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Retirement Income Expectations: Clients Are Talking More About Them

By Jim Connolly

A recent survey quantifies what many feel about income expectations in retirement. It comes out at a time when financial planners report they are hearing more about income planning from their clients. In fact, several planners have told *Income Planning* that income now makes up a big part of their retirement planning discussions with clients.

The study, released by AXA Group, New York, N.Y., notes that most Americans polled say they expect their standard of living to remain the same, although a significant segment anticipate or are experiencing a decline. Though international in scope, many questions in the survey culled target responses from 403 working and 410 retired American participants.

Among working participants, 49% expect their standard of living will remain the same in retirement; 33%, say it will decrease; and 18% say it will increase. Retirees fall in roughly the same range, with 52% citing a roughly comparable standard of living; 29%, a decline; and, 20%, an increase.

Financial planners contacted by this publication say that the survey's findings dovetail with what they are hearing from clients.

Clients understand that their retirement income will not be what it was before they retire, according to Nancy Ferriss, a certified financial planner with Ferriss Financial Strategies, St. Louis. "People are a whole lot more realistic about what they will get in retirement. They do not think that they will be taking a cruise every 3 months."

While she says that many of her clients are already retired and have defined benefit plans, they are expressing concern about the prospects of their children and their younger friends.

Pre-retirees are saying that there is a feeling that they need to save for retirement because of concern that Social Security benefits will not provide anything meaningful for them in the future. But, she notes, her clients are a self-selecting group because they have proactively sought out advice from a planner. "Social security is a big concern."

A significant number of Ferriss' clients are Depression survivors and know how to save and not spend beyond their means, she says. "They are concerned that government is spending beyond its means. They don't hear what the government is doing now as realistic."

There is a concern that taxes are going to increase, although customers in the 65-75 age group are not as concerned about future benefit cuts, she continues. But, she notes, "they are not happy that they are saddling their children and grandchildren with debt."

Ferriss says that her clients are saving and that older clients preferring investments such as certificates of deposit that reduce risk of large loss even if returns are smaller. Clients in the 55 age range have 401(k) and 403(b) savings plans and have done a good job of saving, she adds.

As for younger clients, she notes that those in their 30s are planning for income for their children's college educations. "They are not really interested in luxurious lifestyles but are more interested in basic needs."

In her first 10 years as a financial planner, Ferriss says that many younger clients were just concerned about making car payments or premium payments on life insurance and a down payment on a house. But now she is seeing that clients in their 30s who have gotten married later want to establish income for their children's needs because they say they see how friends who married young are not in a situation to provide many of these things for their children.

Older clients are not the only ones that are being more realistic about income and returns that will produce that income, Ferriss continues. Boomer clients, for instance, no longer say that they want 20% or more as they did in the 1990s. And, she adds, they are no longer threatening to walk out the door if they aren't guaranteed such returns.

While retired clients are generally pleased with their income streams, points out **Theodore Yoos**, a certified financial planner with Back Bay Financial Group, Boston, some baby boomers have concern over the impact of Social Security reform on their future income. There is a sense that they need to be more responsible for saving for retirement, he adds.

But **Yoos** says his clients understand the reason why he emphasizes having a well-diversified portfolio. They see that it is an important way to make sure that there are sufficient resources in a retirement account to ensure an income stream in retirement, he says. Another technique he recommends is rebalancing a portfolio to prevent overweighting.

Rebalancing should continue on into retirement, he says. And he says cash, Treasuries and other liquid investments should be available in case markets don't perform well and there is a need to draw down on those investments in order to avoid dipping into the long-term portfolio.

Most clients are optimistic that they will have a regular income stream in retirement, says Chris Berg, a certified financial planner and a certified public accountant with CB Financial Planning, LLC, Portland, Ore.

For the most part, savings are being done through qualified retirement programs, he adds. Berg says that his clients range in age from their 30s to mid-50s. But, he says that recently he notices that younger people are coming to him for planning advice. Potential reasons, he says, may range from the growing complexity of planning for sufficient retirement income to greater information available about the need to plan earlier.

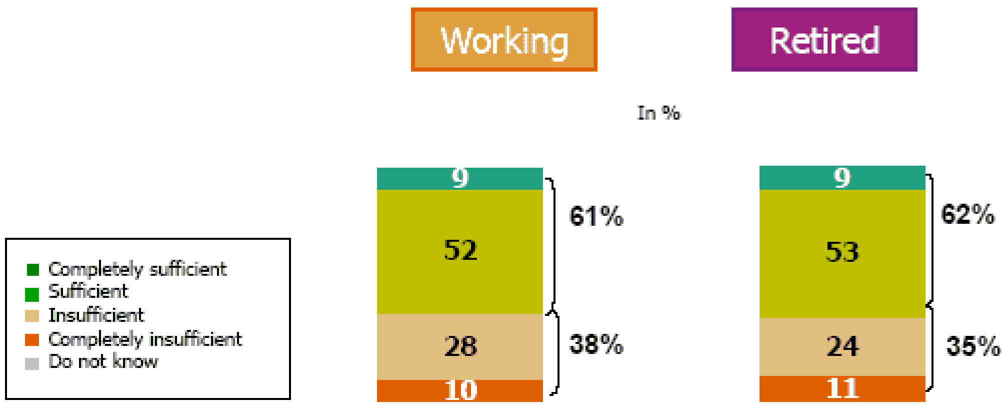
Among other findings from the AXA survey follow:

A total of 62% of those who are working and 74% of those who are retired say that retirement income will be lower, and a respective 18% and 13% say that their income will be or is as high as pre-retirement income.

Twenty percent of working participants and 12% of retirees surveyed say that their retirement income will be higher than before retirement.

Even so, survey respondents say their retirement income will be sufficient to meet their needs. Sixty-one percent of working participants and 62% of retired participants say income will be or is sufficient. (See chart.)

Retirement income is seen as sufficient for six out of every ten workers or retirees.



Source: AXA Group, New York, NY.

The AXA survey offers other insights, too. For instance, 73% of participants are preparing for their retirement; 76% of worker participants and 80% of retired participants are saving for retirement, and a respective 69% and 65% are saving through savings plans with fiscal advantages.

Additionally, 66% of workers and 59% of retirees who participated in the AXA survey have a life insurance policy.

On average, working participants save $687 for retirement income with a median total of $389; and retired workers save $535 with a median amount of $191.