Baby Boomers

Too Many Are Financially Unprepared For Retirement
Workers ages 57 through 74, known as the Baby Boomer generation, was once the largest population of the workforce. Named for the period of soaring birth rates in the years after World War II, the Boomer generation has now been displaced by the millennial generation workers. Retirement looms closely for these workers — about 10,000 Boomers turn 65 daily and hundreds of thousands retire each year. Longevity is a big risk to retirement security, and health care costs in retirement will likely be the most significant expense Americans face. The PwC Financial Wellness Survey finds more Baby Boomers than ever before are now delaying their retirement date to maintain health care coverage.\(^1\) Many also juggle the burden of providing financial support for both adult children and caring for dependent parents and in-laws.

With retirement closing in, the pre-retirement working years are a critical time for finalizing plans and Baby Boomers need help — fast. Many have little saved for the future and are at risk of outliving their money. Earnest retirement preparations, including estimating financial needs and developing a plan for meeting them prior to retiring are vital to their retirement success. Other top priorities for pre-retirees include taking steps to eliminate any potential retirement income gap, debt reduction, understanding and saving for Medicare and health care costs, and developing Social Security and asset withdrawal strategies.

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Many Pre-retirement Financial Challenges

When the first Baby Boomer turned age 65 in 2011, this generation had already faced unprecedented financial challenges. Many Americans lost their jobs, homes, and retirement savings during the financial crisis that spanned from 2007 to 2009, a period considered the worst global financial recession since the Great Depression. The economic crisis was devastating for pre-retiree age workers counting on stock market returns and employment stability during the years immediately prior to retirement to help them accumulate adequate savings to finance their retirement years.

Even though this age group has weathered many financial challenges over the years, they remain confident about their ability to retire. Seventy-one percent of employees age 55 and older reported they are confident they’ll have enough money to live comfortably in retirement. But this good news doesn’t necessarily have a silver lining. The same study finds that employees surveyed haven’t calculated how much they need to have saved for retirement. And 43 percent of Baby Boomers have less than $100,000 in savings and investments. Some of the challenges they face are related to financial responsibilities in supporting family members — including children and parents or in-laws. One in ten members of this generation have outstanding student loan debt that 51 percent attribute to their own educational expenses. Forty-one percent of those with such debt say it significantly impacts their ability to meet other financial goals.

2 EBRI 2018 Retirement Confidence Survey.
3 Ibid.
5 Ibid.
Changing Financial Concerns

The generation’s top three financial concerns haven’t changed since 2017, but they have been reprioritized according to the 2018 PwC Employee Financial Wellness Survey. A year ago, Boomers were concerned most with having adequate savings on hand for unexpected emergencies.6 However, retirement preparedness is the worry that dogs Baby Boomers the most in 2018, with nearly half (46%) citing this as their top financial concern.7 Forty-one percent also name low savings for emergencies and the ability to meet monthly expenses (17%) as other their other major financial worries.8

Financial Stress Impacts More Than One In Four Boomers

Each generation defines financial wellness differently. To the Baby Boomer generation, financial wellness means having enough savings to eliminate worries over unexpected expenses (24%).9

Sixty-five percent of workers report stress related to their financial situation at moderate to high levels.10 Employees under age 30 are the most stressed over money, and rates decline somewhat with age.11 But financial worries don’t go away for older Americans. Sixty percent of employees ages 50–59 report they feel moderate to high anxiety over money.12 This stress stems from a number of financial challenges including 59 percent of baby boomers who are parents and are financially supporting their children ages 18-39.13 And for 23 percent of baby boomers, stress about finances impacts their health, and 16 percent find themselves distracted at work by personal financial issues.14

8 Ibid.
11 Ibid.
12 Ibid.
Confident About Finances — But Delaying Retirement

Just about all employees, regardless of age, have similar financial struggles. Almost all say saving for retirement is their number one financial concern. Workers age 50 and older are especially concerned about retirement followed by emergency expenses and health care bills.\textsuperscript{15}

Baby Boomers report a small improvement in their ability to manage current expenses. In 2018, slightly more (53\%) say they can afford monthly expenses should they be unemployed for an extended period over the prior year (48\%).\textsuperscript{16}

Those who find it difficult to meet household expenses on time fell from 32 to 28 percent, however there was no change to the percentage carrying credit card balances (41\%), and slightly more (37\%) say paying this debt on time is difficult over last year (36\%).\textsuperscript{17} Use of credit for otherwise unaffordable necessities rose slightly to 20 percent from 18 percent in 2017.\textsuperscript{18}

For Baby Boomers, financial wellness means \textit{having enough emergency savings} for the unexpected.

Forty-one percent of baby boomers list retirement savings as a top concern with emergency expenses and health care bills rounding out the top three.\textsuperscript{19} Thirty-eight percent think they may need to spend their retirement assets on expenses other than retirement, and 19 percent have already made withdrawals. Typical reasons include unexpected expenses (45\%) and medical costs (31\%).\textsuperscript{20}

Most employees view their ability to manage their finances positively, with roughly half (48\%) rating themselves confident and capable, and another 45 percent giving their skills a score of at least average.\textsuperscript{21} Eighty-four percent of Baby Boomers consider themselves to have a good grasp of their workplace benefit and savings plans and their role in their financial well-being, and sixty-five percent have used the personal financial programs offered through their employer.\textsuperscript{22} However, 74 percent of individuals age 60-plus and 67 percent of individuals over 50 say they will stay in the workforce longer than planned. Even workers under 50 plan to delay their retirement in significant numbers — from 31 to 45 percent.\textsuperscript{23}

\textsuperscript{17} Employee Financial Wellness Survey. PwC, May 2018.
\textsuperscript{18} Ibid.
\textsuperscript{22} Employee Financial Wellness Survey. PwC, May 2018.
Boomers are in the home stretch to retirement — a time that is critical to making final plans and preparations. Each individual has different plans for their retirement years. What’s most important is that workers plan and save for whatever their goals may be. During the pre-retirement years, heavy focus should be on eliminating any potential gap in retirement income and reducing debt. Calculating retirement needs — including health care costs, developing a plan for retirement asset draw down, and the right timing for Social Security withdrawals are other important financial preparations.

While most — 79 percent — of this generation save for retirement, less than 4 out of 10 have increased their savings level, 51 percent are saving about the same amount, and 9 percent are saving less.24

The high cost of health care is already impacting Boomers’ retirement plans, with more delaying retirement to maintain employer health care coverage 32% 25 than ever before. In the past, Boomers chose to continue working because they didn’t want to retire yet (26%), rather than delaying retirement out of economic necessity based on data from PwC’s Employee Financial Wellness Survey.

For the first time, more Boomers than ever say they will postpone retiring to keep health benefits over choosing to work longer because they want to.

REASONS BOOMERS POSTPONE RETIREMENT

47% Haven’t saved enough
32% Need to keep health coverage
26% Not ready to retire


25 Ibid.
Despite many financial obstacles, few Baby Boomers turn to professionals for help with financial planning and assistance.\textsuperscript{26} According to research from Retirement Insights, 36 percent of Boomers turn to the internet for education and tools while 33 percent seek help from a spouse or partner. Just 9 percent look to a financial advisor to obtain help.\textsuperscript{27} Furthermore, just 45 percent admit they know how much they need for their retirement years and only 52 percent are confident in their ability to pay future medical expenses.\textsuperscript{28}

\textbf{59\% of Baby Boomers plan to retire within 5 years...but...}

\begin{itemize}
\item 55\% don’t know how much income they need in retirement
\item 43\% have less than $100,000 in savings
\item 52\% are confident they can cover future medical expenses
\end{itemize}


\textbf{Health Care Costs Put Retirement Security at Risk}

Health issues in retirement are a top retirement concern for Baby Boomers (37 percent) who are working, followed by health care costs (36 percent) and running out of money (33 percent).\textsuperscript{29} Healthy Boomers could expect longer life expectancies, and the substantial cost of health care in retirement puts workers retirement savings at risk. Most believe health-related expenses will have an impact on their retirement, including 57 percent of the Boomer generation.\textsuperscript{30} Health care costs in retirement will be significant — premiums alone are projected to cost a healthy 65 year old couple nearly $282,000.\textsuperscript{31} Despite concerns, however, many are not taking action to build additional savings for these critical expenses. For example, of the more than half of workers with access to a Health Savings Account (HSA) less than half use it to save for future health care costs.\textsuperscript{32}

\textbf{Top Retirement Concerns:}

\begin{itemize}
\item 37\% Health issues
\item 36\% Healthcare costs
\item 33\% Running out of money
\end{itemize}


\textsuperscript{27} Ibid.
\textsuperscript{29} Employee Financial Wellness Survey. PwC, May 2018.
\textsuperscript{30} Ibid.
Helping Pre-Retiree Workers Get Retirement Ready

With retirement around the corner, this group urgently needs help getting clarity about their true retirement income needs, the steps they need to take to meet them, and how to make their savings last for their lifetime. Employers can help these pre-retirees with retirement planning solutions that can help them save enough to make ends meet — and pursue their passions. Retirement readiness in the short-term for this generation requires making final retirement preparations, including defining retirement income needs, closing any retirement income gap, reducing debt, determining the right time to draw from Social Security, and developing a plan for making retirement savings last a lifetime.

Lead workers to financial security through financial wellness
Financial wellness programs can help workers manage the financial obstacles that prevent them from attaining financial security — and saving more for retirement. Through these programs, workers can acquire skills to better manage current expenses, reduce debt, and make the most of their employer benefits. Health care costs in retirement, Social Security, and asset withdrawal strategies are important topics for pre-retirees to learn.

Carefully choose plan features to encourage better retirement outcomes
Employers can encourage better retirement outcomes with better plan design. The use of automatic plan features, best practices, and carefully matching plan defaults, investment menus, and other features to workforce needs can drive better retirement decisions and outcomes.

Make preferences a priority
Technology is a must for keeping workers engaged in their retirement planning. With an increasingly mobile workforce, making planning fast and easy, and allowing workers to enroll, learn, and take action on the go, anytime, is critical to meeting their retirement planning needs.

Encourage additional savings and educational opportunities
Before exiting the workforce, it’s critical that workers nearing retirement build wealth, reduce debt, and understand how to make their savings last. Employers can help pre-retirees plan for this life phase by offering specialized educational opportunities about topics like catch up contributions, Social Security, asset withdrawal strategies, Medicare and planning for health care expenses.
Supporting Your Needs Today And Tomorrow

Retirement benefits aren’t just about planning for the future. They are about attracting and retaining a motivated, productive workforce, day in and day out. ADP’s deep Human Capital Management knowledge means we make it easy for clients like you to create a successful retirement plan for your workplace.

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Let’s Talk

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