



Kiplinger Financial Services' COMMON CENTS MATTERS

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THE GREAT AMERICAN RETIREMENT QUIZ

We spend so much of our time early in life working on our education to then spend much more of our life preparing for and working on our job/career. But do we give enough thought and preparation for our retirement life? Recently *The Wall Street Journal* ran a retirement quiz which allows you to evaluate your knowledge about money, health, work and leisure during later years. We thought you might enjoy the opportunity to review these questions that highlight some of the most important issues in retirement.

GETTING STARTED

1. What are the average ages at which men and women retire in the U.S.?

<u>Men</u>	<u>Women</u>
a. 61	a. 61
b. 62	b. 62
c. 63	c. 63
d. 64	d. 64

Answer: B (men) and A (women). The exact figures, based on labor force data for 1999 to 2004, are 61.6 for men and 60.8 for women, according to research by Murray Gendell at Georgetown University. While those ages have fallen significantly in the past five decades (men and women in the early 1950s stopped working at age 67, on average), the percentage of adults age 60-plus in the nation's labor force has been increasing in recent years. That change suggests that average retirement ages may be starting to bottom out and could begin to rise in the near future.

2. What percentage of current workers say they plan to retire after age 62?

a. 47% b. 57% c. 67% d. 77%

Answer: B. That figure has increased steadily in the past six years according to a series of retirement surveys by the Gallup Organization for UBS AG. In 2002, 47% of current workers said they planned to retire after 62; in 1998, only 36% of respondents said they planned to wait until age 62 to leave their jobs.

3. If you retire at age 65, what percentage of your life can you expect to spend in retirement?

a. 16% b. 18% c. 20% d. 22%

Answer: D. An American who reaches the age of 65 as an average additional life expectancy of 18 years. Thus, if you retire at 65 and die at 83, you would have spent 22% of your life in retirement. And remember, 18 years is the average life expectancy; half of those who reach age 65 can expect to have longer than 18 years. The point: Many people continue to significantly underestimate their life expectancy – and the risk that they will outlive their retirement savings.

4. What is the most important factor in Americans' decision to retire?

a. Employer pressure
b. Health decline
c. Family reasons
d. Qualify for Social Security benefits

Answer: D. In a study by the National Council on the Aging, 72% of those surveyed said qualifying for Social Security was their most important reason for retiring.

RETIRED...WORKING...OR SOMETHING IN BETWEEN?

5. What percentage of current workers say they expect to work for pay in some capacity after they retire – and what percentage of current retirees say they have, in fact, worked for pay at any given point in retirement?

<u>Current Workers</u>	<u>Current Retirees</u>
a. 38%	a. 32%
b. 48%	b. 42%
c. 58%	c. 52%
d. 68%	d. 62%

Answer: D (current workers) and A (current retirees). Although two-thirds or more of current workers regularly tell researchers that they plan to earn a paycheck in later life, only about one-third of current retirees actually have done so. The point: "It is unlikely

that all of the workers who would like to work in retirement will be able to do so,” concludes the Employee Benefit Research Institute. “Many will find themselves unable to work for health reasons.”

6. What percentage of the total work force – and what percent of workers age 50-plus – are self-employed?

<u>All Workers</u>	<u>Workers 50-plus</u>
a. 10.2%	a. 10.4%
b. 12.2%	b. 12.4%
c. 14.2%	c. 14.4%
d. 16.2%	d. 16.4%

Answer: A (all workers) and D (workers 50-plus). Among workers age 51-69 who are self-employed, fully one-third made the jump to self-employment after turning 50, according to a study by AARP and Rand Corp.

SAVING AND SPENDING

7. What percentage of workers in the U.S. say they or their spouses are currently saving for retirement?
a. 48% b. 57% c. 68% d. 78%

Answer: B. Put another way, about four in 10 workers currently aren't saving for retirement. Those figures have remained fairly constant in recent years, according to the Employee Benefit Research Institute, “despite efforts at educating the American public about the importance of saving for retirement.”

8. What percentage of workers age 55-plus report having \$100,000 or more in savings and investments (not including the value of their primary residence)?
a. 16% b. 26% c. 36% d. 46%

Answer: B. Only about one-quarter of older workers has \$100,000 or more in savings and investments, according to the Employee Benefit Research Institute. More than one-third (34%) of workers age 55-plus report having less than \$50,000 in savings and investments.

9. What percentage of workers or their spouses have calculated how much money they are likely to need in retirement?
a. 42% b. 52% c. 62% d. 72%

Answer: A. Estimating financial needs in retirement are among the most fundamental of planning steps for later life. But almost six out of ten workers, according to the Employee Benefit Research Institute, haven't made the attempt.

10. What percentage of baby-boomer households is estimated to be accumulating sufficient assets to maintain their current standard of living in retirement?
a. 40% b. 50% c. 60% d. 70%

Answer: B. About half of baby-boomer households, according to the Congressional Budget Office, are currently on track to continue their working-age standard of living in later life. The CBO states roughly one-quarter of boomer households “have accumulated very few assets thus far and are likely to find themselves largely dependent on government benefits in retirement.”

Many of the remaining one-quarter of boomer households “appear likely to face relatively modest shortfalls that could be offset by increasing personal savings and by working for a few more years.”

LIFESTYLES AND LEISURE

11. What percentage of people age 65-plus change residences in later life?
a. 18% b. 23% c. 28% d. 33%

Answer: B. From 1995 to 2000, 23% of older adults moved compared with 48% of people under age 65, according to the Census Bureau. Among those moves, 60% were within the same county, 21% were to a different county in the same state, and 19% were to a different state.

12. What percentage of adults age 65-plus participates in volunteer activities?
a. 24% b. 44% c. 64% d. 84%

Answer: A. About one-quarter of older Americans did volunteer work in the year ended September 2003, according to the Bureau of Labor Statistics. That was the second-lowest participation rate among all adult age groups.

Older adults, however, devoted the most time to volunteer activities: a median of 88 hours during the year. Religious organizations were the biggest beneficiaries of older adults' charitable efforts; 47% of volunteers' age 65-plus devoted their time to religious groups.

HEALTH AND CAREGIVING

13. What percentage of Americans ages 65 to 74 say they engage in “vigorous physical activity” (lasting 10 minutes or more) at least three times a week?
a. 16% b. 22% c. 28% d. 34%

Answer: A. Only about one in six older Americans exercises with any frequency. Fully 77% of this age group said they “never” engage in vigorous physical activity.

A study published in November by the University of Michigan Medical School and the VA Ann Arbor Health Care System found that adults in their 50s and early 60s who were regularly active were about 35% less likely to die in the next eight years than those who were sedentary.

14. What percentage of men and women age 65-plus are overweight?

<u>Men</u>	<u>Women</u>
a. 43%	a. 46%
b. 53%	b. 56%
c. 63%	c. 66%
d. 73%	d. 76%

Answer: D (men) and C (women). Almost three-quarters of older men and two-thirds of older women are considered to be overweight according to the most recent federal surveys. In July, Medicare for the first time designated obesity as a disease and said it would pay for anti-obesity interventions.

15. What is the approximate average annual cost of residing in an assisted-living facility or a semiprivate room in a nursing home?

<u>Assisted Living</u>	<u>Nursing Home</u>
a. \$30,000	a. \$30,000
b. \$40,000	b. \$40,000
c. \$50,000	c. \$50,000
d. \$60,000	d. \$60,000

Answer: A (assisted living) and D (nursing home). When asked what source they would use to pay the bulk of long-term care costs, 31% of respondents in a study by MetLife Inc. listed Medicare, health insurance or disability insurance – none of which actually covers the cost of long-term care.

ESTATE PLANNING AND INHERITANCE

16. What percentage of adults in the U.S. have a will?

a. 22% b. 42% c. 62% d. 82%

Answer: B. That figure, from a survey this year by legal resource Martindale-Hubbell, is down from 47% in 2000. Some Americans appear to be postponing various aspects of estate planning, including wills, because of uncertainty about estate taxes. The estate tax is set to phase out in 2010 – and return in 2011 unless there's a permanent repeal.

17. To date, what is the median amount of money that baby boomers have inherited from their parents?

a. Less than \$50,000
 b. \$50,000 to \$100,000
 c. \$100,001 to \$150,000
 d. \$150,001 to \$200,000

Answer: A. According to a study by AARP based on the Federal Reserve Board's Survey of Consumer Finances, the median inheritance as of 2001 is \$47,909 (in 2002 dollars). The research also showed that only 15% of baby boomers now expect to receive an inheritance, down from 27% in 1989. "for most people," the study concludes, "inheritances will remain

an elusive, or small, contributor to their retirement security."

NEST EGGS

18. What percentage of households in the U.S. has pension coverage that relies solely on a defined contribution plan, such as a 401(k)?
 a. 38% b. 48% c. 58% d. 68%

Answer: C. In 2001, more than half of all households were dependent solely on defined-contribution plans for pension coverage, up from 37% in 1992, according to Alicia Munnell and Annika Sunden at the Center for Retirement Research at Boston College, and authors of "Coming Up Short: The Challenge of 401(k) Plans."

In contrast with traditional pensions (also known as defined-benefit plans), 401(k)s and related retirement accounts "shift the risks and responsibilities associated with providing retirement income from the employer to the employee," Prof. Munnell and Ms. Sunden observe. "The employee decides whether or not to participate, how much to contribute, how to invest the assets, and how to withdraw money at retirement.

19. Among individuals age 50 to 59 – people approaching retirement – what is the average balance in their 401(k)s?
 a. \$88,000
 b. \$188,000
 c. \$288,000
 d. \$388,000

Answer: A. That figure, for 2002, according to research cited by Prof. Munnell and Ms. Sunden in their book, was 15% below the average balance in 1999, reflecting the downturn in the markets in the intervening period.

20. What percentage of workers rebalance their 401(k)s at least once a year?
 a. 17% b. 27% c. 37% d. 47%

Answer: A. According to a study by Hewitt Associates, only one in six workers who contribute to their 401(k) plans made any transfers in their accounts in 2003. Most financial planners recommend rebalancing a portfolio at least once a year.

21. What percentage of workers age 50-plus are taking advantage of "catch-up contributions" in retirement savings plans at work?
 a. 14% b. 24% c. 34% d. 44%

Answer: B. In 2001, Congress raised the contribution limits for retirement savings plans – and made special provisions for workers 50 and older. This year, for instance, individuals age 50-plus can put an additional \$3,000 into 401(k)s on top of the \$13,000 maximum for younger workers.

About 95% of corporate retirement plans now permit catch-up contributions according to the Profit Sharing/401(k) Council of America. Last year, however, only about one-quarter of eligible workers made such contributions.

22. What percentage of workers cash out of their 401(k) plans when changing jobs?
a. 22% b. 32% c. 42% d. 52%

Answer: C. Almost half of workers – and fully 33% of those ages 50 to 59 – withdraw all the assets from their 401(k) when changing jobs according to Hewitt Associates. Doing so results in a huge tax bite and can seriously erode an individual's retirement security.

23. What is considered a prudent rate of withdrawal when first tapping retirement savings?
a. 4% b. 6% c. 8% d. 10%

Answer: A. Research has indicated that a safe rate of withdrawal – so as not to outlive one's nest egg – is about 4% a year. Thus, a person who has \$500,000 in savings could withdraw \$20,000 during the first year of retirement and increase that withdrawal each year by the amount of inflation.

A recent study in the *Journal of Financial Planning* suggests an initial rate of as much as 6% could be safe – so long as investors are willing to limit withdrawals after a down year in their portfolios.

24. What percentage of current retirees say their income needs in retirement are roughly equal to their income before retirement?
a. 9% b. 19% c. 29% d. 39%

Answer: D. Many current workers seriously underestimate how much of their pre-retirement income will be needed in later life according to the Employee Benefit Research institute.

Fully four in ten retirees say their current income needs are about equal to their pre-retirement income, but fewer than one in ten workers think they will need that much money.

SOCIAL SECURITY

25. At what age do Americans qualify for full Social Security benefits?
a. 65 b. 66 c. 67 d. Varies by year of birth

Answer: D. Uncle Sam is gradually increasing the age at which individuals become eligible for full Social Security benefits. For those born in 1939, full retirement age is now 65 years and four months; for those born in 1940, full retirement age is 65 years and six months. Eventually, full retirement age will level off at age 67 for people born in 1960 and later.

That said, almost one-third of today's workers, according to a survey earlier this year by the Employee Benefit Research Institute, still believe they are eligible for full Social Security benefits at age 65 – and one in five believe they qualify for full benefits before 65.

26. What percentage of eligible Americans begin collecting reduced Social Security benefits at age 62?
a. 29% b. 39% c. 49% d. 59%

Answer: C. Almost half of workers grab Social Security at 62, the earliest age at which benefits are available.

27. **True or false:** If you begin collecting benefits from Social Security at age 62, a portion of those benefits could be withheld if you have earned income.

Answer: True. Between age 62 and the year in which a worker reaches his or her full retirement age, Social Security benefits currently are reduced 1 dollar for every 2 dollars earned over \$11,640. (That cap increases slightly each year, and the rules change in the year an individual reaches full retirement age.) After full retirement age, there is no reduction in benefits tied to earnings.

28. What is the average monthly Social Security payment for retired workers?
a. \$950 b. \$1,450 c. \$1,950 d. \$2,450

Answer: A. In 2005, the average monthly benefit, including a new 2.7% cost-of-living adjustment, will total about \$950.

29. What percentage of people age 65 and older depend on Social Security for at least half of their income?
a. 36% b. 46% c. 56% d. 66%

Answer: D. About two-thirds of Social Security beneficiaries age 65-plus rely on their monthly check from Uncle Sam for more than half their income. For about 20% of Americans age 65-plus, Social Security is their only source of income.

Thus, the question: With Social Security's resources stretched increasingly thin as the population ages – and with some type of change to the system seen as a given – will current or future beneficiaries see their benefits reduced?

And if so, will those cuts be felt across the board, including those who are dependent on Social Security for much or all of their income, or will the reductions target more affluent families?