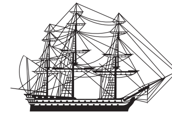


Retirement income among wealthier retirees

Vanguard Research

May 2014

Anna Madamba, Ph.D., Stephen P. Utkus, John Ameriks, Ph.D.

- Based on a survey of wealthier, retired households, we have identified eight investor profiles that highlight the changing landscape of retirement income. Two profiles, representing the "traditional" model of retirement income and accounting for half the sample, relied on some combination of Social Security and defined benefit pensions as their main source of income in retirement.
- A "new retirement" model of retirement income, composed of four groups, has also emerged. Two risk-taking profiles represented retirees with meaningful holdings in retirement accounts or taxable investment accounts. There were also two smaller risk-averse groups, with substantial holdings in safer assets, either bank deposits or guaranteed insurance products. Finally, two other "specialty" profiles derived retirement income from assets associated with affluent households, namely real estate or business income.
- Our analysis suggests several implications for the evolution of retirement income—both among wealthier retirees and retirees in general.
  - Given the ongoing importance of traditional pensions, the demand for retirement income help, whether in the form of income products or advisory services, is likely to emerge only gradually.
  - As retirement wealth increases, the variety of sources of retirement income grows in tandem. This variety suggests the need for nuanced advice and guidance customized to individual circumstances.
  - Affluent retirees, with their more substantial private resources, are likely to find it easier to defer Social Security benefits and bridge any intervening income gap.
  - It is worth noting that even in this wealthier sample, many households maintain large holdings in lower-risk assets or accounts—whether in Social Security or traditional pensions, or secondarily in bank deposits and guaranteed insurance products. This result suggests a meaningful group of wealthier retirees remain risk-averse despite their affluence.

* The authors would like to thank Daniel Proctor of Vanguard Strategic Retirement Consulting for his insights and his exceptional programming assistance.

Introduction

Over time, financial accounts of various kinds are expected to play an ever-increasing role in producing retirement income for Americans. In the private employer-sponsored retirement system, defined contribution (DC) plans and rollovers to Individual Retirement Accounts (IRAs) are gradually replacing defined benefit (DB) plans paying lifetime annuities. Among existing corporate DB plans, many offer the option of a lump sum, which is also eligible for an IRA rollover. Many households with a pension or with DC or IRA accounts also accumulate savings in taxable and other types of financial accounts.

These developments raise a series of important questions regarding the evolution of retirement income. How quickly are private pensions declining as an income source? To what extent are retirement or other financial accounts replacing life annuities? And how are households managing the complexity associated with these varying income sources, each with distinct features and risk characteristics?

In this paper, we seek to answer these questions by examining the current retirement income of wealthier retirees—defined as those ages 60–79 with at least $100,000 in financial assets, whether in taxable, tax-deferred, or other types of accounts. Our survey sample included more than 2,600 households. Our aim was to establish a current baseline for evaluating changes that might occur among this wealthier group in the future. At the same time, we anticipate developments in this group may be more broadly applicable to middle-income retirees as they also come to rely increasingly on tax-deferred retirement accounts in the future.

We have developed eight distinct profiles of retirement income and wealth from our survey respondents. In a subsequent paper, we plan to analyze how those retirees make withdrawals from financial accounts, and whether those withdrawals are used for current spending or are reinvested (saved) in another form.

Prior research

Academic and industry research to date has shown that, by and large, current withdrawals from IRAs and similar retirement accounts are quite modest among retirees. Aggregate withdrawal rates from DC plans and IRAs have been small, with the exception of those who reach the age of required minimum distributions (Poterba, Venti, and Wise, 2011; Holden and Bass, 2013). This has suggested that, at least today, such accounts are used for later-in-life spending and not for immediate income at retirement.

Moreover, when withdrawing from financial accounts, retirees tended to make one-time, or ad hoc, withdrawals, rather than rely on a systematic income stream (Mottola and Utkus, 2008). This behavior has contributed to mismeasurement of retirement income by government surveys (Iams and Purcell, 2013). Government statisticians have typically not viewed ad hoc or aperiodic withdrawals from an account as "income." Yet among households with withdrawals from such accounts, counting these ad hoc withdrawals can raise reported income by 18% at the median.

Another reason for ad hoc withdrawals (or their absence) may be the prevalence of Social Security as a baseline guaranteed income source, as well as the current level of traditional pension income (Banerjee, 2013; Poterba, Venti, and Wise, 2012). Households holding both pension income and personal retirement accounts overlap in a substantial way, and so regular pension income mitigates the need for withdrawals from retirement accounts. A final reason for observed withdrawal behavior may be because of the availability of earned income (from wages and salaries), which is playing an increasing role in the income of the aged, particularly among higher-income and better-educated groups (Bosworth and Burke, 2012).

Methodology

Our study was based on an innovative, two-part survey design. It polled general investors from a nationally representative online research panel who met our screening criteria. In the first part, respondents were asked to provide a complete inventory of all income sources and wealth holdings as of year-end 2011. This inventory included an itemized list of every financial account in the household, personalized to the owner (for example, "Bob's IRA" or "John's and Catherine's brokerage account"). In the second part, respondents were asked a series of questions tracing the movement and use of withdrawals (for example, the amount withdrawn, whether it was spent or saved, if spent how it was used, if saved where it was reinvested). The two stages of the survey were conducted in March and April 2012.

Because of our interest in the use of financial accounts for income-generating purposes, we limited the sample to older households, ages 60–79, with at least one retired member. This group accounted for about two-thirds of age 60–79 households. In addition, we examined those households with at least $100,000 in financial assets. In total, about one-third of retired households ages 60–79 had financial assets at this level.

The final sample consisted of 2,658 households.[1] Our sample was very similar demographically to a corresponding population from a nationally representative survey such as the Survey of Consumer Finances (SCF).[2] Measures of total income and total financial wealth were comparable between our survey and the SCF. In our sample, 85% of households received Social Security, 71% received pension income, and 84% owned DC or IRA accounts as part of their retirement income resources. Compared with the SCF, our sample had somewhat higher pension coverage and holdings of taxable investment accounts, and similar holdings of liquid accounts and annuities or life insurance.

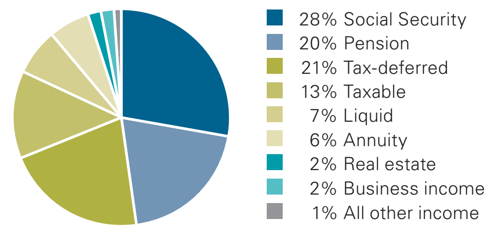
Wealth holdings

Nearly half of the aggregate nonhousing wealth of our survey respondents came from Social Security and private- and public-sector pensions (Figure 1).[3] Reflecting the growing importance of DC accounts and IRAs, tax-deferred retirement accounts were the third-largest wealth holding, at one-fifth of total wealth.

Another 31% of wealth came from a variety of other accounts. These included: taxable accounts, which included brokerage and mutual fund accounts; liquidity accounts, including bank deposits, money market funds, and similar holdings for long-term savings purposes (i.e., not identified as transaction accounts); annuity accounts, with the overwhelming proportion in variable annuity contracts with a guaranteed income feature; and other specialized income sources, including investor-owned real estate and business income.

Figure 1. Nonhousing wealth

Mean proportion of nonhousing wealth



Source: Vanguard, 2014.

1 Original sample was 2,667 but nine records were deleted due to extreme outliers in asset balance and income estimates.

2 See Appendix I (Figure 12) for a detailed comparison of our sample with the SCF.

3 We exclude owner-occupied housing from our wealth measures because of the tendency for households at this age to occupy their homes and use them for housing consumption only. Wealth values for pensions and Social Security are estimated over respondent life expectancy using a 3% discount rate. Pensions include private and public pension plans, and military pensions. Railroad Retirement is also included within pensions. Trust income is valued similarly over the life expectancy of the respondent. Real estate and business income is capitalized at 5%. Inheritance or one-time gift income are valued at the dollar amount received.

Our survey respondents had a median income of $69,500 for the prior year (Figure 2). Median financial assets are $395,000. When the lump-sum value of Social Security and pension benefits were added in, median nonhousing wealth was $1.1 million.[4] In terms of income sources, 85% of respondents received Social Security payments, with a median annual benefit of $22,000 per year (among those receiving the benefit).[5] Seven in 10 respondents received pension income, with a median annual value of $20,000. For about 3 in 10 households, wages were also an important income source.

Ownership of financial assets was widespread in our sample of wealthier retirees. Ownership of tax-deferred accounts such as DC plan accounts or IRAs was 84%, with a median balance of $203,000. Certificates of deposit (CDs) or savings accounts were also popular, with 7 in 10 households holding these assets at a median balance of $26,500. Two-thirds of respondents had taxable investment accounts with a median balance of $151,000. Nontransaction[6] checking and money market accounts as well as annuities and cash-value life insurance were each held by just less than half the retirees, but with meaningful median balances.

Figure 2. Income and accounts

		$ value (mean)	$ value (median)
A. Summary			
Total income		$101,456	$69,500
Total financial wealth		$730,963	$395,000
Total nonhousing wealth		$1,538,114	$1,135,754

	% receiving income	$ income (mean)*	$ income (median)*
B. Income sources			
Social Security	85%	$24,630	$22,000
Pension	71%	$28,890	$20,000
Wages	29%	$40,993	$24,600
Annuity payment	5%	$15,300	$7,200
Real estate	11%	$21,627	$11,000
Business income	7%	$28,073	$12,000
All other income	24%	$48,215	$11,000

	% owning account	$ balance (mean)*	$ balance (median)*
C. Financial accounts			
Tax-deferred assets (IRAs, 401(k)s, etc.)	84%	$393,565	$203,000
Checking or money market accounts**	46%	$48,719	$10,000
CDs or savings accounts**	72%	$74,845	$26,500
Mutual funds or brokerage accounts	63%	$415,093	$151,000
Variable annuity/life insurance	46%	$127,393	$54,000

* Conditional on having income source/owning account.
** Refers to nontransaction accounts only.

Source: Vanguard, 2014.

4 Our survey households represent a wealthier segment of older households. For all households with the head of household age 60–79 in the Survey of Consumer Finances, median household income is $42,693, or 61% of our sample median, and median financial assets are $42,500, or 11% of our sample median.

5 The remainder do not have Social Security because either they have not yet filed for benefits; they are a government employee exempt from participation; or they never participated in the system.

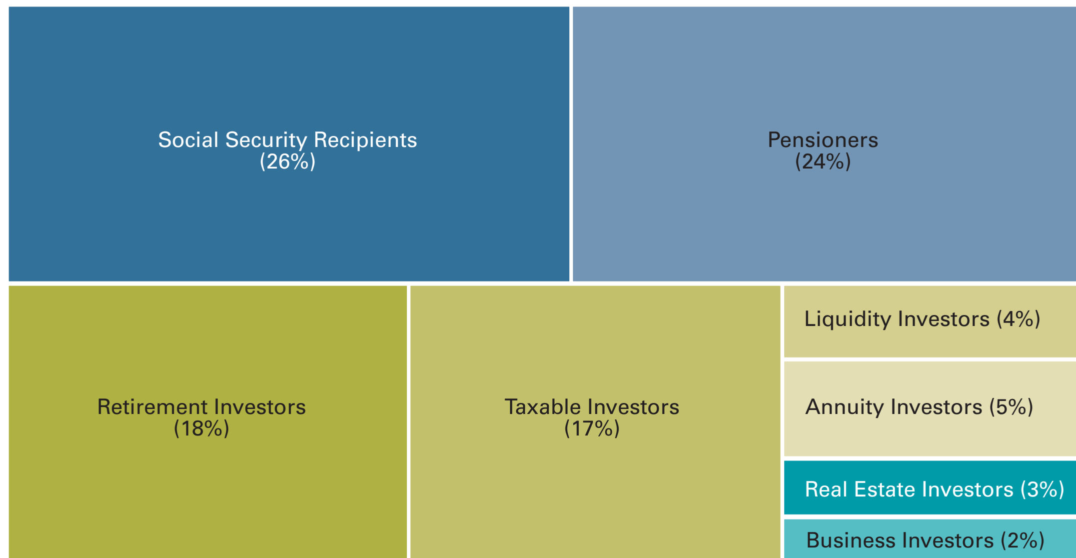
6 Ownership of any checking or money market account is 96%. However, in our analysis we focus on the 46% of respondents who have such accounts for long-term savings purposes—i.e., for nontransaction purposes.

Retirement income profiles

We used a statistical technique known as cluster analysis to classify our respondents into eight distinct groups or profiles, using sources of nonhousing wealth as clustering factors. The two largest groups were Social Security Recipients and Pensioners, representing 26% and 24% of our sample, respectively (Figure 3).

The next two largest groups were Retirement Investors and Taxable Investors, representing 18% and 17% of our respondents. Smaller groups included Liquidity Investors, Annuity Investors, Real Estate Investors, and Business Investors.

Figure 3. Retirement income investor groups



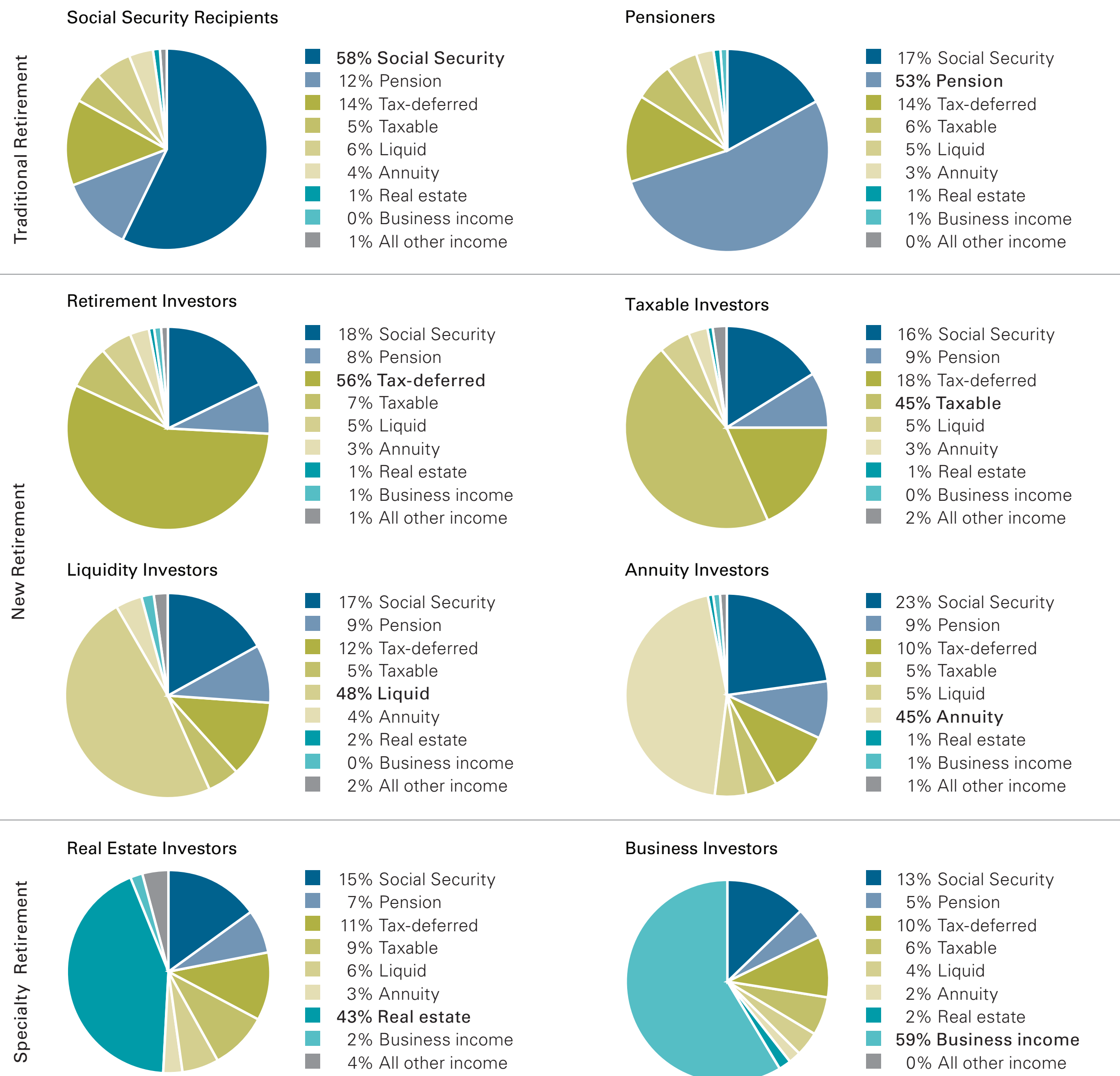
Source: Vanguard, 2014.

The distinguishing feature of all eight groups—and the reason for the naming convention—is that one type of retirement income wealth dominates their aggregate wealth holdings (Figure 4). For example, among Social Security Recipients, 58% of nonhousing wealth was derived from the present value of Social Security benefits. Among Retirement Investors, 56% of nonhousing wealth was derived from DC plans, IRAs, and similar tax-deferred accounts.

For two groups of investors, Social Security Recipients and Pensioners, about 70% of their aggregate nonhousing wealth came from guaranteed income sources. Hence we have classified these two groups as "traditional" retirement income investors because of their reliance on guaranteed lifetime annuity income. Social Security Recipients had more of their guaranteed income from Social Security than pensions; pension income was more supplemental, perhaps characteristic of the true "traditional" view of retirement. Pensioners had generous

Figure 4. Nonhousing wealth by investor group

Mean proportion of total nonhousing wealth



Source: Vanguard, 2014.

monthly pension benefits—either from federal, state, or local governments, the military, or corporate employers.[7] This group may also include state government employees who receive pensions only and have little or no Social Security wealth.

In the next four groups, large portions of wealth were devoted to tax-deferred retirement accounts, taxable investment accounts, liquid savings accounts (bank deposits or money market funds), or annuity products. Put another way, the single distinguishing feature of these four groups was that guaranteed income sources only made up about one-fourth to one-third of total nonhousing wealth. Because of their reliance on financial wealth, we classified these four as the "new retirement" investors. The final two groups had large wealth holdings in real estate and business income; these are the type of asset holdings typically associated with more affluent households.

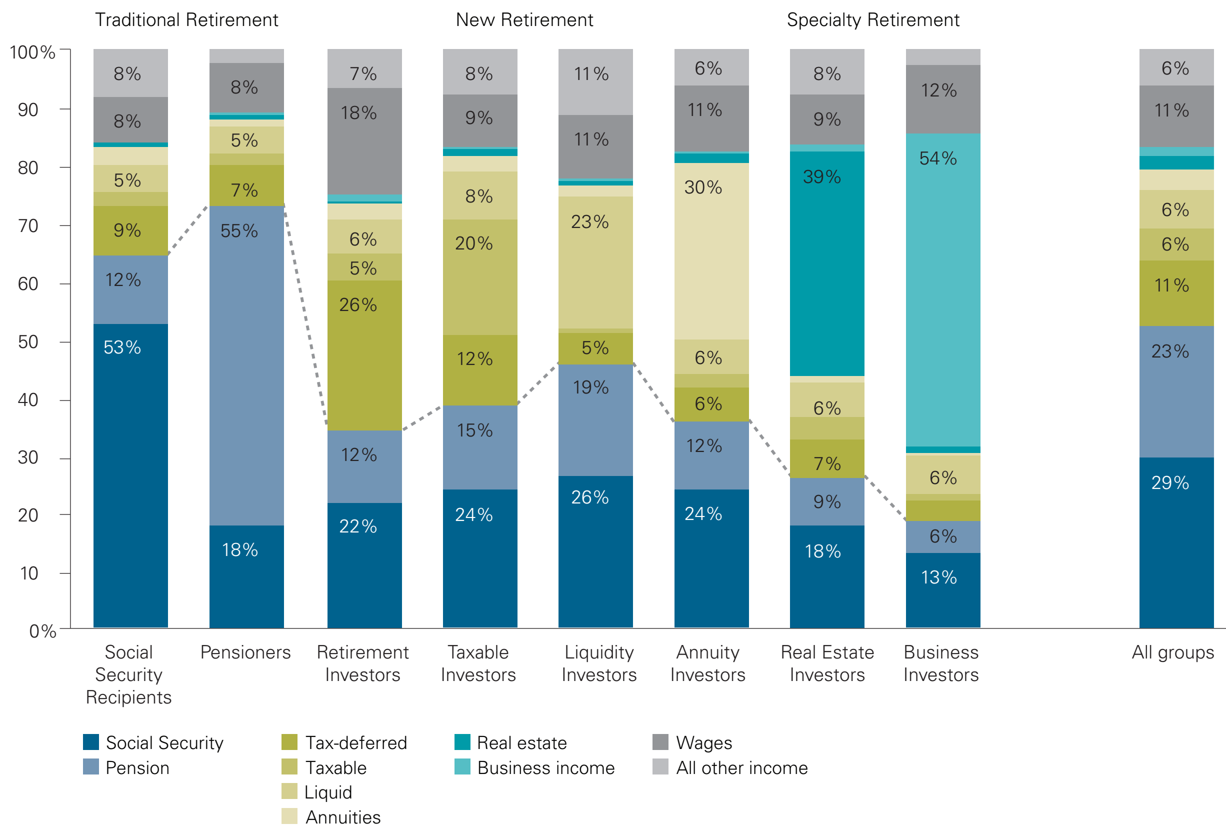
Despite this naming convention, it is important to emphasize the broad range of wealth holdings within each investor group. Nearly all the account and income types are represented in each of the investor groups, but to varying degrees. For example, in the case of guaranteed income programs such as Social Security and pensions, respondents had as little as one-fifth, to as much as seven-tenths, of their wealth in these holdings, depending on the investor group.

Composition of income

Another way to view the eight groups of investors is through an income lens—specifically the sum of all income received in the prior year from all sources, including regular income streams like Social Security, pensions, and any withdrawals (whether of income, principal, or both) from financial accounts.[8]

Social Security Recipients and Pensioners received more than 60% and 70% of income, respectively, from guaranteed income sources (Figure 5). By comparison, Retirement Investors received only about one-third of income from guaranteed sources, and Taxable Investors about 40%. For these two groups, the remainder of

Figure 5. Composition of income



Source: Vanguard, 2014.

7 Although pension lump sums may be rolled over into IRA accounts, in our study, we only observed defined benefit assets that were annuitized.

8 See Appendix II (Figure 13) for comparisons of income sources and account ownership among the eight profiles.

income came from a variety of financial accounts and wages. In the case of Liquidity and Annuity Investors, more than two-thirds of their income came from either guaranteed Social Security and pensions or income from low-risk or guaranteed financial accounts.

Profile comparisons

Traditional Retirement Investors

Social Security Recipients had below-average income when compared with the typical respondent in our sample, as well as below-average holdings of financial assets (Figure 6). Like Social Security Recipients, Pensioners had guaranteed income sources as a substantial part of their total nonhousing wealth. Yet they differed in many important respects. They had an above-average income (due in part to their sizeable pension), and substantially higher financial assets than Social Security Recipients.

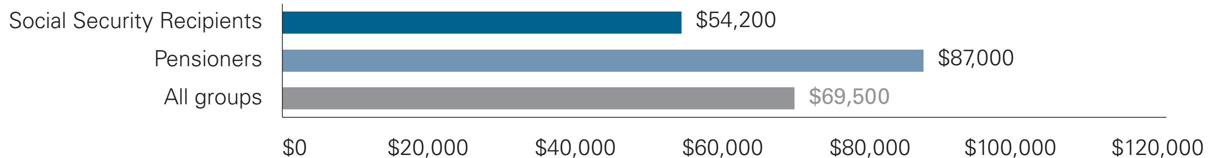
New Retirement Investors

Four types of retirement income investors fall into the "new retirement" category, meaning that they are broadly reliant on financial assets as an important source of retirement wealth. Retirement Investors and Taxable Investors were sizeable groups, and together accounted for 35% of our entire survey sample. Liquidity Investors and Annuity Investors were significantly smaller, accounting for only 9% of the entire sample.

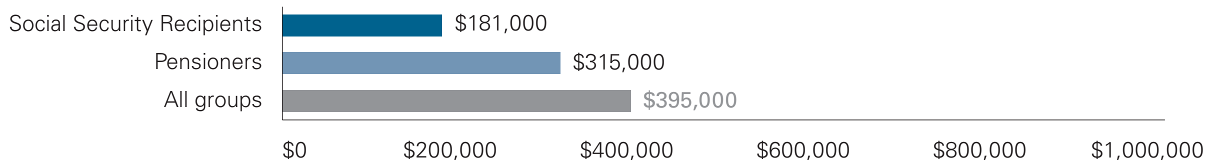
Both Retirement and Taxable Investors had somewhat higher incomes than the typical respondent, with Annuity Investors having a below-average income and Liquidity Investors substantially below average (Figure 7). Although all four categories had sizeable holdings of financial assets, Retirement Investors and Taxable Investors had substantially higher holdings—a median of $749,050 and $934,000 in all financial assets, compared with a typical respondent at $395,000.

Figure 6. Traditional Retirement Investors: Income and wealth

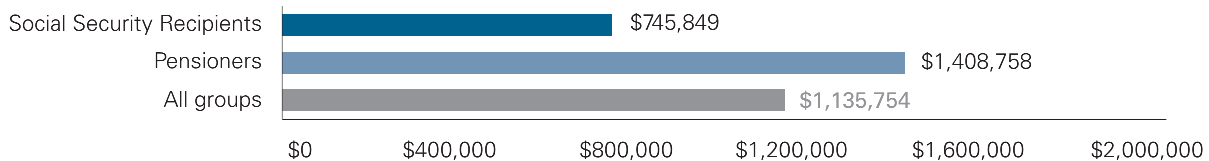
Median total income



Median total financial wealth



Median total nonhousing wealth



Note: Horizontal-axis scales are different to maximize relative comparisons within the income or wealth category.
Source: Vanguard, 2014.

Because of their sizeable holdings in tax-deferred or taxable investment accounts, we characterized Retirement Investors and Taxable Investors as risk-taking. By comparison, Liquidity Investors showed substantial aversion to market risk with substantial holdings in low-risk cash, savings, and bank deposits. As a fraction of total financial assets, their liquid holdings were significantly higher not only among "new retirement" investors, but all investor groups as well (Figure 8). Annuity Investors also sought protection from market and longevity risk through their substantial reliance on variable annuity contracts with guarantee features. These risk-averse groups had lower income compared with the overall sample, although financial wealth was about the same.

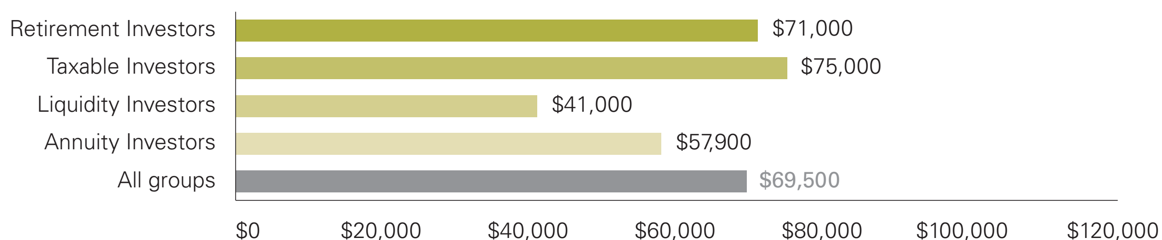
Figure 8. Liquid asset holdings

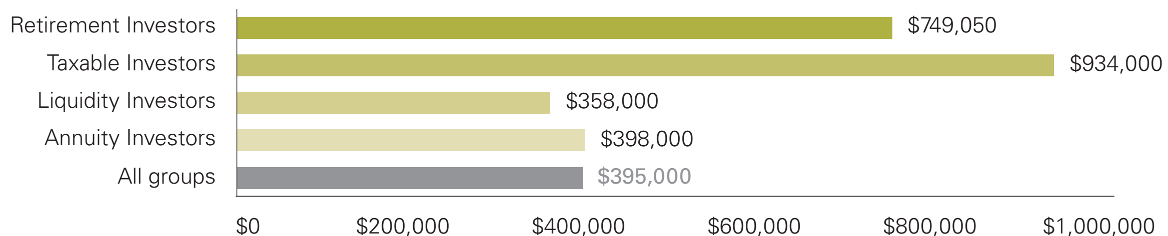
Retirement income investor group	Proportion of financial assets* in liquid accounts
Social Security Recipients	20%
Pensioners	17%
Retirement Investors	7%
Taxable Investors	8%
Liquidity Investors	69%
Annuity Investors	7%
Real Estate Investors	22%
Business Investors	18%

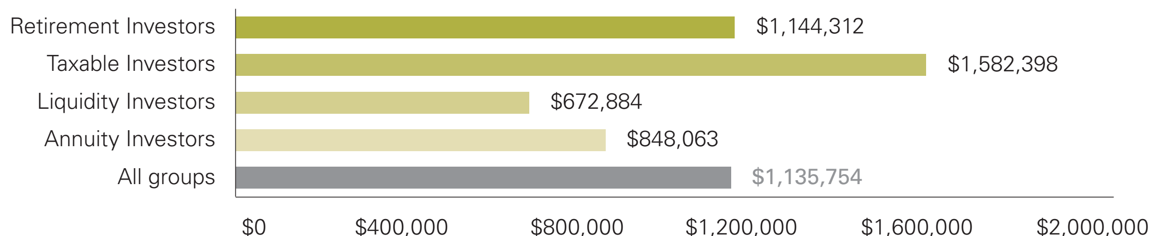
* Financial assets include tax-deferred, taxable, liquid, and annuity assets.

Source: Vanguard, 2014.

Figure 7. New Retirement Investors: Income and wealth







Note: Horizontal-axis scales are different to maximize relative comparisons within the income or wealth category.
Source: Vanguard, 2014.

Specialty Retirement

The last two groups of retirement income investors, Real Estate Investors and Business Investors, were classified as "specialty" given the concentration of their wealth in investor-owned real estate and business interests. These two groups had higher income and higher total nonhousing wealth than all other groups in our sample, but they had below-average holdings of financial assets, reflecting their preferences for illiquid real estate or business investments (Figure 9).

Demographic and other differences

These eight groups of retirement income investors can also be distinguished by demographic characteristics as well as finance and planning behavior (Figure 10). Note that the differences we describe are general tendencies; for example, to describe one profile as having more affluent male respondents does not mean that there are not affluent male respondents in other profiles.

Traditional Retirement Investors

Social Security Recipients tended to be female, married, with less than a college education.

While similar to the typical respondent in age, they were more likely to be completely retired and have someone in the household in poor health. Compared with others, they were more likely to claim to be on a strict budget, and less likely to have any of the planning essentials such as a spending plan prior to retirement, an estate plan, long-term care insurance, or a professional financial advisor.

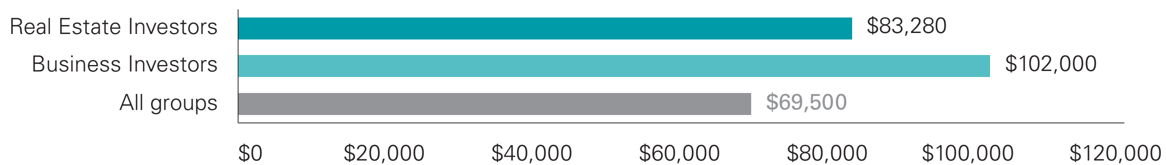
Pensioners, while just as likely to be retired, were younger on average—consistent with the notion that pensions encourage somewhat earlier retirement ages. They differed from Social Security Recipients in several ways: more likely to be male and a college graduate, and less likely to be in poor health. Pensioners were not limited by a strict budget and less likely to develop a spending plan before retirement. They carried long-term care insurance, but were similar to the overall sample in terms of the other planning activities.

New Retirement Investors

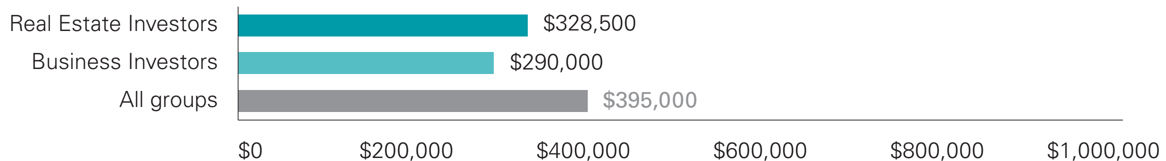
Compared with the average investor in our sample, Retirement Investors are younger and better educated. Their households were less likely to be completely retired or in poor health. Retirement Investors had the highest likelihood of having a spending plan prior to retirement and were also more likely to have a professional financial advisor.

Figure 9. Specialty Retirement Investors: Income and wealth

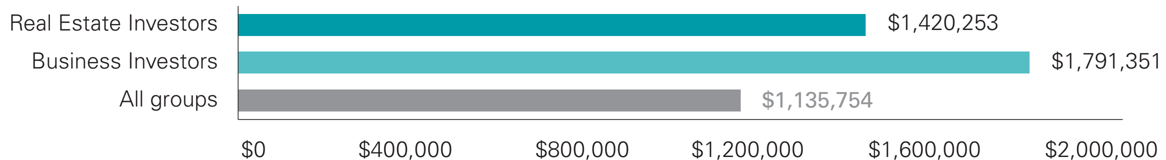
Median total income



Median total financial wealth



Median total nonhousing wealth



Note: Horizontal-axis scales are different to maximize relative comparisons within the income or wealth category.

Source: Vanguard, 2014.

Similar to Retirement Investors, Taxable Investors were more likely to be college graduates and in excellent health. However, Taxable Investors were more likely to be older, single, and completely retired. In addition, they exhibited strong finances and active planning behavior. Their day-to-day spending was characterized by the ability to spend freely. They also were more likely to have an estate plan, long-term care insurance, and a professional financial advisor. This was one of three groups with a higher-than-average bequest motive.

Liquidity Investors were single, female, and did not graduate from college. Similar to Annuity Investors, they were more likely than average to be in poor health. While on a strict budget, more Liquidity Investors said they can spend freely and wanted to leave a bequest, compared with the overall sample. Liquidity Investors were less involved in planning activities, and least likely to have a professional financial advisor.

Figure 10. Demographic and behavioral comparison

	Traditional Retirement			New Retirement			Specialty Retirement		All groups
	Social Security Recipients	Pensioners	Retirement Investors	Taxable Investors	Liquidity Investors	Annuity Investors	Real Estate Investors	Business Investors	
A. Respondent demographics (% higher/lower than overall sample)									% of sample
Median age	0	–3	–3	1	1	0	0	–3	68 years old
Male	–8	18	2	–6	–12	–2	–12	4	50%
Single	–15	–14	–3	35	39	0	35	–35	23%
College graduate	–29	15	15	19	–22	–20	5	8	57%
B. Household demographics (% higher/lower than overall sample)									
Over age 70 (self and/or spouse)	20	–23	–18	28	7	6	17	–26	28%
Completely retired (self and spouse)	8	3	–22	14	1	–5	8	–87	61%
Poor health (self and/or spouse)	20	–17	–18	–18	22	56	16	14	19%
Excellent health (self and spouse)	–16	6	8	14	4	–17	–17	5	48%
C. Finances and planning (% higher/lower than overall sample)									
On a strict budget	54	–40	–23	–30	43	23	–9	30	10%
Can spend freely	–41	10	10	37	15	–21	20	10	37%
Leave a bequest	–5	–3	–9	19	16	–23	23	3	21%
Spending plan before retirement	–13	–26	55	12	–13	47	–62	–61	12%
Have an estate plan	–19	–5	2	29	5	9	27	–17	50%
Have long-term care insurance	–35	23	4	30	–34	4	9	–11	27%
Have a financial advisor	–17	–5	13	32	–54	29	–22	–10	43%
No planning*	36	–1	–12	–47	36	–23	–16	32	27%

* Does not have any of the following: an estate plan, long-term care insurance, or a financial advisor.

NOTE: The boxes are color-coded progressively from blue, meaning significantly lower, to green, meaning significantly higher than the overall average.

Source: Vanguard, 2014.

Annuity Investors were more likely to have someone in their household in poor health compared with the average. In addition, they were also less likely to have a college education or want to leave a bequest. Given their lower-than-average income, they were more likely to adhere to a strict budget and have developed a spending plan prior to retiring. Annuity Investors were more likely to have a professional financial advisor.

Specialty Retirement

Real Estate Investors were similar to Liquidity Investors in that they were single, female, and in poor health. They were older and just as likely to complete college and be retired, compared with the overall sample. More said they can spend freely and expressed a desire to leave a bequest. Real Estate Investors were more likely to have an estate plan, but did not have a financial advisor or a retirement spending plan.

Business Investors were younger and married compared with the overall sample. They were in households least likely to be completely retired. In spite of being younger, they were also moderately in poor health. While they had the highest total income of all the investor groups, more Business Investors said they are on a strict budget. Curiously, they were not involved in any planning activity.

Implications

Our analysis of wealthier retirees revealed eight distinct retirement income investor profiles. Half the investors in our survey sample, the "Traditional Retirement" Investors, had wealth holdings dominated by guaranteed income, whether from Social Security or traditional pensions. In contrast, 44% of the sample had the majority of their retirement wealth invested in a variety of financial accounts—a group we call the "New Retirement" Investors. Within this "New Retirement" category, two groups, accounting for 35% of households, had substantial holdings either in tax-deferred retirement or taxable investment accounts. Two smaller groups, jointly accounting for 9% of respondents, had substantial wealth in less risky types of assets: either short-term cash, savings, or other liquidity investments, or an annuity or insurance contract.

Our findings suggest a number of implications for financial services companies, financial advisors, and employers and consultants overseeing retirement benefits programs. First, although the incidence of private-sector pension plans has been declining for several decades, pension income still remains important to a substantial number of wealthier households, an important market for new retirement income services. This high level of guaranteed income may explain the puzzle regarding the low current rate of withdrawals from tax-deferred retirement accounts, and the weak demand for services creating systematic income streams from financial accounts. As corporate pensions continue to decline in importance, we expect that the demand for retirement income help, whether in the form of income products or of advisory services, will rise. But it is likely to do so only gradually.

Second, there is a substantial degree of variety in the income sources and financial accounts owned by wealthier households. This variety suggests the need for nuanced and targeted advice and guidance customized to the household's retirement income holdings. Households are clearly different, even at a high level, in terms of risk characteristics, the nature of income guarantees they own, tax status of accounts, liquidity preferences, and the desire for help from an advisor.

Our findings also highlight the importance of Social Security-claiming strategies for wealthier retirees. These households have meaningful private resources that they can rely on independent of Social Security, and so are likely the most able to benefit from deferring receipt of Social Security to a later age.

Finally, it is striking that, even in this sample of wealthier households, many households maintain large holdings in low-risk assets or accounts. The low-risk assets may be in Social Security or traditional pensions. But among our "New Retirement" Investors, they can also be in the form of large cash and bank deposit holdings or investments in guaranteed insurance products. In fact, about one-fifth of the New Retirement Investors appear to be drawn toward lower-risk strategies or accounts. This is consistent with a desire for income security among a segment of the population.

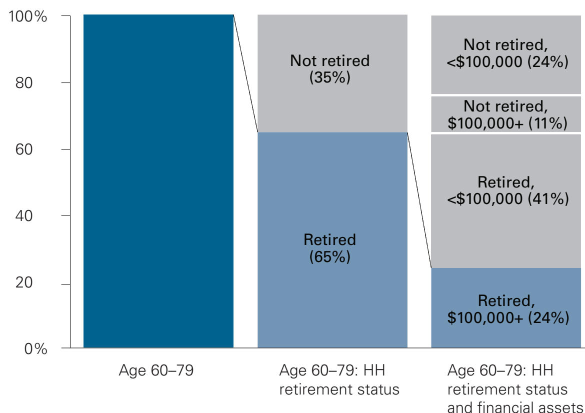
As the baby boom generation continues to retire, the role of retirement accounts in providing retirement income is expected to rise, and the role of traditional pensions is expected to continue to decline. Understanding how financial accounts are used today among affluent retirees serves as an important foundation for understanding the evolution of retirement income more broadly in the years ahead.

Appendix I: Survey sample

The design of our respondent sample began with households ages 60–79 (Figure 11). Of that group, 65% had one or more retired members in the household. Within that retired group, about one-third, or 24% of the entire age group, had financial assets of at least $100,000. In our survey, we had a somewhat more expansive definition of the term "retirement," and included those who described themselves as partially retired. As a result, our survey sample likely encompasses a population somewhere between 24% and 35% of households ages 60–79 in the United States.

We compared our sample with the households ages 60–79 in the SCF with at least $100,000 in financial assets and at least one retired household member. The samples are quite similar on a variety of parameters (Figure 12, page 14). Age, education, the incidence of Social Security, and the incidence of tax-deferred accounts are similar, as are income, financial assets, and total nonhousing retirement wealth. Several notable differences in our survey are a higher incidence of pensions, a lower incidence of wages, and lower levels of business and real estate income. The latter may reflect in part differences in the definition of other sources of income and survey design.

Figure 11. Design of survey sample



Sources: Federal Reserve, 2012. Vanguard, 2014.

Appendix II: Income receipt and account ownership

We compared our eight retirement income investor groups based on their likelihood of having a given income source or holding a certain type of financial account.

Social Security was the most prevalent income source in five of the eight investor groups (Figure 13, page 15, top panel). Pension income was only highly prevalent among a single segment, the Pensioners, while less prevalent for three other segments. Not surprisingly, it was Retirement Investors, Real Estate Investors, and Business Investors, all of whom have substantial wealth holdings in financial assets or other illiquid investments, where incidence of traditional pension income was likely to be lowest.

Between 20% and 40% of most investor groups reported wage income, with the highest incidence for Retirement Investors. This incidence of wage income across the spectrum may reflect varying ages and stages of retirement.

In terms of financial accounts, tax-deferred retirement accounts (whether DC plans, IRAs or similar accounts) are widely held among five investor groups (Figure 13, page 15, bottom panel). Liquid assets held in bank savings or CDs were the next most commonly held type of account. Other high levels of account incidence were consistent with the investor group: Taxable Investors were very likely to own taxable brokerage or mutual fund accounts; Liquidity Investors, to hold cash, bank deposit, and similar accounts; and Annuity Investors to hold annuity or life insurance accounts with a balance.

Figure 12. Comparison of sample with Survey of Consumer Finances (SCF)

Households ages 60–79 with financial assets of at least $100,000 and at least one member retired

	Survey sample	SCF
A. Demographics		
Respondent		
Age (median)	68	69
Single	23%	30%
Male	50%	82%*
College graduate	57%	58%
Household		
Age less than 62 years old: Self (and spouse)	5%	6%
Age older than 70: Self (or spouse)	39%	45%
Completely retired: Self (and spouse)	61%	65%**
Owns home (outright or with mortgage)	96%	96%
B. Income sources (% receiving)		
Social Security	85%	85%
Pensions	71%	61%
Wages	29%	39%
Annuity payments	5%	1%
Business or real estate income	17%	33%
All other income	17%	24%
C. Asset ownership (% own)		
Tax-deferred assets (IRAs, 401(k)s, etc.)	84%	84%
Liquid assets: Checking or money market account	46%***	100%
Liquid assets: CDs or savings accounts	72%	69%
Taxable assets: Mutual fund or brokerage account	63%	50%
Annuities or life insurance	46%	52%
D. Wealth and income		
Total income (median)	$69,500	$68,106
Total financial wealth (median)	$395,000	$380,500
Total nonhousing wealth (median)	$1,135,754	$1,025,071

* In the SCF, in a two-person household, head of household is automatically assigned to the male in a mixed-sex couple or the older individual in a same-sex couple.
** Refers only to household head (and spouse) if retired, does not distinguish partially from completely retired.
*** Vanguard figure is nontransaction only; with transaction accounts is 96%.

Sources: Federal Reserve, 2012; Vanguard, 2014.

Figure 13. Income receipt and account ownership

Households ages 60–79 with financial assets of at least $100,000 and at least one member retired

		Traditional Retirement			New Retirement			Specialty Retirement	
	All groups	Social Security Recipients	Pensioners	Retirement Investors	Taxable Investors	Annuity Investors	Liquidity Investors	Real Estate Investors	Business Investors
A. Income receipt (% receive)									
Social Security	85	96	76	81	88	87	79	82	75
Pension	71	64	100	56	68	63	60	51	41
Wages	29	25	28	40	23	29	24	29	38
Annuity payment	5	3	4	4	7	22	4	3	0
Real estate	11	7	9	6	11	6	8	97	12
Business income	7	4	5	8	5	7	3	11	100
All other income*	17	20	11	20	18	22	17	18	17
B. Account ownership (% own)									
Tax-deferred assets (IRA, employer-sponsored retirement plans, etc.)	84	77	84	100	88	69	70	88	87
Liquid assets: Checking or money market accounts	46	37	45	46	56	44	64	60	40
Liquid assets: CDs or savings accounts	72	72	77	68	66	68	98	78	63
Taxable assets: Mutual funds or brokerage accounts	63	47	59	61	100	50	45	73	63
Variable annuity or life insurance with balance	46	46	46	44	41	91	34	40	38

Note: Liquid accounts are nontransaction accounts only.

* All other income components include: trust income, disability, government assistance except Social Security, family financial support, inheritance or one-time gifts, sale of personal property, reverse mortgage, or other income.

Source: Vanguard, 2014.

References

Banerjee, Sudipto, 2013. "Income Composition, Income Trends, and Income Shortfalls of Older Households." *Employee Benefit Research Institute Issue Brief 383*. Employee Benefit Research Institute, Washington, D.C. www.ebri.org.

Bosworth, Barry P. and Kathleen Burke, 2012. "Changing Sources of Income Among the Aged Population." Boston College Center for Retirement Research Working Paper 2012-27. Boston College Center for Retirement Research, Boston, MA. crr.bc.edu.

Bricker, Jesse, Arthur B. Kennickell, Kevin B. Moore, and John Sabelhaus, 2012. "Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances." *Federal Reserve Bulletin.* 98(2). Federal Reserve Board of Governors, Washington, D.C. www.federalreserve.gov.

Holden, Sarah and Steven Bass, 2013. "The IRA Investor Profile: Traditional IRA Investors' Activity: 2007-2011." Investment Company Institution, Washington, D.C. www.ici.org/pdf/rpt_13_ira_investors.pdf.

Iams, Howard and Patrick J. Purcell. 2013. "The Impact of Retirement Account Distributions on Measures of Family Income." Social Security Bulletin 73(2): 77-84. www.ssa.gov.

Mottola, Gary R. and Stephen P. Utkus. 2008. "Spending the nest egg: Retirement income decisions among older investors." Vanguard Center for Retirement Research, Malvern, PA. Volume 35. institutional.vanguard.com.

Poterba, James M., Steven F. Venti, and David A. Wise. 2011. "The Drawdown of Personal Retirement Assets." NBER Working Paper 16675. National Bureau of Economic Research, Cambridge, MA. www.nber.org.

Poterba, James M., Steven F. Venti, and David A. Wise. 2012. "The Nexus of Social Security Benefits, Health, and Wealth at Death." NBER Working Paper 18658. National Bureau of Economic Research, Cambridge, MA. www.nber.org.

Connect with Vanguard® > institutional.vanguard.com

Vanguard research >
Vanguard Center for Retirement Research
Vanguard Investment Strategy Group

Vanguard Research

P.O. Box 2900
Valley Forge, PA 19482-2900

For more information about Vanguard funds, visit institutional.vanguard.com or call 800-523-1036 to obtain a prospectus. Investment objectives, risks, charges, expenses, and other important information about a fund are contained in the prospectus; read and consider it carefully before investing.

Investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at $1 a share, it is possible to lose money by investing in such a fund.

All investing is subject to risk, including the possible loss of money you invest.

© 2014 The Vanguard Group, Inc.
All rights reserved.
Vanguard Marketing Corporation, Distributor.

CRRRIP 052014