FPA FINANCIAL PLANNING ASSOCIATION 25 YEARS

Journal of Financial Planning

FINANCE of AMERICA

2025 Trends In

RETIREMENT PLANNING

Executive Summary

In Q4 2024, the Financial Planning Association and the *Journal of Financial Planning* with support from Finance of America, fielded a survey to learn more about how financial planners approach retirement planning with their clients. Helping clients prepare for a fulfilling and financially sound retirement is among the greatest services a planner provides. Our hope is that by better understanding the issues planners face with their clients, they can find solutions that help clients feel confident about their future.

The survey received 167 responses from financial planners who provide retirement planning services to their clients.

It's clear that planners are working hard to understand their clients and their needs in order to serve them well. The driving force behind a planner's product recommendation is how well it aligns with their client's risk tolerance. Income for retirement comes from multiple sources, including Social Security, where planners take a highly individualized approach to claiming strategies.

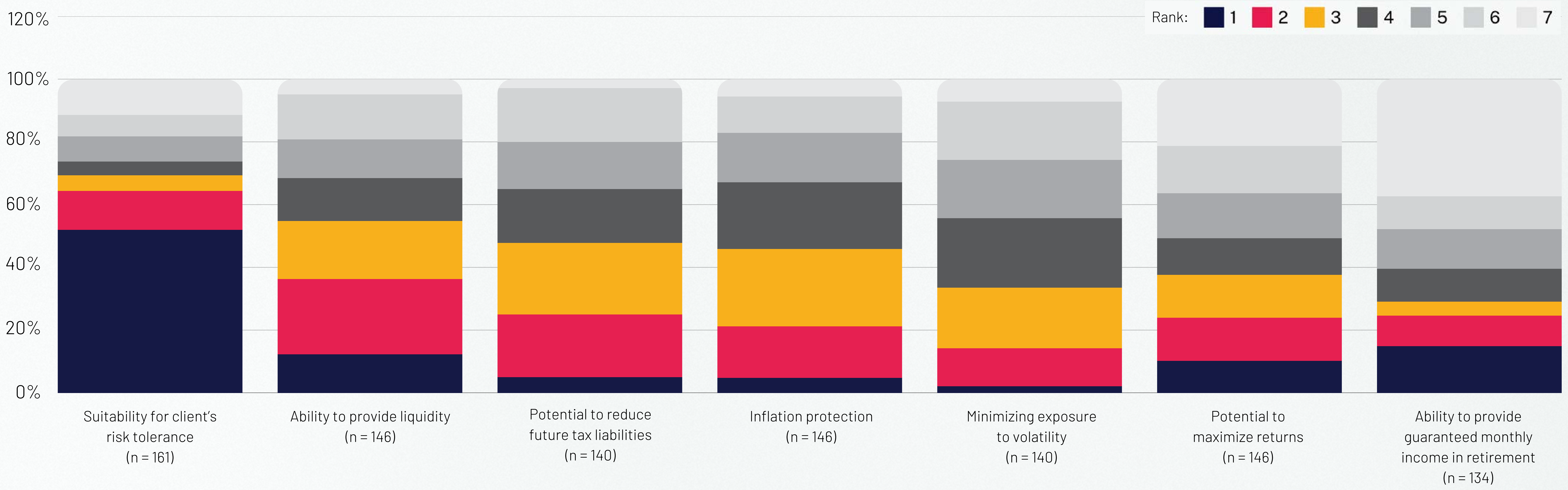
There are opportunities for planners to help their clients better prepare emotionally for retirement. Planners are confident that they're helping clients meet their financial objectives, but there are emotional aspects to retirement that planners aren't sure their clients are ready for.

Suitability Drives Planners' Investment Product Recommendations

The most important priority for planners when recommending a product for a client's retirement portfolio was to ensure it was suitable for their risk tolerance. Over 52% of planners felt this was the most important criteria, compared to 15% who said the ability to provide guaranteed monthly income in retirement was their top priority and 12% who sought liquidity for their clients over anything else.

Liquidity is an important priority overall, as over 54% of respondents said it was among their top three priorities. A product's ability to minimize future tax liabilities and protect against inflation shared similar levels of importance in planners' estimation; 47% and 45% ranked these attributes, respectively, among their top three priorities.

Q: Please rank the following criteria in the order of importance when recommending a product for a client's retirement portfolio, with 1 being the most important. Please rank at least three criteria. (n = 167)



Sources of Retirement Income

On average, financial planners expect over 30% of their typical client's retirement income will come from IRAs, either Roth or traditional. Planners estimate over 24% of their typical client's income will come from Social Security, and 24% will come from investment portfolios.

Social Security is a common part of clients' income expectations. Nearly all respondents indicated it would account for some portion of their typical clients' retirement income, with the average share estimated to be 24%. Although fewer respondents count investment portfolios as a source, the average estimate is that it would provide 24% of retirement income. Defined benefit plans were less common and represent a much smaller share of clients' expected income at less than 10%.

Other forms of income, like working in retirement, family support, or home equity/reverse mortgages, were less important. For a typical retiree who works with a financial planner, that's no surprise.

- IRAs (Roth or Traditional) (n = 150)
- Social Security (n = 164)
- Investment Portfolios (n = 127)
- Employer-Sponsored Plans (n = 107)
- Defined Benefit Plans (n = 100)

Q: What percent of your typical pre-retiree/retiree client's household income in retirement do you expect will come from the following sources?

(Respondents entered whole numbers; n = 167)

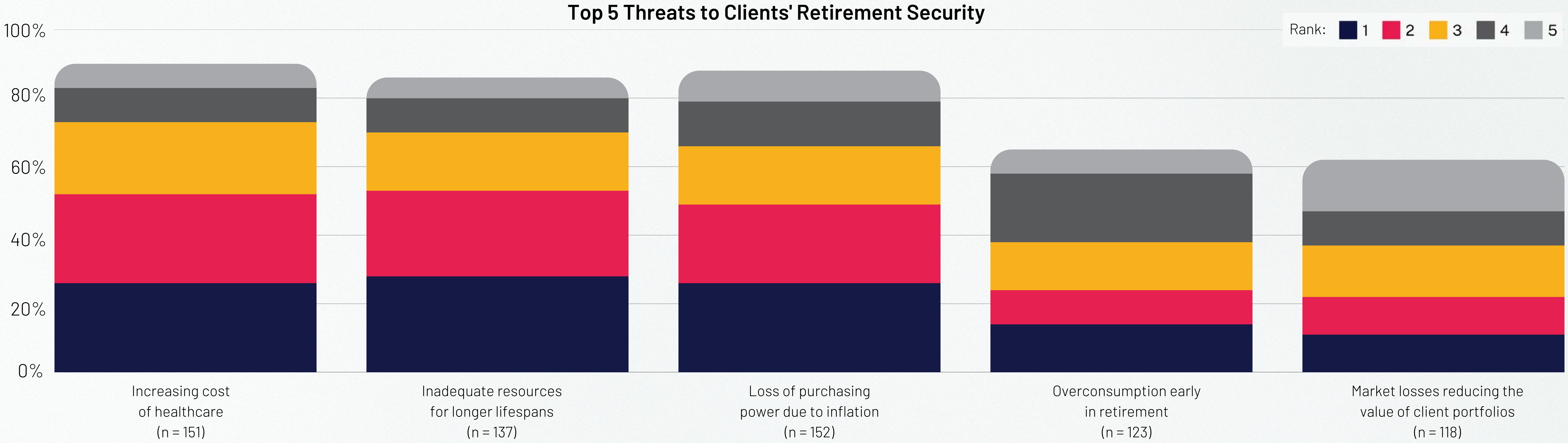
Healthcare Costs Lead Planners' Concerns About Retirement Security

When we asked planners to rank the issues they felt represented the greatest threat to their clients' retirement security, three challenges surfaced as significant problems they were working to help their clients solve: the increasing cost of healthcare, inadequate resources for longer lifespans, and a loss of purchasing power due to inflation.

Improving expectations for longevity puts more pressure on clients to set aside more for their retirement. Clients who started saving late or didn't contribute enough may be forced to scramble. Even clients who don't think they have enough saved for retirement may find that healthcare costs and inflation dim their vision of retirement.

Less pronounced among planners was a concern that overconsumption early in retirement would hurt clients' long-term retirement security. Research published in the *Journal of Financial Planning* shows that nearly two-thirds of households see a decline in real financial assets in the first 10 years of retirement.[1]

Q: Please rank the following issues in order of the greatest threat to clients' retirement security, with 1 being the most important. Please rank at least three threats. (n = 167)

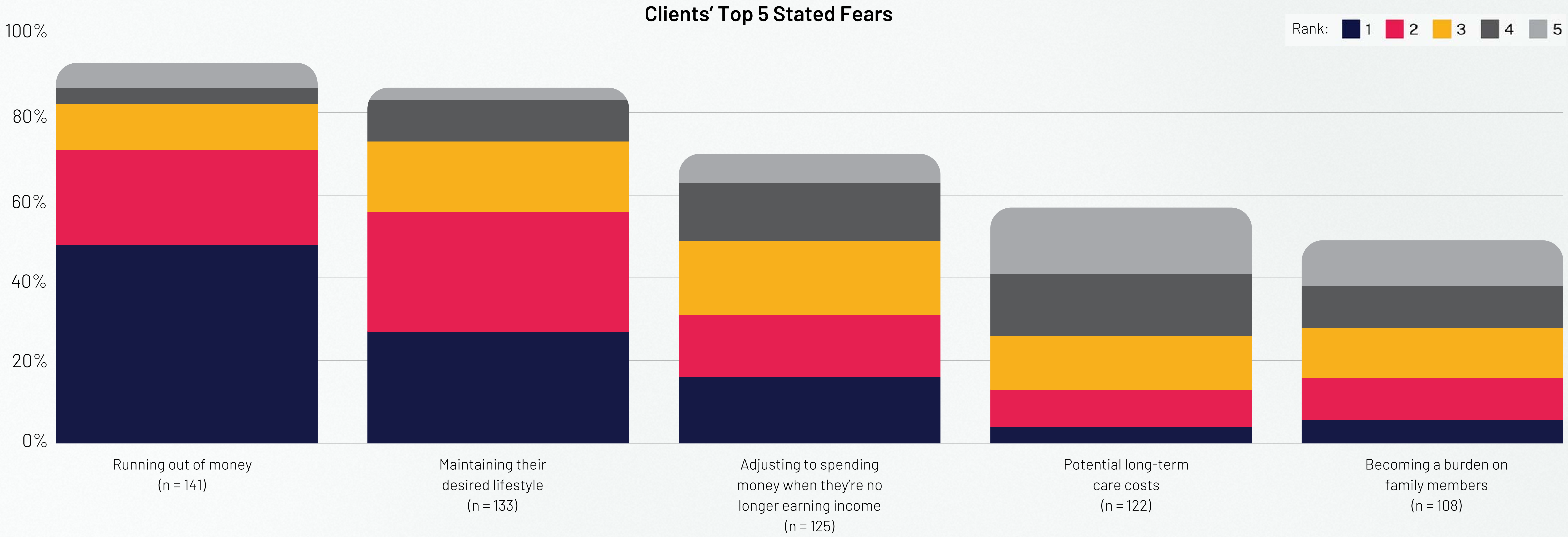


[1] Blanchett, David M., and Warren Cormier. 2021. "Right-Sizing Retirement: Exploring the Retirement Consumption Gap in Early Retirement." *Journal of Financial Planning* 34 (2): 68–81.

What Do Clients Say?

Respondents told us that clients' fears center on running out of money and what they might have to do to prevent that from happening. We asked financial planners to share their clients' top stated fears, and over 47% rated running out of money as their clients' greatest retirement fear. Another 22% rated it as their clients' second biggest fear. Maintaining their desired lifestyle in retirement is another significant concern, with over 27% of planners saying this was their clients' top fear, increasing to over 55% who said it was their clients' first or second greatest fear.

Q: Please rank your typical pre-retiree/retiree client's top stated fears or concerns regarding retirement, with 1 being the primary fear or concern. Please rank at least three fears or concerns. (n = 167)

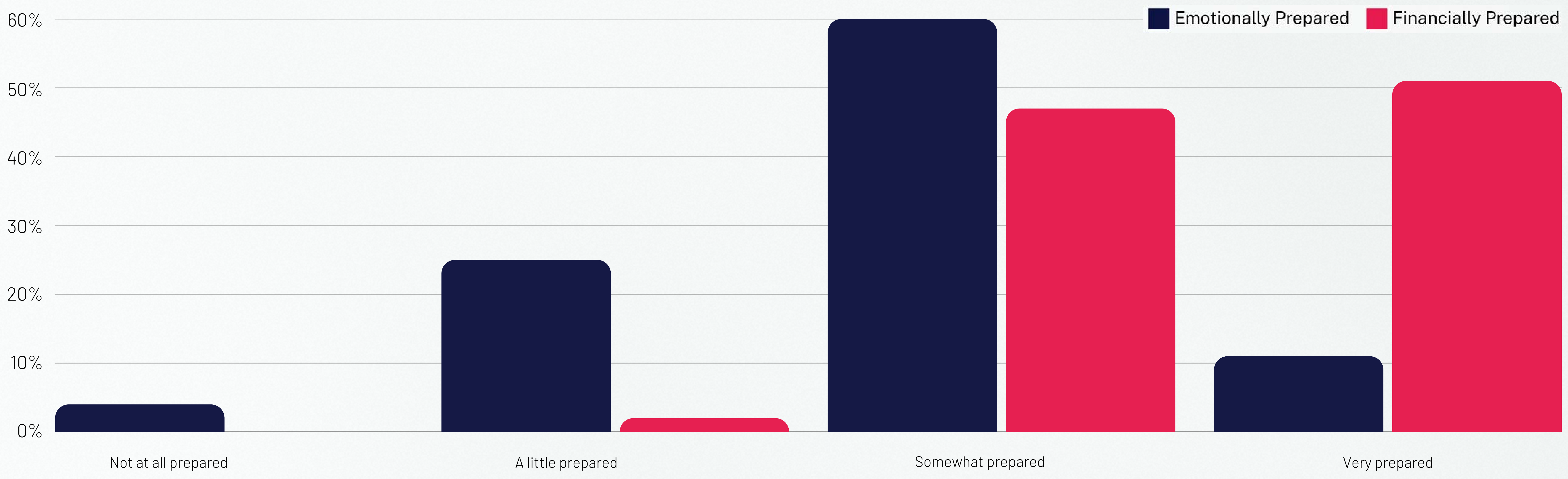


Feelings, Not Funding, Hinder Retirement Preparedness

When it comes to clients' preparedness, financial planners are confident about their clients' financial resources, with nearly 47% saying their clients were at least somewhat prepared and over half saying they were very prepared. They were more divided about their clients' emotional preparedness. Nearly 60% of the professionals said their clients were at least somewhat emotionally prepared, but just 11% said they were very emotionally prepared for retirement, and almost one-quarter said they were only a little prepared. None of our respondents felt they had clients who were wholly unprepared financially for retirement, but 5% felt they had clients who were not at all ready emotionally.

Q: How emotionally prepared is your typical pre-retiree/retiree client for a comfortable retirement? (n = 167)

Q: How financially prepared is your typical pre-retiree/retiree client for a comfortable retirement? (n = 167)



When to Claim Social Security: It Depends

Social Security is a common source of retirement income, but planners take a highly individualized approach when it comes to timing. The greatest share of respondents said they encourage their clients to wait until age 70 before claiming Social Security benefits, but 31% said they recommend starting to claim at full retirement age, which might be between 66 and 67 depending on when the client was born.

In the open-ended responses, there was a strong trend reinforcing the variability of Social Security claiming strategies. Almost all of that 18% of planners who responded "Other" said their recommendation of when to file for benefits depended on the client—and not just the client but their spouse too. Health is a significant factor influencing that decision, but so are potential survivor benefits, legacy goals, expected longevity, and how much the client wants to keep working.

Claiming age is a significant part of planners' Social Security strategy. Over 85% said it was very important for their clients to understand the best age for them to begin taking Social Security. Secondary to timing, how to maximize the amount of money the client and their spouse paid into the program over the years is very important to planners (83%).

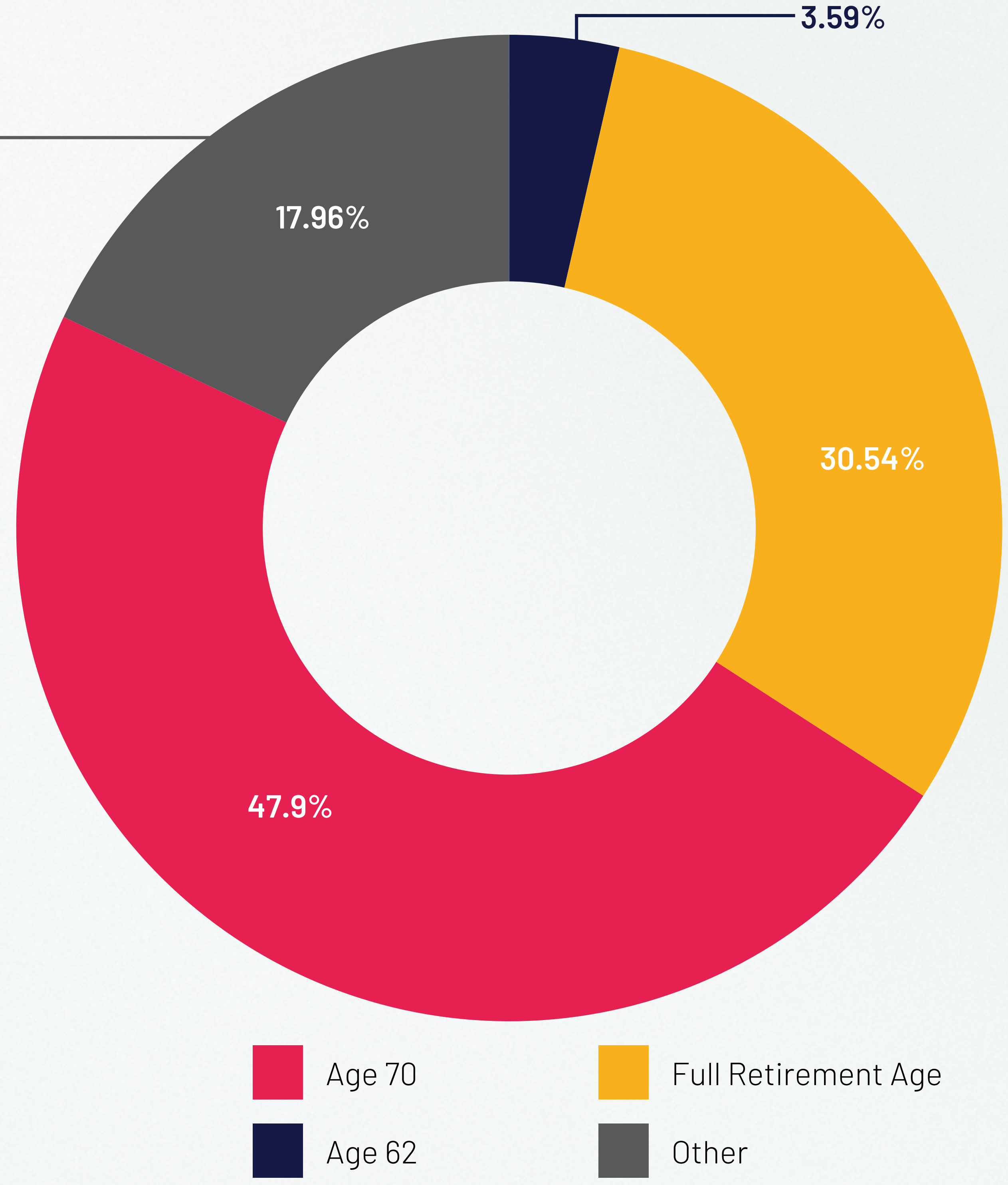
"I start at 70 and work backwards."

"Age 70 for the highest (assuming he/she is healthy) earner, FRA for the spouse (healthy)."

"It depends on the client's needs, resources, and work status."

"Completely depends on their situation and their spouse."

Q: At what age do you typically recommend that your pre-retiree/retiree clients elect to begin Social Security benefits? (n = 167)



The Home Equity Connection

Stephen Resch
Vice President, Retirement Strategies
Finance of America

Through this survey, Finance of America also wanted to better understand financial planners' and clients' views on home equity in retirement planning. With seniors controlling over $14 Trillion in home equity, which represents a substantial portion of their net worth for many, it makes sense to consider how accessing this equity could potentially benefit a comprehensive retirement plan.

When we asked planners to prioritize the criteria they use when recommending a product for a client's retirement portfolio, 52.17% said suitability for a client's risk tolerance was the most important criterion. That was followed by the ability to provide guaranteed monthly income in retirement (14.93%) and liquidity (12.33%).

Home equity is not a portfolio product but could address the desire for liquidity. Unlike a HELOC, a Home Equity Conversion Mortgage (HECM) line of credit grows over time, remains available as long as loan requirements are met, and cannot be called or frozen due to property value changes or market conditions.

Reverse mortgages can also address tax liabilities, as proceeds are income-tax-free. This can reduce the need to sell low-cost-basis assets or make large taxable distributions.

While a reverse mortgage can enhance retirement plans by providing flexibility and addressing some of the top planning criteria, its current utilization (24.55%) is comparable to that of I-savings bonds (18.56%) and registered index-linked annuities (18.56%). However, these are not as highly utilized as other products aimed at helping clients prepare for long-term care, including standalone LTC insurance (40.72%) and LTC riders on other insurance products (44.91%).

Continued

The importance of planning for healthcare and LTC expenses is well understood; however, the out-of-pocket expense for a traditional insurance solution can it often prove to be a drain on the household budget. The proceeds from a reverse mortgage could provide an opportunity to supplement the costs of an insurance solution. Alternatively, long-term care expenses can be self-funded with the line-of-credit option by drawing down home equity when/if needed. Despite these options, the low utilization of reverse mortgages indicates a gap in understanding the product's capabilities and how it can address LTC planning needs.

Interestingly, financial planners identified running out of money (47.52%) and maintaining a desired lifestyle (27.07%) as the biggest fears facing their retiree/pre-retiree clients. In comparison, potential long-term care costs ranked far lower on the list of fears (4.10%). Again, reverse mortgages can potentially address planning for LTC management and, simultaneously, add liquidity if needed. Given this, why are financial planners not recommending them more frequently?

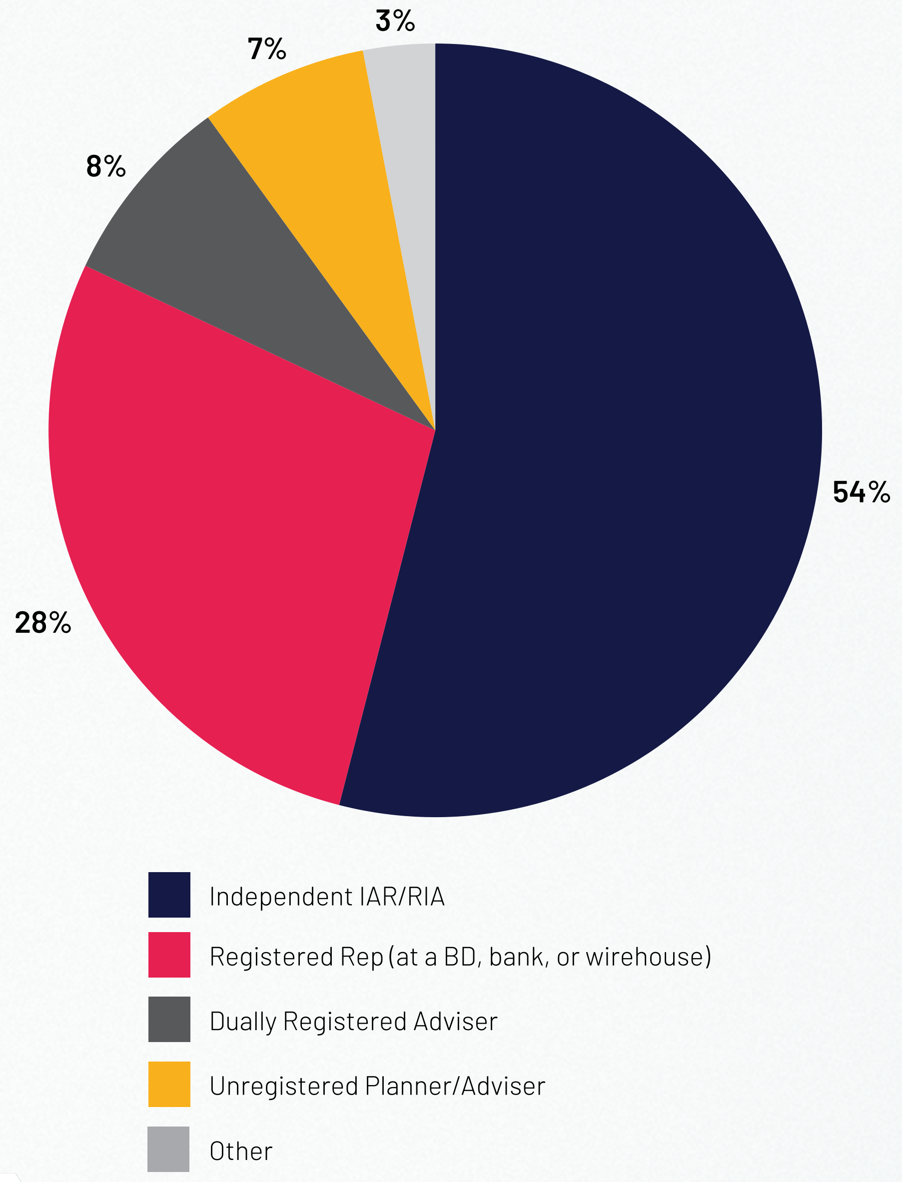
When we asked financial planners to address why they don't recommend reverse mortgages more often to clients, 56.29% said it was primarily due to fees and costs.

Compared to traditional mortgages, the main additional cost is the mortgage insurance on the FHA product, which is the most popular reverse product. Although this can be a significant upfront expense, it can be financed and provides unique features like the non-recourse factor, no required payments while living in the home, and the growing line of credit—none of which can be found in traditional financing products.

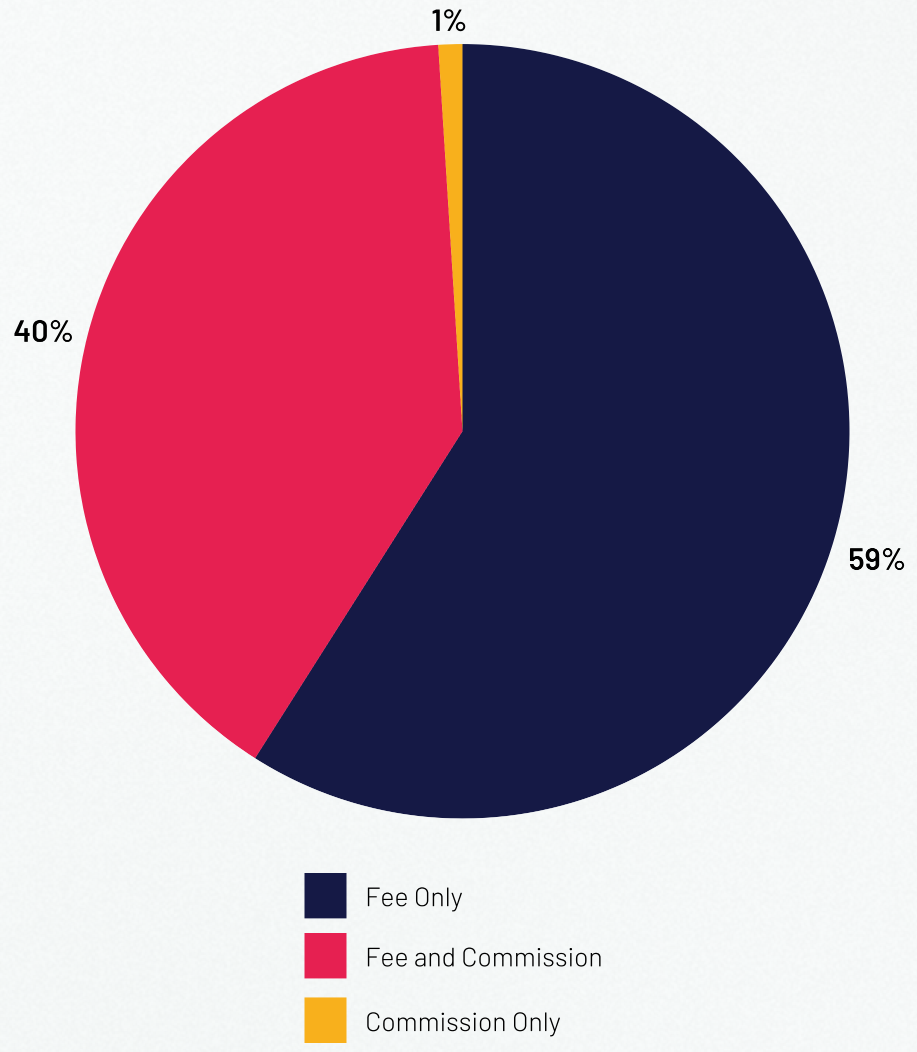
Other reasons planners are not recommending reverse mortgages include having no experience with the product (13.77%), not knowing enough about it (13.77%), or being concerned about how their clients may react to it (10.18%). These point to the need for further education about the reverse mortgage product, their features, and the value they can potentially bring to a comprehensive retirement plan.

Respondent Profile

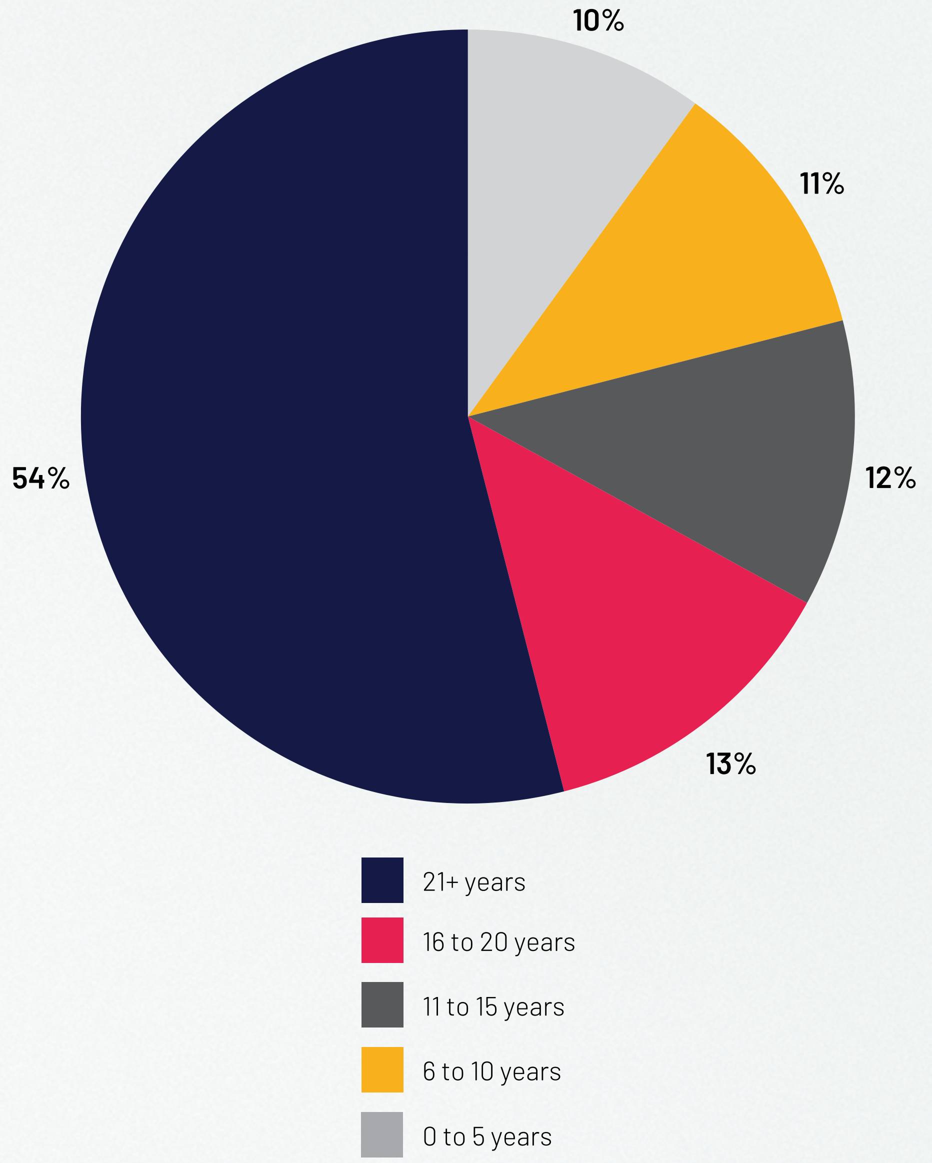
Affiliation



Compensation Model



Tenure in Financial Planning



Methodology

Responses for this survey were collected using SurveyMonkey between September 30, 2024, and January 8, 2025, via a link shared through email and on LinkedIn, and on the Financial Planning Association website. Respondents include those who provide retirement planning advice to individuals or plan sponsors, or who have discretionary control over retirement plan assets. Respondents who provide administrative support only were disqualified.

The survey was sponsored by Finance of America. The sponsor was allowed to include five questions of their own design in the survey. The sponsor did not have input on the results presented in this report, but was allowed to share their own conclusions in their article on page 8.

The Partners

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