8 Things Most Americans Don't Know About Retirement

By Michael S. Fischer, ThinkAdvisor

MISCONCEPTIONS AND MYTHS ABOUT RETIREMENT MAY BE HOLDING MANY BACK FROM PROPER PLANNING, FIDELITY REPORTS

In an effort to understand Americans' knowledge about retirement planning, Fidelity Investments conducted a first-ever Retirement IQ Survey in December.
The response was not encouraging. Many, including those 55 or older, missed the mark on key retirement questions, and adhered to several myths and misconceptions that could be holding them back.

"Although retirement may seem far off for many, there are retirement concepts everyone should know to ensure you're able to fulfill the goals you have for yourself and your family," Ken Hevert, senior vice president of retirement at Fidelity, said in a statement.
"We encourage investors to think about the goals they want to achieve and develop a plan to get there, but it starts with knowing where you stand in order to identify opportunities to improve."

ORC International conducted the online survey in mid-December in two phases: first, among a sample of 1,007 respondents ages 55 to 65 who are not retired; then, among a demographically representative U.S. sample of 1,047 adults comprising 512 men and 535 women 18 and older.

Following are the eight questions Fidelity asked respondents, along with the correct answers and how often respondents got them right:

Question #1: Roughly how much do investment professionals say people should save by the time they retire?

Correct response: At least 10 times the amount of one’s last full year’s income

Fidelity said that even though professionals disagree somewhat about how much the average person needs to save, 74% of respondents underestimated how much is needed. Not only that, 25% said they needed to save only two to three times the amount of their last full year's income, well below suggested targets.

More concerning, 19% of pre-retirees age 55 to 65 answered two to three times.

Question #2: How often over the past 35 years do you think the market has had a positive annual return?

Correct response: The market has enjoyed a positive annual return 30 out of the past 35 years. Historically, the U.S. stock market has gained about 7% per year.

Only 8% of overall respondents answered correctly. Those between 55 and 65 did slightly better, with 14% responding correctly.

“Even with market volatility, the stock market has performed remarkably well over the long term,” Hevert said. “The majority of investors need to have a diversified portfolio that includes equities to enable growth over time. If you’re not investing, you’re likely losing money due to inflation.”

Question #3: If you were able to set aside $50 each month for retirement, how much could that end up becoming 25 years from now, including interest, if it grew at the historical stock market average? Correct answer: About $40,000

Sixteen percent of respondent answered correctly. However, 47% underestimated how big an effect relatively small savings can have over time. Twenty-seven percent calculated the answer to be about $15,000, which undervalues the power of consistent savings and would represent a 0% stock market return vs. the market average of 7%.

Saving regularly, combined with the power of compound interest, shows why it is important to start setting aside money automatically at an early age, Fidelity said, demonstrating with three scenarios. Saving 1% more of salary can add up, it said.

Question #4: Given the current average life expectancy, if you want to retire at age 65, about how long would you need your retirement savings to last?

Correct answer: Approximately 22 years, given that the average life expectancy is 87, or 85 for men and 87 for women, and understanding that longevity is influenced by family medical history and lifestyle, among other factors.

A third of respondents got the answer right. Thirty-eight percent estimated that they would need to make their savings last for only about 12 to 17 years, which could leave some at risk of running out of money in retirement.

Fidelity said that since people are living longer, healthier lives, many need to plan for a retirement lasting 30 years or more — especially younger generations.

Question #5: Approximately how much did the average monthly Social Security benefit pay in 2016?

Correct answer: About $1,300

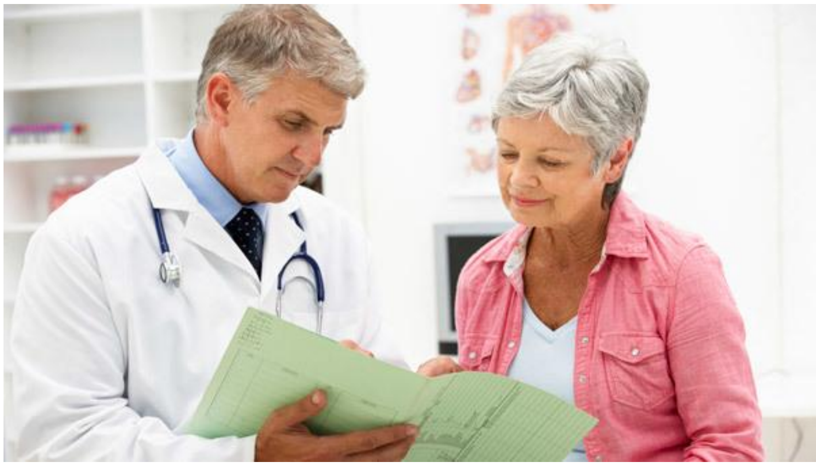
Forty-three percent of respondents answered correctly. Better yet, half of pre-retirees did so. Fidelity pointed out, however, that with upward of 75 ways to claim and dozens of factors that influence one's decision of when to retire, $1,300 is simply an average.

In general, it said, waiting until ages 65 to 67 when one is entitled to full Social Security Retirement benefits may help increase the monthly payout. Those who can afford to wait until full retirement age will increase their monthly Social Security income by 30%.

Question #6: About what percentage of your savings do many financial experts suggest you withdraw annually in retirement?

Correct answer: Fidelity's general rule of thumb suggests limiting portfolio withdrawals to no more than 4% to 5% of one's initial retirement assets, adjusted each year for inflation, over the course of one's retirement horizon.
Forty-two percent of pre-retirees answered correctly. However, 38% of those 55 and older said they could withdraw 7% or more of their savings annually, putting many at risk of quickly running out of savings in retirement. And 15% of this age group felt they could withdraw 10% to 12% annually — a rate that could drain many households of savings in less than a decade, Fidelity said.

Fidelity suggested covering essential expenses with guaranteed income sources, such as Social Security, pensions and annuities, and paying for "nice-to-haves," such as travel or gifts to loved ones, from withdrawals from one's investment portfolio.



Question #7: What do you think is the single biggest expense for most people in retirement?

Correct answer: housing, health care and transportation are typically the largest expenses in retirement, but housing by far tops that list for most Americans — for many retirees, housing can make up nearly half of their expenses.

Seventeen percent of respondents and 13% of those between 55 and 65 answered correctly, but 69% thought health care would be the largest expense. Fidelity said this perhaps indicated the deep concern many Americans have around an expense that is difficult to predict, involving the state of one's health among other factors, including skyrocketing health care costs in recent years. It noted that health care was also the No. 1 item respondents were most worried about being able to afford — including 63% of pre-retirees.

Question #8: About how much will a couple retiring at age 65 spend on out-of-pocket costs for health care over the course of retirement?

Correct answer: Fidelity reported last year that the average 65-year-old couple retiring in 2016 would pay $260,000 out of pocket for health care expenses over the course of retirement.
Only 15% answered correctly, with 72% underestimating the true amount of health care costs. Overall, 22%, including 19% of pre-retirees, underestimated how much they would spend by about $200,000.

"If you're like most Americans, health care is expected to be one of your largest expenses in retirement, after housing and transportation costs," Hevert said. "But unlike previous generations, most of us won't have access to employer- or union-sponsored retiree health care benefits. That's why these costs will likely consume a larger portion of your budget — and you need to plan for that."