

If retirement were college, most older Americans would flunk out

By Editorial Staff Fri, May 5, 2017

Only 45% of affluent Americans ages 60 to 75 recognize that a life annuity can protect against life expectancy risk, according to a recent survey by The American College.

A recent Retirement Income Literacy Survey from The American College of Financial Services showed that older Americans (ages 60 to 75, with at least \$100,000 in investments) are less retirement income-literate than they think.

While more than three-fifths (61%) of about respondents thought they understand retirement income, only 33% of those surveyed could pass a quiz on life expectancy, long-term care expense, investing and generating retirement income that was administered by The American College (See grade range below).

Retirement Income Literacy: Failing Grades	
Letter Grade on Retirement Income Quiz	Percentage of Respondents
A (91%-100% correct)	Less than 1%
B (81%-90% correct)	5%
C (71%-80% correct)	8%
D (61%-70% correct)	13%
F (60% or less correct)	74%

The demographic divide

There are significant differences in literacy rates between men and women, college educated and non-college educated, and between wealthier and less wealthy respondents.

- Only 17% of women passed the quiz, as opposed to 35% of men
- 49% of respondents with over \$1 million in assets passed as opposed to 20% of respondents with below \$1 million in assets
- 40% of those with a graduate degree or more passed – as opposed to just 9% of respondents without a college degree who passed

Clueless on strategies to improve retirement security

- Only 33% understand that it is more effective to work two years longer or defer Social Security for two years than to increase retirement contributions by 3% for five years just prior to retirement
- Only 45% recognize that a life annuity can protect against life expectancy risk
- Only 38% of participants in the survey know that 4% is the amount they can afford to “safely” withdraw per year from a retirement account

Long-term care: Out of sight, out of mind

- 82% of respondents do not expect that most older Americans will need long-term care at some point in their lives. When considering long-term care, respondents lack knowledge on several critical items.
- Only 33% know that Medicaid pays for the majority of long-term care expenses provided in nursing homes
- Only 30% know that family members—not nursing homes, assisted living facilities, or hospitals—pay most long-term care costs

Power of retirement literacy

Respondents who passed the quiz were:

- 46% more likely to have a long-term care plan in place
- 36% more likely to feel confident they could manage their own investments throughout retirement
- 16% more likely to have a written plan in place

The American College commissioned Greenwald & Associates for the study. Respondents were asked a number of knowledge, behavior and attitudinal questions about retirement income planning.

Information for this study was gathered through online interviews with 1,244 Americans conducted Feb. 16 – March 1, 2017. Respondents were ages 60-75 and had at least \$100,000 in household assets, not including their primary residence.

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