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SOA Post-Retirement Risk Research — what it tells about the state and direction of retirement security in the US

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Agenda

- Overview of Research and Major Findings
- Context and Background
- Highlights of Research Results
 - How and When We Retire
 - Risk perceptions
 - Working in Retirement
 - Planning for Retirement
 - Longevity
- Glimpse into Other Areas
- Recommendations



Overview of Research

Post-Retirement Needs and Risks

- SOA Committee produces research and other content: 15+ year effort
- Foundation: Managing post-retirement risks
- Focus: Middle income individual aged 50+
 - Take perspective of individual
- Committee Members: Broad range of expertise in various fields
- Content: Perceptions, problems, and solutions
 - Core continuing project: Survey of post-retirement risk (every 2 years since 2001) (moved online in 2013)
 - Focus groups, round tables, research reports, and paper calls
 - Public education focus: Risk Chart and Decision Briefs



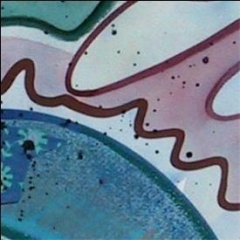
Major findings: 15+ years of work

- Big differences in pre-retirees expectations vs. retiree experiences
- Top risk concerns: inflation, health care, long-term care
- Many gaps in knowledge about retirement
 - Few think long term: planning horizons are short
 - Assets vs. expectations: out of step
 - Major problems with math and financial literacy – lack of investment knowledge
 - Little focus on systematic risk management
- Major methods of managing risks
 - Reduce spending, pay off debt
 - Little focus on risk management products
- Differences by gender
- Solutions are very difficult



Major Findings: Overview of 2001-2013 Risk Survey Results

- Persistent gaps in knowledge and understanding
- Significant similarity to Canadian results
- Top risk concerns over entire period: inflation, health, and long-term care
- Lot of stability after seven surveys
- Overall consistency with other research
- Pre-retirees more concerned than retirees in all years
 - In 2011, retirees seem more concerned than in prior years
- Since the surveys started in 2001, two major periods of stock market decline – results seemed affected for the next survey after the decline
- Interest in buying financial products other than supplemental health insurance over age 65 and health insurance at all ages seems low



Context and Background

- Personal responsibility for and complexity of retirement security increasing
- Changing US retirement systems – more employer-sponsored savings (DC) and fewer traditional pension plans (DB); less employer-sponsored retiree health; many DB plans frozen; de-risking of current DB plans
- Social Security and Medicare subject to economic and political issues – may decrease benefits or increase taxation
- Economic instability and turmoil
- Uncertainty surrounding taxation policies
- Definition of “retirement” changing
- As population ages, needs of the very old become more important to the nation and economic stability of government



Context:

What changes by age: Percentage of individuals by marital status, sex and age

| | Age 65-74 | Age 75-84 | Age 85 + |
|-----------|-----------|-----------|----------|
| MALES | | | |
| % Married | 78% | 74% | 60% |
| % Widowed | 8% | 17% | 34% |
| FEMALES | | | |
| % Married | 57% | 38% | 15% |
| % Widowed | 26% | 52% | 76% |

Source: Rappaport, Anna, Risk Management Issues for Individuals with Special Emphasis for Women, Exhibit VI, Society of Actuaries Living to 100 Monograph, 2011



Context: Economic Situation of People at Retirement Ages

- Social Security is vast majority of assets and income in lowest quintile at retirement.
- Middle quintile of those nearing retirement have estimated \$550,000 of wealth (including value of Social Security)
 - Social security is 41%, housing 22%, DB = 14%, Retirement savings 11%, and other assets 11%
- 9% of those over 65 in poverty compared to 22% under age 18
- Median income of married older households varies from \$47,000 at 65-69 to \$31,000 at ages 80+
- For single households, it varies from \$19,000 at 65-69 to \$15,000
- At age 65-69, 41% of households rely on Social Security for more than 50% of income, and 20% for more than 90%. This increases to 71% and 37% at age 80+



Context: U.S. DC Plans in 2013

- **Emphasis on “auto-features” and defaults**
 - Auto-enrollment
 - Auto-increases
 - Default funds - Target Date funds
- **Issues: Controversy about success/failure of plans**
 - Adequacy - results good for long-term employees in larger companies who save well
 - Distributions - mostly lump sums; very few offer income solutions
 - Leakage - loans and withdrawals
 - Investing - challenging for most individuals
 - Coverage - many people left out of the system
 - Shocks - early terminations, disability, layoffs
- **Shift to DC plans compounds need for individual action**



Highlights: How and When We Retire

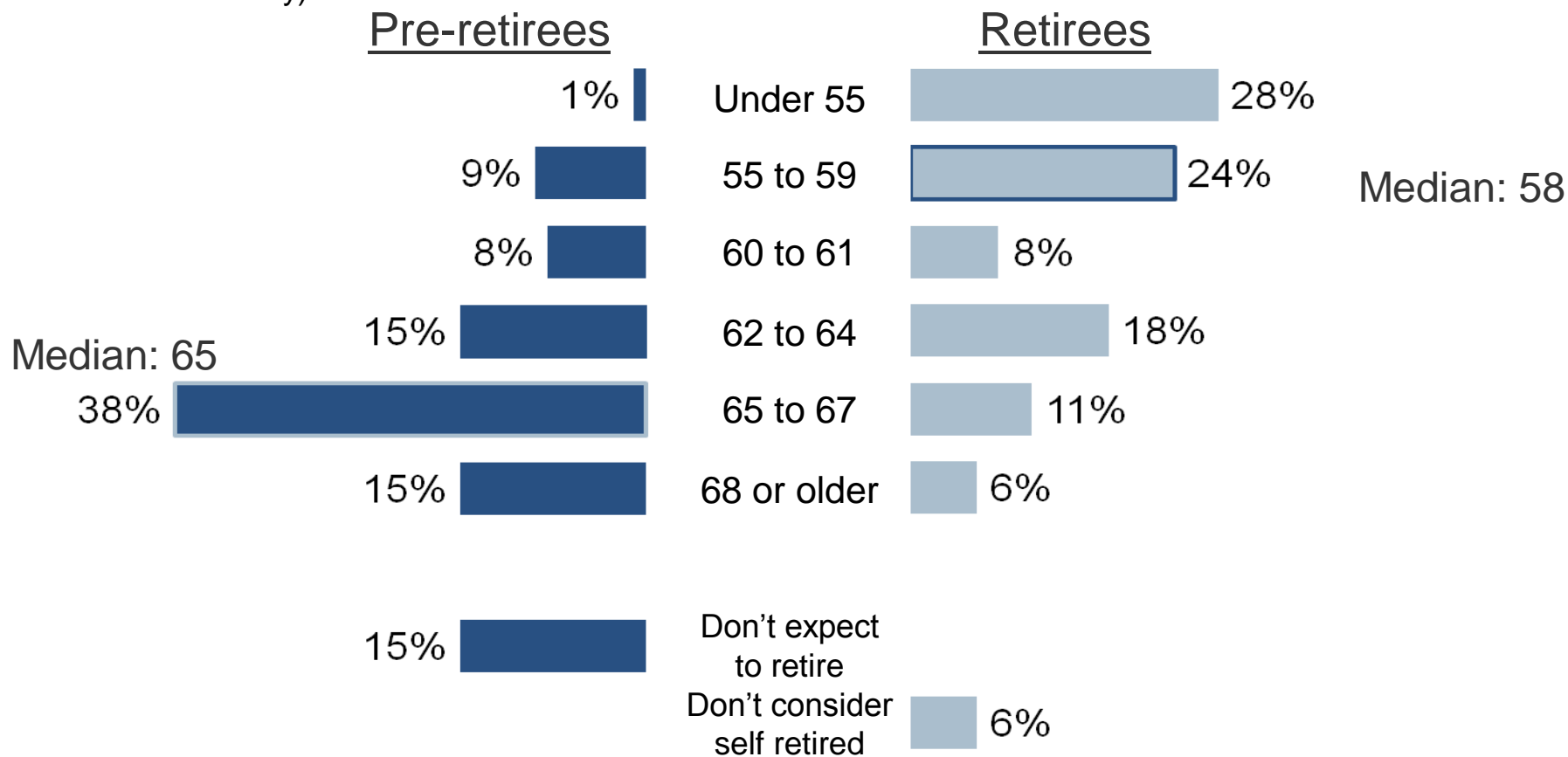
- Retirement ages gradually increasing
- Evolving thinking about the life cycle: third age – period of easing into retirement
- Gap between retiree action/pre-retiree expectation
- Many retire involuntarily or are “pushed”
- Disability: key issue in thinking about this
- Big question: how will retirement patterns change



How and When We Retire

Pre-retirees expect to retire seven years later than current retirees actually did

At what age do you expect to (or did you) retire or begin to retire from your primary occupation?
(Pre-retirees n=1,000; Retirees n=1,000) (Source: Society of Actuaries, 2013 Risks and Process of Retirement Survey)

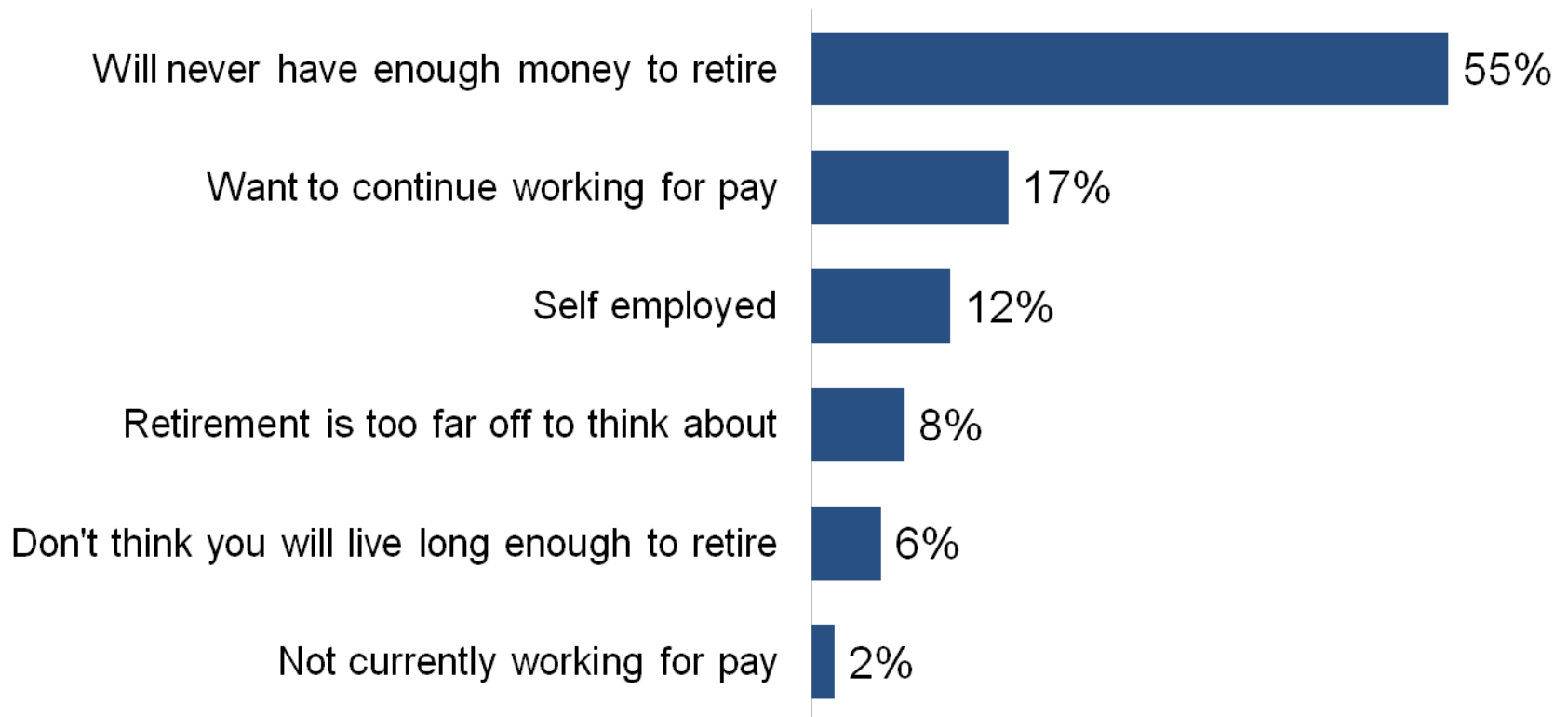




How and When We Retire

Lack of money is the predominant reason that some don't expect to retire

Which one of the following best represents the reason you do not expect to retire? (*Pre-retiree and does not expect to retire, n=148*) (Source: Society of Actuaries, 2013 Risks and Process of Retirement Survey)





How and When We Retire: Focus Groups on Retirement Decisions

- Goal was to gain insights into:
 - Why people retire when they do
 - How they assess financial risks in making their decision
- Research conducted in 2013 using:
 - Middle market retirees
 - Ages 63 to 75
 - Retired “voluntarily” within last 10 years
 - Retirees deemed financially resource constrained
 - Household Income: \$25,000 to \$100,000
 - Financial Assets: \$50,000 to \$150,000 and \$200,000 to \$400,000
 - Rental and Pension Income: under \$2,500 per month
- Selected 8 focus groups in 4 geographical regions
- Conducted groups for men versus women separately
- Report published at <http://www.soa.org/research/research-projects/pension/the-decision-to-retire.aspx>



Focus Groups on Retirement Decisions (2013): Summary of Key Findings

- Decision to retire based on career or life events (“pushed out”) rather than review or process of “going to” new life stage
 - Many informed spouse who did not discourage them
- Analysis of retirement financial adequacy is basic rather than careful consideration of risks and resources for income
 - Budgeting is cash flow and short-term oriented
 - Expense reduction and debt management are major strategies for avoiding running out of money
 - Social Security claiming based on simplified “break-even” analysis
 - Spending strategy is to preserve principal and spend investment, Social Security and pension income only
- Significant differences for women versus men in concerns, expectations, and attitudes were observed
 - Caregiving of others primary consideration for retiring – but do not expect caregiving for themselves will be provided
 - More concerned about retirement financial adequacy – but rely on others for financial advice



Focus Groups on Retirement Decisions Comments from Retirees

I was on the road constantly. I found that I was getting less and less enjoyment out of it... It was just too much.

Female, Baltimore

I don't mind saying this...that one accident, too many fires, too many house-calls, the red phone ringing. Over a period of time you begin to think it's time to go.

Male, Chattanooga

When the company reorganized and showed that they weren't interested in people my age and opportunities came and went. Opportunities came to younger people and to me it was a sign that you'd better start thinking about it.

Female, Chicago



Focus Groups on Retirement Decisions Observations of Project Oversight Group

I noticed the women were more involved in caregiving roles. Some had left their jobs for caregiving and others had taken on various caregiving roles since retiring. Of more concern, the women were using their financial resources to help in the caregiving duties. One woman recognized she did not have the resources to continue and expressed some regret for her past decisions.

- Carol Bogosian

Most of the men in the Baltimore group said they did not think much at all about life expectancy since there was no use in trying to predict it. About half the women said they had thought about it and those that hadn't felt like they should.

Also, some of the men had trouble keeping busy and filling their days but that didn't come across from the women.

- Cindy Levering

Observing the two Chicago focus groups, I immediately noticed a change in tone and demeanor of the groups. The atmosphere in the men's focus group was fairly easygoing, while the discussion became much more serious in the women's group. The difference was striking.

- Steven Siegel



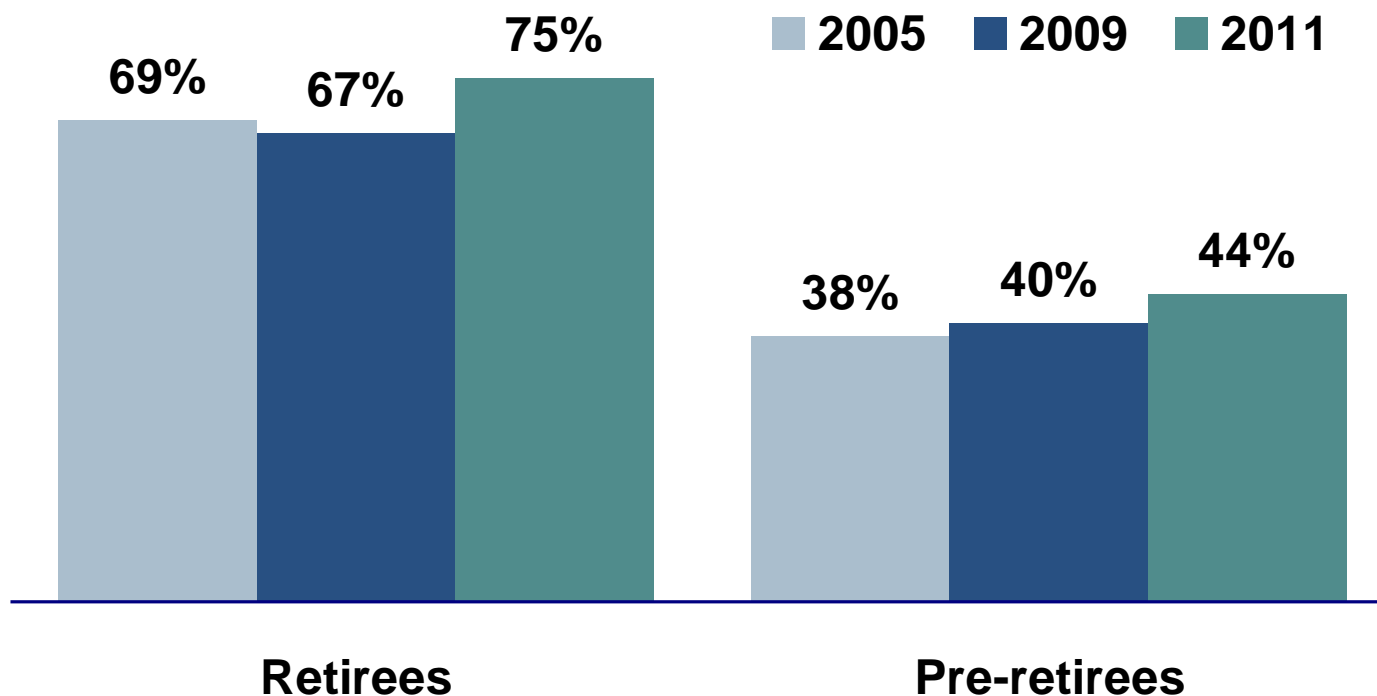
Highlights: Work as Part of Retirement

- About 50% of retirees work in retirement or have bridge jobs
 - Often different roles or schedules
 - Virtually no formal phased retirement (private sector)

Work as Part of Retirement

Less than half of workers plan on stopping work “all at once”

Which statement comes closest to describing how you retired/plan to retire from your primary occupation? (Percent saying stopped/will stop work all at once) (Retirees retired from primary occupation, 2011 n=762; Pre-retirees expecting to retire, 2011 n=497)



Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey



Highlights: Planning for Retirement

- Planning horizon is concern
- Little focus on risk management products
- Gaps in understanding – death of spouse
- Gaps in understanding – impact of working longer
- Gaps in understanding – Social Security claiming
- Many people do not understand longevity
 - Particularly variability
 - Tend to underestimate longevity
- People who live longest will have problems
- Housing, a significant portion of middle income assets, is excluded in retirement planning

Planning for Retirement

Half of retirees, fewer pre-retirees have planning horizon < 10 years

When you make important financial decisions, about how many years do you look into the future? (Retirees, 2011 n=800; Pre-retirees, 2011 n=800)

| | 2009 Retirees (%) | 2011 Retirees (%) | 2009 Pre-retirees (%) | 2011 Pre-retirees (%) |
|------------------|-------------------|-------------------|-----------------------|-----------------------|
| Less than 1 year | 10 | 7 | 1 | 3 |
| 1 to 4 years | 20 | 15 | 12 | 7 |
| 5 to 9 years | 19 | 26 | 24 | 22 |
| 10 to 19 years | 16 | 23 | 37 | 37 |
| 20 years or more | 7 | 11 | 13 | 19 |
| Don't know | 27 | 16 | 12 | 10 |

Source: Society of Actuaries, 2009-2011 Risks and Process of Retirement Surveys



Planning for Retirement

Insurance plays only a small role in preparing for increased need

What, if anything, have you done or will you do to prepare for your changing needs in retirement? (Among those expecting less active stages)

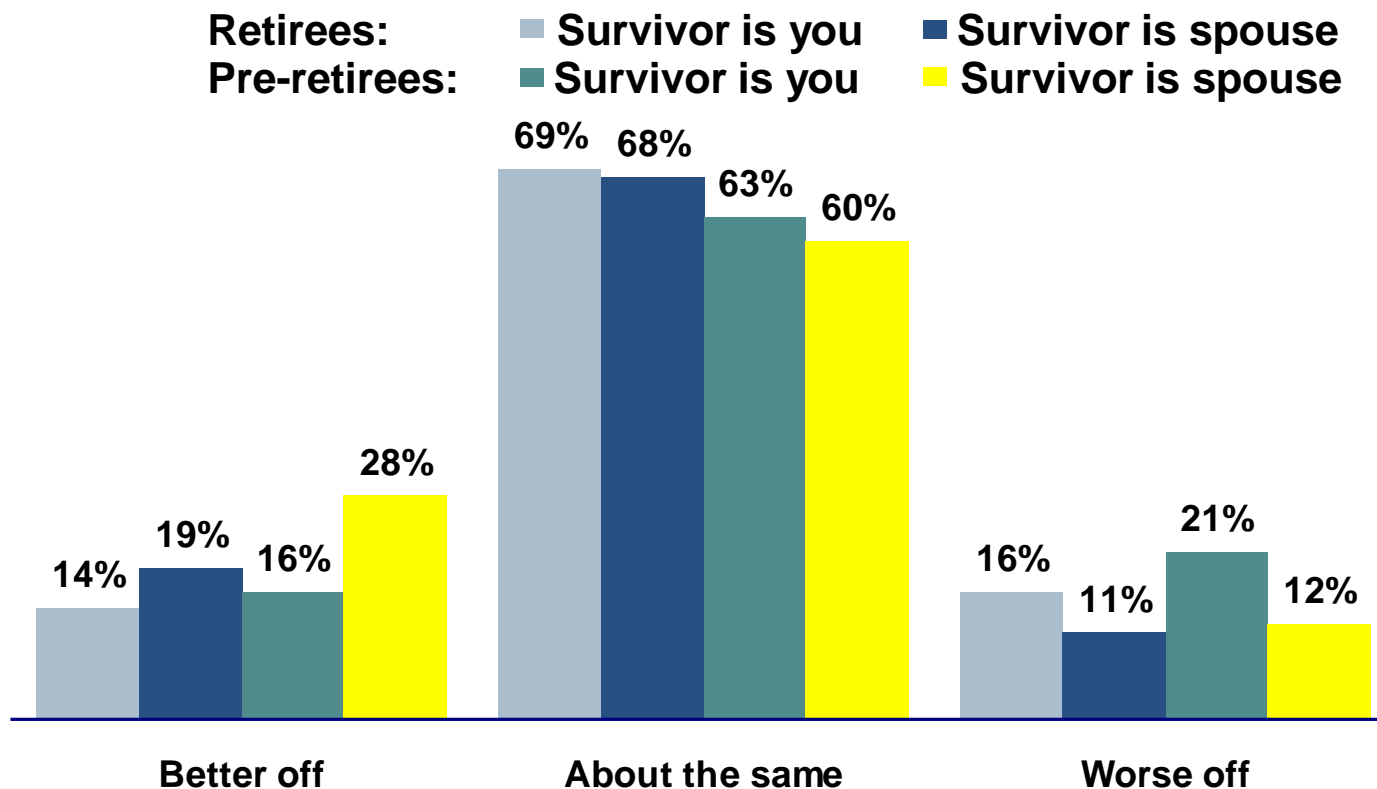
| Top Mentions (multiple responses accepted) | Retirees (%) (n=330) | Pre-retirees (%) (n=353) |
|---|----------------------------|--------------------------------|
| Save (more) money | 16 | 37 |
| Invest to make assets last | 15 | 19 |
| Buy long-term care insurance | 11 | 8 |
| Make home modifications | 6 | 4 |
| Cut back on spending | 6 | 4 |
| Stay healthy/improve health | 4 | 4 |
| Pay off debts | 2 | 5 |
| Nothing | 28 | 15 |
| Don't know | 7 | 7 |

Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey

Planning for Retirement

Few believe they will suffer financially by spouse's death

If your spouse were to pass away before you/If you were to pass away before your spouse, do you think it would leave you/your spouse financially...?
(Among married Retirees, 2009 n=249); Pre-retirees, 2009 n=293)



Source: Society of Actuaries, 2009 Risks and Process of Retirement Survey



Planning for Retirement: Importance of Housing

- Middle income married households nearing retirement (55-64) had 65% of wealth in non-financial assets in 2010. Single persons had 83% of wealth in non-financial assets. Non-financial assets are primarily housing.
- For mass affluent households, this dropped to 54% and 63%.
- Median financial assets (excluding value of pensions and Social Security) for middle mass married households were \$96,000 and for middle affluent households, they were \$671,000. For single females amounts were \$7,000 and \$68,000.
- Majority do not plan to use housing assets to support retirement.

Planning for Retirement

Importance of Housing Wealth of Middle Income Households Age 55 to 64

Analysis based on 2010 Survey of Consumer Finances

| Household Type | Number of Households | Median Income | Est. Median Net Worth | Non-Financial Assets | Financial Assets | Non-Financial Assets % |
|---|----------------------|---------------|-----------------------|----------------------|------------------|------------------------|
| Middle Mass Households (25% to 75% of households by income) | | | | | | |
| Married | 5.7 million | \$82,000 | \$277,000 | \$181,000 | \$96,000 | 65% |
| Single Female | 2.7 million | \$32,000 | \$41,000 | \$34,000 | \$7,000 | 83% |
| Single Male | 1.8 million | \$44,000 | \$76,000 | \$63,000 | \$13,000 | 83% |
| Middle Affluent Households (75% to 85% of households by income) | | | | | | |
| Married | 1.1 million | \$146,000 | \$1,241,000 | \$671,000 | \$570,000 | 54% |
| Single Female | 0.5 million | \$64,000 | \$185,000 | \$117,000 | \$68,000 | 63% |
| Single Male | 0.4 million | \$85,000 | \$339,000 | \$214,000 | \$125,000 | 63% |

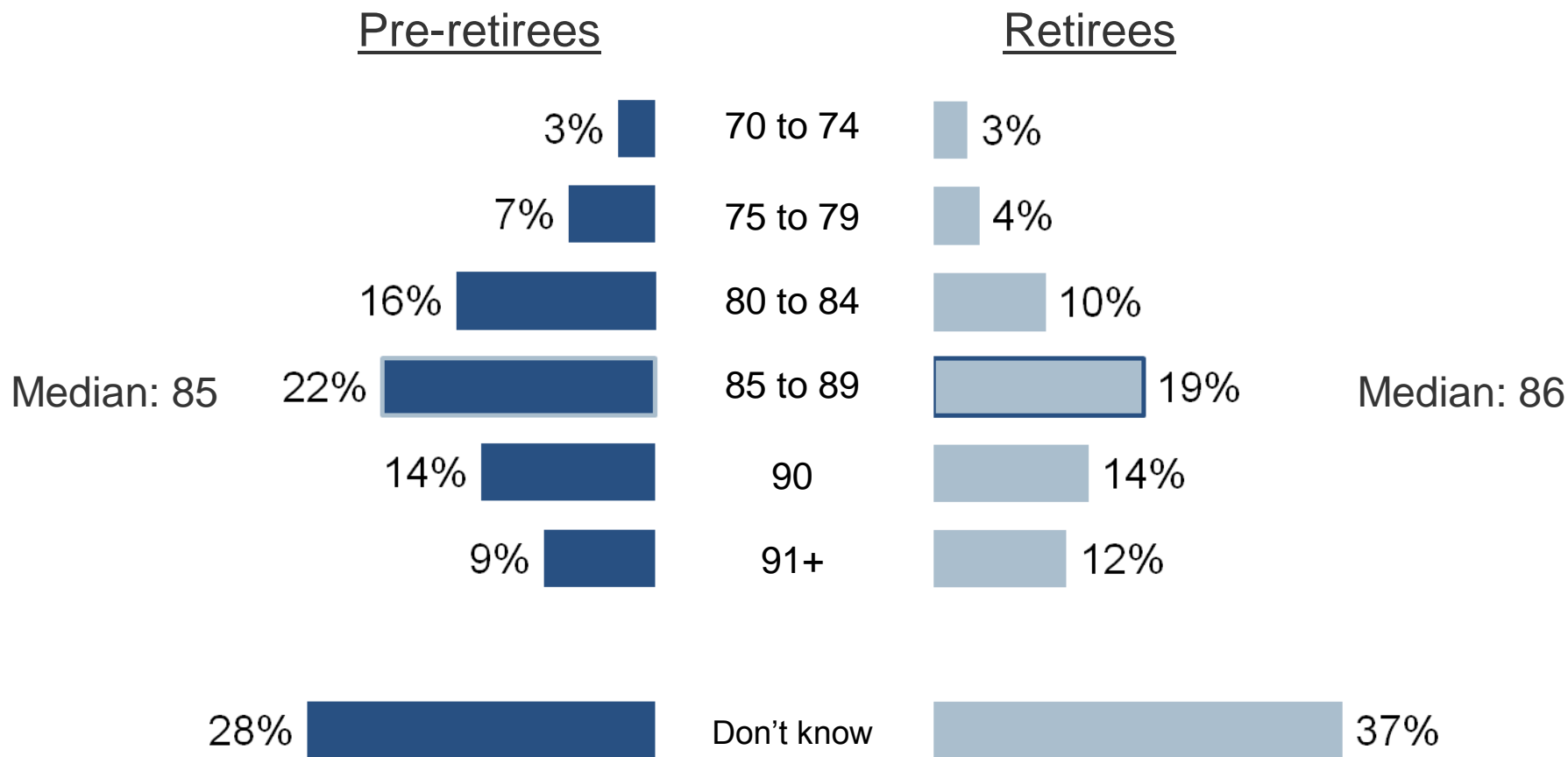
Note: Financial assets exclude the value of defined benefit pensions and Social Security.

Source: Society of Actuaries – Segmenting the Middle Market: Retirement Risks and Solutions, Update to 2010 Data.



Longevity: Median prediction of age at death is 85 for pre-retirees and 86 for retirees

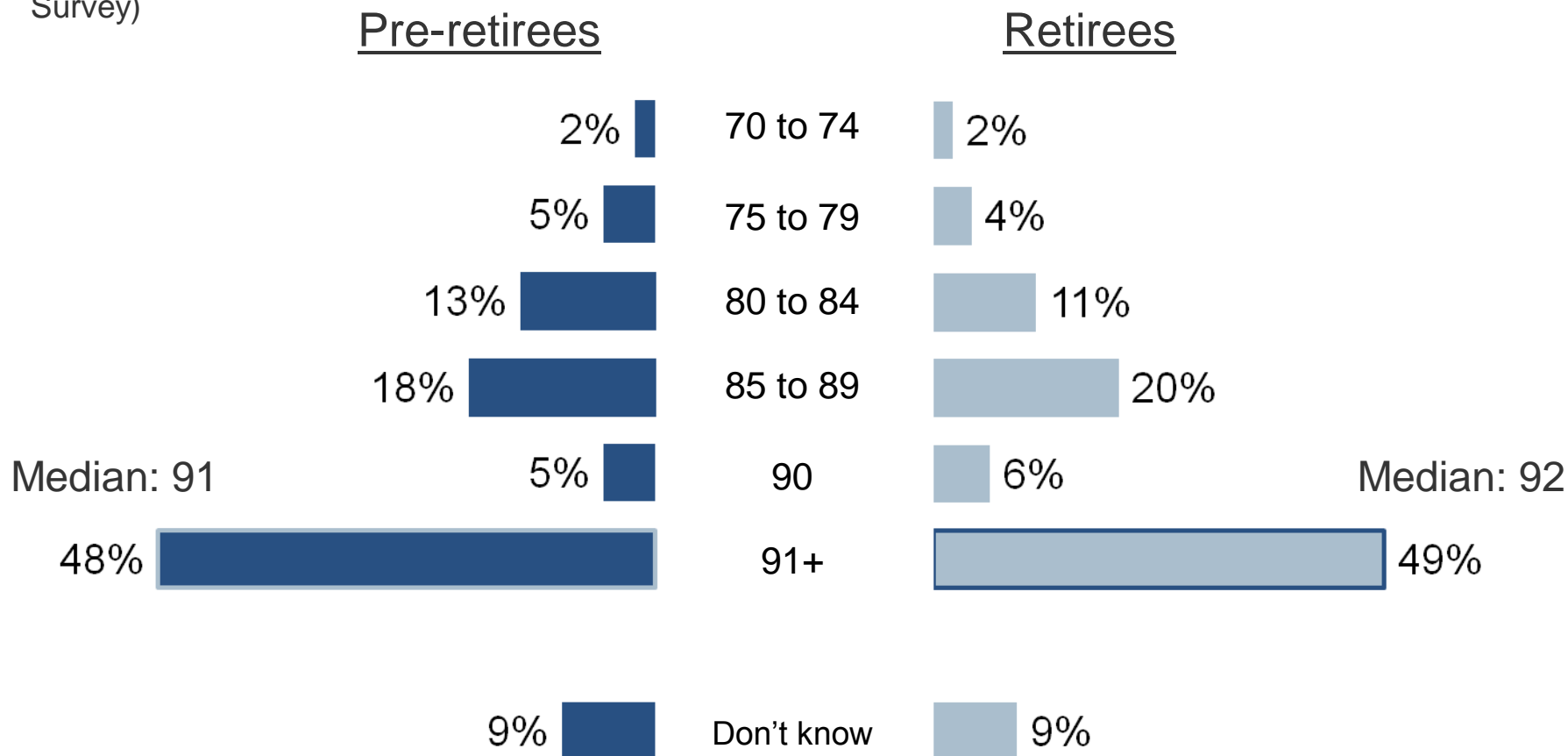
Knowing how long you can expect to live can be important for retirement planning. Until what age do you think that you can expect to live? (*Pre-retirees n=1,000; Retirees n=1,000*) (Source: Society of Actuaries, 2013 Risks and Process of Retirement Survey)





Longevity: Half know someone in their family who lived to age 91 or older

Please think about the person you knew in your family who lived the longest. How old were they when they died? *If this person is still living, please enter their current age.* (Pre-retirees n=1,000; Retirees n=1,000) (Source: Society of Actuaries, 2013 Risks and Process of Retirement Survey)



Longevity: Life and Health Expectancy by Age (U.S. Data – in years)

| Age | Non-Disabled | Mild or Moderate Disability | More Severely Disabled | Total Life Expectancy |
|-----|--------------|-----------------------------|------------------------|-----------------------|
| | | MALES | | |
| 65 | 12.34 | 1.50 | 1.50 | 15.33 |
| 75 | 6.77 | 1.37 | 1.61 | 9.76 |
| 85 | 2.89 | 1.04 | 1.75 | 5.68 |
| 95 | .81 | .61 | 1.91 | 3.34 |
| | | FEMALES | | |
| 65 | 13.65 | 2.97 | 2.83 | 19.44 |
| 75 | 6.99 | 2.55 | 2.96 | 12.50 |
| 85 | 2.47 | 1.74 | 3.03 | 7.24 |
| 95 | .52 | .78 | 2.54 | 3.84 |

Source: Rappaport, Anna, Risk Management Issues for Individuals with Special Emphasis for Women, Exhibit VIII, Society of Actuaries Living to 100 Monograph, 2011



Major Issues Covered by Research

(Discussed in Rappaport Living to 100 Paper)

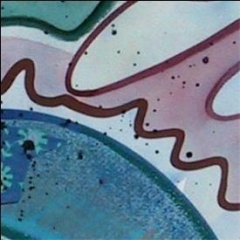
- Social Security Claiming
- Age at Retirement and Working in Retirement
- Method of Payment of Benefits after Retirement
- Impact of Death of a Spouse
- Family Issues and Retirement Planning
- Puzzling Issues About Long-Term Care
- Home Equity and Retirement Planning
- Issues Surrounding Advice
- Risks and Risk management
- Disability and Retirement Security



Information for Consumers

Retirement Decision Issue Briefs for Individuals

- Provides guidance for major retirement decisions
- Prepared by retirement professionals for individuals to use
- Eleven issue briefs written in everyday language at <http://www.soa.org/research/research-projects/pension/research-managing-retirement-decisions.aspx>
 - Big Question: When Should I Retire?
 - When Retirement Comes Too Soon
 - Women Take the Wheel: Destination Retirement
 - Deciding When to Claim Social Security
 - Designing a Monthly Paycheck for Retirement
 - Treating Asset Allocation Like a Roadmap
 - Securing Health Insurance for the Retirement Journey
 - Taking the Long-Term Care Journey
 - Where to Live in Retirement
 - Estate Planning: Preparing for End of Life
 - Finding Trustworthy Financial Advice for Retirement and Avoiding Pitfalls



Bottom Line: Knowledge and Perceptions

- Many gaps in knowledge about retirement
 - Few think long term: planning horizons are short
 - Assets vs. expectations: out of step
 - Major problems with math and financial literacy – lack of investment knowledge
 - Little focus on systematic risk management
- Major method of managing risks
 - Reduce spending
 - Little focus on risk management products
- Much changes during retirement, without pre-planning



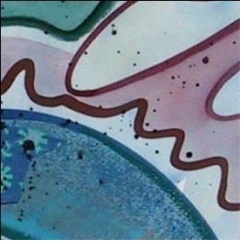
Response to the Research: Anna's Recommendations

- Adjust retirement ages with greater longevity and regularly update retirement ages – both social programs and private plans
- Change terminology about retirement ages
- Recognize and respond to gaps in individual knowledge
- Help people think about housing and its relationship to retirement wealth
- Encourage effective messaging and signals, use “Nudges” to promote retirement security
- Improve financial and health literacy



Response to the Research: Anna's Recommendations (continued)

- Encourage long-term and balanced planning
- Make individual financial risk protection products more understandable and appealing
- Improve employer plans. Rethink default distribution options in DB and DC
- Enable use of DC funds for risk protection
- Explore new and improve existing options for unbiased advice to the middle market Americans



Questions?



For SOA Research Reports and More Information

- All of the reports discussed are available on the Society of Actuaries website at:
 - <http://www.soa.org/research/research-projects/pension/research-post-retirement-needs-and-risks.aspx>
- For more information about SOA Research – contact SOA Research Actuary Steve Siegel at
 - 847-706-3578
 - ssiegel@soa.org
- For information about the Post Retirement Needs and Risks Committee – contact Anna Rappaport, Chairman at anna@annarappaport.com
- For paper summarizing 15 years of work by the Committee, see 2013 Society of Actuaries Living to 100 papers



Appendix

Listing of Committee Projects

- Survey and Focus Group Projects
- Research Reports
- Monographs and Paper Calls
- Retirement Planning Software Research
- Summary of Research Related to Lifetime Income Including Plan Sponsor Guidance



Summary of Survey and Focus Group Projects

| Project | Description and methodology | Comments |
|--|--|--|
| Retirement risk survey series (conducted with Mathew Greenwald & Associates and EBRI) | Survey of public to learn about what they know about post retirement risks – telephone survey from 2001 to 2011; on-line survey starting in 2013. Sample set to represent American population. | Includes a mixture of repeated questions and special issues; special issues may be covered in more than one survey but after skipping a period. One similar survey conducted in Canada (2010). |
| Approaching the Underserved Middle Market: Insights from Planners (2012) | A report of two focus group sessions with financial planners who are active in some part of the middle market. | This project was cosponsored by INFRE and the Financial Planning Association. The discussion sessions were held at an FPA meeting and the attendees were invited based on experience. |
| Research on use of retirement assets 2008 – Will Assets Last a Lifetime? 2009 – What a Difference a Year Makes 2011 – The Financial Recovery for Retirees Continues | A series of three surveys conducted using an Internet panel to learn how retirees are investing their assets and how they made their decisions. The first survey was done in 2008, the second in 2009, and the third in 2011. This enabled the Committee to see how retirees had responded to the economic turmoil during the period. | The SOA partnered with LIMRA and INFRE for these three surveys. The individuals surveyed in 2009 and 2011 were a subset of the individuals surveyed in 2008. Some of the questions from the first survey were repeated. The survey selection criteria for this survey included a minimum amount of invested assets. |



Summary of Survey and Focus Group Projects (continued)

| Project | Description and methodology | Comments |
|--|--|---|
| Spending and Investing in Retirement: Is There a Difference (2006) | A focus group study. The members of the focus group were retirees who had assets to invest and the purpose was to understand their decision making. | The SOA partnered with LIMRA on this project. This project laid a foundation for the surveys on investment of retirement assets described above. |
| Canadian and Risk Survey Comparison | A report comparing the 2009 SOA risk survey with a 2010 Canadian risk survey. | Questions in the two surveys are very similar, but the SOA survey was a telephone survey and the Canadian survey used an Internet panel. |
| Segmenting the Middle Market: Retirement Risks and Solutions (2009 and 2012 publication dates) | There are three reports in these series – the first offers middle market segmentation using the 2004 Survey of Consumer Finances data. The second focuses on pathways to solutions for the identified segments. The third is an update of the first using 2010 SCF data. The update showed reductions in assets between 2004 and 2010, but did not change conclusions. | The SOA contracted with Milliman, Inc. for this research. Segments are identified for mass middle and mass affluent Americans at ages 55-64 and 65-74. This report demonstrated that non-financial assets, primarily housing, are much greater than financial assets for all of the segments. |
| Retirement Plan Preferences Survey (2004) | This report focuses on whether people prefer DB or DC plans. The survey was a telephone interview survey. | The SOA partnered with the American Academy of Actuaries for this project. It turned out that people seemed to prefer the type of plan they had. |



Summary of Public Education Projects

| Project | Description and methodology | Comments |
|---|--|---|
| Managing Post-Retirement Risks (risk chart) | <p>Document identifying 15 key risks and their characteristics, and giving general strategies for managing them.</p> <p>This document is a foundation for much of the work of the Committee</p> | <p>Document is suitable for professionals and thoughtful individuals.</p> <p>Holistic thinking is encouraged</p> <p>This report is now in its third edition</p> |
| Retirement Decision Briefs (2012) | <p>A series of 11 decision briefs on specific areas of retirement decision making targeted at people close to the time of retirement or in retirement.</p> <p>Briefs present issues, questions, and considerations. While briefs are set up issue by issue, they encourage holistic thinking</p> | <p>Builds on Managing Post-Retirement Risks.</p> <p>Group working on briefs believed that many of the issues are often overlooked.</p> <p>Designed for thoughtful individuals and professionals</p> |



Summary of Research Papers

| Project | Description and methodology | Comments |
|---|--|--|
| Middle Market Retirement: Approaches for Retirees and Near Retirees (2013) | A paper that summarizes a number of conceptual approaches to planning for the middle market and fits them to the issues identified in the segments defined in “Segmenting the Middle Market” | |
| Running Out of Money (2012) | A roundtable of experts who discussed the outlook for running out of money, issues, and possible solutions. Abstracts of submitted materials are included in the report. Provides a broad overview of issues and unifies many of the topics discussed by the Committee | The SOA partnered with WISER and the Urban Institute for this project. Major concerns identified and discussed include health and long-term care risk, the need for better advice for the middle market, and concerns about lifetime income. |
| Thinking about misperceptions studies: Public Misperceptions about Retirement Security (2005) Public Misperceptions about Retirement Security: Closing the Gap (2007) | Two research reports were published: The first report provides a unified discussion of a number of misperceptions looking at a range of research. The second report focuses on ideas for addressing the challenges raised by the misperceptions. | Joint projects between the SOA, LIMRA and Mathew Greenwald & Associates. My opinion is that the misperceptions identified in this 2005 paper are still a problem in 2013. |



Summary of Paper Calls and Monographs

| Project | Description and methodology | Comments |
|---|--|--|
| Retirement Security in the New Economy (2011) | Monograph providing a broad range of papers focusing on holistic approaches, paradigm shifts, and new ideas. Papers vary between those that focus on a single topic and those that focus on the bigger picture | Multi-disciplinary group of authors |
| Housing in Retirement (2009) | Monograph providing papers on financial and life-style issues related to housing and success in retirement | Multi-disciplinary group of authors |
| Managing Retirement Assets (2004) | Monograph providing a series of papers on the payout period | Multi-disciplinary group of authors |
| Retirement Implications of Family and Demographic Change (2002) | Monograph providing focus on family issues and also on phased retirement | Papers include perspectives from several different countries |



Summary of Research Related to Lifetime Income Including Plan Sponsor Guidance

| Project | Description and methodology | Comments |
|---|---|--|
| The Next Evolution in Defined Contribution Retirement Plan Design – A Guide for DC Plan Sponsors in Implementing Retirement Income Programs | Study that provides the business case and a plan for implementation of income programs; study includes modeling of a variety of income approaches | Projected jointly sponsored by the SOA and Stanford Longevity Center. Study completed in 2013 |



Summary of Research Related to Retirement Planning Software

| Project | Description and methodology | Comments |
|--|---|--|
| Research reports: Retirement Planning Software (2003) Retirement Planning Software and Post-Retirement Risks (2009) | Two studies were conducted to understand how retirement planning software handles post-retirement risks. Both looked at samples of software, and found significant gaps in what was reviewed, and relatively little changed between the first and the second study. | LIMRA and INFRE were partners for the first project, and the Actuarial Foundation was a partner for the second project. Both projects used outside researchers |