

The MetLife Retirement Income IQ Test

Findings from the 2003 National Survey of
American Pre-Retirees

MetLife
Mature Market Institute

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Executive Summary

Consumers are underestimating their own longevity and not saving adequately for their retirement, and this sets the stage for a national crisis in retirement planning.

During early May 2003, the MetLife Mature Market Institute commissioned a national poll to assess pre-retirees' understanding of some key facts and concepts related to retirement income.

Individuals aged 56 to 65 within at least five years of retirement were asked to respond to a quiz designed to test their knowledge of retirement and income planning statistics and issues in the areas of:

- Longevity and its impact
- Income, expenses, and inflation in retirement
- Annuities as a retirement planning tool
- Long-term care and protection of assets

On average, respondents answered only five of the fifteen questions correctly. This failing score of a "33" on a grading scale of 100 points suggests that pre-retirees have misconceptions about issues affecting their retirement. Specifically, they underestimated the life expectancy of a 65-year old (and how many years they are likely to spend in retirement), and they do not consider longevity a significant financial risk in terms of appropriately planning for their retirement. Further, their answers revealed that they underestimate how much money they should be saving compared to experts' recommendations and that they may intend to withdraw from their retirement savings at levels considered too high. They demonstrated a lack of understanding of the extended time horizon they would be living in retirement and of inflation's full effect on the future value of their money. Their responses also indicated that they underestimate long-term care expenses and do not fully understand annuities - insurance products that are designed to protect retirees' income.

Key Findings

- I. American Pre-Retirees “Fail” Retirement Income IQ Test**
- II. Retirement Income IQ Scores Lowest Among Less Affluent and Less Educated**
- III. Pre-Retirees Unaware of Danger of Outliving Their Assets**
- IV. Retirement Income Need Not Properly Assessed**
- V. Misconceptions About Annuities**
- VI. Conclusions**

Methodology

The MetLife Mature Market Institute Retirement Income IQ Test was conducted in early May 2003 by NFO World Group. A total of 1,201 males and females aged 56-65 within five years of retirement completed the Web-based survey. These participants were part of NFO's online Interactive Panel which registers 1.2 million U.S. households (about 3 million individuals) as members. All respondents to the Retirement Income IQ Test were primary or co-primary financial decision-makers in their households.

Demographic Profile of the Sample

The people who qualified for the test were primary or co-primary household financial decision-makers aged 56-65 nearing retirement.

Decision-Maker

| | |
|------------|-------|
| Primary | 40.0% |
| Co-Primary | 60.0% |

Household Assets*

| | |
|------------------|-------|
| Less Than \$300K | 57.8% |
| \$300K or More | 22.2% |

*20% declined to specify or did not know their asset level

Gender

| | |
|--------|-------|
| Male | 53.3% |
| Female | 46.7% |

Ethnicity

| | |
|-----------|-------|
| White | 91.3% |
| Non-White | 5.7% |

Education

| | |
|---|-------|
| Some High School or Less | 2.8% |
| High School | 24.6% |
| Some College/ Associates Degree | 28.6% |
| Completed Technical/ Vocational School | 4.7% |
| Completed College | 18.5% |
| Graduate/Post-Graduate | 20.7% |

Region

| | |
|-----------|-------|
| Northeast | 25.4% |
| Midwest | 24.2% |
| South | 28.5% |
| West | 21.9% |

Age

| | |
|-------|-------|
| 56-60 | 59.0% |
| 61-65 | 41.0% |

Marital Status

| | |
|---------|-------|
| Married | 78.7% |
| Single | 21.3% |

Household Income

| | |
|-------------------|-------|
| Less Than \$22.5K | 7.0% |
| \$22.5K-\$39.9K | 14.7% |
| \$40K-\$59.9K | 17.4% |
| \$60K-\$89.9K | 19.8% |
| \$90K or More | 23.1% |

Occupation

| | |
|--|-------|
| Executive/Managerial/ Professional | 31.0% |
| Technical/Sales/ Administrative Support | 23.7% |
| Service | 7.5% |
| Craftsman/Repairman | 6.2% |
| Operator/Laborer | 6.7% |
| Other | 24.9% |

Key Findings

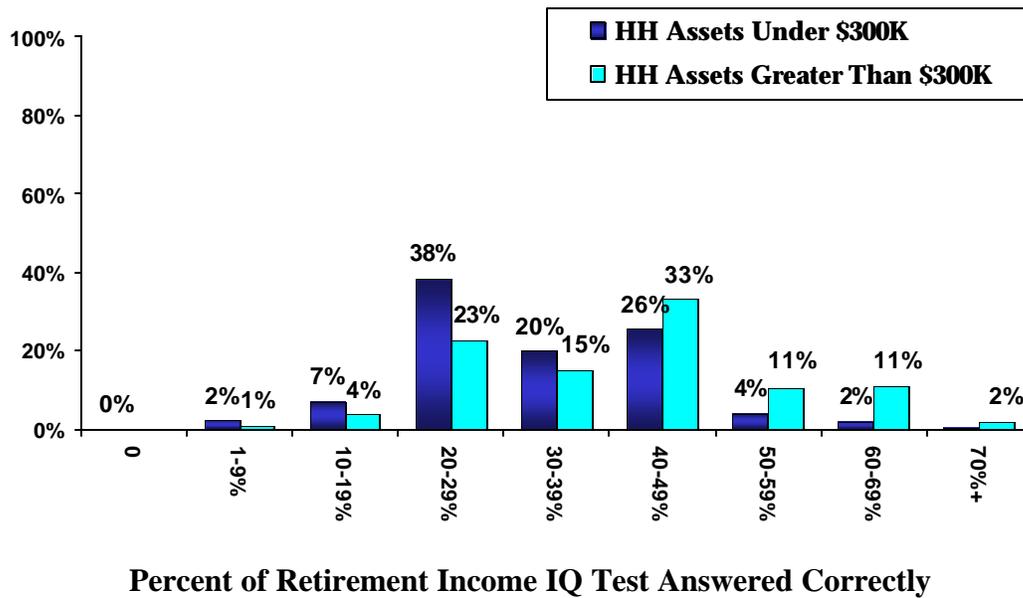
I. American Pre-Retirees “Fail” Retirement Income IQ Test

On average, respondents answered just five of the fifteen questions in the Retirement Income IQ Test correctly. This failing score of a “33” on a grading scale of 100 points demonstrates pre-retirees’ lack of knowledge about some key facts and issues affecting their retirement. The respondents tend to underestimate savings requirements and life expectancy and overestimate how much they could draw on their savings as well as health care costs and inflation.

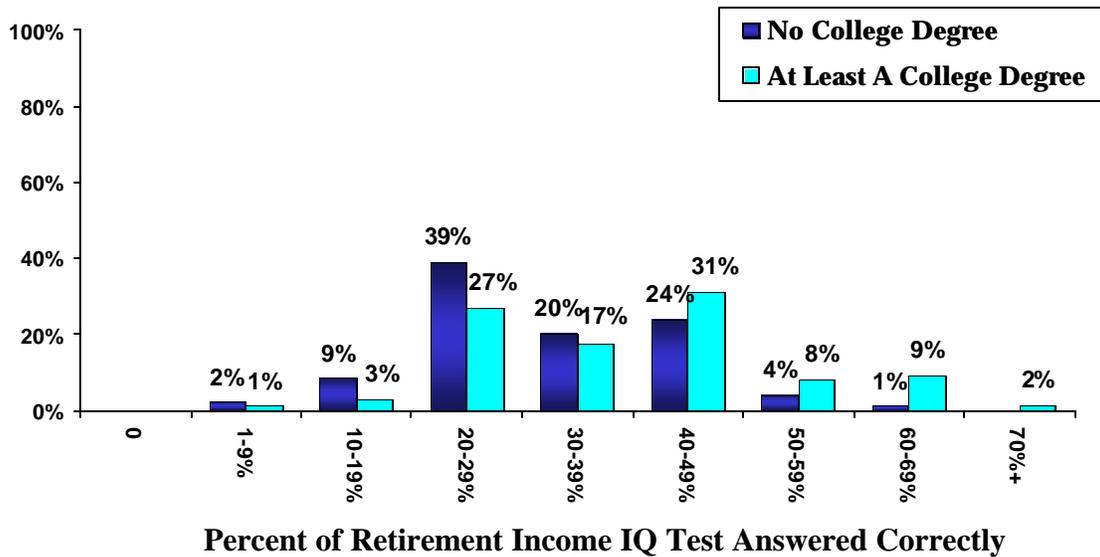
| IQ Question | Correct Answer | % Correct | Leading (Incorrect) Answer | % Incorrect |
|--|--|-----------|---|-------------|
| 1. What is the greatest financial risk facing retirees? | Longevity Risk | 23% | Inflation | 41% |
| 2. An individual who reaches age 65 has a life expectancy of age 85. What are the chances he or she will live beyond that age? | 50% | 37% | 25% | 59% |
| 3. Considering a 65-year-old couple, what is the likelihood of one or both of them living to the age of 97? | 25% | 16% | 10% | 64% |
| 4. What has the average annual rate of inflation been over the past twenty years? | 3% | 25% | 5% | 38% |
| 5. Suppose an individual retired at age 65 with a savings of \$100,000. How much money could be withdrawn each month assuming annual earnings of 6% and that no savings remained after thirty years? | \$600/month | 59% | \$800/month | 24% |
| 6. On average, what percentage of retirement income does social security represent for someone living on approximately \$30,000 per year? | 23% | 24% | 17% | 34% |
| 7. What does the word "deferred" referring to in the phrase "deferred annuity"? | Income | 48% | Investment | 32% |
| 8. What happens if an individual buys an income annuity and dies before getting back the initial principal? | The insurance company uses the money to pay a benefit to those who live longer than anticipated. | 11% | The beneficiaries always receive the full principal since this is an insurance product. | 50% |
| 9. Which of the following is always true regarding income annuities? | There is no account balance, instead they pay an income for life. | 30% | There is a specific age to withdraw money. | 37% |
| 10. What percent of pre-retirement income do experts recommend retirees need to use as a benchmark for determining the amount of annual income needed in retirement? | 70-80% | 44% | 40-50% | 36% |
| 11. To help ensure that an individual has enough money to make savings last his or her lifetime, experts are now recommending limiting the percent they withdraw from their savings each year to... | 4% | 27% | 7% | 34% |
| 12. If an individual needed long term care today, what would be the average annual cost for a private room in a nursing home? | \$61,000/year | 39% | \$53,000/year | 29% |
| 13. Expenses for extended long-term care (e.g. nursing home care) are generally covered by: | None of the above | 73% | Medicare | 20% |
| 14. What percentage of income do people older than age 65 spend on health care? | 13% | 35% | 32% | 61% |
| 15. How many centenarians, that is people 100 years of age or older, are there in the United States? | 82,000 | 14% | 27,000 | 44% |

II. Retirement Income IQ Scores Lowest Among Less Affluent and Less Educated

One third of respondents with household assets of \$300K or more answered 40% of the Retirement Income IQ Test correctly. Though still a “failing grade,” these more affluent respondents outperformed the majority of the respondents. Just one quarter of those with household assets less than \$300K answered 40% of the IQ Test correctly.



Likely driven by affluence, education plays a role in differentiating performance among respondents. A third of respondents with at least a college degree answered 40% of the Retirement Income IQ Test correctly compared to a quarter (24%) of their less educated counterparts. Four in ten of them (39%) answered 20-29% of the IQ Test correctly compared to 27% of those who are more educated.



A closer look at two individual survey participants nearing retirement further illustrates the impact of wealth and education on knowledge of retirement income issues.

Respondent A Scored “47”

White, Married 62 Year-Old Male
 \$300K in Household Assets
 \$90K+ Household Income
 Executive/Managerial/Professional
 Graduate/Post-Graduate Education

Respondent B Scored “20”

White, Married 62 Year-Old Female
 <\$50K in Household Assets
 \$40-59,999K Household Income
 Executive/Managerial/Professional
 Some College/Associates Degree

III. Pre-Retirees Unaware of Danger of Outliving Their Assets

People are living a significant number of years past the typical retirement age of 65, thus increasing the time horizon over which their savings must last. Just 4 in 10 (37%) respondents believe that an individual who reaches age 65 has a 50% chance to live beyond life expectancy of age 85. They clearly do not understand the concept of life expectancy being an average, with half the population living beyond that age and half never reaching that age. Less than 2 in 10 (16%) of respondents believe there is a 25% chance that one or both members of a 65 year old couple can live to age 97. Lastly, 8 in 10 incorrectly answered that one or both of these members had a 10% chance or *no* chance to live to age 97. Only 14% of respondents knew that there are 82,000 centenarians in the U.S.-- people living to age 100.

Not only do respondents underestimate longevity, they do not view it as a financial risk. That is, just 2 of 10 (23%) respondents understand that longevity is the greatest financial risk facing retirees. Inflation is a very significant financial risk, selected by 41% of respondents, but it is important to note that longevity risk is exacerbated by inflation risk.

IV. Retirement Income Needs Not Properly Assessed

Realistic retirement planning is further impeded by misconceptions centered around the level of income needed in retirement, the extent of long term care expenses, and the actual rate of inflation.

Just 4 of 10 (44%) respondents believe 70-80% of pre-retirement income should be used as a benchmark in determining the amount of annual income needed in retirement. Over half indicate they may under-prepare by using 40-50% or even just 20-30% of pre-retirement income as the planning benchmark. Respondents also indicate they may overspend in retirement. Just 3 of 10 (27%) know that experts advise withdrawing 4% annually from retirement savings to have a better chance to make funds last throughout a long retirement, while 34% responded that the higher 7% recommended rate would be adequate (meaning they would run out of money soon).

Lack of knowledge about long term care expenses and products also damages the effectiveness of retirement planning. Just 4 of 10 (39%) know how expensive a private room in a nursing home can be -- \$61,000 a year. Additionally, 6 of 10 incorrectly estimate the percentage of income people older than age 65 spend on health care. Just 35% of respondents were on target by selecting 13% as the answer. Nearly 4 in 10 (38%) over-estimated inflation rates to have been 5% over the past twenty years, and just a quarter correctly stated the rate was 3%.

Planning is made more difficult when respondents are not sure about inflation rates.

V. Misconceptions About Annuities

Under half (48%) of respondents knew that “deferred” refers to income in the phrase “deferred annuity”-- a third believe it refers to investment (32%). Knowledge of what happens if an individual buys an income annuity and dies before getting back the initial principal is also mediocre. Only 1 in 10 (11%) correctly answered that the insurance company uses the money to pay a benefit to those who live longer than anticipated. Half of respondents incorrectly believe the beneficiaries always receive the full principal since it is an insurance product. Just 3 in 10 respondents correctly state that it is always true that there is no account balance in an income annuity but that instead it pays an income for life. Another 6 in 10 believe either there is a specific age to withdraw money or payments can never change. The benefits of an annuity as an insurance product that provides a guaranteed income stream are not widely recognized, and many misconceptions exist with how the product actually works.

VI. Conclusions

Pre-retirees failed the Retirement Income IQ Test, suggesting that they are not well informed about some of the facts and issues affecting their future retirement years. They underestimated the time they would spend in retirement and indicated they do not consider their longevity a significant financial risk in terms of appropriate retirement planning. They not only save too little, but they plan to withdraw too much. Misconceptions about long term care expenses and annuity products point to gaps in the information they need to fully prepare for the realities of retirement.

About MetLife

MetLife, a subsidiary of MetLife, Inc. (NYSE: MET), is a leading provider of insurance and other financial services to individual and institutional customers. The MetLife companies serve approximately 12 million individuals in the U.S. and provide benefits to 37 million employees and family members through their plan sponsors. It also has international insurance operations in 12 countries. For more information about MetLife, please visit the company's Web site at www.metlife.com.

The MetLife Mature Market Institute is the company's information and policy resource center on issues related to aging, retirement, long-term care and the mature market. The Institute, staffed by gerontologists, provides research, training and education, consultation and information to support MetLife, its corporate customers and business partners. For more information, visit www.maturemarketinstitute.com.



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