



CENTER FOR A  
SECURE RETIREMENT®

# The Middle-Income Boomer Retirement Gap: Savings, Education and Advice

By Bankers Life Center for a Secure Retirement

November 2014



**BANKERSLIFE**™

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# Introduction

## Retirement is changing

When Boomers entered the workforce several decades ago, they went in with an implicit promise of a strong institutional presence in their retirement financial security. They now exit the workforce facing an altered reality as traditional institutions and programs are under increased strain or are going away altogether.

## Social Security

As 10,000 Boomers retire every day, serious questions are being raised about the long-term solvency of Social Security.<sup>1</sup> Unless steps are taken to address the shortfall—such as increasing the retirement age to 70—reports from the Social Security Board of Trustees indicate that the Trust Fund reserves will become depleted within the lifetime of many Boomers.<sup>2</sup>

## Defined benefit pensions

Meanwhile, “defined contribution” has replaced “defined benefit” in the vocabulary of many workers. Once the primary source of retirement funding for millions of retirees, the defined benefit pension—that is, a pension that pays a specified amount every month for the life of the beneficiary—is steadily decreasing as employers freeze or, in some cases, outright fail to pay promised benefits.

Indeed, the number of private-sector workers covered by a pension has declined steadily over the last 25 years.<sup>3</sup> Public-sector pensions are likewise not immune to the long-term effects of underfunding, as we’re seeing unfold in governments nationwide.

## Retiree health insurance

Many firms are dramatically shrinking or eliminating retiree health insurance benefits. In fact, the number of firms offering retiree health insurance today is less than half the number offering coverage in 1988 (28% vs. 66%).<sup>4</sup> While many benefits have been added to the Medicare program, including Medicare Part D prescription drug coverage, individuals must pay premiums and certain costs—such as vision, dental and long-term care—that are not generally covered and must be paid out of pocket.

## Increased personal responsibility

We must recognize the increased responsibility placed on middle-income Boomers to put the right resources in place to prepare for and live out a financially secure retirement. At the same time, the challenges of saving, investing and managing assets through retirement is becoming more complex. Navigating this world requires an increased level of knowledge, training and experience with financial matters and an ability to draw on trusted resources for information and guidance.

In *The Middle-Income Boomer Retirement Gap: Savings, Education and Advice*, the Bankers Life Center for a Secure Retirement takes a look at how middle-income Boomers are reacting to the changing retirement financial security landscape. In particular, an examination is made of the apparent gaps in the level of their retirement savings to-date, the training they have or have not received for managing their retirement investments and the extent they use financial professionals for retirement advice and guidance.

# Methodology and definitions

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This study from the Bankers Life Center for a Secure Retirement—*The Middle-Income Boomer Retirement Gap: Savings, Education and Advice*—was conducted in July 2014 by the independent research firm The Blackstone Group.

The internet-based survey consisted of a nationwide sample of 1,000 Americans between the ages 50 and 68 who have an annual household income between \$25,000 and \$100,000. Quotas were established based on the U.S. Census Current Population Survey data for age, gender and income to obtain a nationally representative sample. The margin of error is +/- 3.1 percentage points at the 95% confidence level.

For comparison, we asked select questions to a sample of 200 affluent Boomers, defined as those having investable assets over \$1,000,000.

For the purposes of this study, the Bankers Life Center for a Secure Retirement used the following definitions.

## What is middle income?

Middle-income Americans have an annual household income between \$25,000 and \$100,000 and do not receive Medicaid benefits.

## Who is a Boomer?

Baby Boomers are Americans born between 1946 and 1964 and age 50 to 68 years old at the time of the study.

## What is a financial professional?

A financial professional may work under a number of job titles, including:

- Financial planner
- Financial advisor
- Financial consultant
- Investment advisor
- Stockbroker

# Key findings

## Middle-income Boomers are optimistic about retirement—but they have concerns about meeting their financial needs during their retirement years.

- Nearly all (94%) of non-retired middle-income Boomers expect to be able to retire someday.
- More non-retired middle-income Boomers expect to retire after age 65 (43%) than before age 65 (16%).
- Two-thirds (62%) of middle-income Boomers express some doubts that they will have enough money to live comfortably throughout retirement.

## Middle-income Boomers may not be fully prepared for financial security in retirement.

- Eight in 10 (83%) middle-income Boomers have not received any specialized training or education on topics related to retirement financial security.
- More than half (54%) of middle-income Boomers report investable assets of less than \$100,000, with one-third (34%) reporting less than \$25,000.
- Only about one in 10 (13%) Boomers in this study reported investable assets of \$500,000 or more.
- Two-thirds of middle-income Boomers do not have a current last will and testament (63%), living will (64%) or health care power of attorney (65%).

## Most middle-income Boomers do not have a financial professional to help plan their retirement.

- Six in 10 (59%) middle-income Boomers do not receive professional financial guidance of any kind.
- Two-thirds (66%) of middle-income Boomers who are not retired do not receive professional financial guidance.

## Middle-income Boomers who do have a financial professional report high satisfaction and higher assets.

- More than one-quarter (26%) of middle-income Boomers who have a financial professional have investable assets of more than \$500,000, compared to less than one in 10 (5%) of those without a professional.
- About nine in 10 (87%) middle-income Boomers who have a financial professional are either very satisfied or completely satisfied with their professional.
- Three-quarters (75%) of middle-income Boomers who have worked with a financial professional for more than 10 years have greater than \$100,000 in assets.
- About half (48%) of middle-income Boomers with a financial professional are confident that they have enough savings to last throughout their retirement, compared to one-third (30%) of those without a financial professional.

## There is a disconnect between middle-income Boomers and financial professionals. Neither appears to think they need the other.

- Four in 10 (39%) middle-income Boomers who aren't working with a financial professional prefer to make financial decisions on their own and think they do not need financial advice.
- Of middle-income Boomers who don't have a financial professional, nearly nine in 10 (85%) have not been contacted by one asking for their business in the past year, including nearly two-thirds (63%) who've never been contacted.
- While nearly half (45%) of middle-income Boomers who have a financial professional were referred, one-quarter (25%) sought out the professional themselves, either by going to the office (13%) or calling (12%).
- Four in 10 (40%) middle-income Boomers with a financial professional report they pay by a commission built in to the price of the product. However, this is the preferred payment method for only one in 10 (13%).

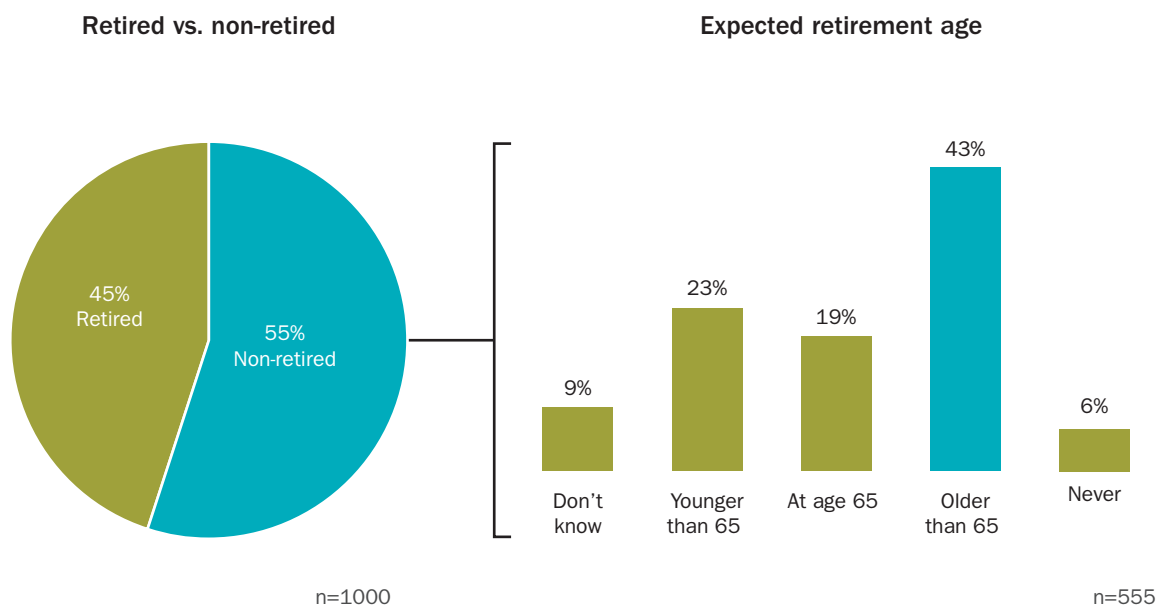
# Boomers' conflicting expectations for retirement

Middle-income Boomers—those born between 1946 and 1964 (currently age 50 to 68) and with annual household income between \$25,000 and \$100,000 per year—already are taking advantage of retirement. Slightly less than half (45%) describe themselves as retired or semi-retired—and of the more than half (55%) of middle-income Boomers who aren't yet retired, nearly all (94%) expect to be able to retire someday.

However, those who are not yet retired generally see themselves working longer and retiring after age 65.

No longer is 65 the default retirement age. Just two in 10 (19%) non-retired Boomers expect to retire at age 65—and many more working middle-income Boomers now expect to retire after age 65 (43%) than before age 65 (16%). Nearly one in 10 (9%) middle-income Boomers expects to retire at some point but is not sure when.

## Middle-income Boomers and retirement



Source: Bankers Life Center for a Secure Retirement, *The Middle-Income Boomer Retirement Gap: Savings, Education and Advice*, 2014.

## Retirement remains a goal

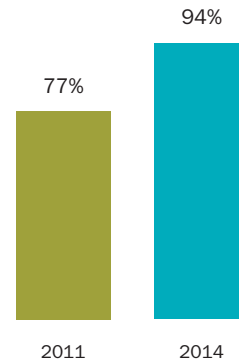
Middle-income Boomers are optimistic about retirement. Nearly all (94%) survey participants said they expect to be able to retire at some point. This is up significantly from a 2011 Bankers Life Center for a Secure Retirement report, *Middle-Income Retirement Preparedness Study*. At that time the country was reeling from an economic crisis, and only about three-quarters (77%) of working middle-income Boomers felt they expected to be able to retire.<sup>5</sup>

## Financial barriers to a comfortable retirement

Although nearly all middle-income Boomers expect to retire, many are concerned about meeting their financial needs in retirement.

While one-third (38%) feel very or extremely confident about their retirement savings, two-thirds (62%) express some doubts, with a quarter (25%) being not too confident or not at all confident.

## Working middle-income Americans who expect to retire

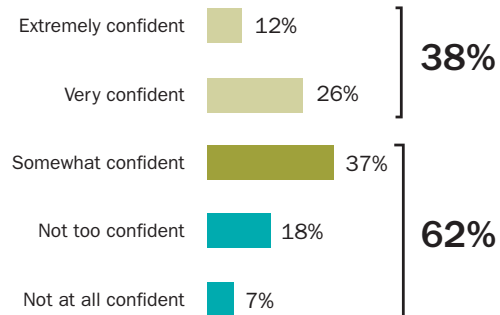


2011 n=148  
2014 n=555

Sources: Bankers Life Center for a Secure Retirement, *Middle-Income Retirement Preparedness Study*, 2011, and *The Middle-Income Boomer Retirement Gap: Savings, Education and Advice*, 2014.

Note: Sample in 2011 study was ages 55–75; sample in 2014 study was ages 50–68.

## Middle-income Boomers' confidence in their retirement savings



n=1000

Source: Bankers Life Center for a Secure Retirement, *The Middle-Income Boomer Retirement Gap: Savings, Education and Advice*, 2014.



## Greater assets for greater peace of mind

Justified or not, a half-million dollars appears to be the threshold for middle-income Boomers to be more confident than not in having enough money for a comfortable retirement.

Only 38% of middle-income Boomers are very confident they'll have enough money to live comfortably through retirement—yet that figure jumps to two-thirds (66%) for those with assets between \$500,000 and \$999,999, and nearly nine in 10 (86%) for those with assets greater than \$1 million.

### Middle-income Boomers' confidence in retirement savings, by assets



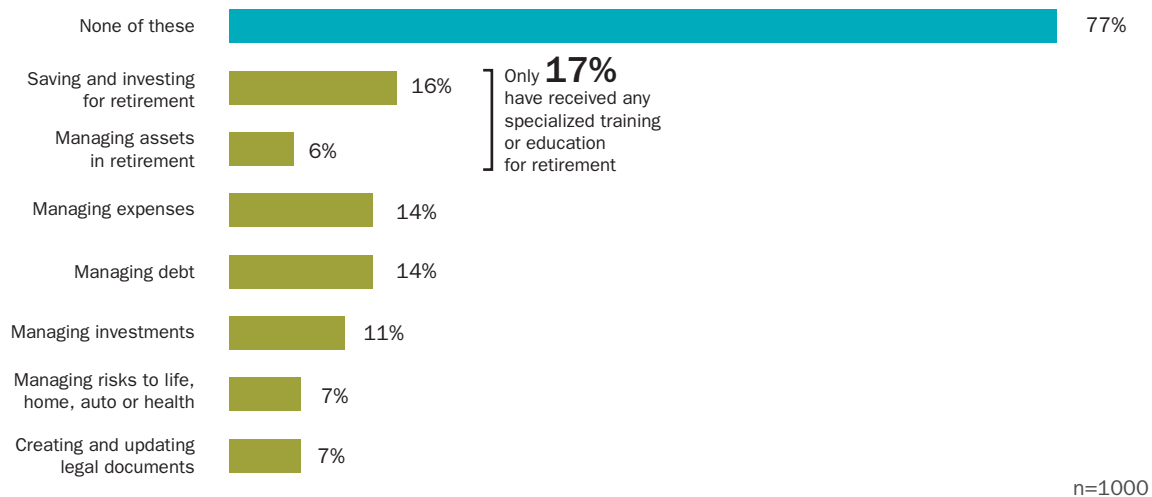
n=1000

Source: Bankers Life Center for a Secure Retirement, *The Middle-Income Boomer Retirement Gap: Savings, Education and Advice*, 2014.

# Retirement preparedness and lack of education

Data from survey respondents suggest that few middle-income Boomers are fully prepared for the financial planning tasks associated with retirement preparedness. In fact, more than three-quarters (77%) haven't received specialized training or education on any personal finance topic ever. This includes all high school and college education and any workplace training they may have received. Less than two in 10 (17%) have had any type of formal training on topics related to retirement financial security.

## Middle-income Boomer's personal finance training and education



Source: Bankers Life Center for a Secure Retirement, *The Middle-Income Boomer Retirement Gap: Savings, Education and Advice*, 2014.

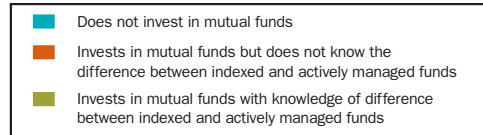
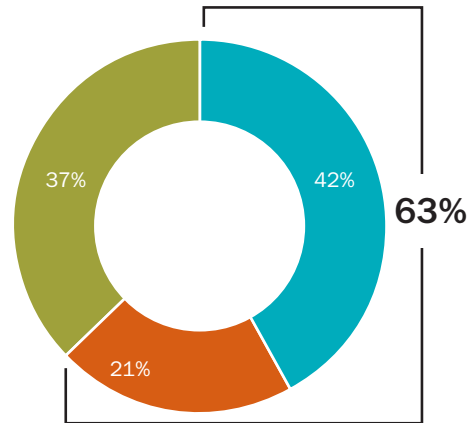
Note: Respondents were allowed to select more than one. Results do not sum to 100%.

## Many lack understanding of mutual funds

Most middle-income Boomers don't understand mutual funds, the basic building blocks of saving for a financially secure retirement.

Nearly two thirds (63%) do not invest in any mutual funds (42%) or aren't familiar with the two basic types of mutual funds (21%)—indexed and actively managed funds.

## Middle-income Boomers' experience with mutual funds



n=1000

Source: Bankers Life Center for a Secure Retirement, *The Middle-Income Boomer Retirement Gap: Savings, Education and Advice*, 2014.



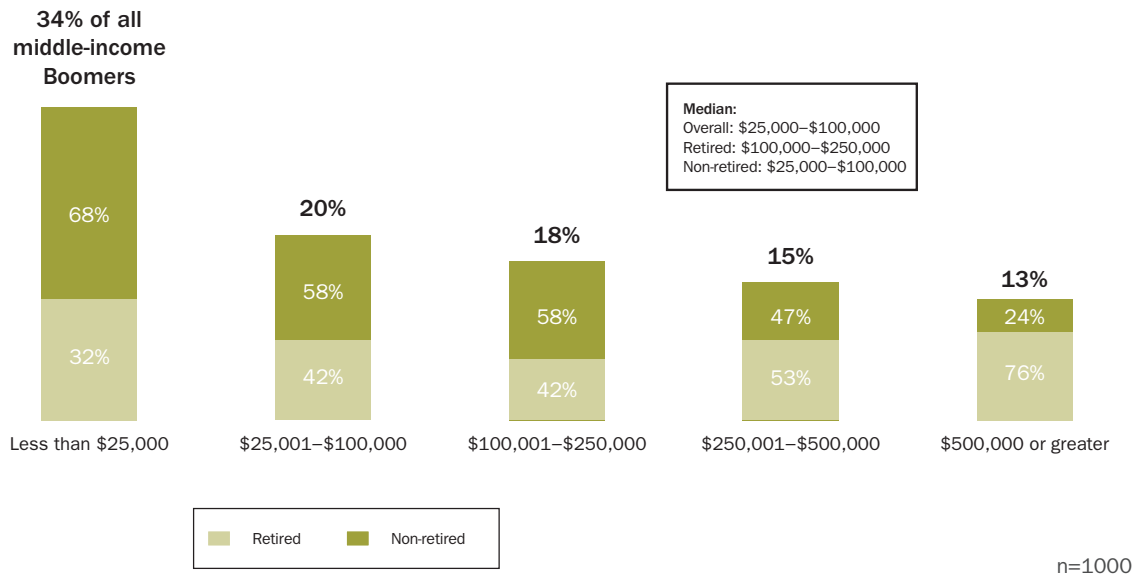
## Middle-income Boomers may not have saved enough

Lack of training is also apparent when looking at the specific steps middle-income Boomers have taken to prepare for retirement.

More than half (54%) of middle-income Boomers report investable assets of less than \$100,000, with one-third (34%) reporting less than \$25,000. One in 10 (13%) Boomers had investable assets of \$500,000 or more. Middle-income Boomers reported median investable assets of less than \$100,000.

## Middle-income Boomers' total reported investable assets

Excluding pension plans and real estate



Source: Bankers Life Center for a Secure Retirement, *The Middle-Income Boomer Retirement Gap: Savings, Education and Advice*, 2014.

## Withdrawing retirement assets

A rule of thumb to make assets last throughout retirement is to withdraw no more than 3% to 4% in the first year, adjusting for inflation in subsequent years. Three percent is considered the safer approach, with 4% being more aggressive.

Starting today, by this guideline middle-income Boomers would have saved only enough to withdraw up to \$4,000 a year to supplement Social Security income—which averages just \$15,000 per year—plus any pension benefits.

## Making your money last throughout retirement

Not including Social Security and pension benefits. Assumes retirement age of 65 and diversified portfolio of both stocks and bonds.

If you have this much in retirement savings at 65:	At 3% (safer), you can afford to withdraw this much per year:*	At 4% (riskier), you can afford to withdraw this much per year:*
\$25,000	\$750	\$1,000
\$50,000	\$1,500	\$2,000
\$75,000	\$2,250	\$3,000
\$100,000	\$3,000	\$4,000
\$250,000	\$7,500	\$10,000
\$500,000	\$15,000	\$20,000
\$1,000,000	\$30,000	\$40,000

Source: Bankers Life Center for a Secure Retirement, *The Middle-Income Boomer Retirement Gap: Savings, Training and Advice*, 2014.

\*Adjusting for inflation.



## Overinvested in their homes?

Middle-income Boomers may be overinvested in their homes, relatively speaking, as the reported value of home equity exceeds their investable assets. More than half (56%) of home owners reported home equity of \$100,000 or more. The median home equity value reported by survey participants was \$100,000 to \$250,000, whereas the median investable assets is \$25,000 to \$100,000.

Home ownership and home equity are positive elements to building personal wealth and financial security. Yet middle-income Boomers may be challenged to access their home equity as an asset given that nearly all (91%) of them prefer to age in place.<sup>6</sup>

## Middle-income Boomers' home equity

Among home owners



Source: Bankers Life Center for a Secure Retirement, *The Middle-Income Boomer Retirement Gap: Savings, Education and Advice*, 2014.



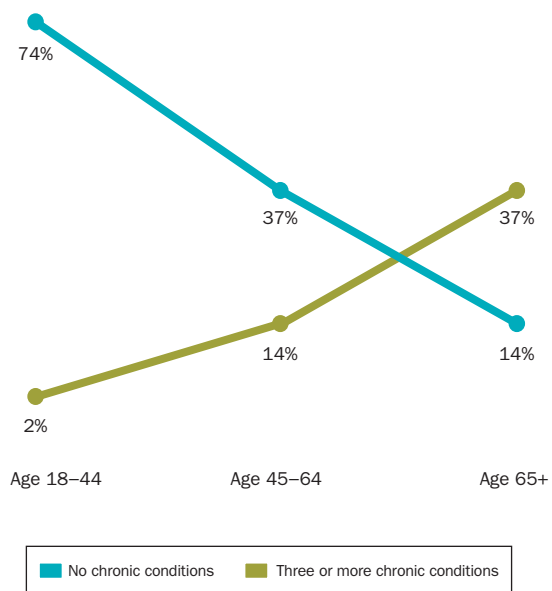
## Risks to a comfortable retirement

The challenge of retirement planning can be difficult in part due to increasing life expectancy. The life expectancy of a 65 year old has grown by 37% since 1950.<sup>7</sup> As a result, the amount of money needed to fund a secure retirement has grown as well.

Plus, there are risks that come with living a longer life. For example, the incidence of chronic disease increases with age.<sup>8</sup> This can lead to higher medical bills and an increased need for long-term care services.

Out-of-pocket health care costs can be significant. These costs are estimated at \$220,000 through retirement for a typical 65-year-old couple retiring this year, excluding the cost of long-term care.<sup>9</sup>

## Incidence of chronic health conditions



Source: Centers for Disease Control and Prevention, "Multiple Chronic Conditions Among U.S. Adults: A 2012 Update," April 17, 2014.

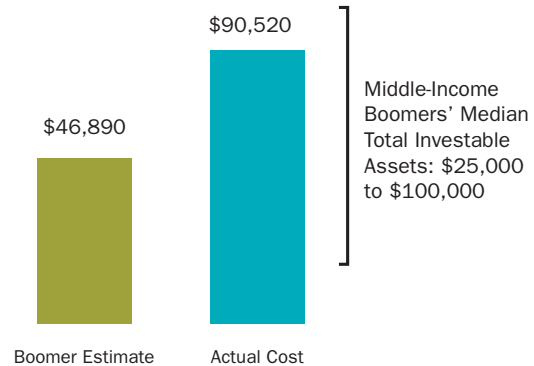
## Underestimated long-term care expenses

Middle-income Boomers are unprepared for the cost of long-term care, and needing services for even a short duration can impair a household's financial security.

In a recent Bankers Life Center for a Secure Retirement survey, *Retirement Care Planning: The Middle-Income Boomer Perspective*, middle-income Boomers estimated the cost of one year of nursing home care at \$46,890. Yet the true cost is nearly double: \$90,520 on average.<sup>10</sup>

With median investable assets of \$25,000 to \$100,000, just a one-year stay in a nursing home could effectively consume the entire savings of many middle-income Boomers.

## Nursing home care cost for one year



Sources: Bankers Life Center for a Secure Retirement, *Retirement Care Planning: The Middle-Income Boomer Perspective*, August 2013, and *The Middle-Income Boomer Retirement Gap: Savings, Education and Advice*, 2014.

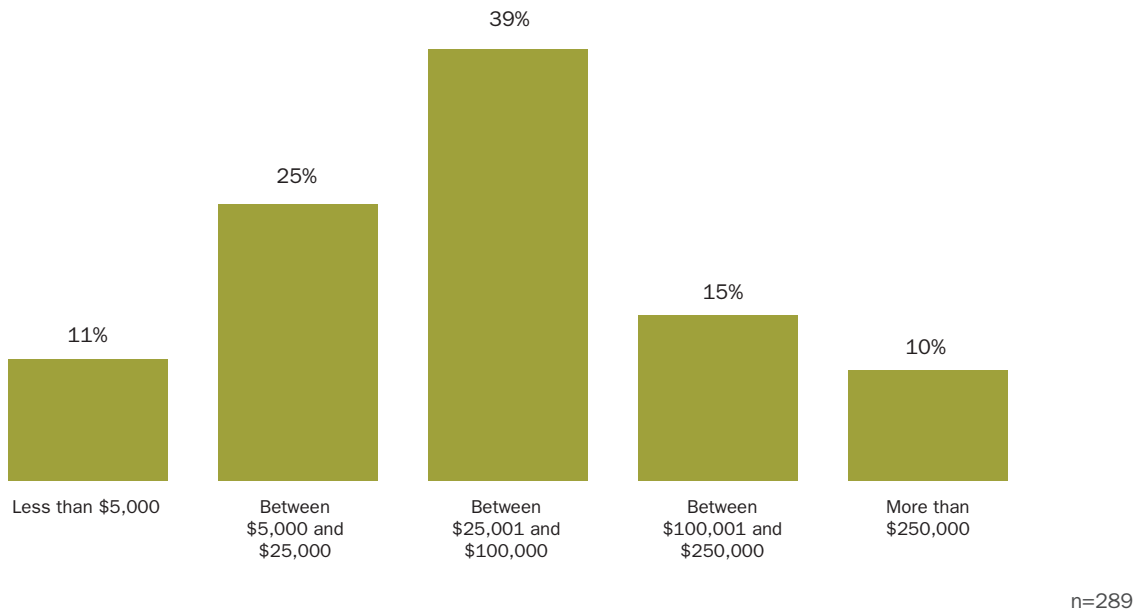




## Inheritance expectations

Most middle-income Boomers will have to rely on their own funds for retirement rather than a family inheritance. In fact, half (49%) of middle-income Boomers do not expect to receive an inheritance of any amount. And historically, of Boomers who have already received an inheritance, three-quarters (75%) received less than \$100,000.

## Amount of inheritances received by middle-income Boomers



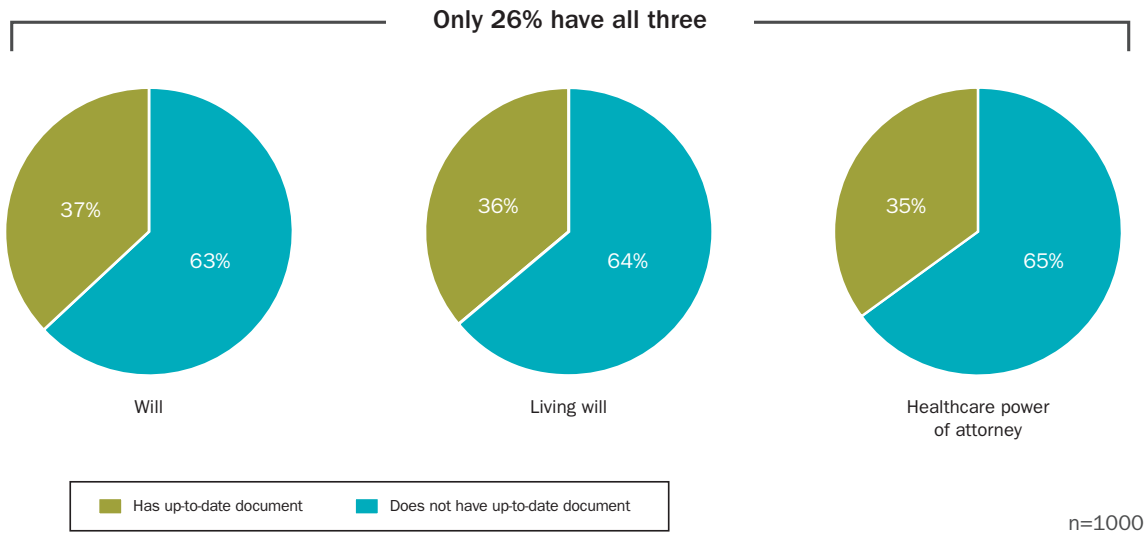
Source: Bankers Life Center for a Secure Retirement, *The Middle-Income Boomer Retirement Gap: Savings, Education and Advice*, 2014.

## Lack of basic planning documents

As part of retirement planning, experts recommend a core set of up-to-date documents, such as a last will and testament, an advance directive (living will) and a health care proxy (health care power of attorney) designation. Even though about 90% of middle-income Boomers report some familiarity with the basic documents, most do not possess a current one.

Two-thirds of middle-income Boomers do not have up-to-date estate planning documents, in that they do not have a current last will and testament (63%), living will (64%) or health care power of attorney (65%). This is approximately double the number of affluent Boomers who have these documents in place and up-to-date.

## Middle-income Boomers with up-to-date legal documents



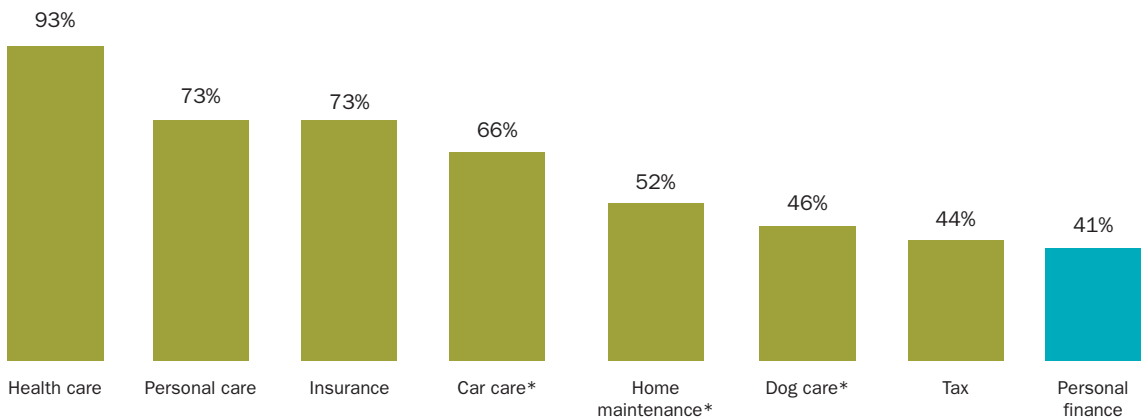
Source: Bankers Life Center for a Secure Retirement, *The Middle-Income Boomer Retirement Gap: Savings, Education and Advice*, 2014.

# Role of professional financial services

Boomers are not reluctant to turn to skilled providers for personal services. Three-fourths (73%) have someone they consider their hairdresser or barber, two-thirds (66%) have a mechanic, about half (52%) have hired help around the home—like a handyman or landscaper—and even nearly half of dog owners (46%) use services like a dog walker or groomer.

Middle-income Boomers also rely on skilled professionals for specialized advice. Nearly all (93%) have relied on a medical professional of some kind in the last year, three in four (73%) utilize a professional to help them make informed insurance decisions and nearly half (44%) use a tax professional. Yet only about four in 10 (41%) use a financial professional.

## Use of professional services by middle-income Boomers



\*Among owners.

n=1000

Source: Bankers Life Center for a Secure Retirement, *The Middle-Income Boomer Retirement Gap: Savings, Education and Advice*, 2014.

## Middle-income Boomers not seeking professional financial advice

Nearly two-thirds (59%) of middle-income Boomers do not use a professional for financial guidance.

While more than half (51%) of retired middle-income Boomers utilize a financial professional, that number drops to only one-third (34%) of non-retired middle-income Boomers.

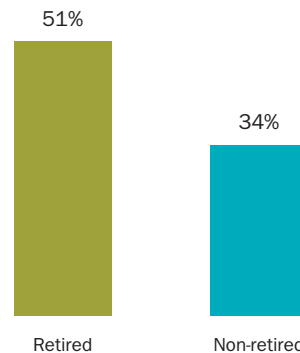
## Middle-income Boomers' use of financial professionals



n=1000

Source: Bankers Life Center for a Secure Retirement, *The Middle-Income Boomer Retirement Gap: Savings, Education and Advice*, 2014.

## Middle-income Boomers with a financial professional, retirees vs. non-retirees



n=397

Source: Bankers Life Center for a Secure Retirement, *The Middle-Income Boomer Retirement Gap: Savings, Education and Advice*, 2014.

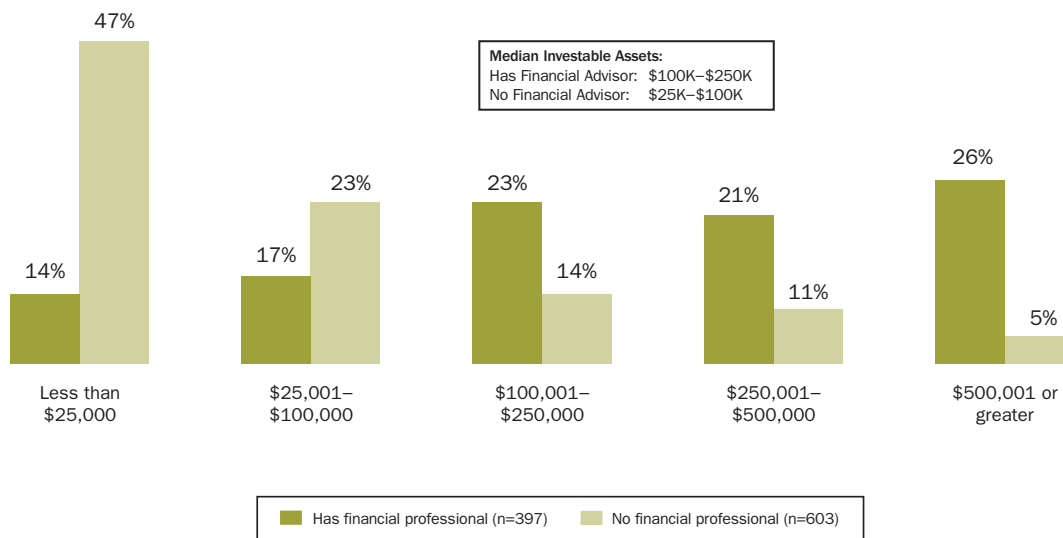
## Middle-income Boomers with a financial professional typically have more assets

Those who do turn to a financial professional generally have more saved for retirement.

Middle-income Boomers who work with a financial professional have median investable assets of \$100,000 to \$250,000. Those who don't have a financial professional have median assets of \$25,000 to \$100,000. More than one-quarter (26%) of middle-income Boomers with a financial professional have investable assets of more than \$500,000, compared to less than one in 10 (5%) of those without a professional.

### Middle-income Boomers' total investable assets

Excluding pension plans and real estate



Source: Bankers Life Center for a Secure Retirement, *The Middle-Income Boomer Retirement Gap: Savings, Education and Advice*, 2014.

## Starting earlier helps

Not all of those working with a financial professional start with a high level of assets. In fact in our study, nearly half (43%) of middle-income Boomers who've worked with a professional less than two years reported less than \$100,000 in investable assets. That number drops to less than one-quarter (24%) for those who've worked with a professional for 10 or more years.

## Investable assets for middle-income Boomers with financial professionals

Excluding pension plans and real estate



Source: Bankers Life Center for a Secure Retirement, *The Middle-Income Boomer Retirement Gap: Savings, Education and Advice*, 2014.

## Boomers with financial professional are more confident

About half (48%) who work with a financial professional are confident they'll have enough money to live comfortably in retirement regardless of asset level. Less than a third (30%) without a professional feel that way.

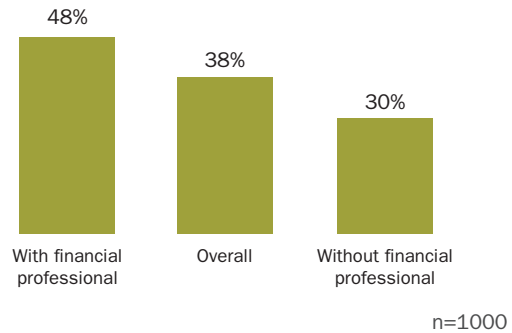
## Positive experience with financial professionals

Middle-income Boomers report a high level of satisfaction with their financial professional.

Nearly nine in 10 (87%) are either extremely satisfied or very satisfied with their financial professional. In this regard, middle-income Boomers are as satisfied as affluent Boomers with their financial professional.

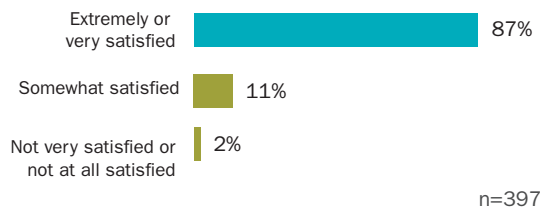
Nearly all who use a financial professional describe him or her as knowledgeable (98%), trustworthy (97%) and experienced (97%). Of middle-income Boomers who don't currently work with a financial professional, just one in 10 (10%) once worked with a professional and decided not to continue that relationship or seek a new one.

## Middle-income Boomers' confidence in retirement savings



Source: Bankers Life Center for a Secure Retirement, *The Middle-Income Boomer Retirement Gap: Savings, Education and Advice*, 2014.

## Middle-income Boomers' satisfaction with their financial professional



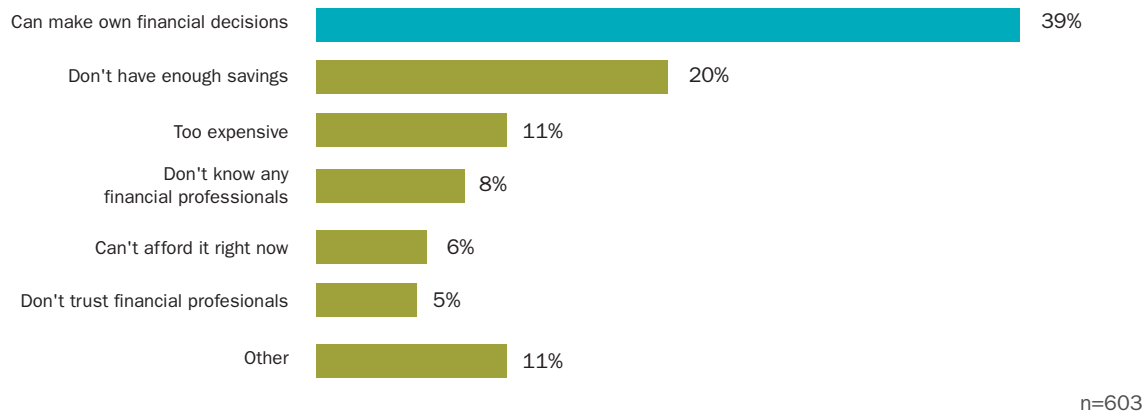
Source: Bankers Life Center for a Secure Retirement, *The Middle-Income Boomer Retirement Gap: Savings, Education and Advice*, 2014.

# Disconnect between middle-income Boomers and financial professionals

If working with a financial professional is a positive experience resulting in higher confidence, why don't more people choose this path to achieve their retirement goals?

Of middle-income Boomers not working with a financial professional, four in 10 (39%) do not think they need financial advice because they prefer to make their own financial decisions. Other reasons vary—from feeling they don't have enough savings (20%) to believing financial advice is too expensive (11%). Lack of trust, privacy concerns and better sources of advice don't appear to be major concerns for Boomers.

## Why middle-income Boomers do not work with a financial professional



Source: Bankers Life Center for a Secure Retirement, *The Middle-Income Boomer Retirement Gap: Savings, Education and Advice*, 2014.

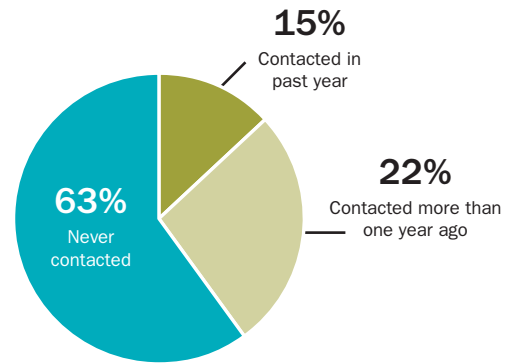


## Professionals ignore the middle-income market

The financial services industry, unfortunately, does not seem to be doing enough to help middle-income Boomers understand the value of professional financial advice. One reason may be that many financial firms place a larger focus on acquiring and serving wealthier clients.

Of middle-income Boomers who don't currently work with a financial professional, nearly nine in 10 (85%) haven't been contacted by a financial professional within the past year, including nearly two-thirds (63%) who've never been contacted by any financial professional asking for their business.

## Middle-income Boomers contacted by financial professionals



n=603

Source: Bankers Life Center for a Secure Retirement, *The Middle-Income Boomer Retirement Gap: Savings, Education and Advice*, 2014.

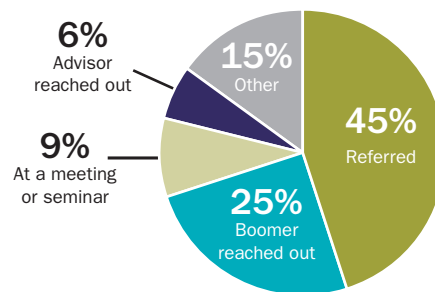




### Many Boomers take the initiative to find a financial professional

Nearly half (45%) of middle-income Boomers who have a financial professional were referred, either by a family member or friend, through their employer or a co-worker or by a previous financial professional. One-quarter (25%) sought out the professional themselves, either by going to the office (13%) or calling (12%).

### How middle-income Boomers were introduced to their financial professional



n=397

Source: Bankers Life Center for a Secure Retirement, *The Middle-Income Boomer Retirement Gap: Savings, Education and Advice*, 2014.

## Existing business models don't meet expectations

There are four common methods for consumers to pay for professional financial services:

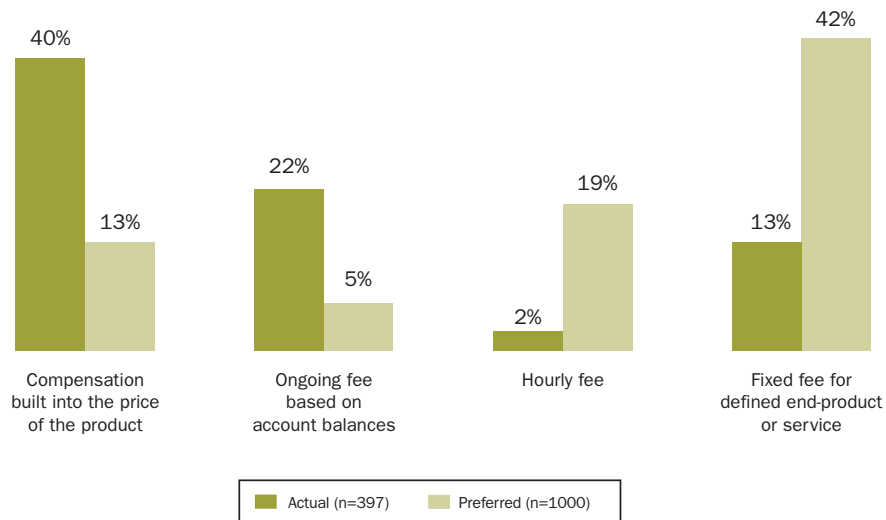
1. Compensation built into the price of the product
2. Ongoing fee based on account balance
3. Hourly fee
4. Fixed fee for defined product or service

Unfortunately, the traditional business models set up by the financial services industry don't match how Boomers' prefer to pay for financial advice.

Four in 10 (40%) report paying for these services through commission built into the product price. However, this is the preferred payment method for only one in 10 (13%).

More than four in 10 (42%) middle-income Boomers prefer to pay a fixed fee for a defined end product or service. However, just one in 10 (13%) Boomers with a financial professional pays using this method.

## Middle-income Boomers' actual and preferred compensation methods for financial professionals



Source: Bankers Life Center for a Secure Retirement, *The Middle-Income Boomer Retirement Gap: Savings, Education and Advice*, 2014.



# Recommendations for consumers

## Practice healthy financial habits

Though challenging at first, you can drastically improve your financial security by working hard to reduce or eliminate debt, living within your financial means and diversifying your investments.

## Be prepared

Unexpected situations can arise at any time. To prepare, create and keep an up-to-date will, living will and power of attorney. Store these documents in a safe place, and be sure a loved one is aware of where they are.

## Consider your home

If you have equity in your home, consider its financial impact on your retirement plan. Consider, for example, whether you should:

- Move to a residence that costs less money to free up equity in your home and fund future living expenses.
- Downsize for cost of living reasons (e.g., to reduce maintenance expenses and real estate taxes).

## Consider the role of work in retirement

Income generated from any work, even part-time or project work, can help you minimize or delay drawing money from the financial resources you have saved.

## Consider seeking professional guidance

Options are available for nearly any income and asset level, age and risk tolerance. A financial professional can provide a comprehensive review of your retirement financial situation and help you develop a plan for the future.

Talk to family, friends and business colleagues who work with financial professionals and ask about their experiences. Take the initiative and reach out to one or more professionals. Learn about their services and find one with whom you're comfortable.

## Don't be overly reliant on outside income sources

When it comes to funding your retirement, strive to be as self-sufficient as possible. If you are relying too heavily on outside benefit programs from former employers or the government, you could be at risk if in the future changes are made to those programs.

# About the Center for a Secure Retirement

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The Bankers Life Center for a Secure Retirement is the company's research and consumer education program. Its studies and consumer awareness campaigns provide insight and practical advice to help everyday Americans achieve financial security in retirement.

Established in 1879 in Chicago, Bankers Life helps meet the insurance needs of middle-income retirees as part of the nationwide subsidiaries of CNO Financial Group, Inc. These companies offer a broad portfolio of life and health insurance designed especially for those near and in retirement.

## Learn more

Bankers Life has more than 5,000 licensed professional insurance agents in more than 300 offices across the United States. Bankers Life insurance agents meet with thousands of Americans each week for initial retirement reviews at no cost to clients. To learn more about Bankers Life, visit [BankersLife.com](http://BankersLife.com) or call (800) 231-9150.

## Endnotes

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Bankers Life is the marketing brand of Bankers Life and Casualty Company, select policies sold by Colonial Penn Life Insurance Company and select policies sold in New York by Bankers Conesco Life Insurance Company (BCLIC). BCLIC is authorized to sell insurance in New York; Home Office: Jericho, New York.

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