# The Decision to Retire and Post-Retirement Financial Strategies: A Report on Eight Focus Groups

## Executive Summary

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Project Oversight Group

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The purpose of this study is to gain understanding of how people make decisions about when to retire and about managing in retirement. The study is designed to help understand the rationale and process used in decision making. It supplements quantitative research, and can also help inform the issues for such research.

The Society of Actuaries (SOA) Committee on Post-Retirement Needs and Risks has been working to improve the management of the post-retirement period for about 15 years. As part of that work, it has studied how middle market Americans (generally those with less than $500,000 of net worth) make decisions about retirement and how they deal with key financial risks after retirement. The SOA uses these results to help improve retirement security and the systems that support it. Results of research are communicated to the public, actuaries and others in an effort to help the public achieve a higher level of financial security.

Whether people have sufficient assets and income for retirement is very dependent on when they decide to retire and how they expect to live during retirement. In addition, certain financial shocks will continue to occur in retirement much like they did during a person's working lifetime. There are also many non-financial decisions involved in the process.

Relatively little is known about how retirees actually make their decisions to retire and how they manage their assets during retirement. In addition, little is known about what makes an individual successful in managing through their retirement years – especially when a retiree does not appear to have sufficient assets to actually retire. This study was designed specifically to explore how individuals make retirement decisions in order to gain a better understanding of the process they used to make decisions, what steps were completed, how finances and other factors were considered in the decision and how successful they have been in their retirement years Eight focus groups of "resource constrained" retirees who had retired voluntarily were interviewed. Groups were separated by asset level ($50,000 - $150,000 and $200,000 - $400,000), sex and geography. A comparison of the experiences of recent (0-5 years) versus more long term (5-10 years) retirees was also examined.

Focus group research is not based on random sampling and provides no quantitative results. Rather, it collects qualitative data that in this study offers insights into the thinking and the rationale that goes into the decisions about when and under what circumstances to retire and decisions on how to manage during retirement. The results can be especially helpful in structuring further survey research.

The full report highlights ten key findings based on the analysis of comments from focus group participants. The overall picture provided by the focus groups includes the following elements:

**Decision to retire**: Even though retirement was voluntary, most of the participants retired in response to health issues, challenges in their workplace, or the need for family care-giving. They did not retire primarily to have free time to pursue a hobby or start a business, although most of them were enjoying frequent travel. They described workplace difficulties such as jobs that were physically difficult, messages from their employer that they perceived as "encouraging" them to retire, and challenges in working with younger supervisors, among others. Typically, the retirement decision is assumed to consist of a clear distinction between voluntary and involuntary retirement. The stories in these focus groups indicate that much so-called voluntary retirement is actually the result of a "push", and that the distinction between voluntary and involuntary retirement is not necessarily clear-cut for middle-income retirees. Results may or may not be different for retirees with higher income and asset levels.

**Social Security claiming decisions:** Most participants claimed Social Security at age 62, and they commonly did a simplified type of “break-even” analysis. This frames the claiming decision in terms of how long people must live to “break-even” if they claim later. Such an analysis generally ignores longevity risk and inflation and may lead to an adverse result for people who live longer than the actuarial tables indicated as their expected average lifetime.

**Financial management in retirement:** Many of the focus group participants showed common behaviors and actions:

- Participants were very aware of their regular income and expenses, and they managed expenses based on their estimated daily expenses. They are very adaptable with regard to spending decisions and reduce spending when needed. They are accustomed to making trade-offs when necessary.

- The major strategy for managing their assets is to preserve them. Most did not have a plan to systematically withdraw assets from their retirement accounts. Those who had reached age 70½ use the legally mandated Required Minimum Distribution rules to withdraw funds from their Individual Retirement Accounts. They did not necessarily think much about volatility and some had more assets now than when they retired.

- Some maintain “dual asset accounts” and have a “slush fund” for discretionary spending. The extra fund balance lets them know how much money they can spend on travel and other discretionary items.

- Most own their homes, have paid off their mortgage, and appear to be very careful about debt. They had no interest in using a loan or reverse mortgage to access the equity in their home. It does not appear that they have large credit card balances.

- There is no evidence from the focus groups that people are spending significant parts of their assets on luxury items, such as boats or RVs. They do make choices about current spending and a number report reducing the amount they travel and foregoing other discretionary spending when necessary.

**Planning:** This research, like other SOA research, showed a relatively short planning horizon and very little longer term planning.

- Planning is focused on expected cash flow in the current year. Participants generally did not consider inflation nor did they factor it into their plans.

- As shown in other research, there are gaps in knowledge about longevity as evidenced by their short term planning horizons. They didn’t think much about their life expectancy but acknowledged that their health was the biggest threat to their security. The focus group members for the most part do not explicitly plan for shocks and longer term risks. Their risk management strategies appear to be asset preservation, limiting debt, and controlling spending. They do not focus on financial risk management products, and many are not well prepared to deal with substantial shocks. A few had long term care insurance, but there is no information about its adequacy.

- Many of the focus group members have not made longer term calculations to manage their retirement. Some use financial planners or advisors, and those who do use planners reported getting value from them. They did not make a clear distinction between getting advice from a financial planner versus an investment advisor/broker.

**Differences between men and women:** This research strongly indicates significant differences between men and women in the concerns and feelings about retirement, views of care-giving obligations and family relationships, level of optimism, and vulnerability and planning behavior. The men appear optimistic, confident and more likely than women to think they will be able to adapt to any financial situation that arises. Women seem much more concerned about financial security than men and are more concerned about running out of assets, needing long term care, being a burden on their children, and impacting the financial success of their children. Women appear more sociable than men and more family oriented. They are much more likely to be caregivers and to retire in response to family needs. Men are rarely caregivers. While it has long been known that there are differences in retirement situations by sex, this report highlights areas of difference not often considered. However, the concerns of women seem appropriate given their longer average life expectancy and the general tendency of women to marry older men. This means they could outlive their spouse by several years and hence justify their concern about financial security in general and the need for receiving long term care in particular.

**Home equity:** People want to hold on to their homes and home equity as long as possible. They generally plan to stay in their homes, but some plan to downsize.

**Family:** Family is an important factor in their retirement. Participants have helped and are still helping family members. However, they want to be independent and do not intend to rely on family if they need help themselves.

**Activities in retirement:** For these participants, activities in special interest areas, development of new skills, increasing time for hobbies, or extensive travel did not appear to be the major driver of their retirement decisions. Some have hobbies, but they did not cite them as the reason for retirement. Some have used part-time work to fill their days. Others have spent more time with family and grandchildren or traveled.

**Overall satisfaction:** Most of the respondents were generally satisfied with the retirement decisions they made. Some would have preferred to work longer. There was significant variation with how satisfied they were with their life in retirement. Some were lonely, particularly widows. However, they found a value in freedom and stated that their decisions were based on more than just finances. They tended to think more about the quality than the quantity of their retirement years.

**Summary:** These findings paint a picture of these retirees who appear to be “resource-constrained” as careful and conservative financial managers in the short term with a focus on current cash flows rather than on shocks and changes over time. They are quite flexible and able to reduce current spending to match their current income. They are reluctant to draw down assets, saving them for emergencies, shocks or an inheritance. They limit what they spend for travel and meeting their dreams. They do not plan for significant inflation, substantial long term care needs, and large unexpected medical expenses. Very few are using insurance products to manage these risks. While some get formal financial advice, many manage their assets on their own.

Given current longevity, it is quite likely that a considerable number of them will struggle in later years. While working longer is widely cited as a method to help people be more secure, for many this might not be a practical solution because of factors such as health problems or lack of job opportunities. More research is needed to identify better strategies to help both current and future retirees improve their retirement security. One solution may involve changes to the retirement system to encourage more informed decision making. Another solution may point to the need to tailor messages based on sex since there was a clear difference between attitude and approach between men and women in these groups. Finally, workforce policy changes to encourage older individuals to work longer and better support their retirement timing decisions may be necessary.

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