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## *METLIFE RETIREMENT INCOME IQ STUDY*

*A Survey of Pre-Retiree Knowledge  
of Financial Retirement Issues*

June, 2008

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# *METLIFE RETIREMENT INCOME IQ STUDY*

## *A Survey of Pre-Retiree Knowledge of Financial Retirement Issues*

### *Executive Summary*

#### *Overview*

- In 2003 and again in 2008, the MetLife Mature Market Institute used a nationally representative survey to measure the financial knowledge of pre-retirees
- The new 2008 survey reveals:
  - ✓ There remain many widespread pre-retiree misconceptions around retirement income issues that could put many at risk for outliving their assets in retirement
  - ✓ Significantly more pre-retirees than in 2003 are aware that longevity risk represents the greatest financial retirement risk, but many incorrectly estimate life expectancy when answering questions about retirement planning
  - ✓ Top scorers on the Retirement Income IQ Test and those confident about their retirement were not the “seekers” of information, but those who reported taking action on their financial retirement plans

#### *Background*

In 2003, the MetLife Mature Market Institute reported the findings of its MetLife Retirement Income IQ Study that revealed pre-retirees scored very poorly on an assessment of critical financial retirement knowledge. Specifically, the overall scores revealed that survey participants barely outperformed the results one would expect to achieve by randomly guessing. As one of the first studies to focus exclusively on retirement income issues, the published 2003 results were a “wake-up call” to those concerned about the welfare of those moving into retirement, and the general population who will be affected by the swelling portion of retirees in the United States.

Five years later, in June of 2008, the MetLife Retirement Income IQ Test was administered to pre-retirees to again evaluate their financial retirement knowledge. The new survey included five additional questions designed to provide insight into actions pre-retirees were taking for their retirement, while also measuring their level of confidence about their financial retirement plans.



## Key 2008 Findings

The 2008 Retirement Income IQ Survey results demonstrate some very concerning retirement income misconceptions with the overall average score just a 43 on a 100 point scale. Some particularly important findings centered on incorrect assumptions that could put many respondents at risk for outliving their assets in retirement.

For example, almost seven in ten (69%) respondents overestimate how much they can draw down from their retirement savings—with 43% saying they believe that they can withdraw 10% or more each year while preserving their principal—even though most retirement experts suggest a withdrawal rate of no more than 4% annually. Almost half (49%) underestimate the amount of pre-retirement income they will need in retirement, believing that they will only need 50% or less of their pre-retirement income, when experts are recommending figures of 80-90%.

...almost seven in ten (69%) respondents overestimate how much they can draw down from their retirement savings – with 43% saying they believe that they can withdraw 10% or more while preserving their principal – even though most experts suggest a withdrawal rate of no more than 4% annually.

Over half (56%) of pre-retirees are now aware that longevity risk, the risk of outliving their retirement savings, represents the most important financial risk facing them in retirement. Despite significant

improvement over 2003, the results suggest there remains a lack of understanding in applying that knowledge. For example, six in ten (60%) respondents underestimate their chances of living beyond a given average life expectancy. The rate at which pre-retirees identified they would withdraw from their retirement savings suggests that today's longer life expectancy is not being fully considered in their retirement calculations.

## Additional Learning

Five new questions were added to the 2008 study to ascertain which actions pre-retirees are taking to prepare for retirement and to learn how confident they are with their retirement future. The six in ten (59%) of respondents who identified that they were *seeking* information on retirement did not score significantly higher on the Retirement Income IQ Test, but did report that they were confident about experiencing a financially comfortable retirement. However, findings revealed that *action taken* on retirement planning by pre-retirees was associated with both significantly higher survey scores and confidence about experiencing a financially comfortable retirement.

## Summary

Current pre-retirees demonstrate some fairly widespread retirement income knowledge gaps, some that could have a critical impact on the financial security of those planning for their retirement. Even as more pre-retirees are aware of the importance of longevity as a retirement risk, it doesn't appear to be central to the assumptions pre-retirees are using for retirement planning. Further study into the positive association between retirement income knowledge, confidence in having a financially secure retirement, and taking action on financial plans presents an opportunity for pre-retirees, or those who support them, to potentially affect these results in the future.

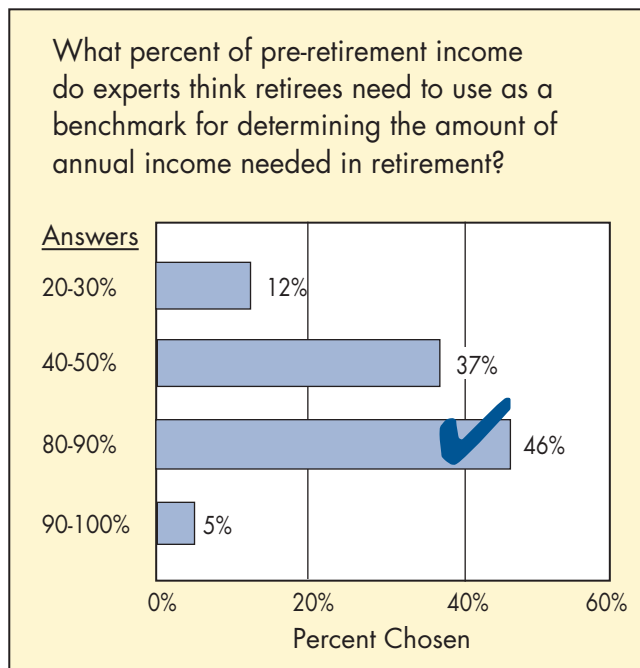
# 2008 FINDINGS

## Retirement Income

### Retirement Income Needs Not Properly Assessed

Appropriate retirement planning can easily be derailed by many misconceptions, including such things as the level of income needed in retirement, assumptions on annual savings withdrawal rates, sources of retirement income, retirement cost estimates, and the rate of inflation. While incorrect assumptions on any one of these can be a problem, generally low scores on questions related to these topics show most respondents demonstrated misunderstandings across many of these factors.

Just under half (46%) of respondents were correct in saying 80-90% of pre-retirement income should be used as a benchmark in determining the amount of annual income needed in retirement. Half (49%) indicated that they would need 40-50% or even just 20-30% of pre-retirement income as their planning benchmark. With 80 - 90% of pre-retirement income as the benchmark, typical retirees, using a 40-50% assumption, could easily find themselves having to draw down their retirement savings at twice the rate they had anticipated. These results showed some gender differentiation with 50% of men versus 41% of women responding correctly.

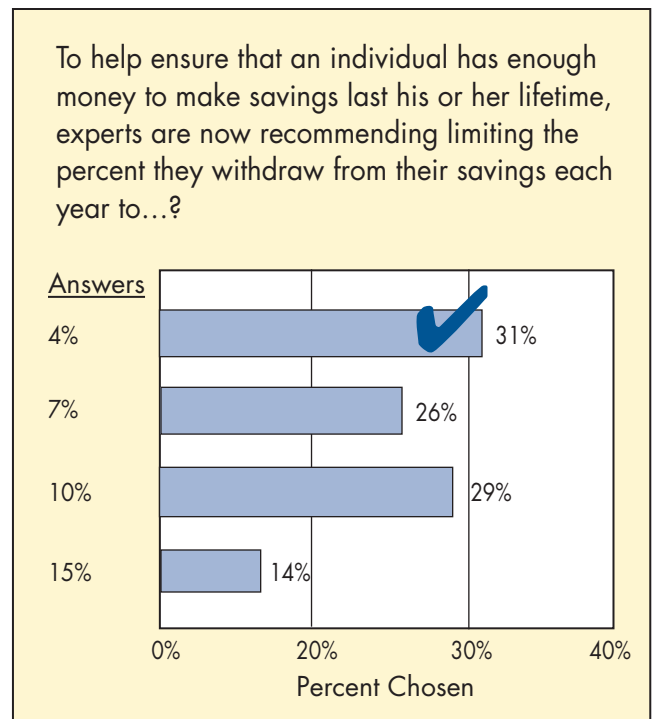


Q2 2008 MetLife Retirement Income IQ Test

### Annual Retirement Savings Withdrawal Rate Estimates Too High

The beliefs that pre-retirees have about what they can annually withdraw from their retirement savings while maintaining their principal is important because too high a rate can be a key factor in causing retirees to outlive their assets. While estimates about what retirees should plan to draw down from their savings annually are a function of the growth rate of their investments and an individual's life expectancy, most retirement experts suggest a withdrawal rate of no more than 4% annually.

Almost seven in ten (69%) respondents overestimate how much they can draw down from their retirement savings. In fact, 43% say they believe that they can withdraw 10% or more and 14% believe they can even withdraw 15% each year—while still preserving their principal.



Q6 2008 MetLife Retirement Income IQ Test

## Sources of Retirement Income Misunderstood

Almost three quarters (73%) of respondents know that someone 55 years old in 2008 is eligible to collect full Social Security benefits at age 66. However, only 4 in 10 (44%) respondents surveyed knew that actual average Social Security benefits paid in 2007 were \$1,078. The rest of those surveyed were nearly split with almost 3 in 10 (27%) underestimating average payments and almost 3 in 10 (29%) overestimating average payments. Interestingly enough, of those underestimating average Social Security benefits, more were women, while most who overestimated average Social Security benefits were men.

When looking at retirement income financial products, such as income annuities, about 4 in 10 (43%) of respondents in 2008 know that “deferred” refers to income in the phrase “deferred annuity,” just over a quarter (27%) believe it refers to compensation. A nearly consistent 3 in 10 respondents correctly answered questions that included: what financial products pool risk and pay out a lifetime stream of monthly income (33%); what is always true about income annuities (33%); and what is not true about income annuities (34%). The understanding about income annuities, and their potential role as a retirement income financial product, appears quite low.

Groups significantly more likely to answer correctly about annuities were made up of respondents who were identified as having: more assets, higher income, finished more years of school, taken steps towards retirement, and more confident in having enough money for retirement. The attributes of an annuity as an insurance product that provides a guaranteed income stream continue not to be widely recognized and many misconceptions still exist about how the product actually works.

## Critical Retirement Costs Underestimated

Incorrect assumptions of long-term care and health care expenses can also significantly limit the effectiveness of retirement planning. Just slightly over 3 in 10 (31%) of respondents are aware that

average nursing home costs are now \$78,000 a year. Almost 7 in 10 (69%) underestimate this annual cost with nearly a third (29%) believing this annual cost to be only \$54,000 a year.

Two thirds (62%) know that extended long-term care expenses are not generally covered by health insurance, Medicare, or disability insurance, while one quarter (25%) still believe Medicare provides this coverage. For the 38% of respondents who believe that their long-term care is covered either by their health insurance, Medicare, or disability insurance, the previously described estimates of long-term care costs could be devastating.

On the other hand, the 2008 Retirement IQ Test also shows that respondents could correctly identify that \$4,700 is spent annually on out-of-pocket health care costs in retirement and, in fact, another 33% thought that average annual health care costs were \$6,900 or over 40% higher than typically experienced. Unlike the estimates around inflation, the women taking the 2008 Retirement Income Test tended to outperform men on cost questions about long-term care and health care costs. For example, 35% of women knew the average annual cost of nursing home care versus only 27% of the men surveyed.

## Inflated Inflation Assumptions Compound the Problem

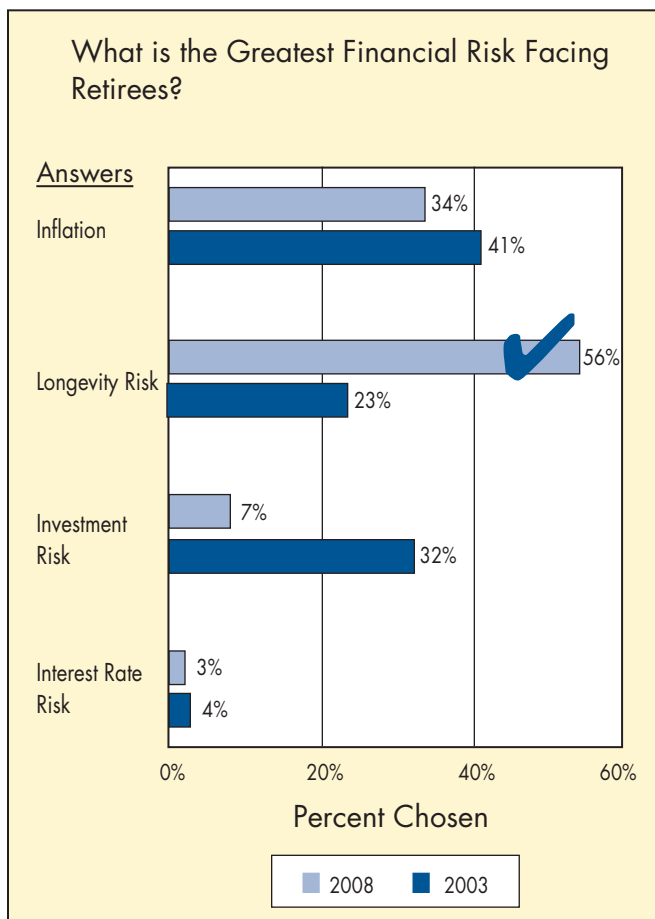
Nearly 4 in 10 (37%) respondents in 2008 overestimated inflation rates to have been 5% over the past twenty years. Just a quarter (24%) correctly stated the average inflation rate was 3%. Efficient financial planning is difficult if you do not have a correct set of assumptions regarding historical inflation rates.

This question demonstrated a strong gender difference. While more men (31%) than women (16%) correctly identified the 20 year average inflation rate, an even more dramatic difference can be found when looking at the other answers given. While both men and women selected an incorrect inflation rate more than the correct answer, 44% of men most often chose a rate of 5% whereas 36% of women most often chose 15%.

## Longevity Risk

### Pre-Retirees More Aware of Danger of Outliving Their Assets

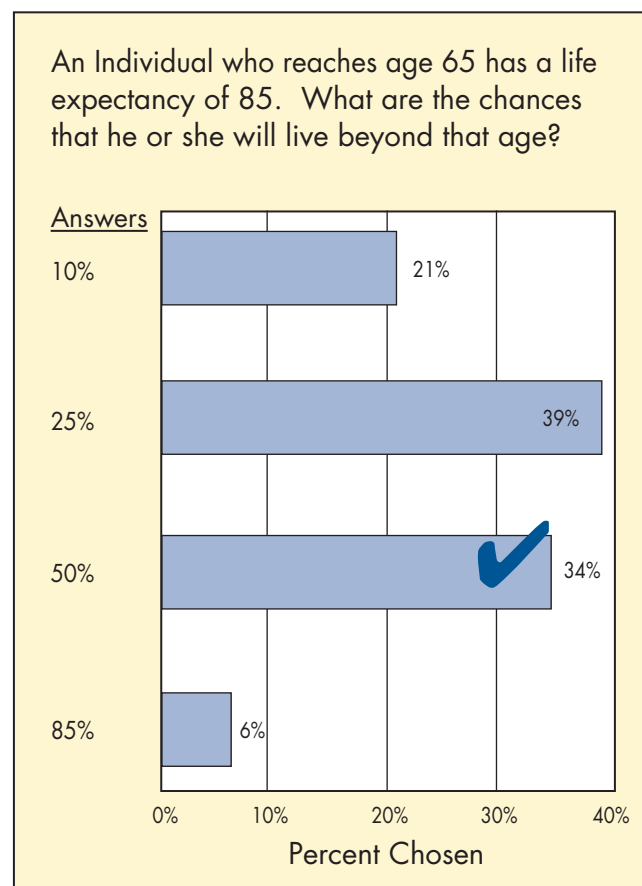
In 2008, the Retirement Income IQ Test respondents were significantly more aware than they were in 2003 that the financial risk of longevity, the risk of outliving your retirement savings, represents the most important financial risk. While inflation is a very significant financial risk, selected by 34% of respondents in 2008, it is important to note that inflation risk is exacerbated by longevity risk. More than half (56%) of the respondents believe longevity to be the greatest financial risk.



Q15 2008 MetLife Retirement Income IQ Study

### Many Pre-Retirees Fail to Translate Longevity Risk to Themselves

People are living a significant number of years past the typical retirement age of 65, thus increasing the time horizon over which their savings must last. Only a third (34%) correctly believe that an individual has a 50% chance of living beyond age 85. This would seem to indicate that they do not understand the concept of “average” life expectancy. The most common answer given (39%) indicates the belief that there is only a 25% chance that an individual will live past 85 years old.



Q3 2008 MetLife Retirement Income IQ Study

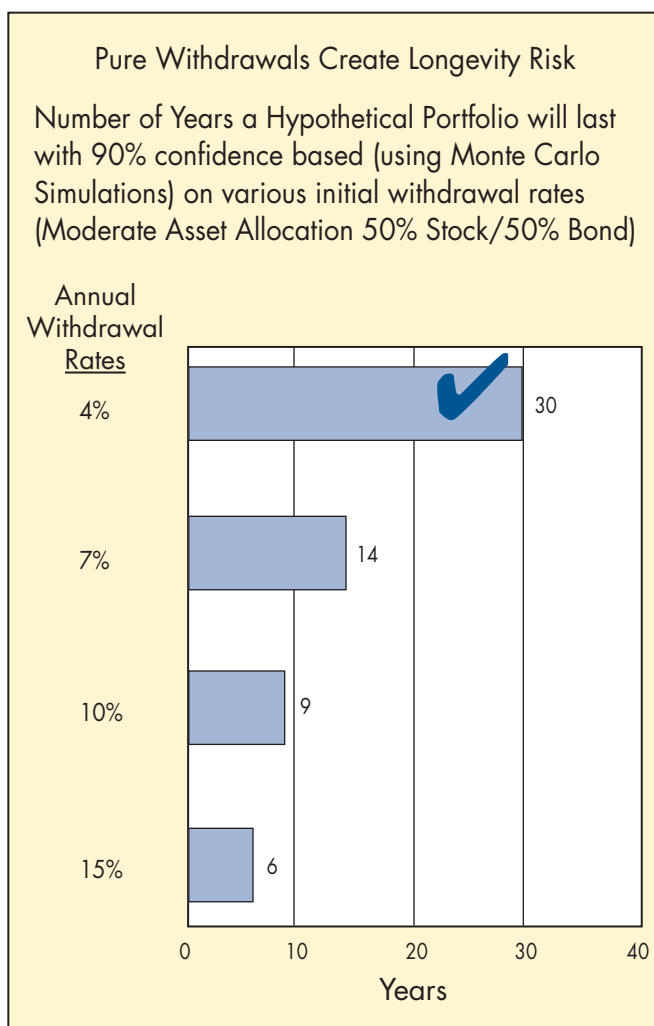
While more pre-retirees appear to be aware of the longevity risk today as compared with five years ago, most underestimate their personal longevity risk. This central misunderstanding may likely have contributed to why most overestimated what percentage of their retirement savings they can draw down each year. Such a question is critically dependant on an accurate estimate of life expectancy and apparently most used too few years in their calculation assumption. This miscalculation would likely lead to zero balance in savings in a time period far short of the current average 30 year post-retirement estimate.

## Additional Learning

Five new questions were added to the 2008 study to ascertain which actions pre-retirees are taking to prepare for retirement and to learn how comfortable they are with their retirement future. Respondents *seeking* information on retirement did not score significantly higher on the Retirement Income IQ Test. However, findings revealed that *action* taken on retirement planning by pre-retirees was associated with both higher survey scores and confidence about experiencing a financially comfortable retirement.

Those who are not confident tended to have misconceptions of longevity. Two-thirds (66%) of those who are not confident believe there is less than a 50% chance of living past the age of 85. More than half (55%) of those not confident report that they will use/need either 40-50% or even 20-30% of pre-retiree income as the planning benchmark for the amount of money needed in retirement.

Interestingly, a large number of those (45%) who are not confident greatly overestimate the average annual inflation rate. Only 2 in 10 (20%) correctly stated that 3% was the average annual rate of inflation. Nearly 3 in 10 (28%) believe the rate to be 15%. More than 9 in 10 (93%) of those who are confident have taken steps toward planning for retirement. Nearly half (44%) of those who are confident have increased their 401(k) savings, which is double the amount of those who are not confident (21%). Almost two-thirds (62%) of both those who are seeking financial advice and of those who are taking steps are confident that they will have enough money in retirement.



The simulation used in this example assumes the following: the dollar amount of withdrawals are increased at a rate of 3% per year to account for inflation (historical average from 1926 – 2006 is 3.07%); the behavior of the hypothetical asset portfolio is based on historical data from Ibbotson Associates: Stock analysis is based on the S&P 500 Composite index. Bond analysis is based on a US Long Term Corporate Bond index. We used 5,000 scenarios based on historical averages within the period from 1926 to 2006 to determine how a portfolio might have performed. We reduced the annual performance of the stocks by 1.09%, which we believe is a reasonable assumption for the average fund expenses for equity mutual funds. We reduced the annual performance of the bonds by 0.72%, which we believe is a reasonable assumption for the average fund expenses for bond mutual funds. This may not be used to predict or project investment performance and does not take into account the effect of taxes.

Those who are confident that they will have enough money to live comfortably if they reach 85 years of age outperformed their less confident counterparts. One third (36%) of respondents who report confidence in having enough money to live comfortably in retirement correctly answered 50% or more of the Retirement Income IQ Survey. Less than one quarter (25%) of those who are not confident correctly answered 50% or more of the survey. Also, this information reflects a gender divide as 65% of men versus 50% of women are confident that they will have enough money to live comfortably to 85 years of age. Interestingly, while more women were concerned about financial security, the men surveyed presented higher average test results.

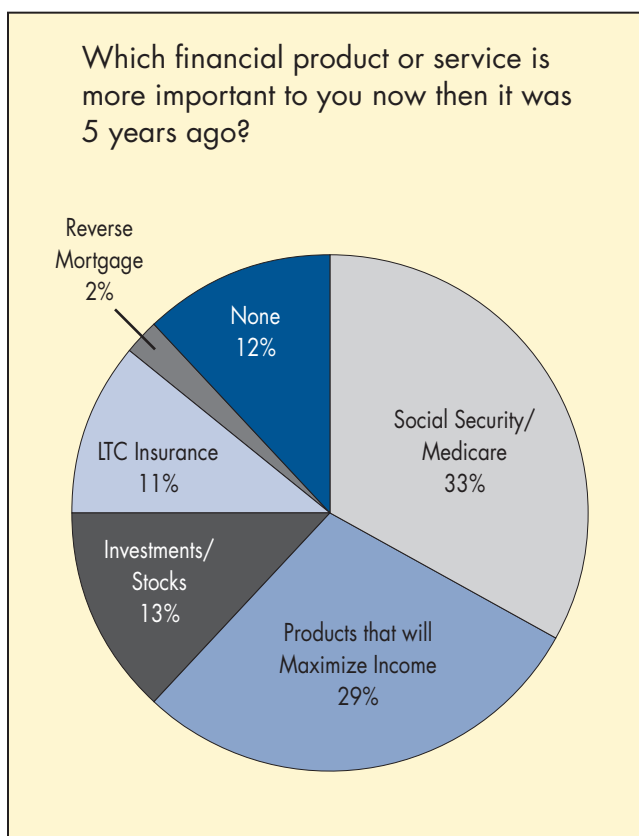
Overall, one third (33%) of respondents report that Social Security and Medicare are more important to them now than they were five years ago. Nearly one in three (29%) place increased importance on “products that will maximize income in retirement.”

Married respondents (31%) place more importance on “products that will maximize income in retirement,” compared to a quarter (25%) of single respondents. Those not confident in having enough money in retirement place increased importance on Social Security and Medicare. Less than half (46%) of those who place more importance on Social Security and Medicare are confident, significantly less than those who place importance on products that will maximize income in retirement (64%), long-term care insurance (61%) and investments (73%).

## Conclusions

The generally low scores demonstrate that pre-retirees are not well informed about many critical financial issues that will affect their future retirement years. Many key assumptions about rates of appropriate annual retirement savings withdrawals and retirement income needs, coupled with the poor scores about critical retirement expenses and income sources and products, present a concerning situation where many retirees could face a future where they outlive their assets. More pre-retirees in 2008 than in 2003 were aware of their longevity risk, but they continue to underestimate the time they will likely spend in retirement.

Those who are seeking advice did not appear to be any more or less knowledgeable than those who are not seeking advice. However, taking action to help ensure adequate income for retirement is associated with having a better understanding of the issues affecting retirement and confidence in having enough money in retirement.



2008 MetLife Retirement Income IQ Study

# Methodology

## 2003 Study

In 2003, the MetLife Mature Market Institute conducted a survey of Americans' retirement income knowledge (i.e., "Retirement Income IQ") to heighten awareness of the lack of public understanding on key retirement concepts that impact retirement income.

Individuals aged 56 to 65, within at least five years of retirement, were asked to respond to a questionnaire designed to gauge their understanding of retirement and income planning in the areas of:

- Longevity and its impact
- Income, expenses, and inflation in retirement
- Annuities as a retirement planning tool
- Long-term care and protection of assets

## 2008 Study

During April 2008, the MetLife Mature Market Institute commissioned a follow-up national study to again measure pre-retirees' knowledge and understanding of retirement income issues. The MetLife Mature Market Institute Retirement Income IQ Study was conducted by the market research company, GfK North America. A total of 1,216 males and females aged 56-65, within five years of retirement, completed the web-based survey. Participants were members of a GfK or SSI (Survey Sampling International) internet panel.

All respondents to the Retirement Income IQ Survey were primary or co-primary financial decision-makers in their households and were employed full-time. The margin of error for the survey was plus or minus 3 percentage points. A demographic breakdown of those participating on the 2008 Retirement Income IQ Survey panel can be found in Appendix A.

Most of the 2008 Retirement Income IQ Survey questions remained unchanged from the 2003 survey. The 2008 survey included 12 questions taken directly from the 2003 Retirement Income IQ Survey, along with 3 additional questions. Two of the 12 original questions were worded differently than their 2003 counterparts, although their content has remained the same. In addition, some answers were adjusted to keep pace with ongoing changes in information about the subject.

A new feature to the 2008 Retirement Income IQ Survey is a set of five additional questions assessing respondents' behaviors and attitudes toward various retirement issues. These questions were introduced as a means of comparing respondents' knowledge of retirement financial issues with factors including their concerns in retirement, importance of certain financial products, confidence in having enough funds in retirement and whether or not they are seeking advice or taking steps to help insure adequate income in retirement. These questions were added to identify common traits of those who performed well on the test and to help recognize implications for those approaching retirement.

## Appendix A:

### A Demographic Profile of 2008 Retirement Income IQ Participants

The people who qualified for the study were primary or co-primary household financial decision-makers aged 56-65 nearing retirement.



#### Decision Maker

Primary	46.4%
Co-Primary	53.6%

#### Age

56-60	56.8%
61-65	43.2%

#### Household Assets\*

Less Than \$300K	73.4%
\$300K or more	17.4%

\*9.2% declined to specify or did not know their asset level

#### Gender

Male	56.3%
Female	43.7%

#### Ethnicity

White	90.9%
Non-White	8.4%

#### Education

Some High School or Less	0.3%
High School	17.7%
Some College/ Associates Degree	32.5%
Completed Technical/ Vocational School	9.6%
Completed College	24.0%
Graduate/ Post-Graduate	15.9%

#### Region

Northeast	22.0%
Midwest	25.7%
South	32.2%
West	20.1%

#### Occupation

Executive/ Managerial/ Professional	41.4%
Technical/ Sales/ Administrative Support	19.0%
Service	11.8%
Operator/ Laborer	17.1%
Other	10.7%

#### Marital Status

Married	66.2%
Single	33.8%

#### Household Income (Annual)

Less Than \$22.4K	2.6%
\$22.5K - \$39.9K	15.3%
\$40.0K - \$59.9K	21.7%
\$60.0K - \$89.9K	26.3%
\$90.0K or More	30.2%

## Appendix B:

### 2008 Retirement Income IQ Test Questions and Results

IQ Questions		Answers Offered % Selected*			
		1.	2.	3.	4.
1.	If an individual needed long term care today, what would be the average annual cost for a private room in a nursing home? (Select one.)	\$39,000/year 14%	\$54,000/ year 29%	\$63,000/year 26%	<b>\$78,000/year</b> <b>31%</b>
2.	What percent of pre-retirement income do experts think retirees need to use as a benchmark for determining the amount of annual income needed in retirement? (Select one.)	20 - 30% 12%	40 - 50% 32%	<b>80 - 90%</b> <b>46%</b>	90 -100% 5%
3.	An individual who reaches age 65 has a life expectancy of age 85. What are the chances he or she will live beyond that age? (Select one.)	10% 21%	25% 39%	<b>50%</b> <b>34%</b>	85% 6%
4.	At what age would a person who is age 55 in 2008 be able to collect full Social Security benefits? (Select one.)	59 2%	62 10%	65 15%	<b>66</b> <b>73%</b>
5.	Expenses for extended long-term care (e.g. nursing home care, assisted living, home care) are generally covered by: (Select one.)	Health Insurance 8%	Medicare 25%	Disability Insurance 5%	<b>None of the above</b> <b>62%</b>
6.	To help ensure that an individual has enough money to make savings last his or her lifetime, experts are now recommending limiting the percent they withdraw from their savings each year to... (Select one.)	<b>4%</b> <b>31%</b>	7% 26%	10% 29%	15% 14%
7.	How much do people older than age 65 spend annually on out-of-pocket costs for health care? (Select one.)	\$1,190 4%	\$2,200 20%	<b>\$4,700</b> <b>43%</b>	\$6,900 33%
8.	Which of the following does not, on its own, pool risk to pay out a lifetime stream of monthly income? (Select one.)	Income Annuity 16%	Social Security benefits 35%	<b>Mutual Funds</b> <b>33%</b>	Traditional pension plan 10%
9.	Which of the following is always true regarding income annuities? (Select one.)	They have account balances that grow over time. 21%	They are not cost effective because the fees are higher than mutual funds 12%	There is a specific age to withdraw money 29%	<b>It provides income that is guaranteed and cannot be outlived</b> <b>33%</b>

\*by 2008 MetLife Retirement Income IQ Test respondents

■ correct answer

IQ Questions		Answers Offered % Selected*			
		1.	2.	3.	4.
10.	What is the word "deferred" referring to in the phrase "deferred annuity?" (Select one.)	Investment 26%	<b>Income</b> <b>43%</b>	Commission 4%	Compensation 27%
11.	What has the average annual rate of inflation been over the past twenty years? (Select one.)	<b>3%</b> <b>24%</b>	5% 37%	10% 11%	15% 23%
12.	Which is not true about an income annuity? (Select one.)	Annuities are insurance products that can provide an income guarantee for life. 19%	<b>An annuity is a mutual fund which invests primarily in stocks.</b> <b>34%</b>	An annuity can provide more guaranteed lifetime income than you could provide by investing the same assets on your own. 21%	All annuities have benefit options to provide continuing income to you, or to you and your spouse. 26%
13.	Suppose an individual retired at age 65 with savings of \$100,000. How much money could be withdrawn each month assuming annual earnings of 6% and that no savings, that is principal plus interest, remained after thirty years? (Select one.)	<b>Approximately \$600/month</b> <b>54%</b>	Approximately \$800/month 26%	Approximately \$1,000/month 12%	Approximately \$1,200/month 8%
14.	What is the average monthly Social Security benefit paid in 2007 to a retired worker? (Select one.)	\$909 27%	<b>\$1,078</b> <b>44%</b>	\$1,364 23%	\$1,573 6%
15.	What is the greatest financial risk facing retirees? (Select one.)	Inflation risk– The possibility that the value of assets or income will decrease as inflation shrinks the purchasing power of the dollar. 34%	<b>Longevity risk– The risk of outliving your retirement savings.</b> <b>56%</b>	Investment risk– The risk that short-term market fluctuations will reduce the value of your investments. 7%	Interest rate risk– The possibility of a reduction in the value of an investment resulting from a rise in interest rates. 3%

\*by 2008 MetLife Retirement Income IQ Test respondents

 correct answer



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