Shedding New Light on Retirement Planning

A series that examines how pre-retirees and retirees are paving the way for the road that lies ahead

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Working with Brighthouse Financial, WSJ. Custom Studios conducted research that takes a deep dive into the retirement planning journey. Two focus groups and a survey of 529 pre-retirees (ages 50-64) and retirees (age 65+) were conducted by WSJ. Insights, the research department of WSJ. Custom Studios, during April and May 2017. The data revealed the attitudes, actions and spending habits of pre-retirees and retirees — how they plan, what they envision for their futures, and how and when their priorities shift.

Shifting Out of Neutral

Why It's So Hard to Get Retirement Planning Into Gear

It seems that on the road to a rewarding retirement, many people could use a jump-start.

A surprising finding from the WSJ. Insights focus groups is just how long people delay putting a solid retirement plan in place. To an extent, their plan is to seriously think about retirement right before they get there. This is in sharp contrast to results from the WSJ. Insights survey, in which the majority of 50- to 64-year-olds claimed that they are already immersed in retirement planning — although, what that means to one person may be different for another.

Certainly, delaying retirement planning isn't the most prudent strategy to ensure a secure and satisfying retirement. Some people don't plan even though they know they should. Harvard Business School Professor Michael Norton, one of the authors of *Happy Money* and a member of the Harvard Behavioral Insights Group, likens the difficulty people have with planning for retirement to losing weight. "Everyone knows to eat less and exercise, but actually doing it is challenging," he says. Similarly, you know the planning process is a necessary one, but taking a crystal-ball look at your future to figure out your wants and needs can be daunting.

Another reason for putting off planning is the preconception that it will be hard — but it doesn't need to be. "People have the idea that they have to fill out a 20-page document and gather information just to walk in the door," says Matt Quale, vice president of marketing for Brighthouse Financial. "But working with an advisor, they can start with a couple of simple goals. Spelling out those goals in a brief, 15-minute session will go a long way to help steer people down the right path."

Perhaps the most challenging aspect of retirement planning is that it mandates a shift in financial thinking, from an asset-based accumulation strategy (relying on employment earnings and growth from investments) to an income strategy that focuses on reliable ways to make your money last.

Even on the cusp of retirement, many pre-retirees still see themselves as "contributors" and "accumulators" — risk-takers and savers — rather than stewards of the savings they have. Results from the survey showed 68 percent of pre-retirees were committed to a growth strategy, with 75 percent planning to seek greater protection for their savings five to 10 years from now. Exactly when they will make that shift is hard to say: Nearly 40 percent of pre-retirees reported they would rather play the markets than play it safe with their savings in retirement, a telling example of how difficult it is to reset entrenched ways of financial thinking.

"Often, when people start talking with an advisor about retirement planning they are still tactically focused on their investment portfolios," says Myles Lambert, chief distribution and marketing officer for Brighthouse Financial. "What they need to do is start thinking strategically about what they want to accomplish in retirement and how they can develop a plan for receiving income that will last for the rest of their lives."

Reducing financial risk is a defining characteristic of the shift to retirement readiness. One realization as people move into retirement is that they will no longer be able to recoup investment losses should the markets not go their way. "If you are in your 20s, you can invest in tech stocks and IPOs because you have plenty of time to make it up," says Patricia Adrian, a focus group member. "But if you lose it when you are in your 70s, it is gone."

H. Kent Baker, university professor of finance at American University, refers to this as loss aversion. It goes without saying that no one likes to lose. But he says that the pain you feel from losing is far greater than the reward you get from gaining. "People react more strongly to downside risk than upside risk," he says. "A stock has the same possibility of going up one dollar as it has of going down one dollar; however, research shows that a one-dollar loss has twice the emotional impact as a one-dollar gain."

Despite this, it's not always easy to forgo the habit of taking on risk. Steve Korn, a focus group member who is not yet retired, started to shift his money to less risky investments. "It goes against my nature because I like to take risks," he says. "I like to invest, but I realize I can't earn it back if there's a downturn. So I have to go against some of my instincts."

Korn has also been looking at annuities as a way to manage another risk — that he might live a lot longer than he expects. With a deferred annuity, he could buy a policy now that could provide a stream of income starting when he reaches age 85, which is when he figures he'll need it most.

"Suppose I've got my grandmother's genes," Korn says. "I could live to 93. And it's very different to have assets that will last to age 85 versus age 93. So I'm thinking about planning now for income later."

What Stage Are You In?

A 2017 WSJ. Insights* study surveyed 529 people 50+ to identify the four stages of the retirement planning journey. Those that see themselves as contributors may not be actively thinking or planning for retirement, but they are likely to be making contributions to IRAs and employer-sponsored plans.

N **1** 2 3 4

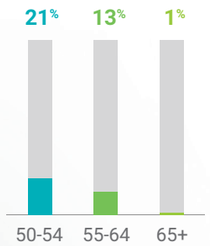
Contribution

9% just of all pre-retirees & retirees surveyed self-identify as contributors

69% say growing savings is their more important objective right now

71% know they should minimize portfolio risk but are not ready to give up potential gains

By Age Group



37% have too many competing financial priorities, such as student debt and mortgage payments, to actively plan

*Source: Shedding New Light on Retirement | WSJ. Insights in collaboration with Brighthouse Financial, June 2017. Total, n=529 Wall Street Journal Readers.

Still actively growing their savings, accumulators may be building diversified portfolios and forming ideas about their retirement plans and goals. They know about the importance of retirement planning but continue to face competing priorities that may get in the way of solidifying their plans for the future.

N 1 **2** 3 4

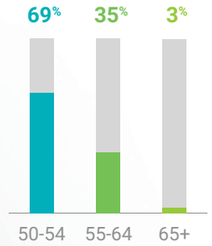
Accumulation

26% of all pre-retirees & retirees surveyed self-identify as accumulators

64% say making their money last will be a financial priority within the next 5-10 years

68% plan to work for as long as they can

By Age Group



45% have/are planning a strategy to preserve funds for as long as they live

56% would like advice to make better educated, informed decisions

Source: Shedding New Light on Retirement | WSJ. Insights in collaboration with Brighthouse Financial, June 2017. Total, n=529 Wall Street Journal Readers.

What Stage Are You In?

Mobilizers are taking action: The reality of impending retirement has hit home. They are actively thinking about what type of retirement experience they want and how they'll fund it. Their mindset is shifting from a growth strategy to a protection strategy, which is focused on preserving savings and figuring out how to make their money last.

N 1 2 **3** 4

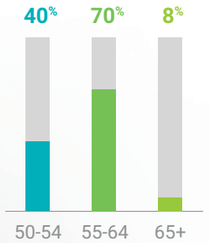
Mobilization

36%
of all pre-retirees & retirees surveyed self-identify as mobilizers

83%
have calculated the income they'll need in retirement

67%
believe market volatility will affect their retirement finances in the next 5-10 years

By Age Group



70%
continually adjust their portfolios to minimize risk

60%
are looking for a financial advisor to proactively provide ideas & solutions

Source: Shedding New Light on Retirement | WSJ. Insights in collaboration with Brighthouse Financial, June 2017. Total, n=529 Wall Street Journal Readers.

During the remuneration stage, people are likely to be partially or fully retired. For the most part, their retirement plans are in place; nonetheless, they may still be adjusting those plans as the economy and their personal situations change. They depend on some reliable income to fund their retirement, such as annuities, pensions and Social Security, as well as other assets, such as retirement accounts and investments.

N 1 2 3 **4**

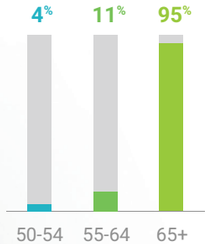
Remuneration

95%
of people 65+ self-identify as being in this stage

85%
have strategized to make their money last throughout their lifetime

67%
are using pension-like income streams now to delay IRA/401(k) withdrawals

By Age Group



43%
are still making plans for the retirement they want

48%
are working because they have the opportunity to try ventures they couldn't before

Source: Shedding New Light on Retirement | WSJ. Insights in collaboration with Brighthouse Financial, June 2017. Total, n=529 Wall Street Journal Readers.

Many pre-retirees still see themselves as “contributors” and “accumulators” — risk-takers and savers — rather than stewards of the savings they have.

The Science Behind Happier Spending

Drawing Down Doesn't Mean Falling Short

When Howard Rosen retired last year, he knew it would be painful for him to spend down his hard-earned savings. "Even though intellectually I know I don't need to save anymore, psychologically, I am still in savings mode," he says. "With every check I earned over the last 49 years, I always put some away for the future. Saving is so ingrained in me that I find it difficult to switch gears."

Rosen, who recently moved to Scottsdale, Arizona, from St. Louis, Missouri, carefully planned what he would need in retirement using probability simulations to forecast the impact of risk and uncertainty. Based on his projections, Rosen was sure that he would have enough savings to last him until age 95, even if he spent 150 percent of his pre-retirement monthly income. Still, he doesn't feel comfortable about spending.

"If I go out for dinner and spend a few hundred dollars, I think to myself: 'I can't do that again next weekend.' I always feel like I need to spend less," he says.

Rosen is not alone in being concerned about withdrawing his savings once regular income is no longer coming in. Many people have a tough time making the transition from being a saver — or accumulator — to being a spender. Without feeling truly confident that assets will work together to create reliable income throughout our lifespans, there is a tendency for people to "over-conserve," often spending far less than they can afford. That's true no matter how much money retirees have saved.

The WSJ. Insights survey revealed that 80 percent of pre-retirees (ages 55 to 64) and 74 percent of retirees (ages 65 and over) plan to conserve funds in early retirement to ensure that their money will last. To be sure, there's nothing wrong with wanting to preserve capital. But the same mentality that helps you save for the future can become an obstacle when you deny yourself the experiences that will provide you the greatest pleasure in retirement.

Harvard Business School Professor Michael Norton, co-author of the book *Happy Money*, demonstrated that spending on experiences, especially those that bring you together with other people, delivers more "happiness bang for the buck" than material goods. "Once you've hit a certain level of prosperity, the good feelings that accompany a new car or a piece of jewelry are not nearly as satisfying as an experience that will give you great memories — and great stories to tell — for years to come," he says.

This was reiterated by David Sellar, a retiree and member of the WSJ. Insights focus group, who recalled how his older brother bowed out of the markets and spent a portion of his retirement savings to go on fantastic cruises to far-flung places — one after another. "My brother would say, 'I'm not going to wait until I'm in a wheelchair to try to do this. What am I saving it all for?' It had a profound effect on me, since my brother just passed away," he says. "I realize now that he was right."

The real culprit is not an unwillingness to part with money in retirement, but which money to part with first. While withdrawing from capital gives people a feeling that their money is dwindling, using more consistent income streams, such as annuities, pensions and Social Security, may be experienced differently.

Pension-like income is received as a regular "paycheck," similar to the experience you've become used to during your employment years. For many people in retirement, spending monthly income feels more like paying expenses with earnings and less like liquidating savings. The survey bears this out: 88 percent of respondents said they are more comfortable with the idea of using monthly income than dipping into IRAs and other retirement accounts. How more consistent income streams fit in an overall retirement plan can be both tactical and strategic. The most common ways retirees use them are to pay for daily living expenses and to delay withdrawing from retirement accounts, according to the survey.

"What annuity solutions do really well is create that paycheck and provide pension-like income," says Myles Lambert, chief distribution and marketing officer for Brighthouse Financial. "Along with other reliable income streams, annuities can create the bedrock of a financial plan — a foundation to build upon. From there, retirees can figure out how they want to spend the rest of their assets or whether they want to invest the rest of their assets to address other needs."

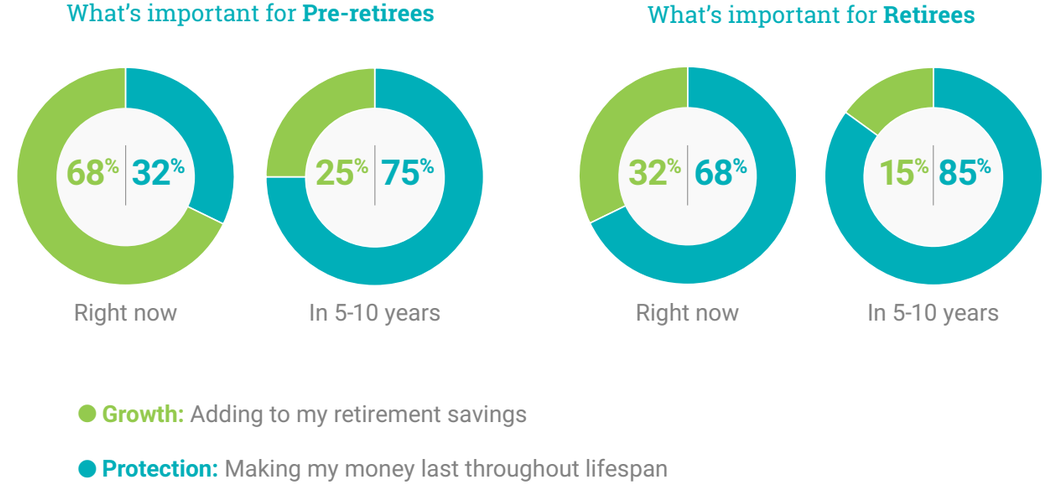
Virtually all of the retirees in the focus group have annuities and other pension-like income streams as the backbone of their retirement plans. They are confidently spending on the things they enjoy, the things that excite them and the things they are looking forward to exploring.

One reason why they may appear confident is that their plans are so well thought out; several mentioned that they have designated buckets of income for different stages of retirement to ensure that money will be available throughout their lifespan.The way one focus group member sees it: "The goal is to spend your last dollar on your last day."

Shifting Your Financial Priorities

What's more important to pre-retirees and retirees: adding to savings or making the money last? Pre-retirees are most concerned with growing their savings now, but acknowledge that they'll be focused on preserving their hard-earned funds as they move forward. For retirees, the choice is clear.

Growth vs. Protection: Which is more important to you?



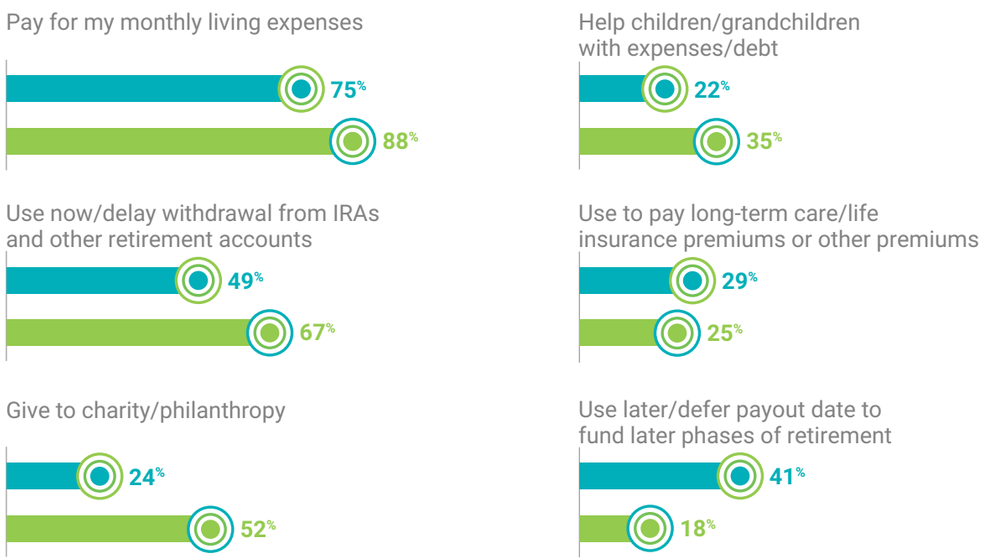
Source: Shedding New Light on Retirement | WSJ. Insights in collaboration with Brighthouse Financial, June 2017. Total, n=529 Wall Street Journal Readers.

Spending With Confidence

Retirees may be "overconserving" their savings in the early years of retirement. But there are better ways to make the money last. Monthly income, such as Social Security, pensions and annuities, comes just like a regular paycheck, creating a benchmark for comfortable levels of spending throughout retirement.

Strategic uses of pension-like income

- How pre-retirees **may use it**
- How retirees **are using it**



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Which Money Should You Spend First?

After spending so many years amassing savings, retirees seem reluctant to watch their retirement accounts deplete, often fearing it will lead to an income shortage later in life. Knowing how different income streams can work together enables retirees to create a plan for which buckets of money to draw from — and when.

Pre-retirees & retirees seek guidance from financial advisors on how to create and use retirement income.

"**Show me** how all of my savings work together to produce a regular income stream in retirement."

88%

of all respondents agree:

"I am/will be more comfortable spending monies that come to me on a **monthly basis** (Social Security, pensions and annuities) before dipping into IRAs and other retirement accounts."

Source: Shedding New Light on Retirement | WSJ. Insights in collaboration with Brighthouse Financial, June 2017. Total, n=529 Wall Street Journal Readers.

88 percent of respondents said they are more comfortable with the idea of using monthly income than dipping into IRAs and other retirement accounts.

Taming the Wild Cards

What You Can Do to Stack Your Financial Deck

The unknowns of life can be exhilarating and enormously satisfying — what twists and turns your career may take, where you choose to live and the unexpected pleasures that present themselves along the way.

Those experiences don't need to stop in retirement. In fact, it's a time when you can do more exploring and take advantage of your newfound time and freedom to live in different places, build new relationships and pursue your interests. However, without proper planning, there is financial uncertainty that can impact your assets and your ability to fund the lifestyle you envision.

The WSJ. Insights survey revealed that the most disruptive economic factors anticipated by pre-retirees (ages 50-64) and retirees (age 65+) in the next decade are centered on market performance, such as low yields and market volatility. Nearly 70 percent believed that the possibility of another market crash was likely in the next five to 10 years.

There were also the "wild cards" that hit closer to home, such as future health issues and medical expenses. More than a quarter of respondents cited unplanned support of adult children, such as helping to repay college loans, and caring for aging parents and relatives as factors that could affect their finances as they move forward.

"The top concern we see is that people want to have enough reliable income in retirement so they don't run out of funds during their lives," says Myles Lambert, chief distribution and marketing officer for Brighthouse Financial. "At the same time, they're trying to hedge against the greatest threats that could disrupt their income streams."

For pre-retirees, a significant concern was job insecurity: One in three surveyed worried about getting forced out of their jobs before they were ready to retire. That dovetails with the experiences of retirees in the WSJ. Insights focus group. Universally, they said impending or immediate job loss, most often due to involuntary retirement, was the trigger that inspired them to solidify their retirement plans and safeguard their assets.

This poses a conundrum: Just when do your employment earnings end, and when does your reliance on savings start? For those counting the days to retirement at the tail end of their careers, it's easier to pinpoint and plan for that date. For people who are in their 50s, 60s and 70s and plan to work until the day they are asked to clear out their desks, that date may be a moving target. It's important to keep in mind that although the date of retirement may be undetermined, the eventuality of retirement — and the need to plan for it — is not.

Rather than feel overwhelmed by all the wild cards, it's better to work with a financial advisor to tackle them head-on. H. Kent Baker, university professor of finance at American University, says identifying key concerns is the first step in planning the best ways to deal with them. "Start by limiting yourself to two questions," he says. "First, what are the three things that can go wrong during your retirement years that concern you most? Second, if your worst fears actually come true in the future, what can you do to plan for them now?

While you may not be able to control the hand you're dealt, there are ways to plan for greater income stability and less risk in retirement. When asked what would make them happier in retirement, more than half of pre-retirees surveyed said they would rather receive an additional $2,000 per month for the rest of their lives than a single payment of $300,000. Faced with the possibility of economic uncertainty and a long life ahead, a majority of pre-retirees recognize the value of pension-like income and the peace of mind that comes with it.

Reliable income streams such as pensions, lifetime annuities and Social Security complement other assets in your financial portfolio, helping to provide a web of financial security, no matter how wild the world may get. "Annuities can deliver a steady stream of income for life," Lambert says. "They can offer a variety of guarantees, such as growth on future income or some guaranteed income during specific periods in retirement or during all of retirement. There are also opportunities to guarantee death benefits to leave a legacy for heirs."

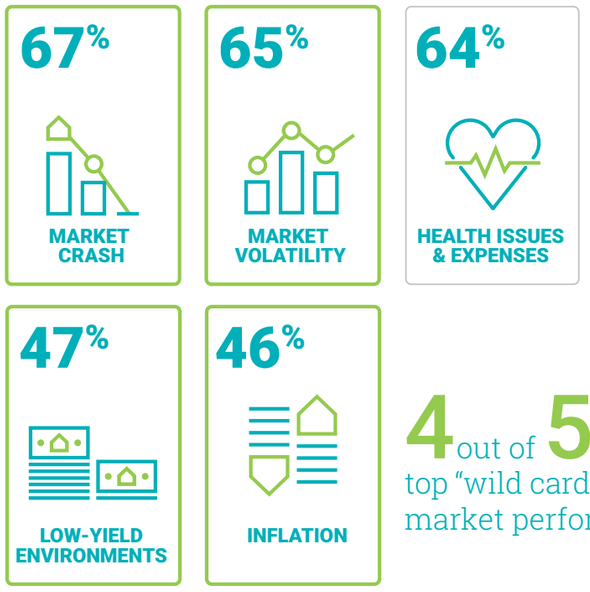
Most important, when an individual buys an annuity that provides regular income over the course of his or her lifetime, it is a natural hedge against longevity — some guaranteed income for life, no matter how long that life turns out to be, Lambert says. Because of such reliability, financial advisors often look to incorporate annuity solutions into an overall retirement strategy.

While there's no single answer to protect yourself against all of the unknowns that may occur, retirement planning can strengthen your financial position to better withstand whatever may head your way. "Don't shy away from thinking about the things that could occur down the road," Baker says. "Being proactive and addressing the wild cards you can identify today is one of the best ways to plan for your future."

Where the Wild Cards Are

Without proper planning, "wild cards" — unpredictable events — can threaten retirees' financial stability in retirement. While the market can deal some "wild cards," others hit closer to home, such as unexpected health issues or the need to support adult children or aging parents. Some consistent income, such as Social Security, pensions and annuities, can help by providing a reliable stream of income no matter how unpredictable the world gets.

What are the most unpredictable factors that you believe you'll deal with in the next 5-10 years?



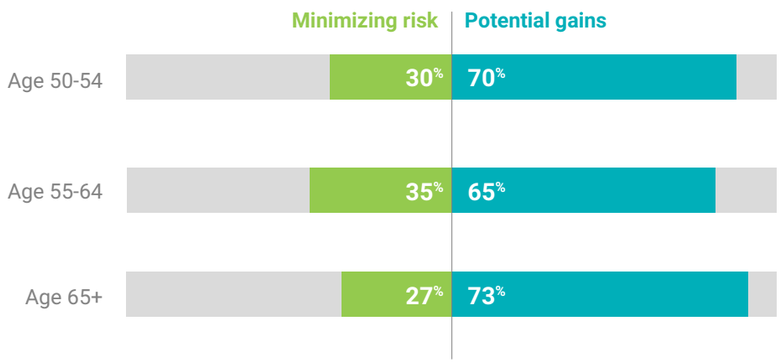
4 out of **5** of the top "wild cards" deal with market performance.

Source: Shedding New Light on Retirement | WSJ. Insights in collaboration with Brighthouse Financial, June 2017. Total, n=529 Wall Street Journal Readers.

Playing It Safe?

Moving from an accumulation strategy, where pre-retirees and retirees rely on earnings, to an income-based strategy, which is focused on preserving savings, requires a major mindset shift. A surprising finding from the WSJ. Insights* survey: Reducing risk and preventing losses was a top priority; however, all respondents were reluctant to forgo riskier investments entirely.

I know I should minimize risk in my portfolio, but I'm not ready to give up potential gains.



78% of respondents agree that they only risk what they can afford to lose

60% of respondents agree that if they lose in the markets, they don't have time to make it back

*Source: Shedding New Light on Retirement | WSJ. Insights in collaboration with Brighthouse Financial, June 2017. Total, n=529 Wall Street Journal Readers.

Leaving Work For Good

For some, the timing of retirement poses the most uncertainty, which makes it hard to pinpoint when to shift from thinking about earning more to relying on savings. Pre-retirees seek a guide to help them plan; they want to know how much they need and when they can afford to retire. Yet most say they aren't planning to retire any time soon: They say they'd like to keep working because of the feeling of value it brings — not the income.

85% of pre-retirees say they're likely to keep working during retirement

But only 21% of retirees say they're likely to continue to work

Why do pre-retirees and retirees want to continue to work as they age?

82% say it's to feel productive and help others

55% say it's an opportunity to pursue a new venture

26% say it's for the income

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More than half of pre-retirees surveyed said they would rather receive an additional $2,000 per month for the rest of their lives than a single payment of $300,000.

Creating Your Own Masterpiece

Retirement Is a Work in Progress

Patricia Adrian, a member of the WSJ. Insights retiree focus group, had the kind of job most people would love to have. It was "unbeatable," she says. She worked at a well-known media company, where she had a plush expense account and hobnobbed with celebrity chefs, who frequently cooked for her. The last thing she wanted was to retire.

"I absolutely dreaded retirement because I was so wrapped up in my job. I thought retirement would be flat, nothing," she says. "But from the first day, I was off and running. I finally had time to pursue everything that always interested me, but didn't have the time or money to go after before."

Adrian's leap into retirement is how most people hope their retirement transition will be — an optimistic time that's full of new pursuits and pleasures. However, the road to a gratifying retirement can start out a bit bumpy. There may be feelings of loss when letting go of friendships in the workplace and the ways in which work provided the core of your work-life structure. Those who have enjoyed successful careers may also experience a loss of purpose and identity.

After running a company for 25 years, Robert Delamontagne struggled with the sudden change in his daily life immediately after retirement. Although he was financially secure, the emotional toll took him by surprise. "When I retired, I felt lost. I didn't know what to do. Nobody ever talked about what turned out to be a pretty significant transition," he says.

Eventually, Delamontagne found his equilibrium and used his personal experiences to launch a second career as an author, writing *The Retiring Mind*, a series of books on the psychology of retirement. What he learned is that it's vital to be actively engaged in the rediscovery of who you are and how you choose to spend your retirement years. "Your capital is your time," he says. "How you spend your capital determines the quality of your retirement life."

By all accounts, the focus group retirees are spending their "time capital" well — exploring new opportunities, such as owning a share in a vineyard and doing charitable work; immersing themselves in culture, fitness and classes; traveling to Africa and India; and creating new circles of friends who share their abundant interests and passions. Each person is crafting their own "original" retirement — nothing like their parents' and distinctly different from one another. What they do have in common is they all manage their financial capital wisely, relying on a combination of guaranteed and lower-risk assets to receive a pension-like income stream, while reallocating market-sensitive assets in their portfolios to minimize risk.

"When you're younger, you think you are smart enough to invest in the stock market and equities. Then you learn from the losses and get more educated," says David Sellar, a focus group member. "When you plan for retirement, you make decisions based on the income you'll need to sustain your lifestyle. You tend to go far safer and more conservative."

Playing it safe doesn't mean retirees are out of the game entirely; many still have a toehold in the markets. While retirees (age 65+) who responded to the WSJ. Insights survey acknowledged that they should minimize risk in their portfolios, 73 percent were not ready to give up potential gains. Sellar refers to the funds he invests in the markets as "racetrack money" — money he can afford to lose — that he's set aside to "gamble" with. More than 85 percent of retirees surveyed saw their investments in the markets similarly.

A successful retirement plan starts with a diversified, balanced portfolio, according to Matt Quale, vice president of marketing for Brighthouse Financial. Annuity solutions or other sources of more consistent income, such as Social Security and pensions, can be important parts of a portfolio that help on the protection side. "People tend to think of it is a binary choice — either chase protection or chase growth," Quale says. "Once they understand that they have the security needed to cover their living expenses in retirement, they can think about taking some of their ancillary assets and investing them for growth or incorporating them into legacy planning."

Retirees remain involved with financial planning, continuing to monitor and adjust their retirement strategies as needed. "Just because they have certain goals when they retire doesn't mean their circumstances won't change," says Myles Lambert, chief distribution and marketing officer for Brighthouse Financial. "The best plan is to build a trusting relationship with a financial advisor now, because retirement planning isn't something they should set and forget. It's an iterative process and they'll need guidance along the way."

By working with a financial advisor, you can create the income streams that will help give you the confidence to pursue the retirement life you envision. The goal is to create a retirement plan that is as individual and original as the life you wish to lead.

What Matters Most in Retirement

Pre-retirees and retirees share their perspectives on living well, planning ahead and what holds the greatest value to realize the retirement life you envision.

What's most important in retirement: More friends or more money?

68% would rather make more friends

32% would rather make more money

Source: Shedding New Light on Retirement | WSJ. Insights in collaboration with Brighthouse Financial, June 2017. Total, n=529 Wall Street Journal Readers.

Making Savings Last

Planning for a fulfilling, rewarding life — and ensuring you have the funds to do it — continues through retirement. While pre-retirees and retirees may look to take on low levels of risk, their primary focus is on how to preserve savings and spend their funds on the things that matter most to them.

What financial decisions are you making about your retirement savings?

65%
would rather play it safe with their money than play the markets

77%
are planning to conserve funds in early retirement to ensure savings will last

62%
continually readjust portfolio allocations to reduce risk as they grow older

Source: Shedding New Light on Retirement | WSJ. Insights in collaboration with Brighthouse Financial, June 2017. Total, n=529 Wall Street Journal Readers.

A New Set of Priorities

Planning for retirement is like taking a crystal-ball look into your future. What we think we will want in retirement can change once we get there. While pre-retirees may wish to travel and live in new places in retirement, many retirees prefer to stay put and use a portion of their funds to leave a legacy. Regardless of age, people continue to envision the lives they want to lead and make plans to ensure the income they will need to lead them.

What would make you happier in retirement?

Leave an inheritance rather than travel with your kids/grandkids

Live where I do right now rather than live somewhere else

Pre-retirees
88%
"I'm already making plans for the retirement I want"

Retirees
45%
"I'm still making plans for the retirement I want"

- Retirees: 65+ years old
- Pre-retirees: 50-64 years old

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While retirees acknowledged that they should minimize risk in their portfolios, 73 percent were not ready to give up potential gains.