Expect the Unexpected: Baby Boomer Lessons on Investing and Retirement

Millions of Baby Boomers across the United States are entering the retirement phase of investing every year. The landscape for Boomers today is different than it was for previous generations of retirees.

Capital Group’s Wisdom of Experience survey sought to understand the dynamics for Boomer investors as they transition into a retirement mindset, as well as lessons that can be learned for younger generations of Americans.

The survey reveals important differences between Boomer expectations and reality when it comes to retirement. This includes whether retirement life is better or worse than expected, what expenses cause sticker shock, why people retire earlier or later than they originally planned, and whether they expect continued bull markets or a period of market downturns for the coming decade.

Years of weathering market highs and lows have turned Boomers into seasoned buy-and-hold investors who stick to a long-term strategy. The long investing experiences of retired Boomers and the lessons they’ve learned suggest five golden rules for saving for a secure retirement.

Capital Group, home of the American Funds, is one of the world’s largest independent investment management firms focused on delivering superior, consistent results for long-term investors for more than 85 years.

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I. Expect the Unexpected

It has been said that life is what happens while you are making other plans, and this appears to hold true for many Boomers as they contemplate retirement. The survey reveals important differences between expectations and reality in retirement for household costs, retirement savings and even whether people retire earlier or later than planned.

When asked, “How does your life in retirement compare to the expectations you had before you retired?” six out of 10 Boomers felt positive about their retirement: 36% said that retirement was better than they had expected it to be, 18% said it was different than expected but in a positive way and 6% went so far as to say retirement fulfilled one of their dreams.

Thirty percent of Boomers said that retirement is about what they expected it would be, and only 10% reported feeling disappointed or negative about their retirement, mainly citing financial stress. Other negative factors include health issues, feeling lonely or bored, or simply that respondents missed working.
Sticker Shock: Unexpected Costs in Retirement

Boomers already in retirement are surprised by their spending patterns and are paying more than expected on unanticipated items.

Health care tops the list. Forty-three percent say they are spending more on health care than they had planned. Travel, an activity popular with retirees, is also costing more than many retired Boomers expected. Forty percent of respondents said that they are spending more on travel than they anticipated. Rounding out the top five items: One-third (34%) report paying more in taxes than expected, and about a quarter say they are spending more than they had planned on food (25%) or utilities (23%).

By contrast, Boomers seem to be budgeting well for housing costs, credit card debt and helping out their dependents. Only around one in 10 retired Boomers (9%) say they face higher than expected housing costs or believe they carry too much on their credit cards. Slightly more (11%) are paying more than they expected to support dependent family members. This could include adult children living at home or in need of financial support.

For each of the following living expenses, indicate if you are spending more than you thought you would be in retirement.

<table>
<thead>
<tr>
<th>Expense</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Health Care</td>
<td>43%</td>
</tr>
<tr>
<td>Travel</td>
<td>40%</td>
</tr>
<tr>
<td>Taxes</td>
<td>34%</td>
</tr>
<tr>
<td>Food</td>
<td>25%</td>
</tr>
<tr>
<td>Utilities</td>
<td>23%</td>
</tr>
<tr>
<td>Supporting Dependants</td>
<td>11%</td>
</tr>
<tr>
<td>Credit Card Debt</td>
<td>9%</td>
</tr>
<tr>
<td>Housing Costs</td>
<td>9%</td>
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</tbody>
</table>
Retiring Earlier or Later Than Planned

Retirement comes earlier or later than expected for the majority of Baby Boomers, and the reasons they give include both positive and negative surprises.

About a quarter (24%) of Boomer survey respondents retired later than they had expected or believe they will have to delay their retirement until later than they originally planned. Almost a third (31%) retired earlier than or think they will be able to retire earlier than expected. Less than half (45%) retired at the age they expected to or believe they are on track to retire at the age at which they had planned.
Twenty-two percent of Boomers pushed off retirement because they enjoyed working, but almost as many (19%) reported the need to delay retirement because their investment portfolio was impacted by market performance. Others had to keep working longer because of a lower paying job, due to a spouse or significant other losing their job or suffering from health issues with significant related expenses, or other personal circumstances.

For those who retired early or expect to retire earlier than originally planned, more than a third (36%) said it was because they were financially ready. For almost one in five (18%), the reason given was health issues limiting their ability to continue working. Others cited losing their job or being offered early retirement by their employer, or needing to help care for a family member with health issues.

**Delayed retirement is driven more by circumstance than choice.**

**Why did you retire, or expect to retire, later than you had originally planned?**

- I enjoyed working: 22%
- My investment portfolio was impacted by market performance: 19%
- My spouse or significant other lost their job: 12%
- I lost my job and had to take a new lower paying job: 8%
- My spouse or significant other suffered health issues with significant related expenses: 6%
- Other: 33%

**Early retirement is more often enabled by financial security.**

**Why did you retire, or expect to retire, earlier than you had originally planned?**

- I was financially ready: 36%
- Health issues limited my ability to continue working: 18%
- I lost my job: 13%
- I was offered early retirement: 12%
- I retired to help care for a family member with health issues: 4%
- Other: 17%
Retirement Savings Often Better Than Expected for Boomers

The survey focused on investors with something saved away, even if the amount was minimal. Three-quarters (76%) of retired Boomers said their financial situation was in line with or better than what they had expected at the time of retirement. Less than a quarter (23%) had saved less than they had hoped to.

Most retired Boomers saved as much or more than expected.

<table>
<thead>
<tr>
<th>Which of the following best describes your financial situation at the time of retirement?</th>
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<tbody>
<tr>
<td>My savings were in line with my expectations</td>
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<tr>
<td>I had been able to save more than I expected</td>
</tr>
<tr>
<td>I had saved less than I had hoped to</td>
</tr>
<tr>
<td>Other</td>
</tr>
</tbody>
</table>
Retired Boomers who had more savings than anticipated reported that it had positively impacted multiple aspects of their lives. Sixty-nine percent said they worry less and enjoy life more, and they listed travel experiences and the ability to help other family members financially as top benefits. Those who retired with less savings than they had hoped have had to adjust their spending. However, 37% say having less money than anticipated has not affected their outlook on life, and 26% have come to value family and friends more as a result of diminished financial resources.

### How did having more savings than anticipated affect your retirement lifestyle?

- I worry less and enjoy life more: 69%
- I am able to travel as I’d like: 57%
- I am able to take a nice annual vacation: 50%
- I help out other family members with finances: 48%
- I donate a meaningful amount to charity: 33%
- I volunteer a meaningful amount of time to a cause: 32%
- I help out more with grandchildren’s education: 21%
- I bought a new or second home: 16%
- I get a new car every 3 or 4 years: 13%
- Having more money than expected has not affected my outlook on life in retirement: 7%
- I get along better with my family and friends: 5%
- I worry more and enjoy life less: 3%

### How did having less savings than anticipated affect your retirement lifestyle?

- Having less money than expected has not affected my outlook on life in retirement: 37%
- I travel less than I would have wanted: 35%
- I’m spending less on entertainment: 28%
- I have come to value family and friends more: 26%
- I have come to value free pastimes and experiences: 18%
- I downsized my home or apartment: 14%
- I put off making major purchases such as a car or appliances: 14%
- I was unable to buy a new or second home: 13%
- I am not able to take an annual vacation: 12%
- I worry more and enjoy life less: 10%
- I am helping out less with other family members with finances: 10%
- I am helping out less with grandchildren’s education than I would have liked: 6%
II. What Keeps You Up At Night?

Financial worries differ less among Boomer and Generation X Americans based on their respective generation, and more based on whether they have already retired. Americans still in the workforce are twice as worried about having enough money for their retirement as retired Baby Boomers (59% versus 27%), whose ranks are growing at a rate of close to 10,000 per day.

Retired Boomers are least worried about money in retirement.

When it comes to your finances, what are the things that keep you up at night?

Having enough money to retire with peace of mind
(Percentages indicate participants who responded.)

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<thead>
<tr>
<th></th>
<th>Retirees</th>
<th>Employed</th>
<th>Retirees</th>
<th>Employed</th>
<th>Boomers</th>
<th>Gen X</th>
<th>Millennials</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>28%</td>
<td>59%</td>
<td>27%</td>
<td>65%</td>
<td>51%</td>
<td>62%</td>
<td>53%</td>
</tr>
<tr>
<td>Boomers</td>
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<td>27%</td>
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<td>62%</td>
<td>53%</td>
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Six out of 10 Americans (59%) currently in the workforce say that not having enough money for retirement is one of their top financial concerns. That is eight percentage points higher than the 51% average for Baby Boomers including both working and retired survey respondents.

When comparing retired Boomers and Boomers still in the workforce, however, significant differences emerge. Among Boomers who are already retired, less than one in three (27%) list having enough money for retirement as a top concern, while two-thirds (65%) of those still working say it is.

Importantly, this difference in worry levels holds up even when comparing retired and working Boomers with similar-sized nest eggs. Other findings of the survey suggest that the differences between expectations and reality for retired Boomers are mainly positive and this may account for increased peace of mind among retirees – for example, the three-quarters (76%) of retired Boomers who said their financial situation at the time of retirement was in line with or better than what they had expected.
Health Worries

There is a strong connection between health and wealth: Boomers are more concerned than other generations about how finances could affect their ability to ensure long-term care for themselves or a family member. More than a third (37%) of all Boomers report worrying about long-term health care costs, a number that is very similar for Boomer retirees at 35%. Younger households also feel the pressure of health care costs. Nearly one in three Gen Xers (29%) and Millennials (32%) are worried about the financial impact of long-term care for themselves and family members.

Long-term care is a top financial concern for families.

No Worries

On a positive note for older Americans, almost a third (31%) of Boomers indicated no financial concerns, compared to 16% of Gen Xers and 11% of Millennials. The number of Gen Xers and Millennials who are worried about how household income, debt, education costs or caregiving for an aging parent could hold them back financially is two to three times higher than for Baby Boomers.

One in three Boomers report no financial concerns.
III. What’s Next for Boomers? The Retirement Phase of Investing

Boomers may worry less about retirement savings because their life trajectories mapped the long bull market in stocks since 1980. In contrast, the adult working and investing years of Gen Xers – who are far more anxious about their outlook for a secure retirement – were disproportionately impacted by the lost decade for stocks starting with the dot.com crash and culminating with the 2007–2009 financial crisis and housing meltdown, as well as slower wage growth. Millennials remember the Great Recession, but their real earning and investing years began during the recovery.

Years of weathering the market’s highs and lows have turned the Boomer generation into seasoned buy-and-hold investors who stick to a long-term strategy more than Gen Xers or Millennials. Their confidence about retirement savings reflects this experience, but a key question will be what comes next as they transition to the retirement phase of investing.
Boomer Investment Outlook: A Mixed Picture

We are headed for uncharted waters as more Baby Boomers retire. Although many Boomers remain positive about future market returns, they are taking investment approaches that align with their personal retirement saving goals to help guard against the short-term whims of the markets.

A majority of Boomers believe that over the next 10 years the market will perform well. Twenty-eight percent believe market returns for the coming decade will be at least as strong as the last five years, and an additional 25% think the market will provide single-digit returns in line with historical averages.

On the other hand, there is significant uncertainty about the future. Twenty-two percent of Boomer investors believe there will be significant ups and downs and market corrections over the next 10 years, resulting in lower than average historical returns, and 7% believe there will be a market crash similar to the 2001 tech bubble or 2008 financial crisis. Another 17% have no sense of where markets are headed for the next decade.
Market Downturn Resilience, Upside Potential

Given this outlook, Boomer investors are thinking about their long-term financial needs for a retirement that could last decades – but they are also interested in protecting against market downturns. When asked what they would consider a better investing outcome, 51% said, “Doing better than the market over time,” and 21% replied, “Reducing my losses during market downturns.”

This desire to create a buffer from the ups and downs of the markets is also apparent in how Boomers are investing their retirement savings. When presented with a number of choices about which investing approach best aligns with their retirement savings objectives, two outcomes – outpacing market averages over the long term and protection against market downturns – rise to the top.

The retirement phase of investing is and will be very different for Boomers than prior generations of retirees. There has never been a generation as active, healthy or financially well off. This will require new conversations about market downturn resilience and generating income as the math of investing changes.
**IV. Five Golden Rules From Retired Boomer Investors**

Through years of investing and saving for retirement, Boomers have learned many lessons – some good, some bad and all beneficial to future generations of investors. The survey brought to the surface five rules that Boomer investors found to be essential to saving for a secure retirement.

1. **Stay Invested for the Long Term**
   - Nine in 10 (92%) retired Boomers agree that Americans need to save more for retirement by getting and staying invested in the market. Eight in 10 (80%) recommend pursuing a consistent investment strategy based on long-term objectives. When asked about what they would do in fluctuating markets, only three in 10 (32%) would adapt their strategies based on market conditions.

2. **Keep an Eye on Fees**
   - Low fees and transparency really matter for Boomers. Ninety-four percent of retired Boomers want to be able to easily understand the fees they pay, and 78% stressed low-cost simple investments to buy and hold for the long term.

3. **Diversify Your Portfolio**
   - Eighty-five percent of retired Boomers believe that building a diversified portfolio is one of the most important elements for a safe path to a better retirement.

4. **Protect Yourself Against Market Downturns**
   - Eight in ten (80%) retired Boomers stress the importance of protecting your nest egg and lowering the risk of losses during market downturns. Thirty percent of Boomers wish that they had learned sooner what to do in turbulent markets – near the top of the list of lessons learned.

5. **Start Saving Early and Often**
   - Eight in 10 (79%) retired Boomers believe saving a portion of monthly income toward retirement is one of the best things you can do, and 60% said they wished they had started investing as young as possible. Millennials have clearly gotten this message. Sixty-five percent of Millennials report that they began to care about investing in their 20s or younger, more than three times the 19% rate of Boomers who started saving in their 20s.

**How the Survey Was Conducted**

The survey was conducted by APCO Insight, a global opinion research firm, in March 2017. The research consisted of an online quantitative survey of 1,200 American adults – 400 Millennials (ages 21–37), 400 Generation Xers (ages 38–52) and 400 Baby Boomers (ages 53–71) – of varying income levels, who have investment assets and also who have some responsibility for making investment decisions for their families. The overall sample reflects national representation on key demographic measures according to the U.S. Census Bureau.