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The MetLife Retirement Income Decisions Study: The Silent Generation Speaks

Findings from a 2005 National Survey

The MetLife Mature Market Institute®
with
Mathew Greenwald & Associates

June 2005

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Mathew Greenwald & Associates is a full-service market research company with an expertise in financial services research. Founded in 1985, Greenwald & Associates has conducted public opinion and customer-oriented research for more than 100 organizations, including many of the nation's largest companies and foremost associations.

Mature Market Institute
MetLife
57 Greens Farms Road
Westport, CT 06880
(203) 221-6580
www.MatureMarketInstitute.com
MatureMarketInstitute@metlife.com

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Executive Summary

The Silent Generation — sometimes called the Swing Generation — is a bridge between the GI Generation (those who were adults and fought in World War II) and the Baby Boomers. The Silents share some values with the GI generation, considered by some to be fiscally conservative and employed at a time when many people received lifetime pensions. Yet, they also share commonalities with the Baby Boomers. They value their lifestyle and independence, and underestimate their longevity and its implications.

During the first quarter of 2005, the MetLife Mature Market Institute commissioned a national study of 1,012 pre-retirees and retirees. To qualify for the study, participants had to be members of the "Silent Generation" — Americans between the ages of 59 and 71 (born between 1933 and 1945), which includes nearly 28.5 million men and women.

Respondents were screened to be a primary or joint decision maker in their household for financial matters and to have household financial assets, not including housing, of $100,000 or more. This puts the respondents in the upper half, by financial assets, of all households headed by someone ages 59 to 71.

The study, which was conducted online between January 27 and February 4, 2005, focused on the Silent Generation's behavior, attitudes and concerns vis-à-vis retirement savings and income, including:

- Income and spending patterns
- Retirement spending decisions
- Knowledge and assumptions about retirement income
- Investment allocation
- Adequacy of retirement planning

The results of this study demonstrate a number of significant trends. According to the findings, today's pre-retirees and retirees are confident that they will have enough money to live comfortably to at least age 85. Perhaps the last generation to rely heavily on pension plans and Social Security benefits, a large majority of them were able to retire before the age of 65.

A majority of those in the Silent Generation have multiple sources of guaranteed income to carry them through retirement. Most pre-retirees and retirees expect or have fixed streams of income from pensions, annuities, or both. Those who have these sources of regular income are much more likely to feel confident about their financial futures, no matter what their income or asset level. The survey also found that this generation is not driven to leave an inheritance to their heirs.

Yet, while they feel *confident* about retirement income, many members of the Silent Generation are at serious risk of outliving their retirement assets. Some appear to overestimate the buying power of their Social Security payouts and most probably overestimate the likelihood that they will be able to work part- or full-time during their retirement years. Others underestimate their post-retirement expenses, especially healthcare. Most have done little to develop a budget for their retirement income and also lack safeguards against overspending.

In part, this seems to result from a strong focus on *accumulating* retirement assets, versus figuring how they will use their nest egg for post-retirement living. It is also stems from a near-sighted view of financial risks. Members of the Silent Generation worry frequently, for example, about healthcare costs and stock market downturns, but are not as concerned about longer-term issues such as outliving their retirement savings or the possibility that they will need to provide care to a family member who becomes chronically ill. In fact, many pre-retirees and retirees say they never worry about longevity risk.

The Silent Generation appears to be comfortable with retirement, perhaps because they can count on a steady stream of income. However, due to increased longevity, the uncertainty of the economic climate and unanticipated expenses, they may face hurdles in the future. Nonetheless, their positive experience with dependable streams of income can set an example for Baby Boomers and other generations that follow.

Methodology

The MetLife Retirement Income Decisions Survey was conducted for the MetLife Mature Market Institute by Mathew Greenwald & Associates, Inc. during the first quarter of 2005 and consists of a 14-minute online survey with a total of 1,012 respondents — 503 pre-retirees and 509 retirees. To qualify for the study, participants had to be between the ages of 59 and 71, have non-housing financial assets of at least $100,000 and identify themselves as a primary or joint financial decision-maker for their household. The margin of error (at the 95% confidence level) is plus or minus four and one-half percentage points for both pre-retirees and retirees. Percentages in tables and charts may not total 100%, due to rounding.

Profile of Respondents*

The pre-retirees and retirees polled for the MetLife study represent a broad, cross-section of respondents. Respondents include an even mix of men and women age 59 – 71 and a diverse range of household income levels.

	Pre-Retirees	Retirees
Gender		
Male	52%	50%
Female	48%	50%
Age		
59 – 61	47%	18%
62 – 64	33%	23%
65 – 67	13%	28%
68 – 71	7%	31%
Average	*62.4 years*	*65.4 years*
Education		
Some High School	**	**
High School Graduate	12%	16%
Some College/Technical School	27%	32%
College Graduate	31%	30%
Graduate Degree	29%	22%
Marital Status		
Married	74%	70%
Not Married, Living w/ Partner	2%	3%
Divorced, Separated, Widowed	20%	21%
Single, Never Married	4%	6%

	Pre-Retirees	Retirees
Spouse's Retiree Status		
Retired	37%	74%
Not Retired	63%	25%
Don't Know	1%	1%
Financial Assets* **		
$100,000 - $149,999	14%	16%
$150,000 - $249,999	26%	22%
$250,000 - $499,999	30%	28%
$500,000 - $999,999	21%	21%
$1 million+	8%	13%
Household Income		
Less than $40,000	8%	22%
$40,000 - $69,999	23%	42%
$70,000 - $99,999	33%	21%
$100,000 - $149,999	22%	8%
$150,000+	12%	6%
Don't Know	2%	2%

* Percentages in tables and charts may not total 100%, due to rounding.

** Less than 0.5%.

***Excluding housing.

Key Findings

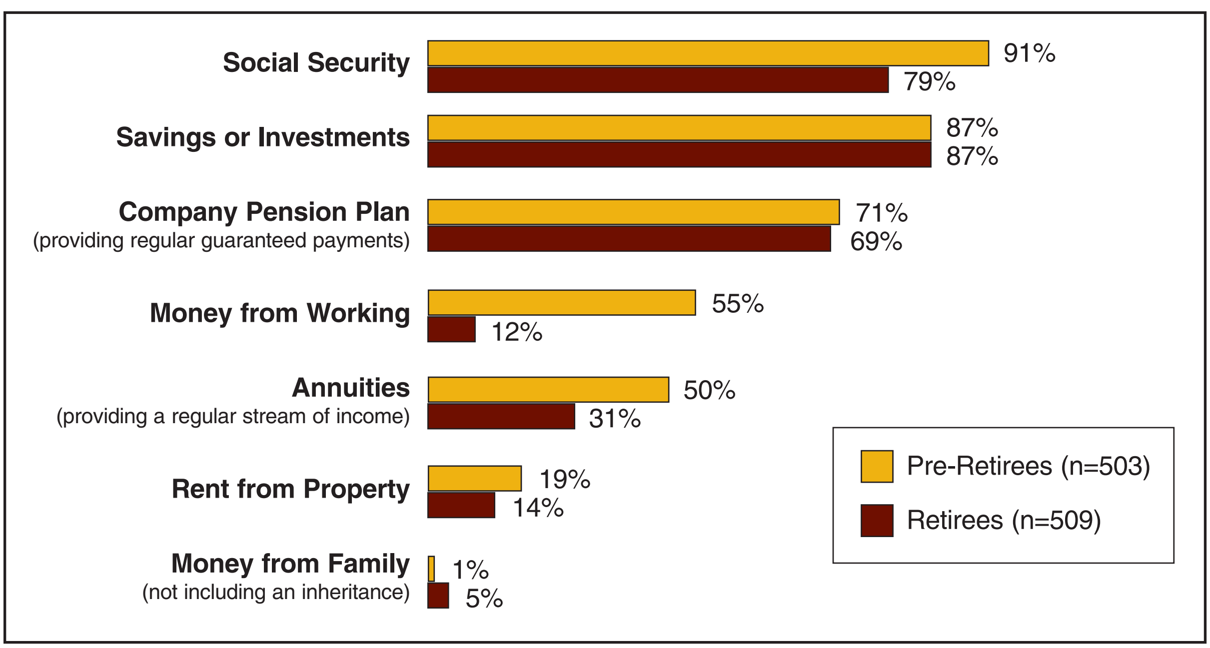
Retirees Who Have Both a Pension and an Annuity are Three Times More Likely to Say Retirement is Much Better Than They Expected

Nearly all members of the Silent Generation (ages 59 – 71) are confident about their retirement income. This level of security is attributed, to at least some extent, to the fact that many in this generation benefited from a company pension plan. Also, most in this generation qualify/qualified for full Social Security benefits at age 65, which will not be the case for future generations. Nine in ten retirees say that their lifestyle in retirement is either as good as (42%) or better than expected (49%).

Nine out of ten pre-retirees (91%) and 79% of retirees have or expect to have income from Social Security. In addition, most have other sources of guaranteed income during retirement. About eight in ten pre-retirees and retirees expect or have fixed streams of income from pensions, annuities, or both (pre-retirees 84%, retirees 79%).

Specifically, about seven in ten have or anticipate income from regular, guaranteed payments from a company pension plan during retirement (pre-retirees 71%, retirees 69%). And nearly one-third (31%) of retirees surveyed say that they receive retirement income from annuities. Half of pre-retirees (50%) expect income from annuities in the first year of their retirement.

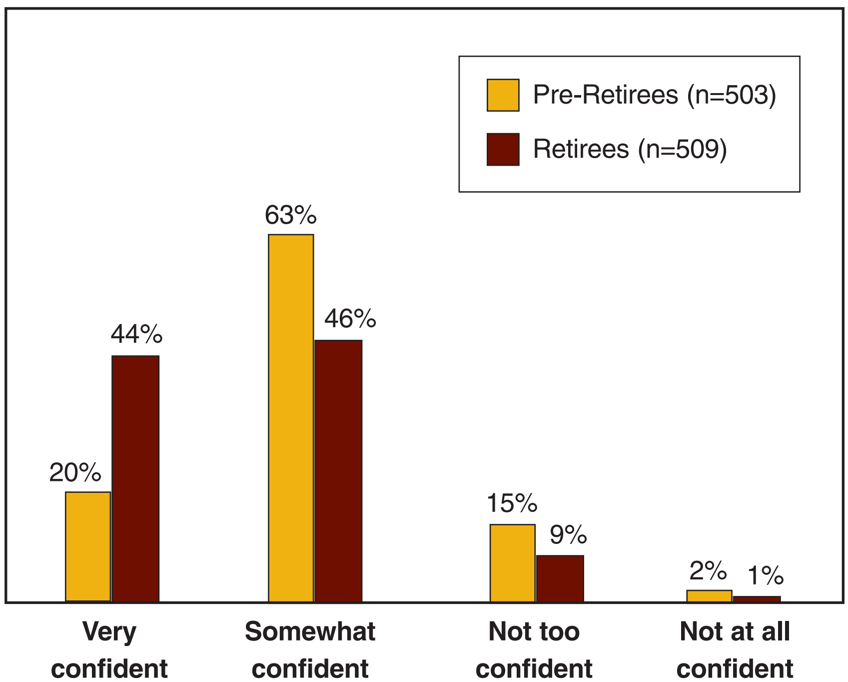
In 2004, which were sources of income for you*, regardless of whether you spent it, saved it, or reinvested it? [Pre-Retirees: During your first year of retirement, which do you expect will be sources…]



*If married: and your spouse

Most retirees (90%) and pre-retirees (83%) are confident that they will have enough money to live comfortably to at least age 85. Confidence levels rise among those with guaranteed streams of income in place beyond Social Security. Those in the Silent Generation who have or anticipate retirement income from both a pension <u>and</u> an annuity are more likely than those with neither to feel *somewhat* or *very* confident that they will have enough money to live comfortably until at least age 85 (94% vs. 82%).

How confident are you that you will have enough money to live comfortably if you live to 85 years of age?



Retirees who have regular income from either a pension <u>or</u> an annuity are more than twice as likely as those with neither to say that retirement is *much* better than they expected it would be (25% vs. 11%), and those who have both a pension <u>and</u> an annuity are three times as likely (32%).

A Generation That Witnessed More Job Security, Retirees and Pre-Retirees Gravitate Toward Annuities and Investments That Provide Lifetime Income

The Silent Generation spent their working years during an era that was generally more stable for employees. Hence, it is not surprising that fixed income is very important when pre-retirees and retirees are deciding how much money they can spend during retirement. In fact, three-quarters of respondents say the amount of income they expect to receive from fixed sources is an extremely or very important factor in deciding how much money they spend in the current year (pre-retirees 77%, retirees 78%).

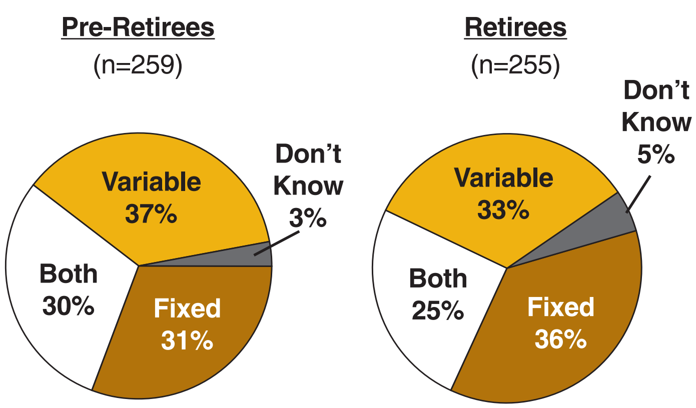
This sense of stability carries over to their retirement savings patterns as well. Over half of pre-retirees (55%) and retirees (53%) have part of their assets in annuities. Most (87%) pre-retirees and retirees have savings, investments or insurance that will provide additional sources of income in retirement.

Nearly three in ten pre-retirees (29%) and retirees (27%) have 1% to 20% of their retirement savings in annuities; an additional 26% of both groups have 21% to 100% of their retirement savings in annuities. Among retirees, women (59%) are more likely than men (47%) to own an annuity.

The percentages of respondents who own fixed and variable annuities are roughly equal: Among annuity owners, two-thirds of pre-retirees (66%) and six in ten retirees (59%) report owning variable annuities, and about six in ten of each group own fixed annuities (60%, 62%). [These figures include a share who own both types.]

Are those annuities fixed or variable?

Base: Have annuities



When you bought your fixed/variable annuity, was it an <u>immediate</u> annuity that provided monthly income from the start, or was it a <u>deferred</u> annuity from which you did not initially receive income?

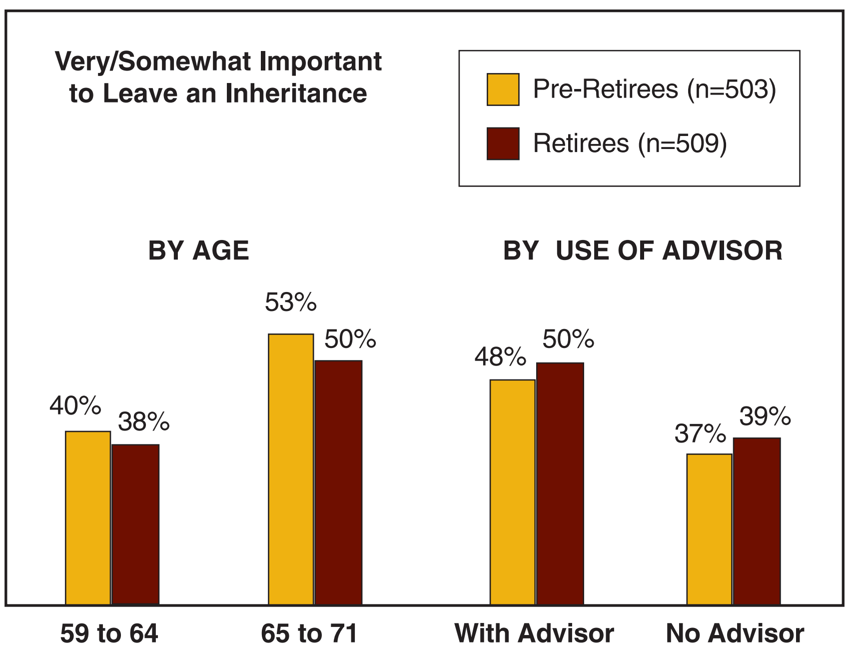
	Pre-Retirees	Retirees
Fixed Annuity Holders	(n=156)	(n=158)
Immediate	8%	15%
Deferred	88%	81%
Don't know	3%	4%
Variable Annuity Holders	(n=172)	(n=150)
Immediate	5%	8%
Deferred	92%	88%
Don't know	3%	4%

Fewer Than Half of Silent Generation Retirees/Pre-Retirees Believe It's Important to Leave an Inheritance

Defying assumptions that the Silent Generation will carefully budget for and leave an inheritance to beneficiaries, most of today's retirees and pre-retirees view leaving an inheritance to anyone other than their spouse as relatively unimportant. Fewer than half of retirees (45%) and pre-retirees (43%) say it's important. This may result in a greater comfort level knowing that they have more discretionary money to spend or to give to their heirs while they are living.

It is also more common for those who are 65 years of age or older to place importance on leaving an inheritance than it is for younger pre-retirees and retirees (53% vs. 40% pre-retirees, 50% vs. 38% retirees).

How important a goal is it for you personally to leave an inheritance to anyone? [If married: other than your spouse]



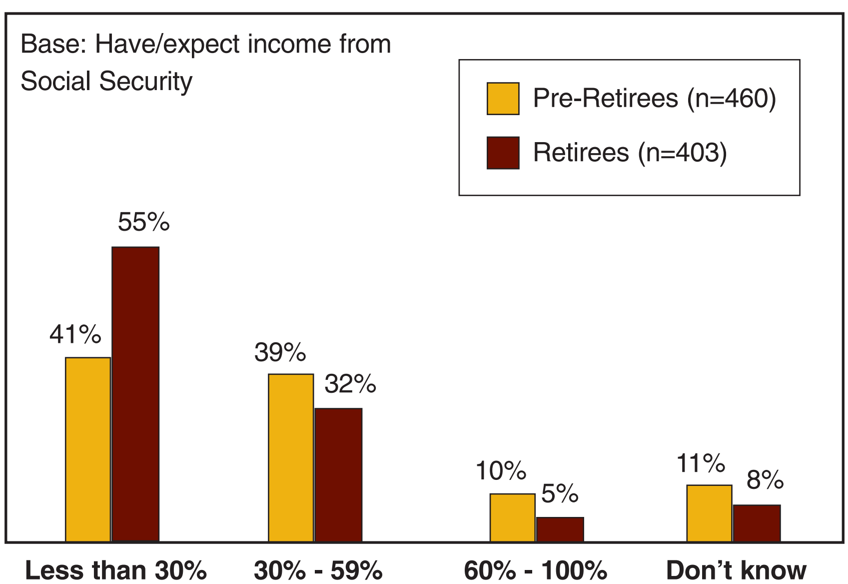
In terms of planning, only one-third of retirees (35%) and pre-retirees (33%) factor the amount of money they want to leave as an inheritance into their current spending decisions. By comparison, more than two-thirds of both groups factor lifestyle goals into their spending decisions (68% for pre-retirees, 72% retirees). Respondents who work with a financial advisor tend to place a higher priority on leaving an inheritance than those who do not (48% vs. 37% for pre-retirees; 50% vs. 39% of retirees).

Silent Generation Retirees Build Sizeable Nest Eggs, But Are Less Savvy About Cash Flow Issues and Retirement Income

The most affluent half of today's Silent Generation retirees and pre-retirees have done a solid job of saving for retirement; they have built sizeable nest eggs and they protect their funds through diversification. Nearly all of these pre-retirees (96%) and retirees (95%) have retirement savings in at least two of the following categories: equities, bonds, accounts with fixed rates of return, annuities, and other investments. Relatively few of the retirees get income from property (14%), working (12%) or family members (5%).

While many have a healthy nest egg, many pre-retirees appear to be over confident about the anticipated size of their retirement income. They also appear to be underestimating their retirement expenses. On the income front, for example, nearly half of pre-retirees who expect Social Security think their payouts will equal 30 percent or more of their pre-retirement income (48%). Among retirees who receive Social Security, however, only one-third (37%) currently receive payouts of this size. According to the Social Security Administration, the average Social Security payment for 2005 is $955 per month.

Thinking about the amount of Social Security you* [Pre-Retirees: expect to] receive, how much is that as a proportion of the income you received prior to retiring [Pre-Retirees: your current income]?**

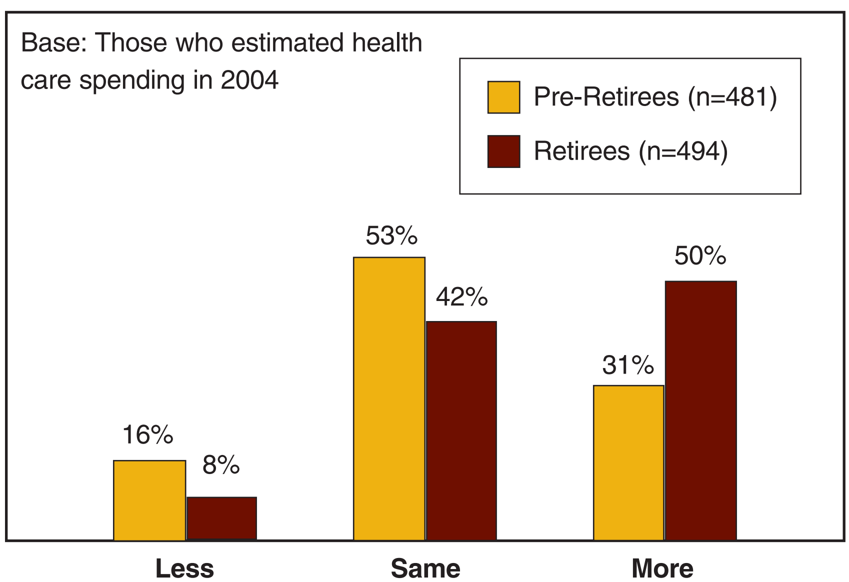


*If married: and your spouse
**if married: your combined income

In terms of spending, nearly two-thirds (63%) of pre-retirees expect to spend less in retirement than they did during the years leading up to retirement. Based on the experience of current retirees, however, down-shifting is more likely to be the exception than the norm. Roughly one-quarter (28%) of today's retirees report a lower level of spending during retirement, while most (51%) say that they spend about the same. One in five retirees (19%) say they spend more in retirement than they did before they stopped working. Retirees who are single (38%) are more likely than married retirees (24%) to spend less money in retirement than they did before. Still, two in three retirees (65%) say less than 70% of their spending was on necessities.

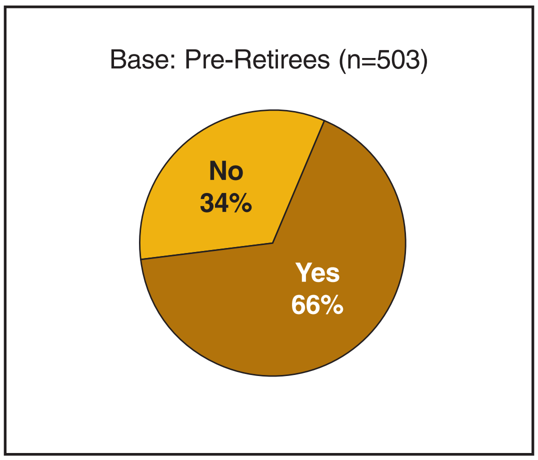
One reason for the discrepancy between pre-retiree expectations and retiree experience may be unanticipated healthcare costs. While only 31% of pre-retirees expect to spend more on healthcare in retirement — and 16% expect to spend less — half (50%) of retirees indicate that their healthcare expenses are higher post-retirement. Only 8% of retirees report lower healthcare bills.

How [expected] retirement spending on health care compares to pre-retirement spending



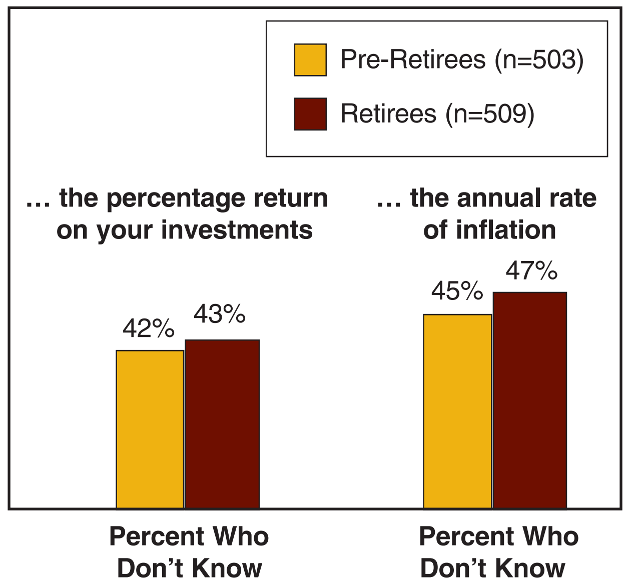
Although they've carefully *saved for* retirement, the Silent Generation has done a less solid job of planning out their retirement income to make sure it will safely last as long as they do. One-third (34%) of pre-retirees have never tried to calculate how much monthly income they will need in retirement. A larger percentage of pre-retirees (42%) and retirees (43%) have not estimated how much return their investments will produce each year, on average, over the next ten years. Additionally, nearly half (45% of pre-retirees and 47% of retirees) have not estimated the annual rate of inflation over the next ten years.

Have you tried to figure out how much monthly income you* will need in retirement?



*If married: and your spouse

What do you estimate (…) will be, on average, over the next ten years?



Perhaps as a result, many members of the Silent Generation do not have safeguards against overspending — "rainy day" funds are in place, but many are uninformed when it comes to how much they need to live on. The majority of retirees (60%), for example, draw on their retirement savings and investments (regularly or occasionally) as a source of income for living expenses with one-quarter (24%) using them as a regular source. Among those who dip into their savings, most (60%) do not have any pre-determined limit on the amount that they are willing to withdraw.

When looking at the relationship between a retiree's assets and the likelihood that he/she will withdraw savings/investments for living expenses, the study found that those with higher assets are more likely to use savings and investments as a regular source of funds to pay for living expenses. Those retirees who work with a financial advisor are more likely than those who do not use a financial professional to use these funds as a regular source for living (31% vs. 17%). Nearly three in ten (29%) retirees with assets of $250,000 or more use their savings on a regular basis, compared with 17% of retirees with less than $250,000. Approximately one-third (37%) of retirees with $250,000+ in assets say they "never" or "only in the case of an emergency" touch their savings/assets, compared with 46% of retirees with assets below $250,000.

Silent Generation Retirees and Pre-Retirees are Financially Near-Sighted, Especially with Regard to Longevity Planning

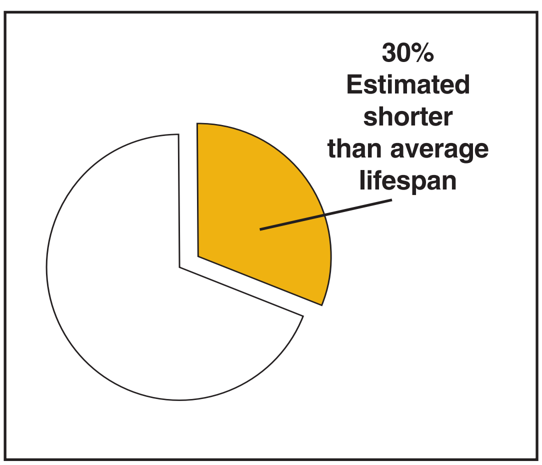
Overall, members of the Silent Generation worry frequently about healthcare costs and stock market dips, but indicate that they are not as worried about less immediate issues such as having adequate income throughout their retirement or having to provide care to a family member who becomes ill or infirm.

Between one-half and one-third of retirees and pre-retirees worry at least once a month about short-term financial stresses such as a rise in the cost of medical care (reported by 50% of pre-retirees and 40% of retirees) or a drop in the stock market (reported by 44% of pre-retirees and 39% of retirees). But relatively few think about longer-term concerns such as how unexpected longevity could affect their financial security in retirement (19% and 16% respectively) or that they may need to provide care to a family member (24% and 22% respectively). In fact, 34% of pre-retirees and 43% of retirees say they never worry about living longer than expected.

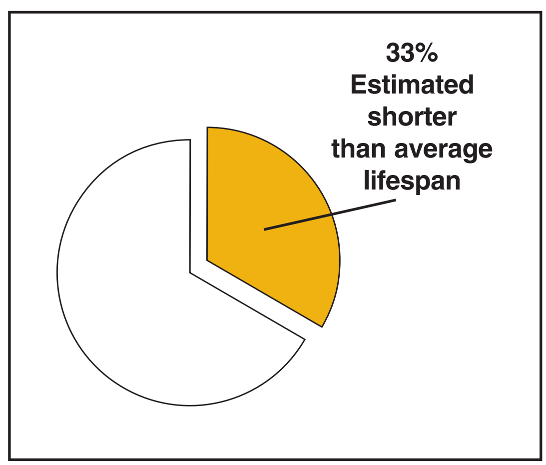
One reason for this is probably that a number of people in the Silent Generation are underestimating how long they will live. Three in ten pre-retirees (30%) in good health and one in three (33%) retirees in good health estimate that they will live shorter than the average life expectancy for their age.

Among those in good health

Pre-Retirees



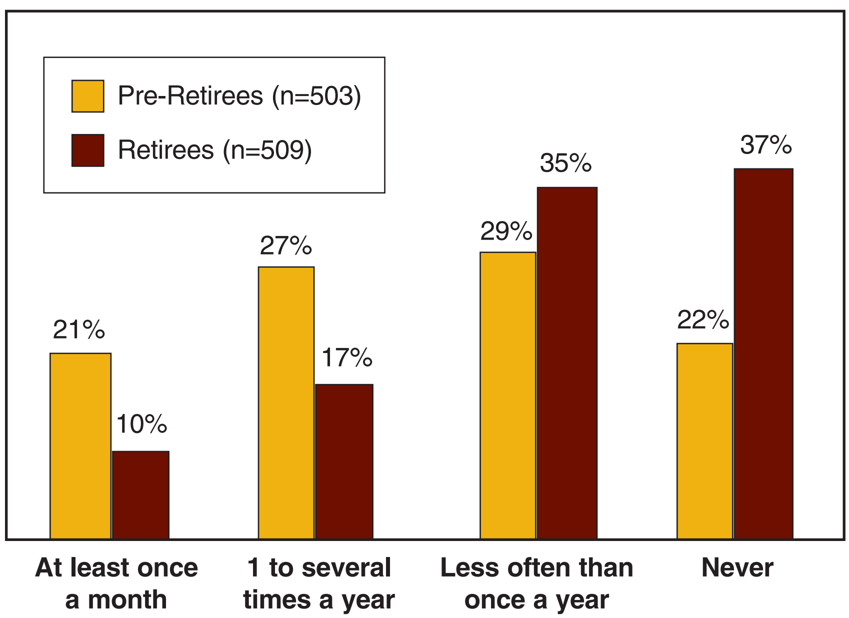
Retirees



More than one-third of retirees (37%) never worry about running out of money in retirement and another 35% worry about this less than once a year. Silent Generation members still working worry a little more about running out of money (which may help explain why they are still working); 22% never worry about this and another 29% worry less than once a year.

Yet, longevity can have a major impact on retirement funds. Additional, unanticipated years of retirement can be expensive ones because of the cumulative effect of inflation, a fact that many in the Silent Generation do not appear to fully understand. More than half of pre-retirees (54%) and four in ten retirees (41%) say they would change their spending, saving, or earning activity if inflation made costs rise 30% over the next nine years; yet, this is just what would happen if inflation maintains a moderate rise of three percent per year.

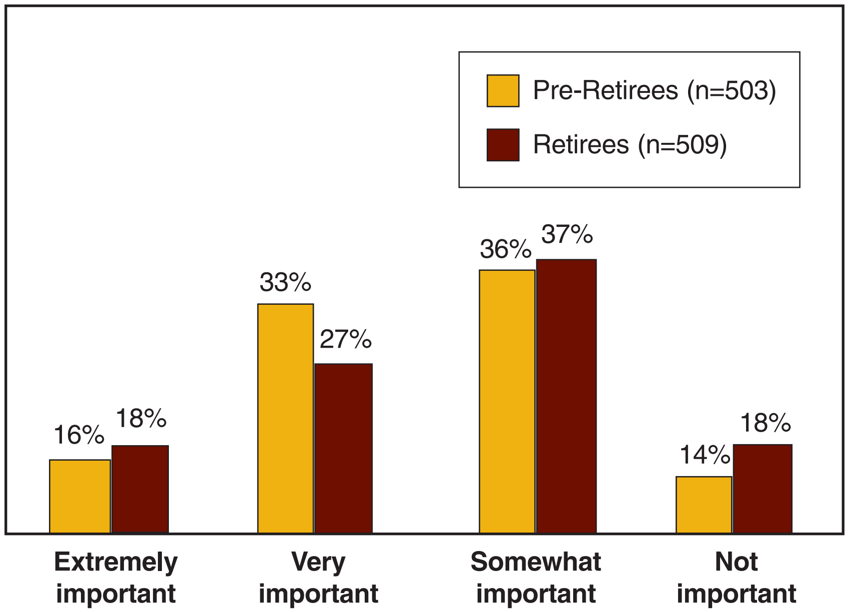
How often, if at all, do you worry that you will run out of money in retirement?



Even though annual nursing home care costs in 2004 averaged more than $70,000, according to the MetLife Market Survey of Nursing Home and Home Care Costs 2004, half of pre-retirees (50%) and retirees (55%) say that the cost of potential long-term care is not a highly important factor in deciding how much money they will spend in the current year. Among retirees, females (51%) consider it a much more important issue than males (39%).

Yet, around one-third of pre-retirees (34%) and retirees (28%) worry at least once a month that their financial security in retirement will be significantly affected by someone in their household needing long-term care. Another 52% of pre-retirees and 55% of retirees worry about it at least sometimes.

In deciding how much you (and your spouse) will spend this year, how important is the cost of your (and your spouse's) current potential long-term care?



More than half (55%) of pre-retirees expect to supplement their retirement income with full- or part-time employment. Yet only 12% of the retired Silents worked after retirement. This suggests that expectations of post-retirement work will not be met by a significant number of pre-retirees.

Also, unrealistic expectations about investment return could lead some to have lower assets in their later years than they expect. Of those who feel they can estimate the return they can average over the next ten years, one-third of pre-retirees (32%) and retirees (36%) predict it will be 9% or more, a figure that most financial professionals feel is highly unlikely.

Implications for the Future

This most affluent half of the Silent Generation is in many ways a role model for tomorrow's retirees – Baby Boomers, GenXers and Yers. They saved a significant amount of money. Many were given or developed regular sources of income that will help see them through retirement. Overall, Silent Generation pre-retirees and retirees feel confident about their financial futures in retirement.

This group was helped by the fact that they worked in era in which company defined benefit pension plans were more prevalent and when Social Security benefits are assured. With the age that people are entitled to full Social Security benefits rising and the premium for Medicare Part B increasing, which comes right out of Social Security benefits, future generations will likely face uncertainty about the amount of income they can expect from Social Security.

One of the lessons from the Silent Generation is that getting regular sources of income leads to a feeling of comfort about retirement security. Among today's retirees, those who have regular income from either a pension plan or an annuity are more than twice as likely as those with neither to say that retirement is much better than they expected it to be (25% vs. 11%), and those who have both a pension and an annuity are three times as likely (32%). To replicate this sense of well being, future retirees may seek out or create new sources of guaranteed lifelong retirement income, such as annuities.

As Americans live longer and healthier lives, the challenge of providing sufficient income throughout the entire retirement period becomes even greater. With less replacement income from Social Security, a smaller likelihood of receiving a defined benefit pension plan and decreased chances of receiving an inheritance from their parents, how will tomorrow's retirees budget their money during retirement?

Further complicating the problem is the rising cost of healthcare. The survey found that it is likely that many pre-retirees and retirees are currently underestimating what their healthcare expenditures will be during retirement. They also don't consider the high cost of long-term care for themselves or for a family member who may need care. As more employers reduce or eliminate health care benefits for retirees, this discrepancy is likely to increase and take up a larger percentage of retirement income.

A key challenge for every generation as they enter retirement is to make sure their money lasts as long as they do. This requires choosing the right portfolio, getting protection against retirement risks, such as market risk, inflation risk and longevity risk, and choosing a spending level that will allow assets to last. Hopefully, learning from the experiences of the Silent Generation will help the next generations to achieve the financial security they desire.

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Metropolitan Life Insurance Company
200 Park Avenue
New York, NY 10166
www.metlife.com

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