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THE USE AND IMPACT OF ADVICE AMONG NEAR-RETIREES

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EXECUTIVE SUMMARY

Individuals face an array of planning issues as they grow older and approach retirement. Sixty percent of near-retirees in higher education have consulted with a financial advisor or other financial professional within the past two years regarding their retirement and preparing for it. Given that only 10% of near-retirees feel that they are confident in their ability to research and make financial decisions related to retirement on their own, it's reasonable to expect many of those who have not yet consulted an advisor to do so before retiring.

While the most common issue covered in consultations with an advisor is the investment allocation of savings, the two issues on which near-retirees consider it most important to receive advice as they near retirement are strategies for drawing income from savings in retirement and paying for health care in retirement. In addition, evidence indicates that advice specifically on these two subjects is associated with greater focus on the issues and higher perceived readiness.

Receiving advice does not automatically translate into implementing the advice. Among higher education near-retirees who have consulted with a financial advisor within the past two years, 17% report always implementing the recommendations of their advisor(s) and an additional 52% implement their advisor's recommendations most of the time. A likely reason for non-implementation among some is trust; advice received is viewed as always being independent and objective by only 25% of those who typically do not implement an advisor's recommendations compared with 55% of those who typically implement. Addressing a trust issue is important given that concern over various aspects of retirement planning is lower for those implementing advice received compared to those who receive but do not implement advice.

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INTRODUCTION

Individuals face a range of pressing issues as they grow older and approach retirement—adequacy of their retirement savings, investment of that savings leading up to and into retirement, conversion of savings into retirement income, planning for health care expenses in retirement, and so on. Given the range of issues to be addressed, it is natural to expect individuals to need and want advice when making such decisions.

This report examines the use of financial advisors by near-retirees in higher education, the topics typically covered in such consultations as well as the topics considered particularly important, the perception and implementation of advice received, and the impact of working with an advisor. The findings are from a survey of college and university employees aged 50 to 70 who are saving for retirement.[1] This report presents data for different classes of employees in higher education (faculty, staff and administration) and those who are relatively young (age 50 to 64) versus those who are relatively old (age 65 to 70) among "near-retirees."[2]

USE OF AN ADVISOR

Sixty percent of near-retirees in higher education have consulted with a financial advisor or other financial professional within the past two years regarding their retirement and preparing for it (table 1). Older near-retirees (age 65-70) are more likely than younger near-retirees (age 50-64) to have consulted with an advisor within this timeframe (68% versus 59%). While the majority of higher education near-retirees have used an advisor, it's likely that many of those who have not will do so before retiring. When asked to classify their financial knowledge and comfort level, only 10% reported that they are confident in their ability to research and make financial decisions related to retirement on their own; 54% of near-retirees are confident making such decisions themselves after considering information and advice from others, 30% would prefer to actively partner with a financial professional to jointly make such decisions and 6% say that they need a financial professional to make such decisions for them. Furthermore, among those confident in deciding themselves (with or without advice from others), 40 percent are at least somewhat concerned that they may not always be able to make such decisions.

1 1,002 individuals were surveyed by telephone during April and May 2009 regarding their financial preparations for retirement and their views regarding those preparations. PublicMind of Fairleigh Dickinson University fielded the survey and collaborated with the TIAA-CREF Institute and TIAA-CREF on development of the questionnaire. The survey was restricted to individuals whose primary retirement plan is a defined contribution plan. Survey results were weighted to be representative of the population of interest. Individuals who did not envision themselves as ever retiring or leaving the workforce for any reason were excluded from the survey.

2 The survey sample included 500 individuals age 50 to 64, 502 individuals age 65 to 70, 584 individuals employed as faculty, 230 employed as staff, and 188 in administration positions.

TABLE 1
USE OF A FINANCIAL ADVISOR AMONG HIGHER EDUCATION EMPLOYEES (AGE 50 TO 70)

	ALL	AGE 50-64	AGE 65-70	FACULTY	STAFF	ADMIN.
Consulted with a financial advisor or other financial professional within past 2 years regarding retirement						
	60%	59%	68%	58%	64%	59%
Issues covered with advisor						
Investment allocations	89%	89%	88%	88%	88%	93%
Savings rate	60	61	54	57	57	71
Drawing income from savings in retirement	50	48	64	51	44	61
Coordinating retirement income from savings with that of a spouse	50	49	54	46	44	67
Providing for loved ones in the event of death	49	48	52	43	46	67
Structuring holdings to minimize estate taxes	37	35	48	39	26	53
Paying for health care expenses in retirement	28	27	31	29	20	41
Supplementing retirement savings with other assets	22	22	26	23	14	36

Note: Only those with a defined contribution plan as their primary retirement plan were surveyed.
Source: TIAA-CREF Institute (2010).

Investment advice was the most commonly covered topic (table 1). Among near-retirees who have consulted with an advisor within the past two years, 89% reported receiving advice on how to invest their savings. Advice regarding how much they should be saving was received by 60% and one-half received advice on drawing income from saving in retirement, coordinating retirement income from savings with that of a spouse, and providing for loved ones in the event of death. Less frequently covered topics were minimizing estate taxes, planning for retirement health care expenses, and using other assets to supplement retirement savings.

Survey respondents (both those who had used an advisor and those who had not) were asked how important it was for them to receive specific types of advice and services as they approach retirement. Drawing income from savings in retirement and paying for health care in retirement were the financial needs considered most important on which to receive advice (table 2). Fifty-eight percent of higher education near-retirees rated each very important, and almost 30% rated each somewhat important. But only 30% of all near-retirees have received advice on drawing income in retirement within the past two years (50% of the 60% receiving advice). Even less (17%) have received advice on paying for health care in retirement (28% of the 60%). This likely implies that an significant share near-retirees plan to or would like to work with an advisor in the coming years, and those working with an advisor will likely expand the range of issues covered in such consultations.

TABLE 2
IMPORTANCE OF SPECIFIC TYPES OF ADVICE AS APPROACH RETIREMENT, RATINGS BY HIGHER EDUCATION EMPLOYEES (AGE 50 TO 70)

	VERY IMPORTANT	SOMEWHAT IMPORTANT	NOT TOO/ NOT AT ALL IMPORTANT	RECEIVED THIS TYPE OF ADVICE IN PAST TWO YEARS*
Drawing income from savings in retirement	58%	29%	13%	30%
Paying for health care in retirement	58	28	14	17
Comprehensive financial plan covering retirement	46	39	15	na
Investment of savings once retired	42	39	20	na
Providing for loved ones in the event of death	38	29	33	29
Structuring holdings to minimize estate taxes	26	25	50	22

* Those receiving specific type of advice divided by the sum of those not receiving any advice plus those receiving advice but not this type.
"na" means data not available.
Note: Only those with a defined contribution plan as their primary retirement plan were surveyed.
Source: TIAA-CREF Institute (2010).

USE OF THE ADVICE

Receiving advice does not automatically translate into implementing the advice. Among higher education near-retirees who have consulted with a financial advisor within the past two years, 17% report always implementing the recommendations of their advisor(s) (table 3). Fifty-two percent implement their advisor's recommendations most of the time, 28% follow-through on the advice some of the time and 3% hardly ever follow the advice received.

TABLE 3
IMPLEMENTATION OF ADVISOR'S RECOMMENDATIONS BY HIGHER EDUCATION EMPLOYEES (AGE 50 TO 70)

	ALL	AGE 50-64	AGE 65-70	FACULTY	STAFF	ADMIN.
Tend to implement advisor's recommendations						
Always	17%	15%	25%	17%	15%	20%
Most of the time	52	54	42	58	47	47
Some of the time	28	28	30	22	36	26
Hardly ever	3	3	3	2	2	7

Note: Only those with a defined contribution plan as their primary retirement plan were surveyed.
Source: TIAA-CREF Institute (2010).

Not only are older near-retirees more likely to have consulted an advisor, they are more likely to implement recommendations received when they do. Twenty-five percent of those age 65-70 always implement the advice received, compared with 15% of those age 50-64. Staff appear least likely to use advice received; 15% reported always implementing the recommendations, while 38% implemented them some of the time if ever.

This raises the question of why individuals would consult with an advisor and then not implement the recommendations. One likely explanation is that only 25% of those typically not implementing advice consider the advice received to always be independent and objective compared with 55% of those who typically implement (table 4). Furthermore, 33% of those who usually do not implement consider the advice received to be independent and objective only some of the time (28%) or hardly ever (5%). This compares with 5% and 2%, respectively, of those who typically implement.

TABLE 4
PERCEIVED INDEPENDENCE AND OBJECTIVITY OF ADVICE RECEIVED AMONG HIGHER EDUCATION EMPLOYEES (AGE 50 TO 70)

	ALL USING ADVISOR	TYPICALLY IMPLEMENT RECOMMENDATIONS	TYPICALLY NOT IMPLEMENT
Do you feel that the advice you received was independent and objective?			
Always	46%	55%	25%
Most of the time	39	38	41
Some of the time	12	5	28
Hardly ever	3	2	5

Note: Only those with a defined contribution plan as their primary retirement plan were surveyed.
Source: TIAA-CREF Institute (2010).

IMPACT OF ADVICE

The survey was not designed to specifically quantify the impact of advice on near-retiree behavior and outcomes, but insights are gained from the questions asked, in particular, questions regarding levels of concern about various aspects of retirement finances. A pattern is evident in the data—the level of concern is highest among near-retirees who consulted an advisor within the past two years but did not usually implement the advice received, concern is lowest among those receiving and typically implementing advice, and finally the level of concern among those who have not consulted an advisor falls in between but is typically closer to that of those implementing advice received. The pattern holds for concern regarding savings adequacy, converting retirement savings to retirement income, outliving one's savings, affording health care in retirement and proper investment of retirement savings today (table 5). This is consistent with a scenario where relatively high concern leads individuals to consult with an advisor and subsequent implementation of the advisor's recommendations lessens concerns. It also explains why concern is highest among those receiving advice but not typically implementing it; their high concern leads them to seek advice, but their concern remains high since they take no action based on that advice.

TABLE 5
IMPACT OF ADVICE AMONG HIGHER EDUCATION EMPLOYEES (AGE 50 TO 70)

		USED ADVISOR WITHIN PAST 2 YEARS	
	DON'T USE ADVISOR	TYPICALLY IMPLEMENT RECOMMENDATIONS	TYPICALLY DO NOT IMPLEMENT RECOMMENDATIONS
% very concerned about:			
Having enough savings to retire when planned	33%	27%	44%
Drawing income from savings during retirement	20	17	26
Outliving savings	22	17	30
Being unable to afford good health care	47	33	50
% not too/not at all sure that:			
Investing retirement savings properly	32	20	40

Note: Only those with a defined contribution plan as their primary retirement plan were surveyed.
Source: TIAA-CREF Institute (2010).

This further highlights the trust challenge posed above with individuals not implementing the recommendations of their advisors despite high concern levels. Even among those who typically implemented the advice received, 45% viewed the advice as being independent and objective less than all of the time (38% most of the time, 5% some of the time and 2% hardly ever) (table 4). A separate issue is whether those not seeking advice should be more concerned about their retirement planning?

There is also evidence in the survey responses of positive benefits from specific advice. Those who received advice on drawing retirement income from their savings were more likely to report that they understood their options very well (29% compared with 15% for those who have not received such advice) and more likely to have thought a great deal about how they will manage their savings and draw income in retirement (34% versus 19%). Likewise, those receiving advice on paying for health care expenses in retirement were more likely to have thought a great deal about how they will manage premiums, deductibles, co-payments and other expenses not covered by insurance or Medicare (32% versus 18% for those who have not received such advice) and more likely to consider themselves very well-prepared to meet such expenses (49% versus 32%).

CONCLUSION

While most near-retirees in higher education have consulted with a financial advisor within the past two years, it's reasonable to expect many of those who have not to do so. Very few individuals consider themselves well positioned to make financial decisions regarding their retirement completely on their own. In addition, the issues on which near-retirees consider it most important to receive advice as they near retirement—managing and drawing income from saving in retirement and paying for health care expenses in retirement—are issues that have often not been covered in consultations with an advisor thus far. A major issue in the advice process appears to be the trust factor. Less than 20% of those consulting an advisor always implement the advice received and 31% only implement the advice some of the time if ever. Among those not implementing, only 25% view the advice they received as always being independent and objective.

ABOUT THE AUTHOR

Paul Yakoboski is a Principal Research Fellow with the TIAA-CREF Institute. He conducts, manages and communicates research on issues such as income and asset management in retirement, defined contribution plan design, the preparation of higher education faculty for retirement, managing faculty retirement patterns, options for funding retiree health care, and research on issues related to strategic management in higher education. He is also responsible for the development and execution of Institute symposiums on such issues. In addition, Yakoboski serves as director of the Institute's Fellows Program and editor of the Institute's *Trends and Issues* and *Advancing Higher Education* publication series.

Prior to joining the Institute, he held positions as Director of Research for the American Council of Life Insurers (2000 to 2004), Senior Research Associate with the Employee Benefit Research Institute (1991 to 2000) and Senior Economist with the U.S. Government Accountability Office (1989 to 1991). He is a member of the American Economic Association and serves on the editorial advisory board of *Benefits Quarterly*. He previously served as Director of Research for the American Savings Education Council (1995 to 2000). Between 1986 and 1988 he served as an adjunct faculty member at Nazareth College. Yakoboski earned his Ph.D. (1990) and M.A. (1987) in economics from the University of Rochester and his B.S. (1984) in economics from Virginia Tech.

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