitlements and pensions as lifetime income sources, younger generations may well have an increasingly difficult time saving for retirement unless changes are made.

Client to Financial Advisor: How do I live well longer?

When it comes to helping clients prepare for retirement, the role of a financial advisor has evolved beyond asset accumulation strategies and portfolio structuring. Nearly half (47 percent) of affluent Americans cite that conversations with their advisor regularly go much further than general investing to focus on broader aspects of retirement. Financial advisors today are a source of insight and advice around how tradeoffs, health care costs and longevity may impact retirement outcomes. Retirement topics clients would like to discuss more often with their financial advisor include:

- How to financially plan for the possibility of living to be 100 years old (30 percent).
- Managing cash flow and liquidity in retirement (29 percent).
- Balancing competing near- and long-term financial demands (26 percent).
- How they hope to live their life during their retirement years (25 percent).
- The impact of rising health care costs on their retirement income (25 percent).
- Making lifestyle choices today that will improve their long-term financial security (21 percent).

According to respondents, these deeper conversations, along with such core qualities as understanding their current financial situation (58 percent) as well as their goals, dreams and personal values (51 percent) are what keep them loyal to their financial advisor relationship.

“Many of our clients today face a new set of retirement challenges not encountered by previous generations,” said John Thiel, head of U.S. Wealth Management and the Private Banking and Investment Group for Merrill Lynch Global Wealth Management. “These findings indicate clients are looking for guidance from a financial advisor with access to dynamic tools and resources, and a network of retirement specialists who can help them assess their situation, develop an appropriate retirement strategy and monitor their progress. Our highly skilled advisors deliver this valuable service to more and more clients every day.”

For more information about the Merrill Lynch Affluent Insights Survey, and its complete findings, visit www.ml.com/affluentinsights.

¹Health, United States, 2010 Report by the U.S. Department of Health & Human Services

Methodology

The survey was conducted via phone by Braun Research in December 2011 on behalf of Merrill Lynch Global Wealth Management. The nationally representative sample consisted of 1,000 affluent Americans (ages 18+) with investable assets in excess of \$250,000. At least 300 affluent Americans were also oversampled in five target markets including Atlanta, Chicago, Dallas, Detroit and San Francisco. The margin of error is +/- 3.1 percent for the national sample and +/- 5.7 percent for the oversampled markets, with both reported at a 95 percent confidence level.

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