

The Process of Retirement and Retirement Risks: Report on a Survey and Eight Focus Groups

Presenters:

Mathew Greenwald, Ph.D.

Anna M. Rappaport, FSA, MAAA

Agenda

- Background
- Methodology
- Results
 - The Process of Retiring
 - Differences by Gender
 - Managing Risks
 - Phases of Retirement: Changing Needs During Retirement
 - Planning for Retirement / Financial Planning
- Conclusions and Future Opportunities

Background

- Society of Actuaries post-retirement risk research now more than 15 years old
- Overall program goal: understand and improve post-retirement risk management
 - Focus on middle market
 - Housing value is greater than financial assets for many in middle market
 - Many lack adequate assets to maintain living standard
- Balance focus on understanding public action, solutions
- Focus on multiple-stakeholders
- Today's focus: two new studies

Two new studies

- 7th biennial post-retirement risk surveys
 - Surveyed on-line: Retirees and pre-retirees; widows oversampled
 - Represents American population at all levels
 - Goals: understand perceptions about risk management and concerns about risk
 - Areas of concentration: how people decide to retire, risk management, what changes during retirement, differences between men and women
- Focus groups: resource constrained retirees who retired voluntarily
 - Goal to understand decision to retire and rationale for money management, inform survey structure

Methodology

SY

Online Survey

- Sample size: 2,200 total (1,000 pre-retirees, 1,000 retirees, 200 oversample of retired widows)
- Ages 45 to 80
- Conducted online for first time in 2013

FG

Focus Groups

- Eight focus groups with people who retired voluntarily
- Baltimore, MD; Chattanooga, TN; Chicago, IL; and Phoenix, AZ
- Half of the groups were male; half were female
- Half of the groups had assets between \$50,000 and \$150,000; half had assets between \$200,000 and \$400,000
- No participant had household defined benefit guaranteed lifetime income exceeding \$2,500 per month

Comparison of Survey and Focus Groups

	Survey	Focus Groups
Pre-retirees included	Yes	No
Asset constrained	No	Yes
DB income available	73% of Retirees have DB income	Limited to \$2,500 per month
Home ownership	35% of Retirees and 57% of Pre-retirees own with Mortgage: 53% of Retirees own with no Mortgage	Vast majority own with no mortgage

The Process of Retiring

Process of Retiring

- Major area of exploration in focus groups
- Focus group findings carried over to risk survey – new questions
- Explored reasons for retiring, analysis process and thinking about Social Security

- Consistent with past research:
 - Pre-retirees continue to say that they will retire at a later age than retirees actually did retire (median of 65 years vs. 58 years)
 - Not having enough money continues to be the predominant reason that some pre-retirees say they will not retire
 - While the large majority of retirees stopped working for pay all at once, majority of pre-retirees think they will continue working in retirement

- Major new insights – drivers of voluntary retirement
 - More “from” than “to”
 - Often problem/health/family needs driven

Process of Retiring

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.

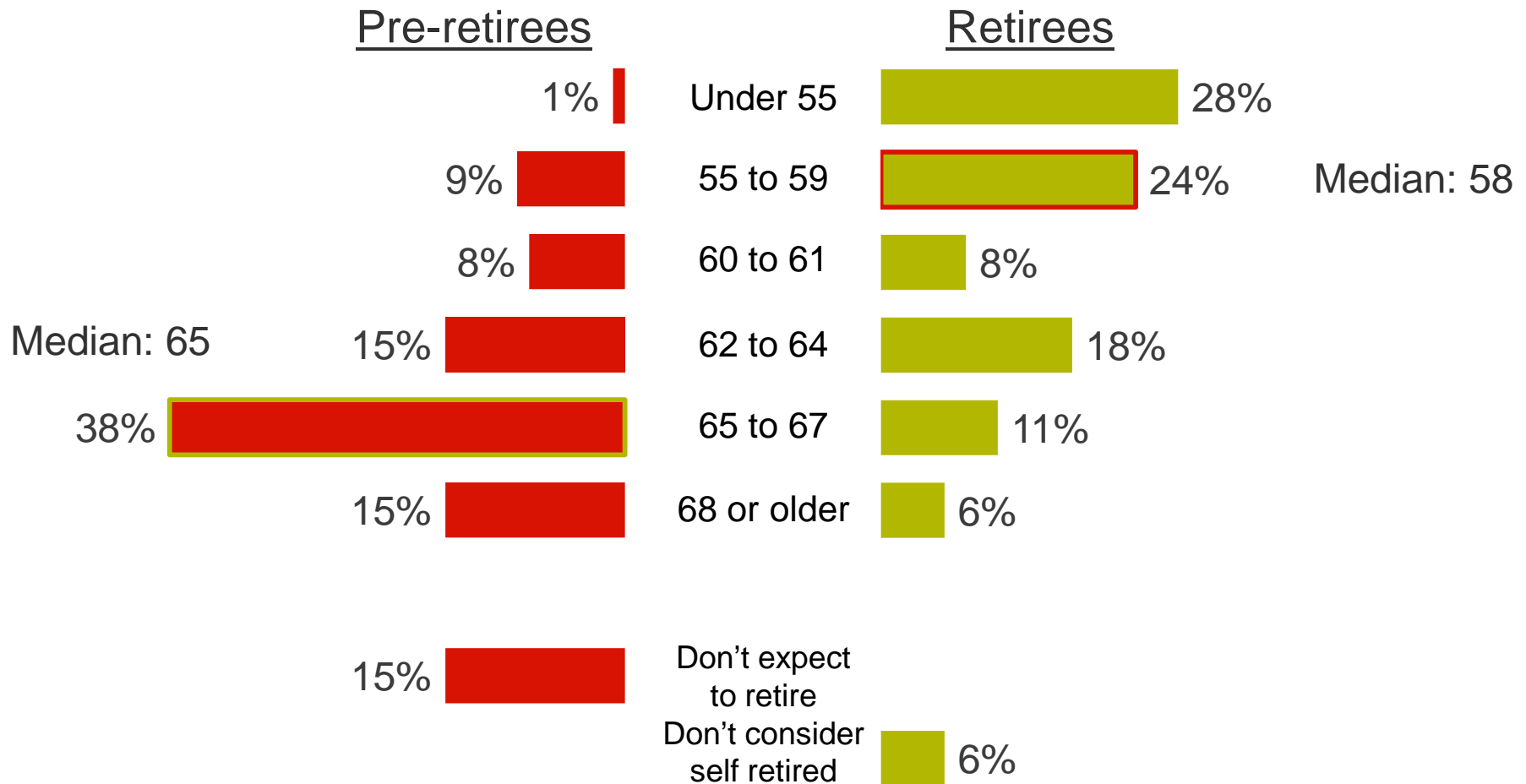
Male, Chattanooga

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

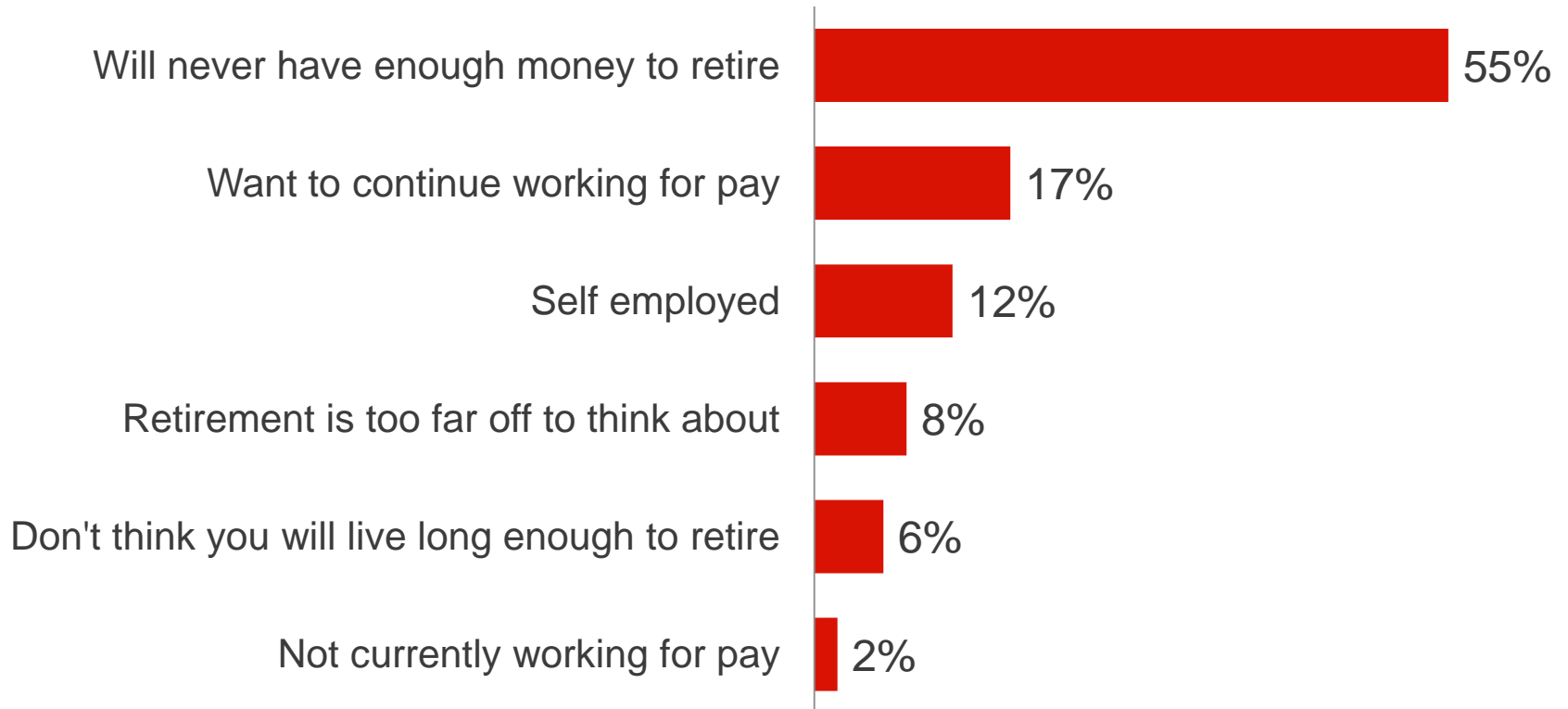
Pre-retirees expect to retire seven years later than current retirees actually did

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)



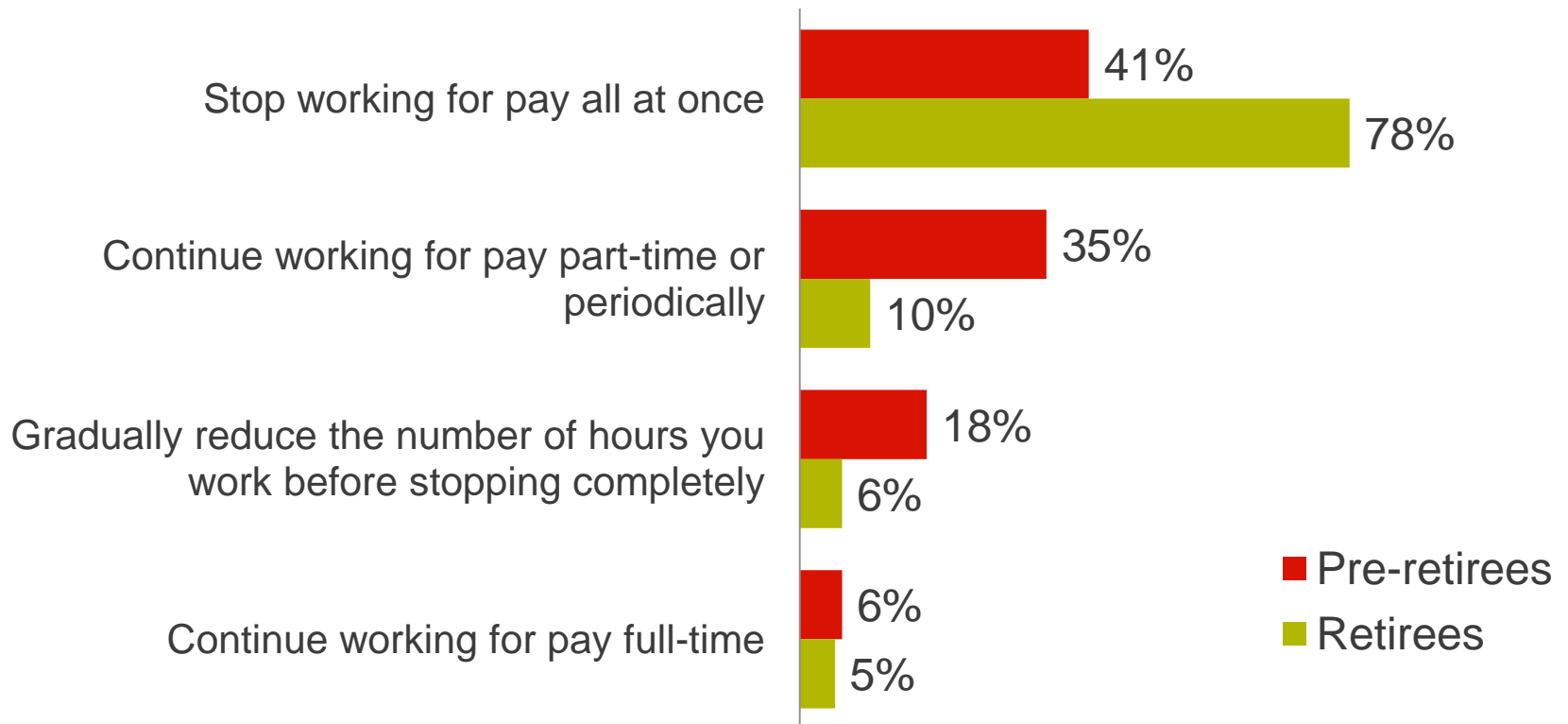
Lack of money is the predominant reason that some don't expect to retire

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*)



Six in ten pre-retirees plan to continue working in retirement; only two in ten retirees actually did

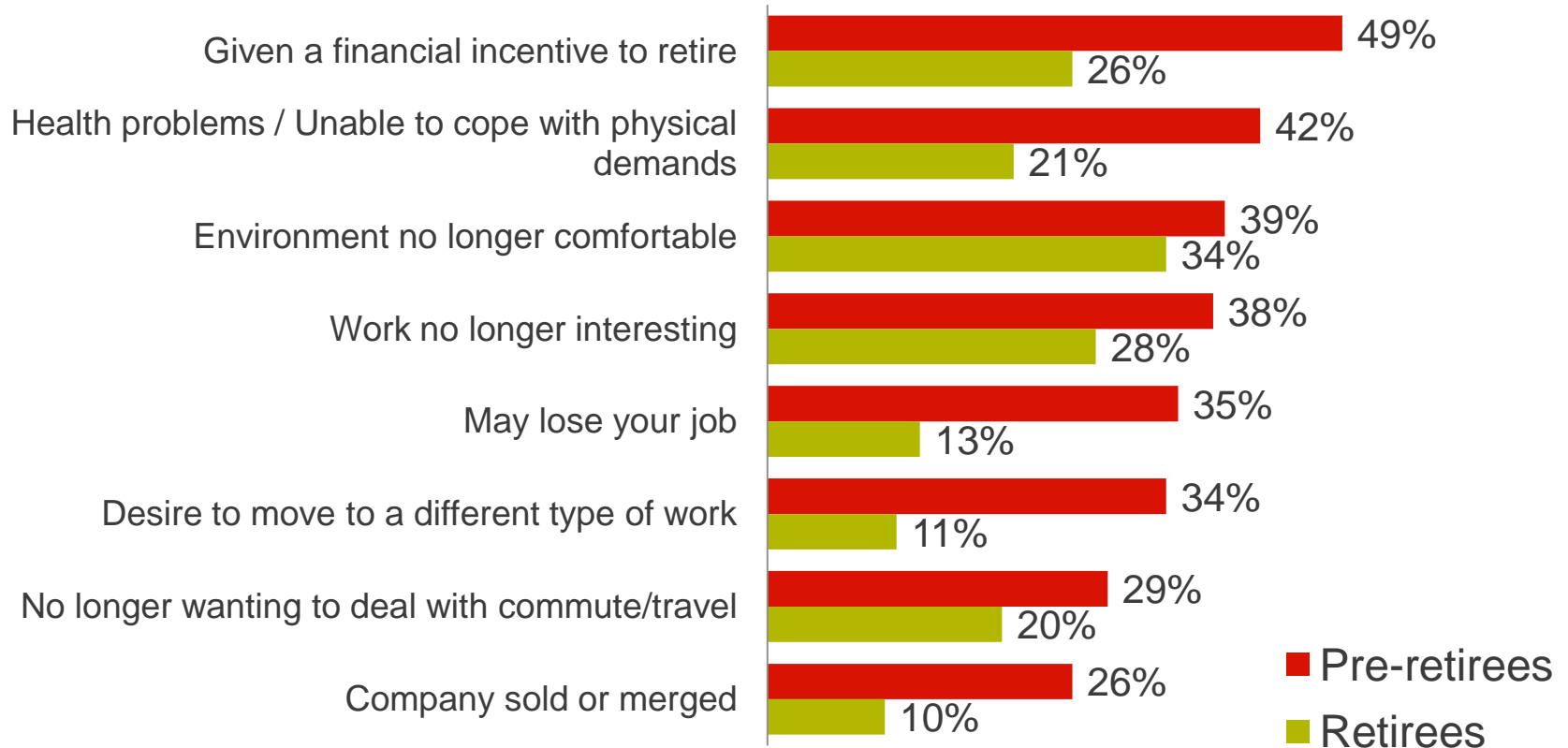
Which statement comes closest to describing how you plan to retire (retired) from your primary occupation? (*Employed full-time (or expects to be) before retirement, Pre-retirees n=761; Retirees n=823*)



Once retired, work-related issues affecting pre-retirees in their decision to retire seem less important

How much do you think each of the following work-related issues will affect (did affect) your decision to retire from your primary occupation? (*Employed full-time (or expects to be) before retirement, Pre-retirees n=761; Retirees n=823*)

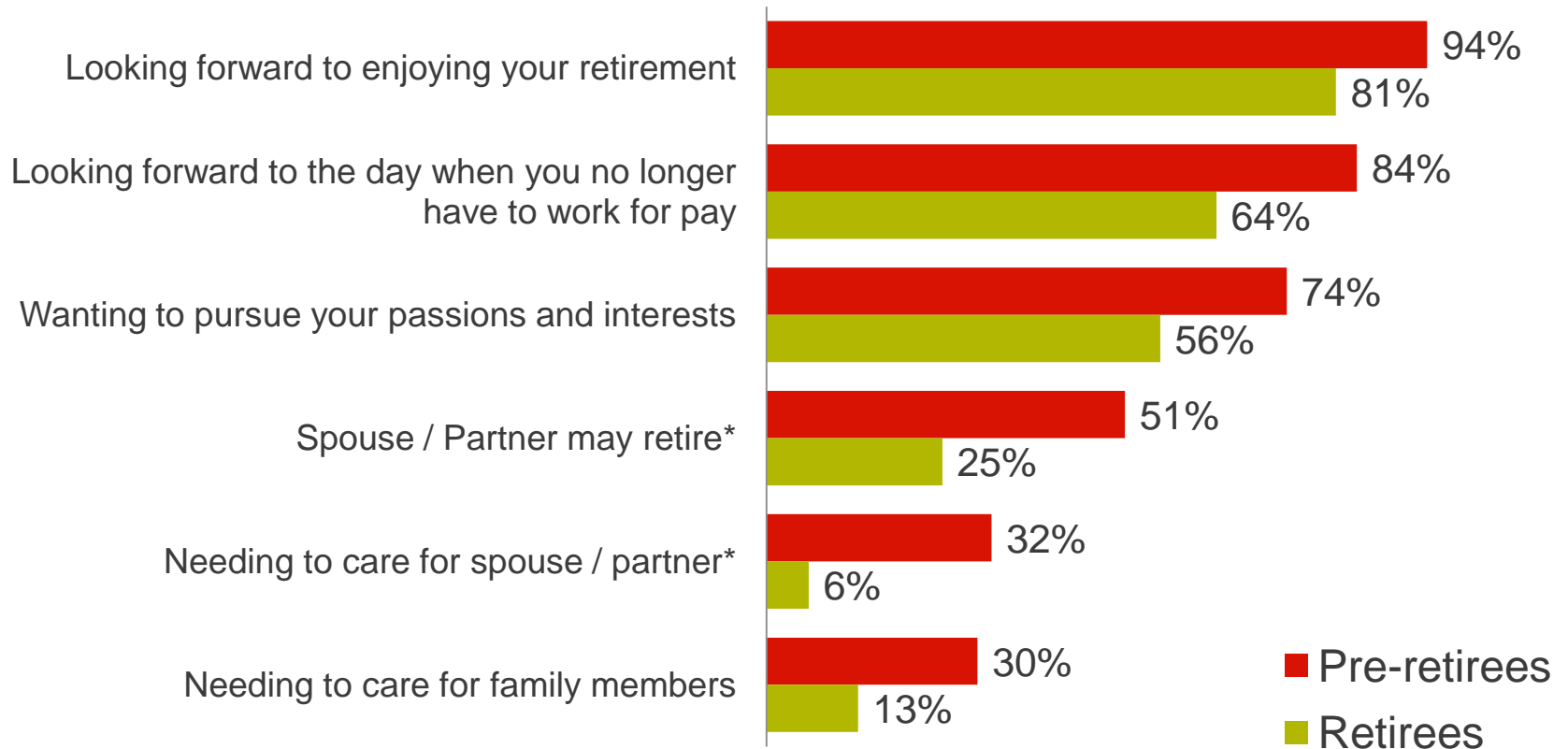
Percent Responding A Great Deal or Somewhat



Looking forward to not having to work identified as key retirement motivator

And how much do you think each of the following personal issues will affect (did affect) your decision to retire from your primary occupation? (*Employed full-time (or expects to be) before retirement, Pre-retirees n=761; Retirees n=823*)

Percent Responding A Great Deal or Somewhat

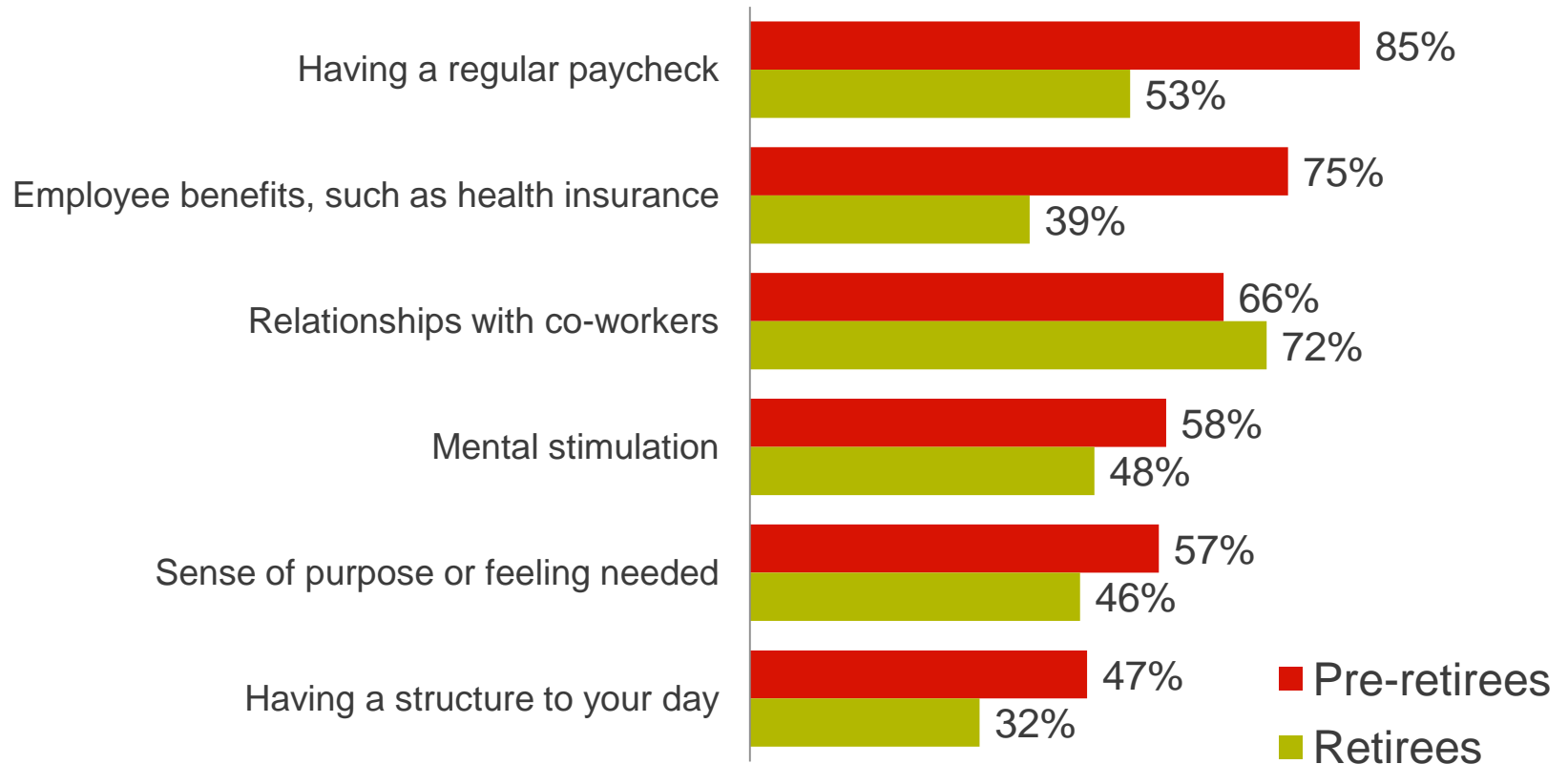


*Pre-retirees n=550; Retirees n=688

Retirees are more likely to miss relationships with co-workers than financial benefits

How much do you think you will (do you) miss the following aspects of your job? (*Employed full-time (or expects to be) before retirement, Pre-retirees n=761; Retirees n=823*)

Percent Responding A Great Deal or Somewhat



Many report feeling pushed out of work, more than pulled into retirement

- Many reasons for decision to stop working
 - Work became too physically difficult
 - Stress of work became too difficult
 - Felt unappreciated
 - Difficulty of “working for a 30 year old”
 - Travel became too hard
 - Needed to provide caregiving to family member
 - Lost job and decided not to apply for another job
- Many make the decision to retire with little discussion or consultation
 - Many just inform spouse, who typically knew of the difficulty of working
 - Spouse never discouraged retirement

Observations of the Researchers

- Many who retire can work longer
- Decision to retire is often made by considering the difficulty of working and the current ability to afford to pay monthly bills
- Little or no consideration of long-term impact of inflation
- Little or no consideration of financial impact of “unpredictables”
- Little effective risk management
- Scenario planning: impact on financial security of working additional months and delaying claiming of Social Security would be useful

Observations of Project Oversight Group

- Retirement described as voluntary is often not so
 - Many people pushed, have health challenges or find work difficult
 - Within constrained group, few seemed to be pursuing dream
 - But retirees were largely satisfied, accepting of situation
- Women much less confident, more likely to be heavily influenced by caregiving responsibility
- Two common happenings: found also in the past
 - Retiring much earlier than planned
 - More expect to work during retirement than actually do

Differences by Gender

SY Differences by Gender

- Both female pre-retirees *and* retirees (vs. male counterparts)
 - More likely to say that caregiving will affect (did affect) decision to retire
 - More likely to spend at least an hour a week in retirement providing caregiving for:
 - ◆ Spouse/partner
 - ◆ Children or grandchildren
 - ◆ Other relatives
 - ◆ Others not related to them
 - More likely to plan to grow financial assets in retirement by saving more or not withdrawing earnings
 - More likely to already be cutting back on spending to protect themselves financially

SY Differences by Gender

- Female pre-retirees (vs. male counterparts)
 - More likely to think they will miss multiple aspects of their job (a sense of purpose/feeling needed, mental stimulation, having structure in the day, and a regular paycheck)
 - More likely to be concerned about current/future finances and the potential for specific financial problems (e.g., depleting one's savings or not having enough money for adequate health care)

- Female retirees (vs. male counterparts)
 - More likely to have considered and planned for changes in their mental and physical abilities
 - More likely to turn to services provided through a senior housing community or paid help purchased independently for assistance and support

Differences by Gender

- Females more likely than males to:
 - Be concerned about financial security in retirement
 - Feel vulnerable
 - Be planning oriented
 - Listen to financial advisor
 - Be concerned about running out of assets
 - Be concerned about being a burden on children
 - Be concerned about needing long-term care
 - Be family oriented
 - Be a caregiver
 - Retire in response to family needs

Observations of the Researchers

- To be effective, communications about financial challenges in retirement must recognize significant differences in concerns, confidence, definition of family responsibilities and expectations of men and women
- Men are more likely to be overconfident and not analytic enough
- Women are more planning-oriented but some can be limited by anxiety about future
- Family-oriented gender roles persist: women much more likely to be caregivers and to leave work to be a caregiver

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

Managing Risks

Managing Risks

- Gaps in financial literacy offer context for results
- Middle market focus means many have low financial assets
- Work builds on prior studies, same types of issues studied
- Focus on:
 - Biggest concerns and how concerned people are
 - How they manage/what strategies they use

Managing Risks

- Consistent with past research:
 - Pre-retirees are more likely than retirees to say they are concerned about most of the retirement risks in the survey
 - Inflation, health care, and long-term care continue to head the list of retirement risks that retirees and pre-retirees are concerned about
 - The median life expectancy reported by retirees and pre-retirees matches fairly closely to the median life expectancy from actuarial tables. However, sizeable minorities say they don't know, and few are prepared for the financial consequences of outliving median life expectancy.
 - The three primary risk management strategies used by both pre-retirees and retirees are eliminating debt, saving as much as possible, and reducing spending
 - Only a minority use insurance products other than health insurance to help manage risks

Managing Risks

My main financial concern is I am really concerned about all of our health care.

Female, Chattanooga

My main concern is the expenses I have no control over. In the past year, my long-term care insurance, my taxes, my homeowners have all gone up. I can't do anything about that.

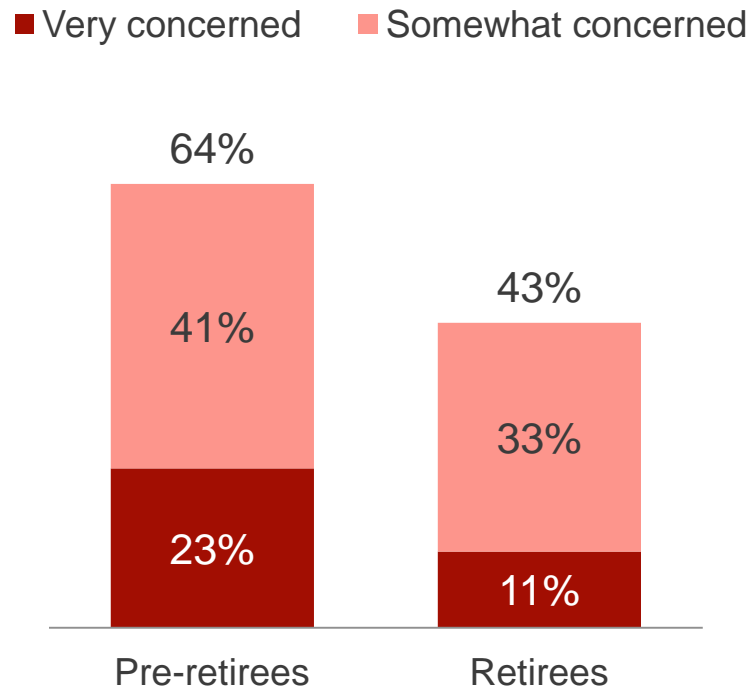
Male, Chicago

Be aware. You can't think the same way today as you did even five years ago or ten years ago. Things are different. You're going to live longer, so your money has to last longer. Generally speaking, most people are going to live longer now.

Female, Chicago

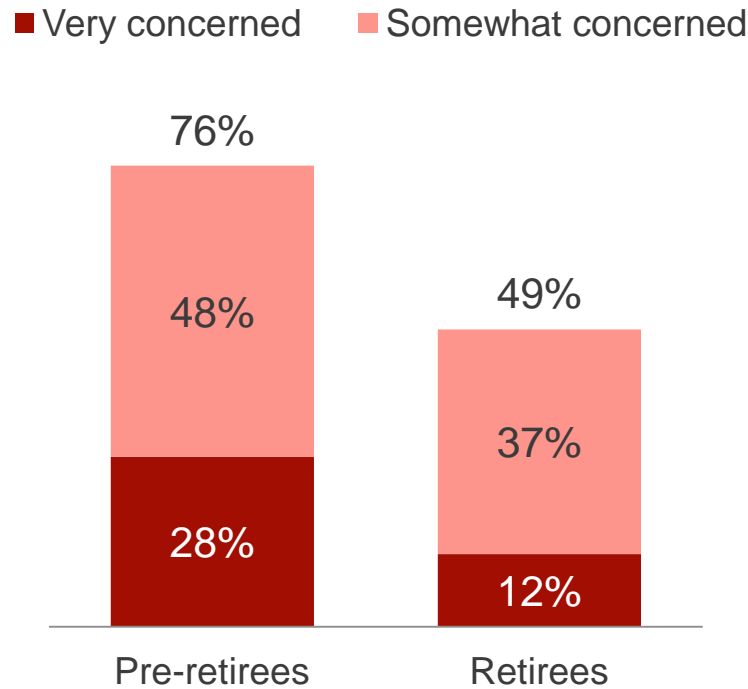
Two in three pre-retirees have some concern about finances in five years after retirement

Overall, how concerned are you about your finances in the five years after retirement (your current finances)? (*Pre-retirees n=1,000; Retirees n=1,000*)



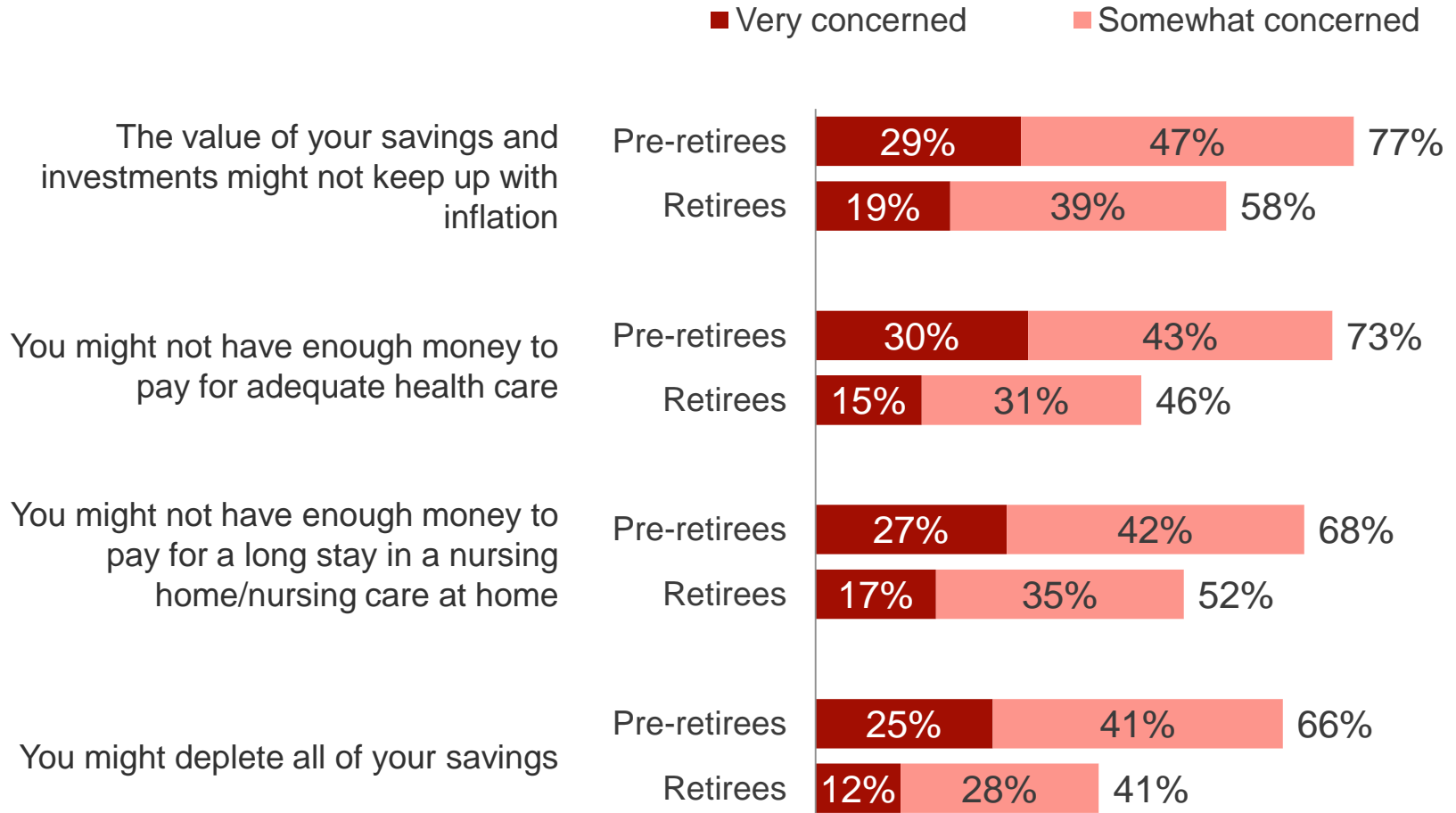
Three in four pre-retirees, but only half of retirees, concerned with long-term financial future

Overall, how concerned are you about your long-term financial future in retirement? (*Pre-retirees n=1,000; Retirees n=1,000*)



SY Inflation and health care key concerns

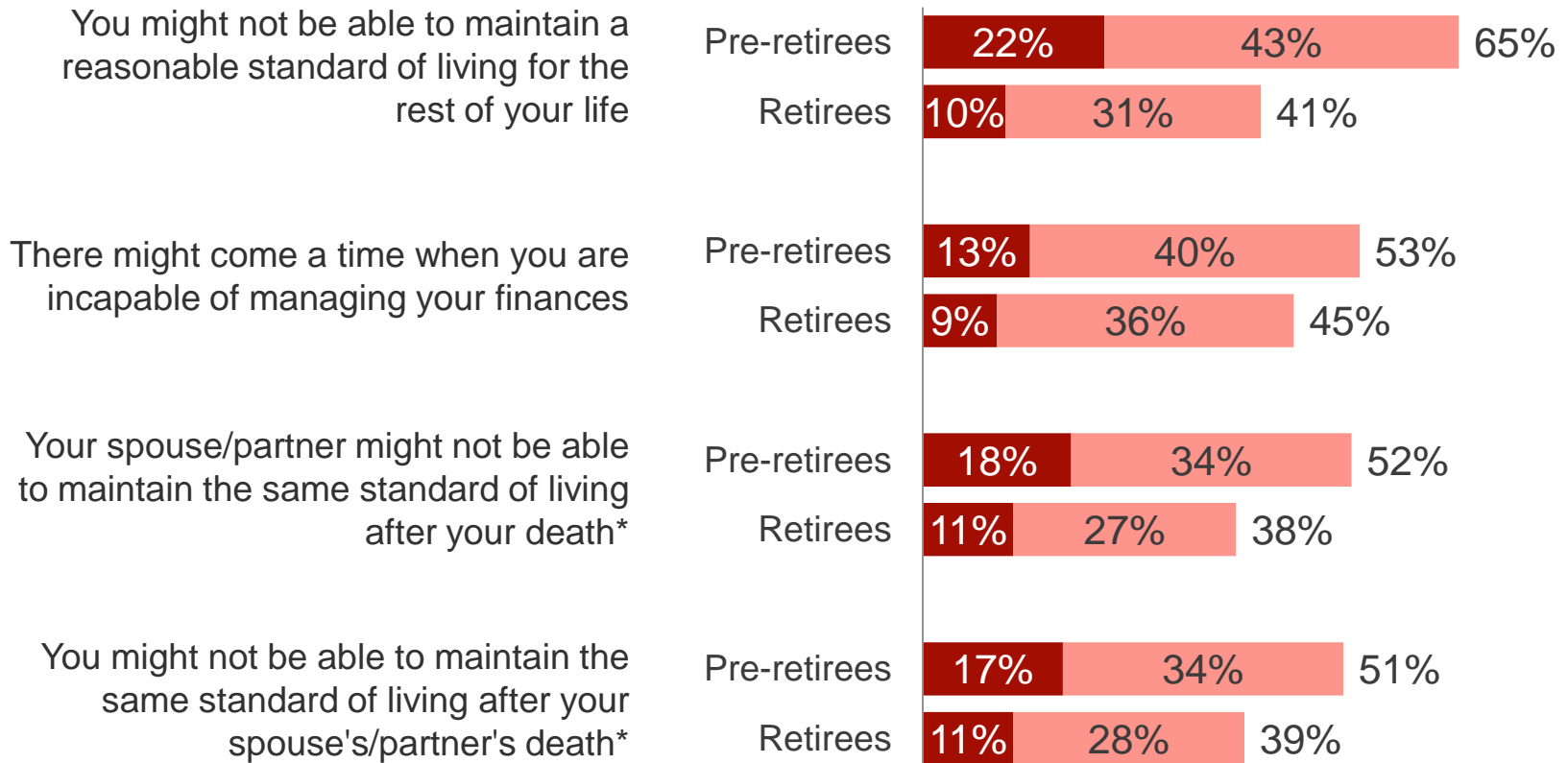
How concerned are you about each of the following (in retirement)? (*Pre-retirees n=1,000, Retirees n=1,000*)



Pre-retirees more concerned than retirees with maintaining standard of living

Issues of Concern, Cont.

■ Very concerned ■ Somewhat concerned



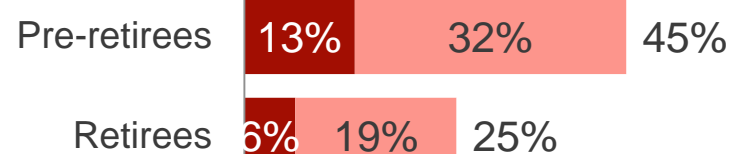
*Pre-retirees n=709; Retirees n=749

Little concern with leaving money to children

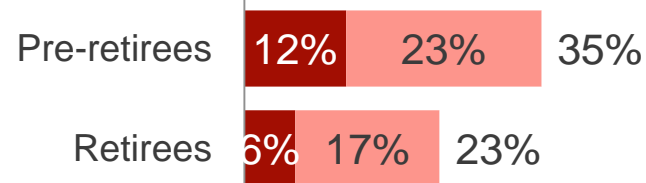
Issues of Concern, Cont.

■ Very concerned ■ Somewhat concerned

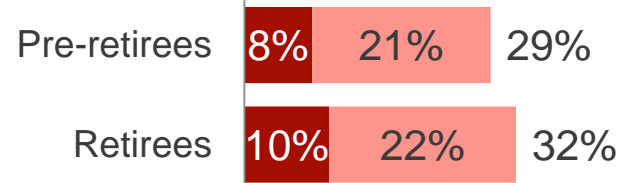
The equity you have in your home may not be sufficient to support your retirement plans*



You might not be able to leave money to your children or other heirs



You might be a victim of a fraud or scam



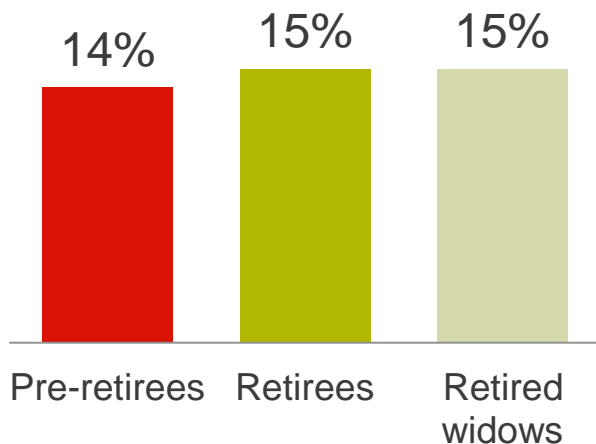
*Pre-retirees n=810; Retirees n=888

About one in seven have used assets for caregiving

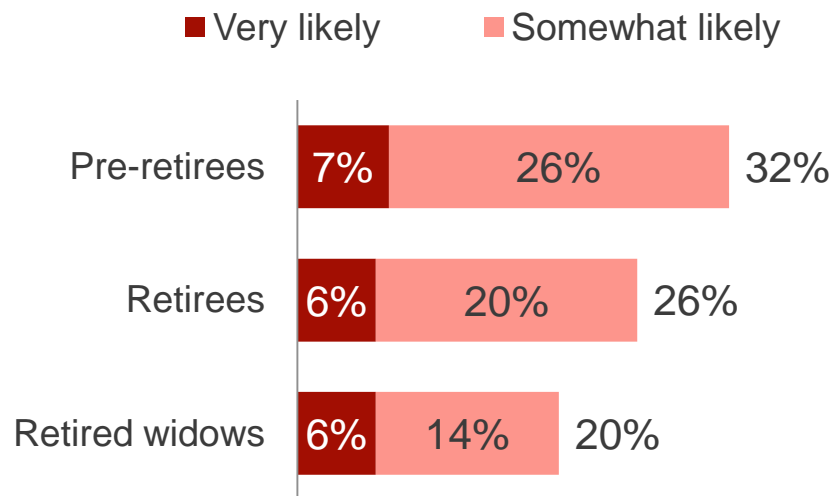
Have you used any of your household assets to help pay for caregiving for a relative or friend (other than your spouse/partner)? (Pre-retirees n=1,000; Retirees n=1,000; Retired widows n=271)

In the future, how likely do you think you will be to use your household assets to help pay for caregiving for a relative or friend (other than your spouse/partner)? (Pre-retirees n=1,000; Retirees n=1,000; Retired widows n=271)

Have used HH assets for caregiving

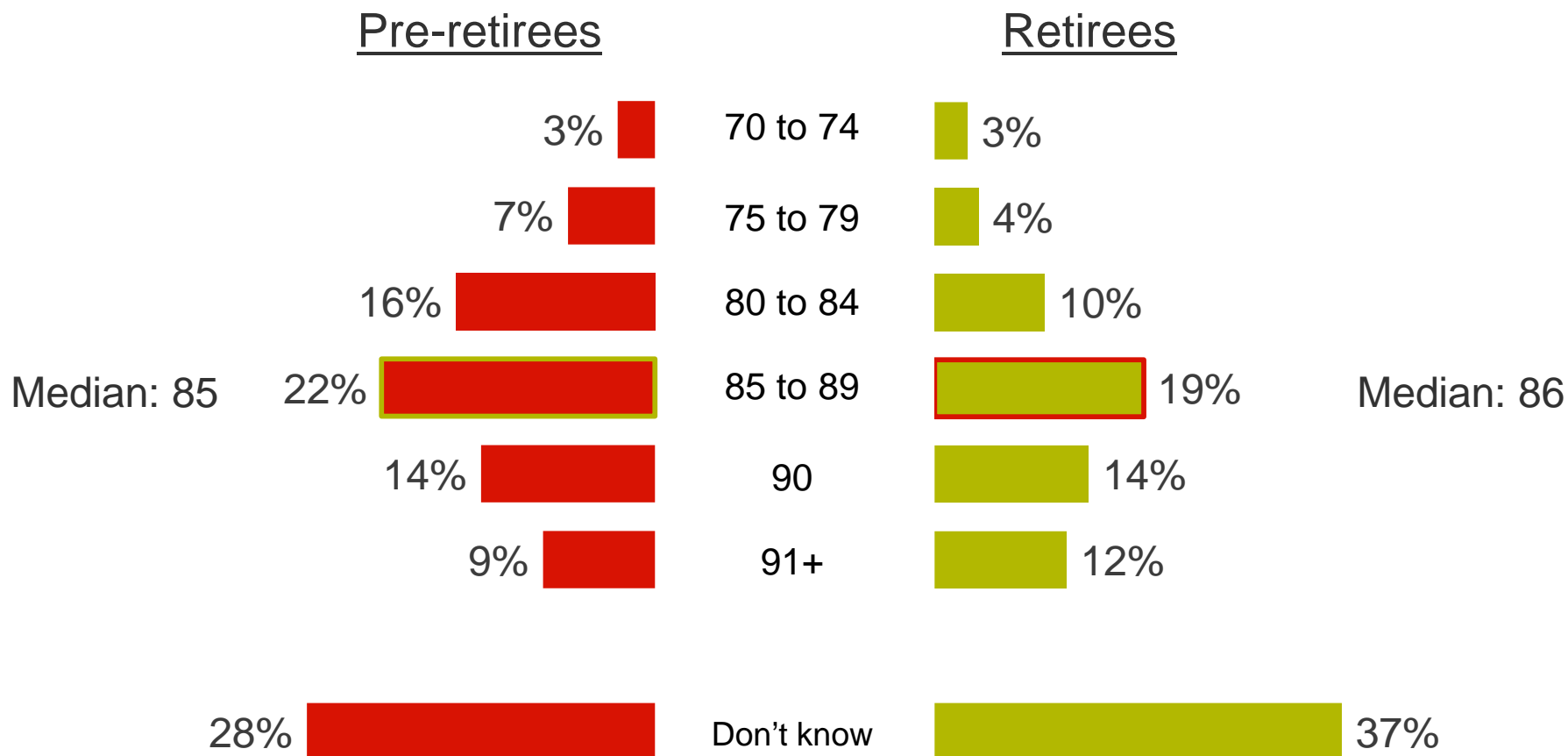


Likelihood to use HH assets for caregiving in future



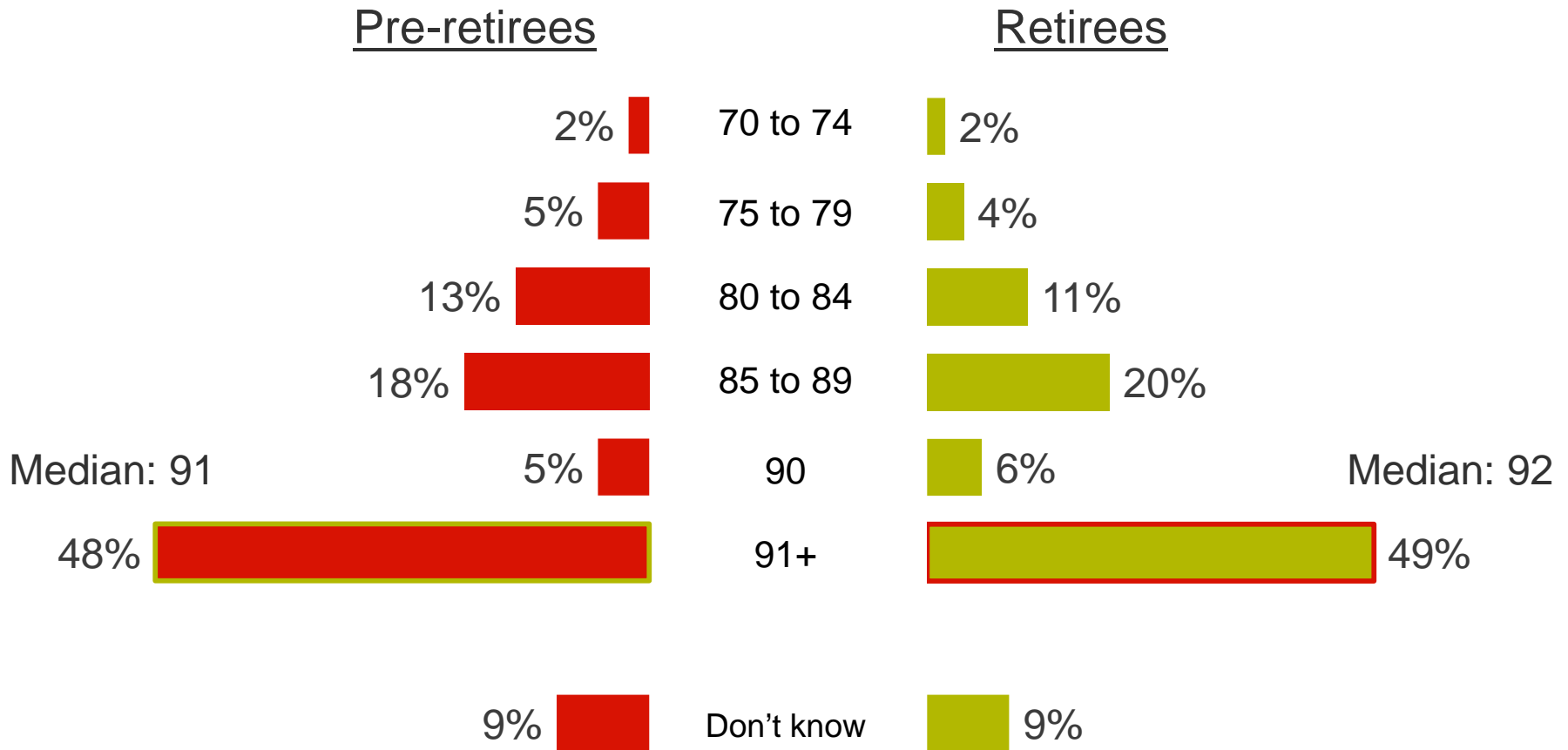
Median prediction of age at death is 85 for pre-retirees and 86 for retirees

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*)



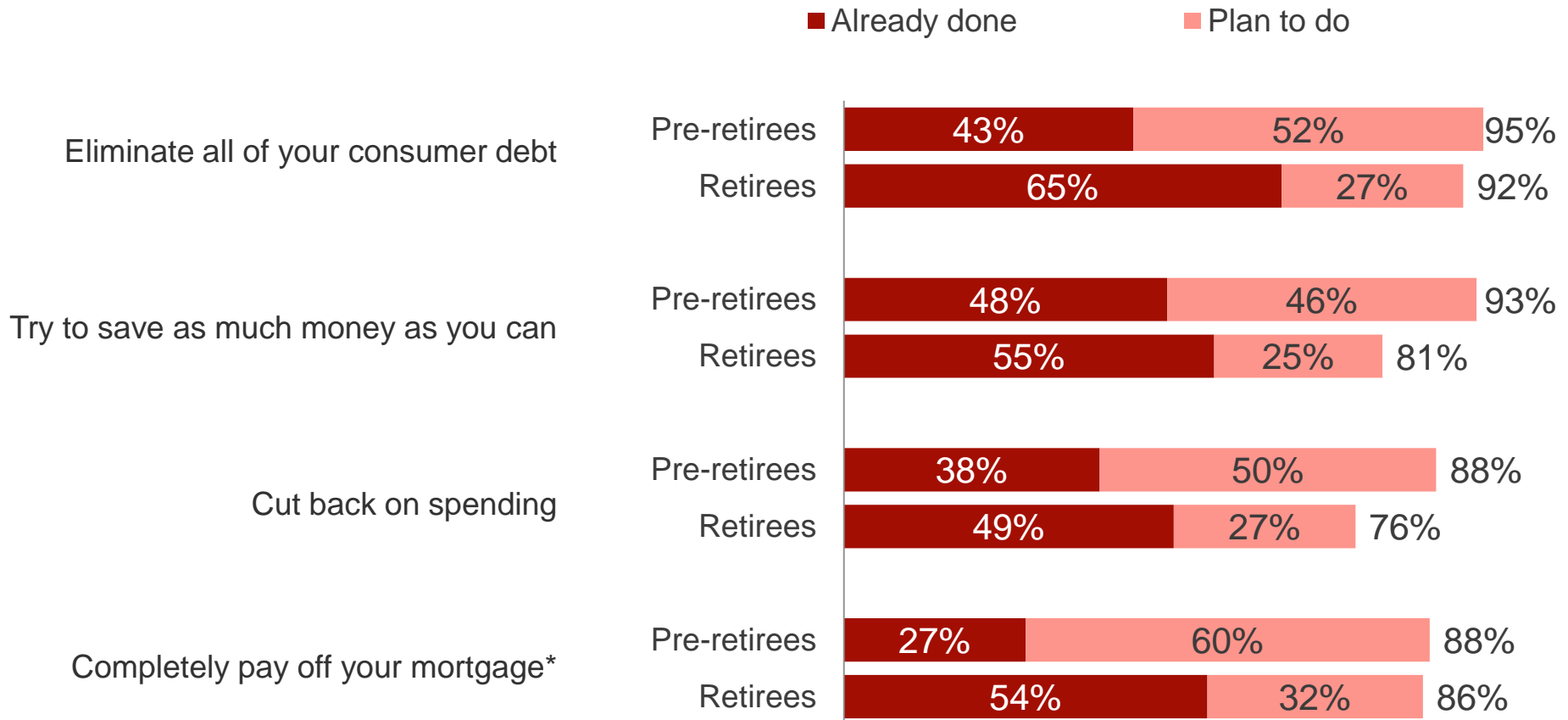
Half know someone in their family who lived to age 91 or older

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)*



Top risk management strategies show focus on paying off debt & mortgage, saving money, and cutting spending

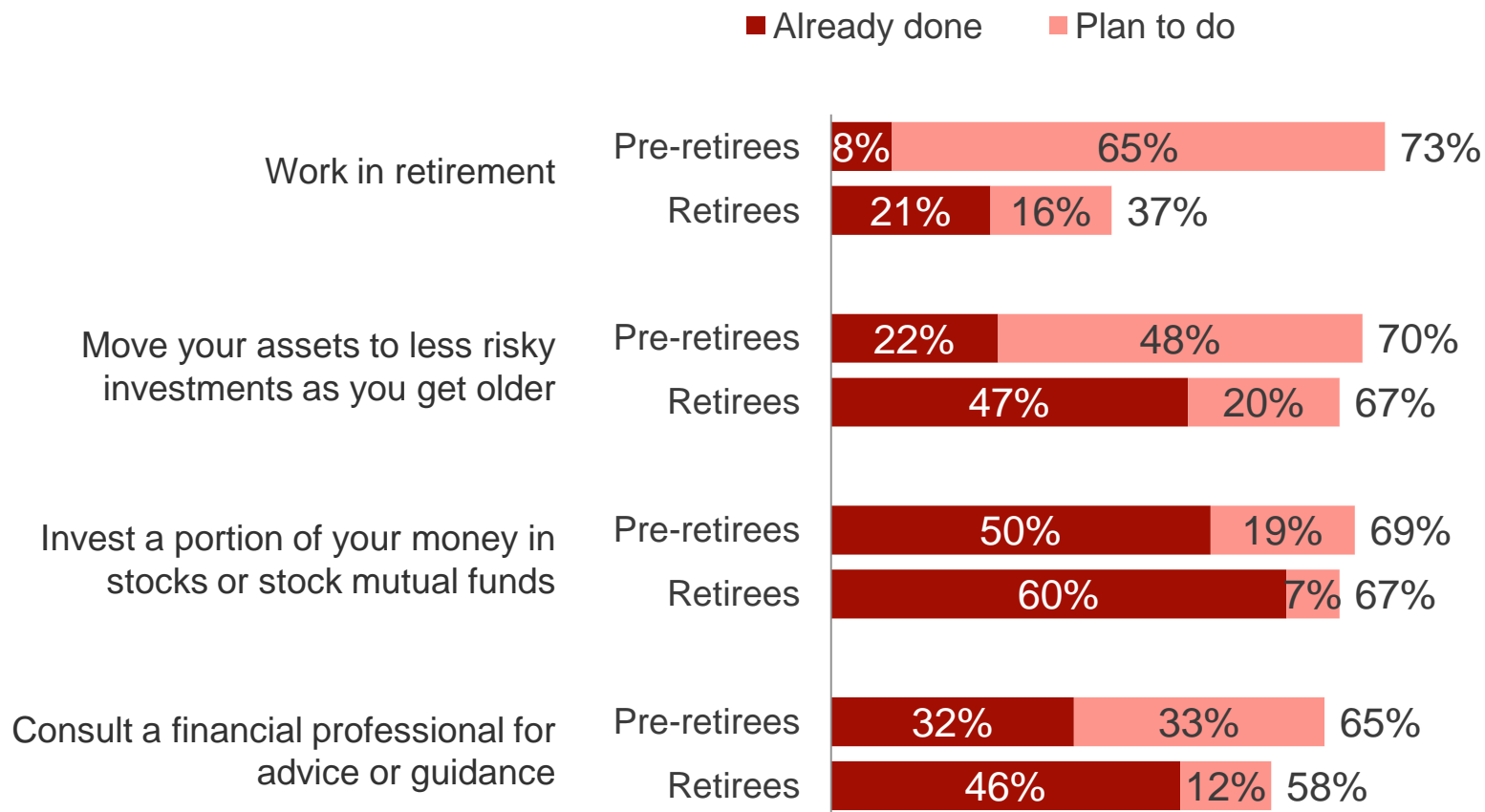
Below is a list of things that some people do to protect themselves financially after they retire (as they get older). For each, please indicate whether you (and your spouse/partner) have done that, plan to do that in the future, or have no plans to do that. (Pre-retirees n=1,000; Retirees n=1,000)



*Pre-retirees n=810; Retirees n=888

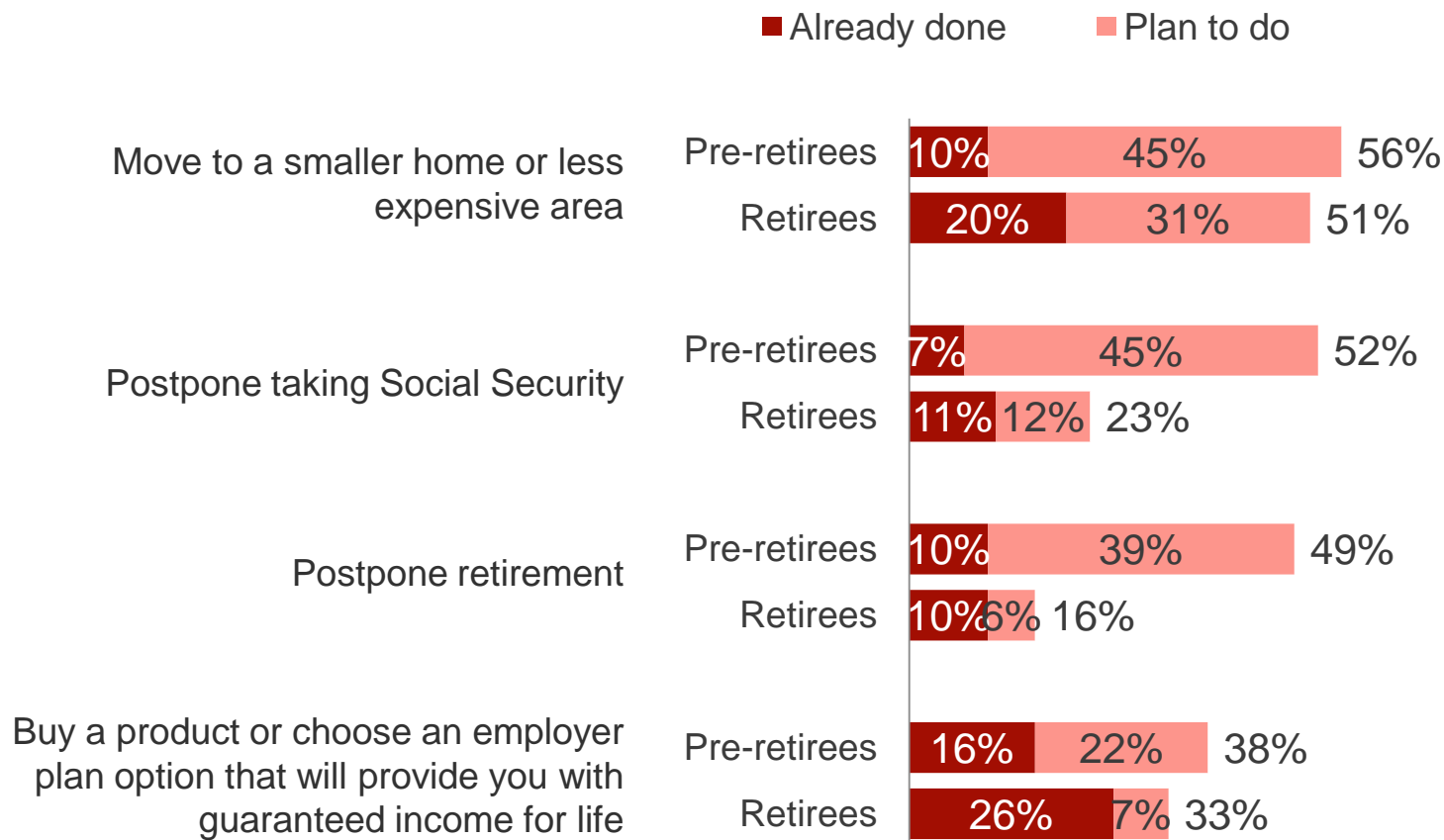
Three in four pre-retirees plan to work after retirement, twice the proportion of retirees who have done so

Risk Management Strategies, Cont.



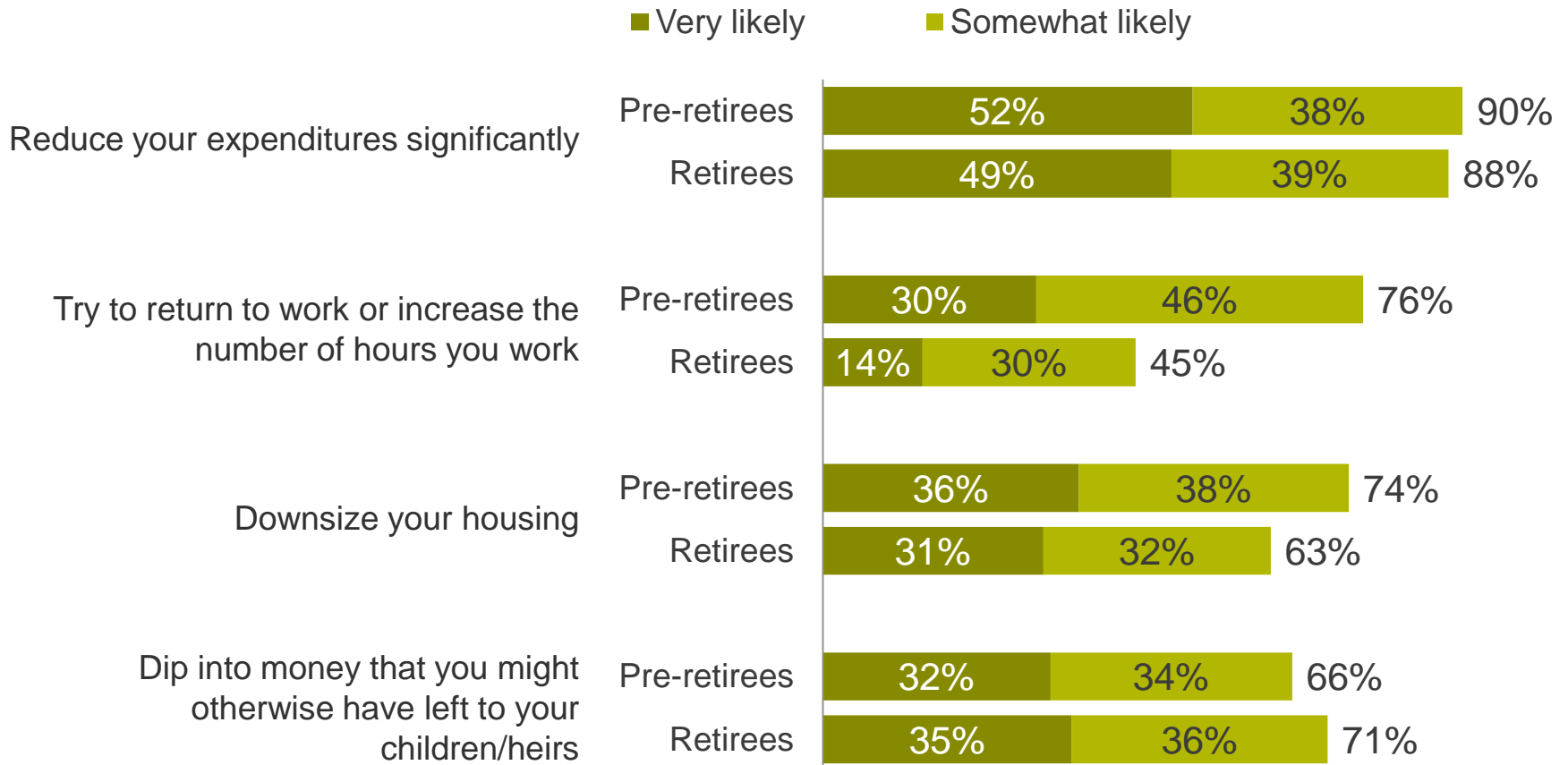
Many more pre-retirees plan to postpone retirement or take Social Security than retirees actually do

Risk Management Strategies, Cont.



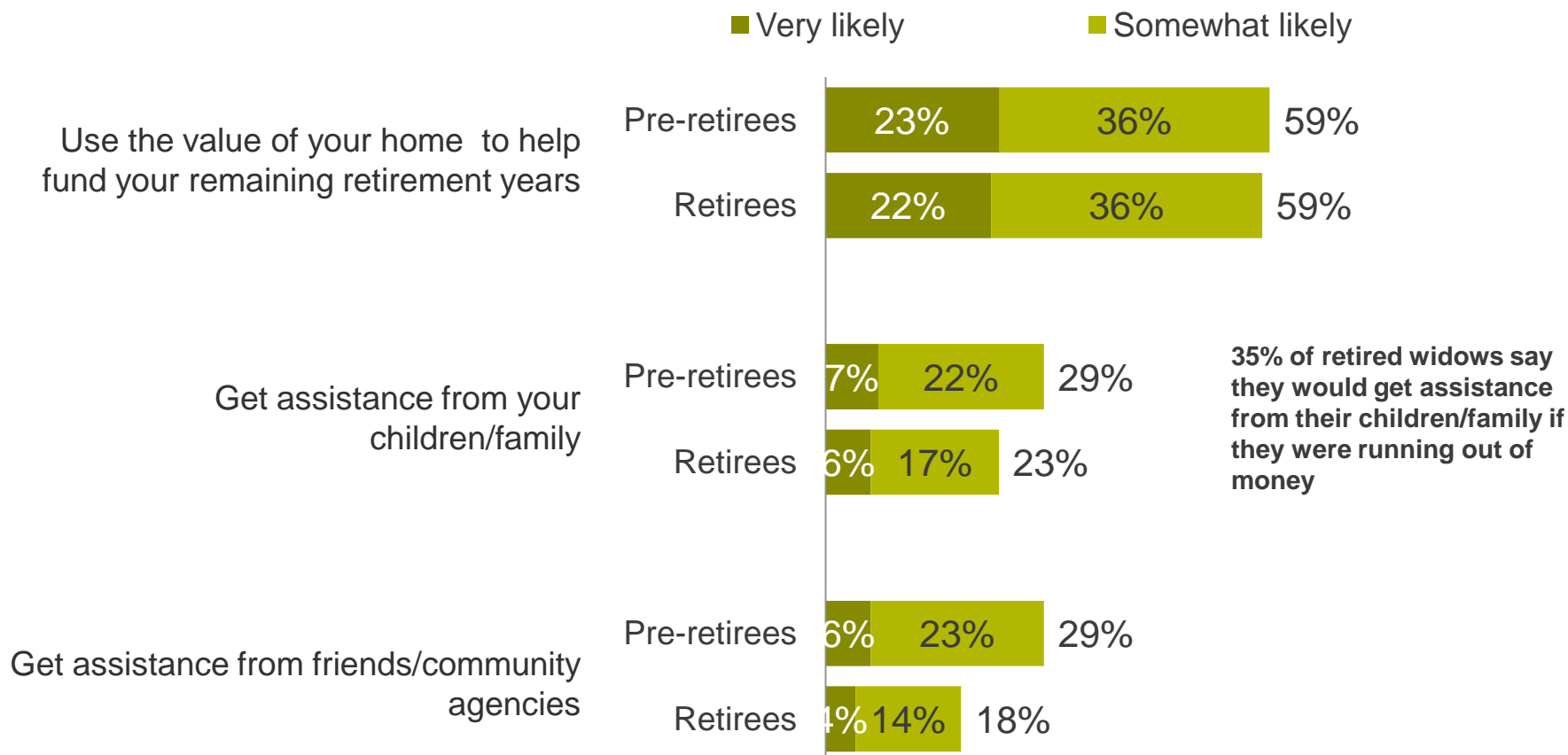
Main financial planning tool is controlling expenditures

If you (and your spouse) were running out of money in retirement due to unforeseen circumstances, how likely do you think you would be to do each of the following? (*Pre-retirees n=1,000; Retirees n=1,000*)



Few pre-retirees or retirees say they would get assistance from others if they were running out of money

Emergency Sources of Money in Retirement, Cont.



Retirees feel it is not useful to assess or plan for risks: better to adjust and adapt

- High concern with several risks that retirees face:
 - Health care costs
 - Needing long-term care
 - Inflation
 - Outliving financial resources
- Little ability to assess the likelihood of risks occurring and little interest in using insurance mechanisms
- Viewpoint those with high and low life expectancy should plan the same: *“Anything can happen”*
- Consider best approach to be adjusting and adapting as events occur

Observations of the Researchers

- There is high awareness of the risks that people face in retirement
 - Interestingly, there is highest financial concern with health care risk, even though insurance protection is highest in that area
- There are low levels of interest in use of insurance mechanisms to protect against the risk, including delaying Social Security claiming to protect against longevity risk and protect lower earning spouse against longevity risk
- Most frequent risk protection strategies are spending control and “wait and respond”
- Rejection of dependence upon children: “I do not want to be a burden on the kids”
- Caregivers do not want to be care recipients
- Those with long life expectancy in family should not plan differently than those with shorter life expectancy: *“anything can happen”*

Observations of Project Oversight Group

- Pre-retirees continue to be more concerned
- General consistency in major themes over time and with Canada
- Focus groups offer insights: risk management is not attainable and often not attempted much – response is to try to hold on to assets
- Long-term care: potential disaster for many but public programs offer last resort
- Results generally consistent with other work

Phases of Retirement: Changing Needs During Retirement

Phases of Retirement: Changing Needs During Retirement

- What changes during retirement
 - Health status, work, sources of income, widowhood
 - Prior short report: 2005
- Phases work builds on prior work, fills in new information
- Previously knew:
 - Many people underestimate impact of widowhood
 - Planning horizons tend to be short
 - Some but not too much planning for change
- New insights on:
 - Housing and where to live big issues
 - Expectations regarding changes in ability to manage money
 - Planning for widowhood

Phases of Retirement: Changing Needs During Retirement

We're staying now. We may move in the future, but right now we like where we're at.

Male, Chicago

For me, how tired I got at doing the things that I thought I would really spend a lot of time doing. I thought would be still enjoying it at the same level that I did when I first retired.

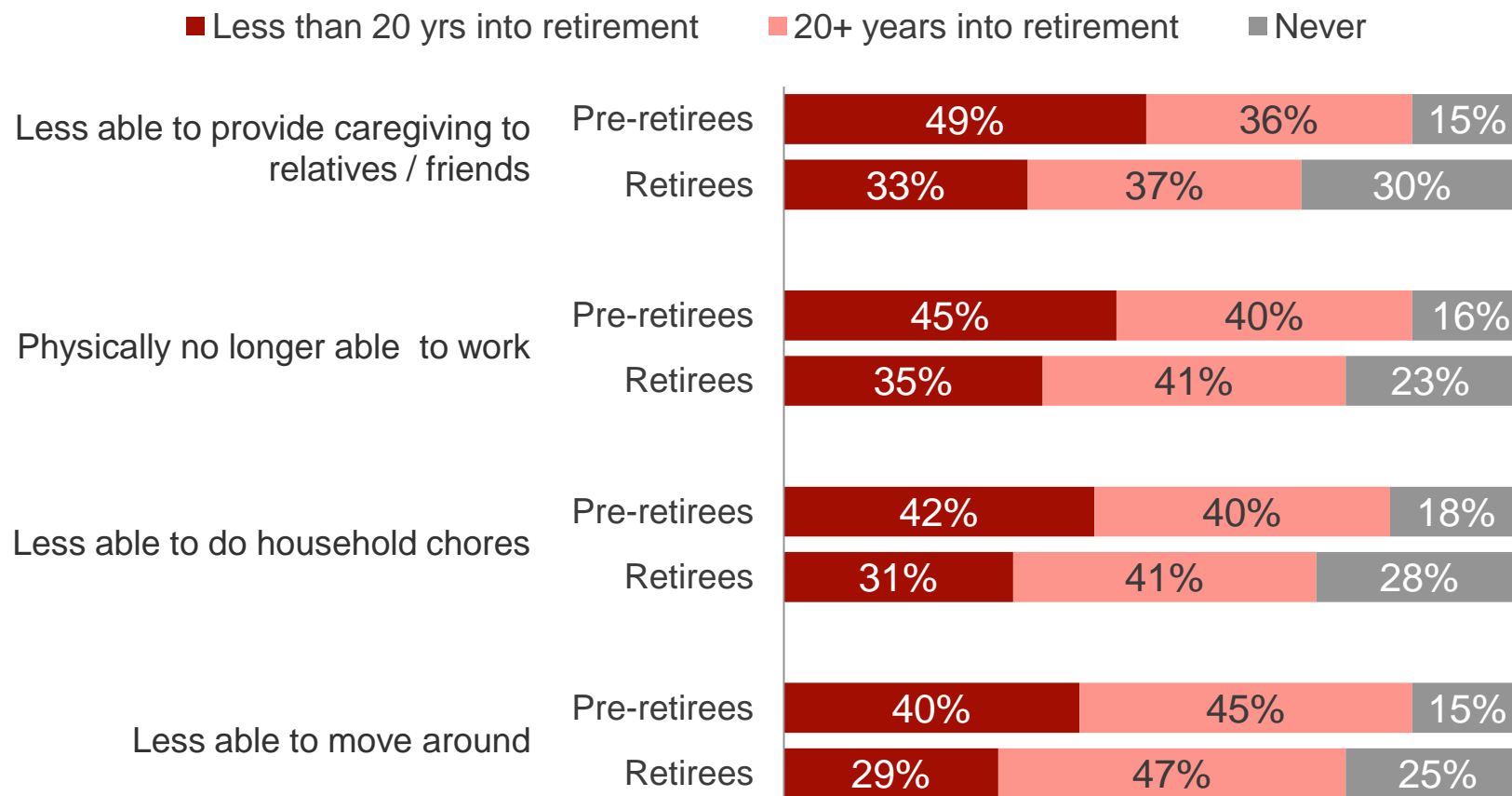
Male, Phoenix

I'm in a relationship, and I thought I was downsizing. But being with him, he's looking at a retirement property. Things I haven't thought about, because I've been alone for four years.

Female, Phoenix

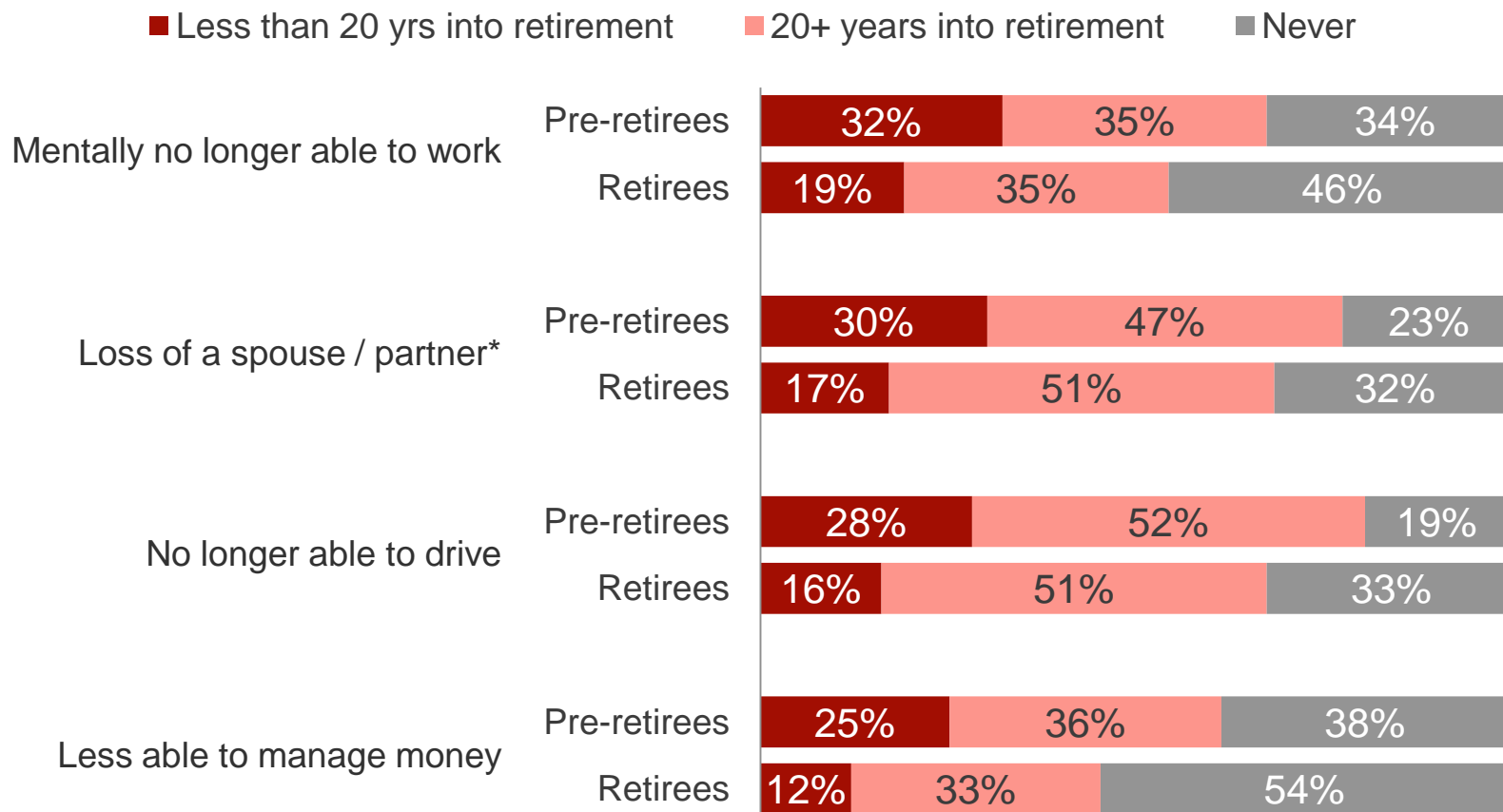
A quarter of retirees expect to never be physically unable to work or less able to move around

People's abilities and needs often change over the course of their retirement. When do you think you, yourself, will begin to experience the following changes, if ever? (*Pre-retirees n=1,000; Retirees n=1,000*)



Over half of retirees and two in five pre-retirees expect they will never lose the ability to manage their money

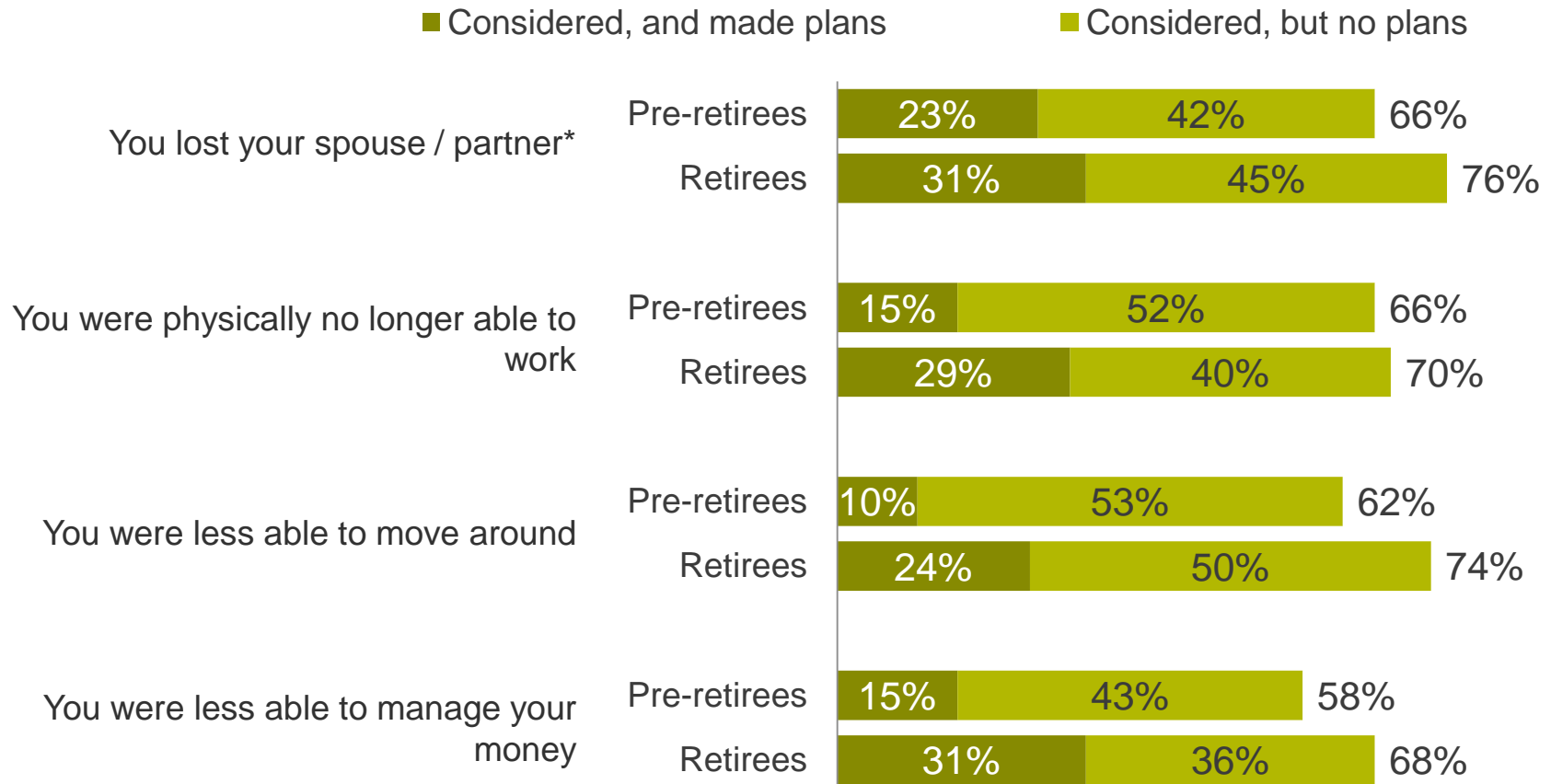
Changing Abilities Over Time, Cont.



*Pre-retirees n=709; Retirees n=749

Only one in four pre-retirees in relationships made plans to cope with loss of spouse/partner

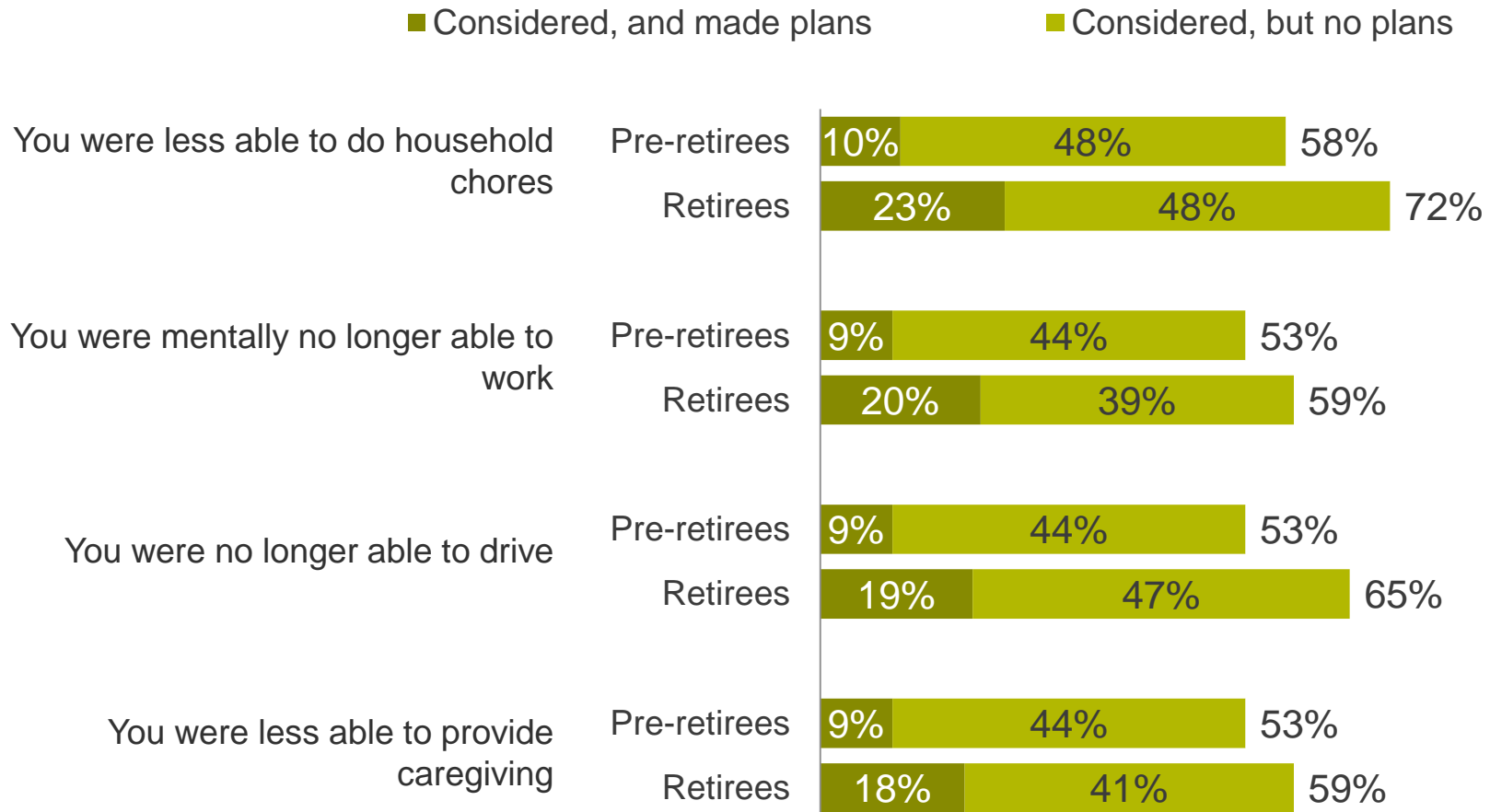
Have you considered and planned for how you (and your spouse/partner) would respond if the following changes were to occur (in retirement)? (*Pre-retirees n=1,000; Retirees n=1,000*)



*Pre-retirees n=709; Retirees n=749

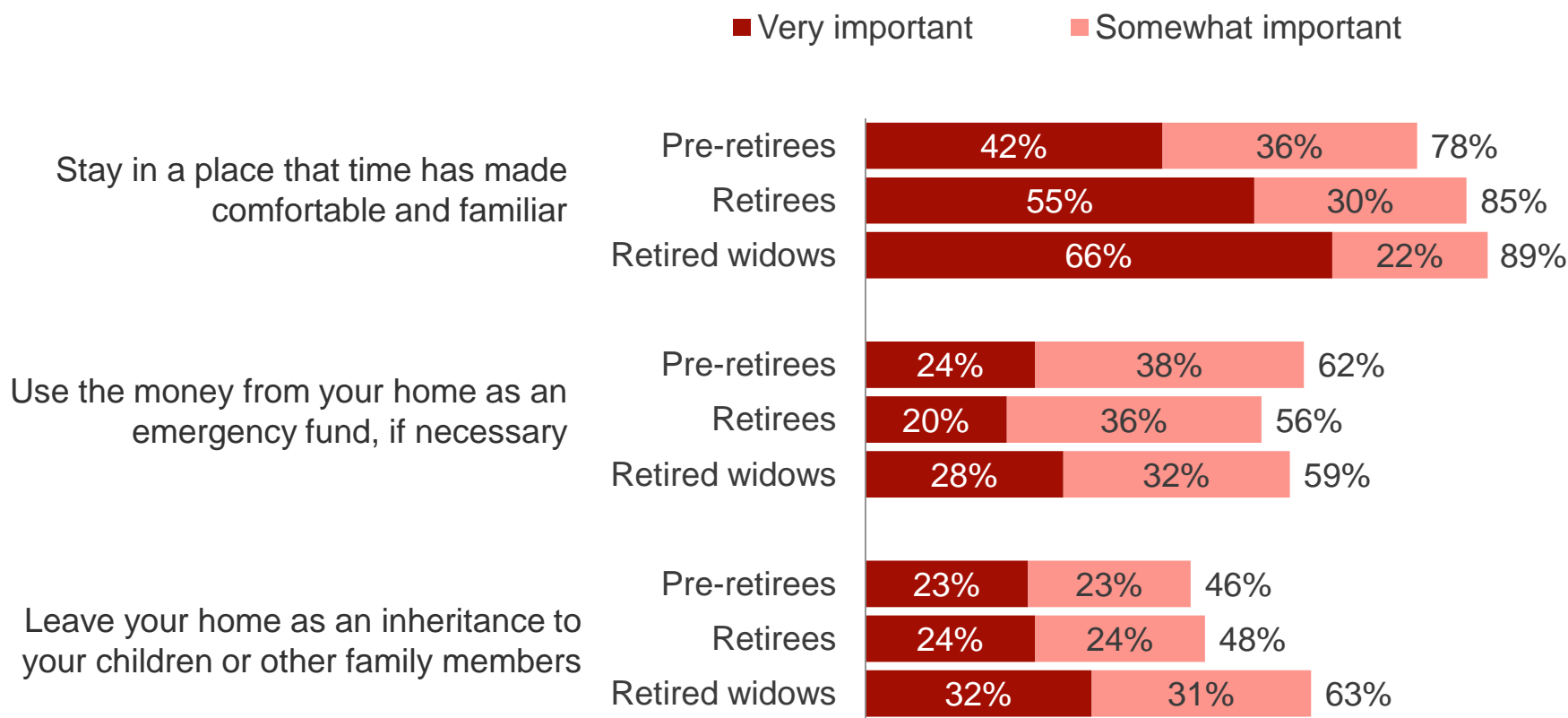
A majority have considered how they would respond to major life changes, but too few have made specific plans

Planning for Changes in Retirement, Cont.



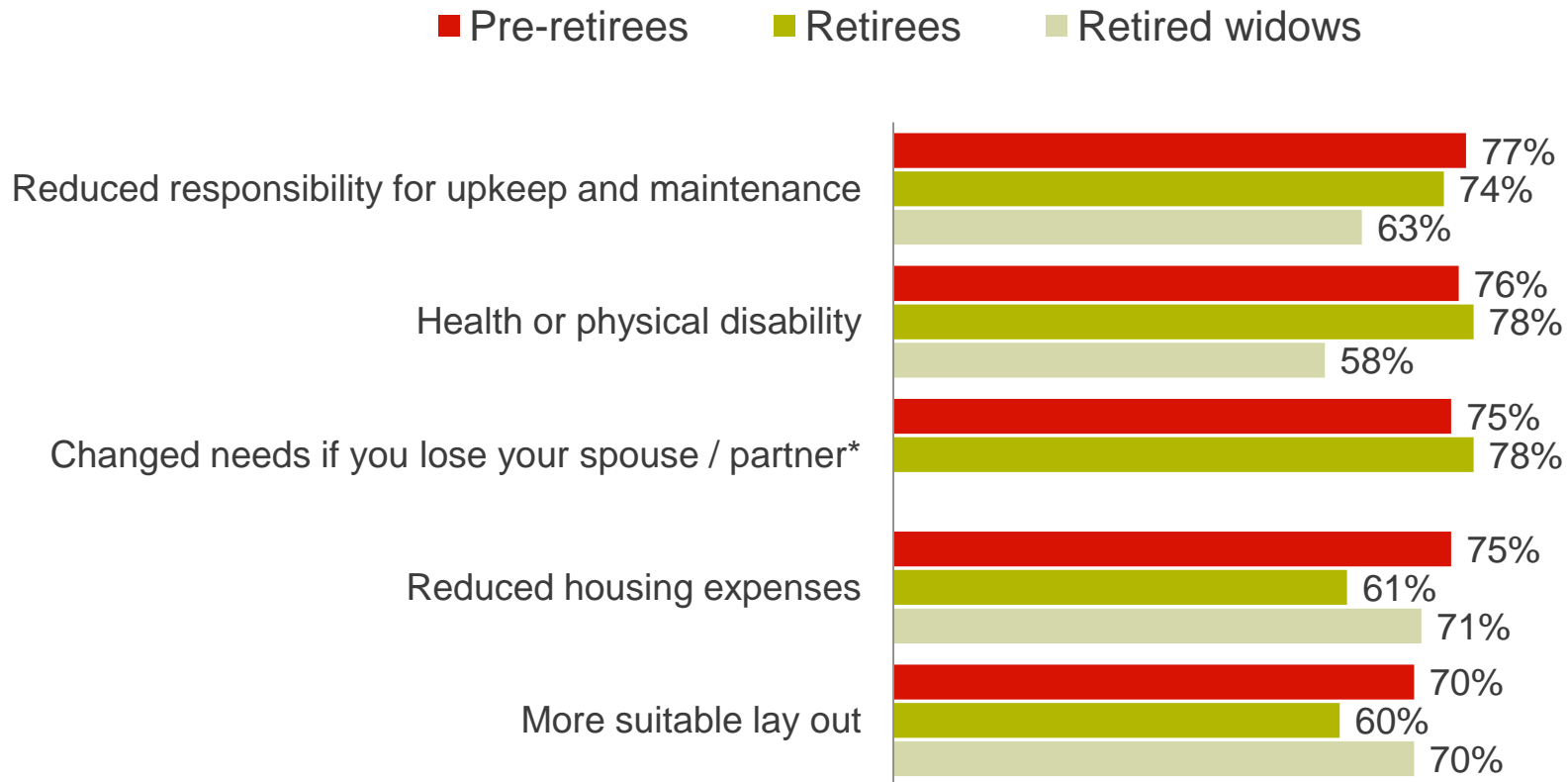
Strong majority wish to stay in primary home

How important is it for you (and your spouse) to keep your current primary home so that you can... (Owns home, Pre-retirees n=810; Retirees n=888; Retired widows n=218)



Reduced responsibility to maintain home a likely reason for people to leave

Which of the following do you think might be reasons why you eventually leave your current home? (Pre-retirees n=1,000; Retirees n=1,000; Retired widows n=271) (Major or minor reasons shown)

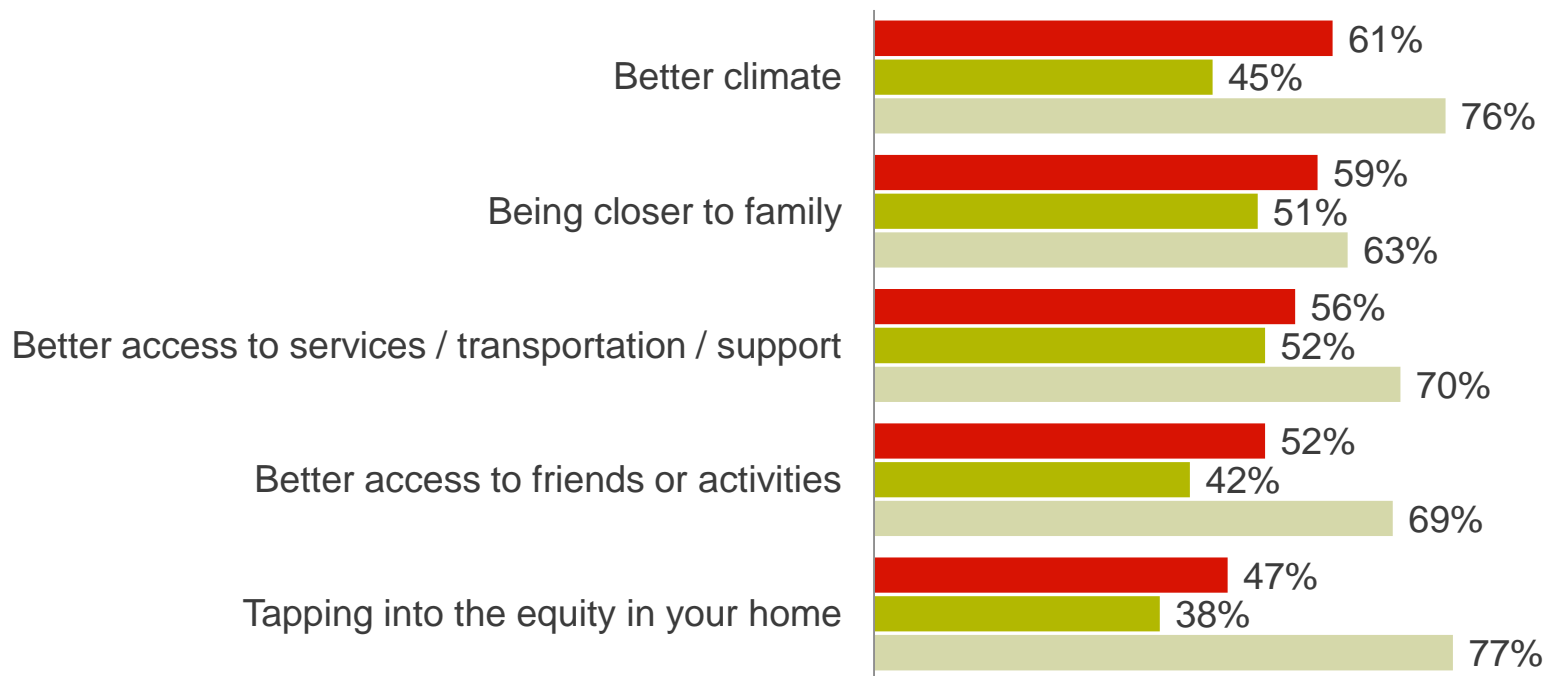


*Pre-retirees n=709; Retirees n=749

Climate, being closer to family or better access to friends and services less compelling

Reasons for Leaving Current Home, Cont.

■ Pre-retirees ■ Retirees ■ Retired widows



Focus group participants seek to maintain asset levels throughout retirement

- Effort to live on interest, dividends and capital gains, as well as Social Security and pension income
- Rejection of idea of systematic spend down
- Most believe that exposure to equities should be reduced as people age
- Concern about financial costs at end of life, especially health care
- Inflation often causes financial pressure, although there is some “substitution” behavior
- Effort to remain in house and not use equity in home
- Rejection of reverse mortgage concept

Observations of the Researchers

- Focus group participants do not conceptualize retirement as having *distinct* phases
- Retirees hope for continuity and adjust to change
 - Spending maintained as long as possible, although inflation can lead to reductions
 - Activities maintained as long as possible, although many notice decreased physical ability
- Strong desire to stay in primary home
- No expectation, or planning for, loss of cognitive abilities
- Little or no planning for the financial consequences of natural aging process

Observations of Project Oversight Group

- Key to remember that a lot changes during retirement
 - Mix of gradual change and shocks
- Concern: How do we get people to plan for change and shocks
- Lot of opportunity to improve planning process
 - But many people don't have money for risk protection
- Preserving assets/house are fall back plan
 - But many people will need to move or use money
- Issues regarding widowhood
 - Big opportunity for more planning; many people are poorly prepared

Planning for Retirement / Financial Planning

Planning for Retirement/Financial Planning

- Focus groups provided insights to thinking
- For many, short-term cash flow is main focus
- Prior SOA work focused on software, advisors who serve middle market
- Consistent with past research:
 - Planning horizon for both retirees and pre-retirees continues to be only about 10 years, with roughly 1 in 10 saying they don't plan ahead and about 3 in 10 saying they haven't thought about it
 - Retirees are more likely than pre-retirees to regularly consult a financial advisor, but about one-half never work with an advisor
- New focus: What types of expenses can we plan for?
- Major concern previously identified: what type of help middle market gets, how to get more, and from whom
 - Need some new models
 - Employer possible avenue to help

Planning for Retirement/Financial Planning

Things change. [A financial plan is] only as good as long as it lasts.

Male, Chicago

Another thing is, I control my own finances, and if I see something has gone up, I will cut down somewhere else. I don't worry about it. I just live one day at a time, be happy and go on.

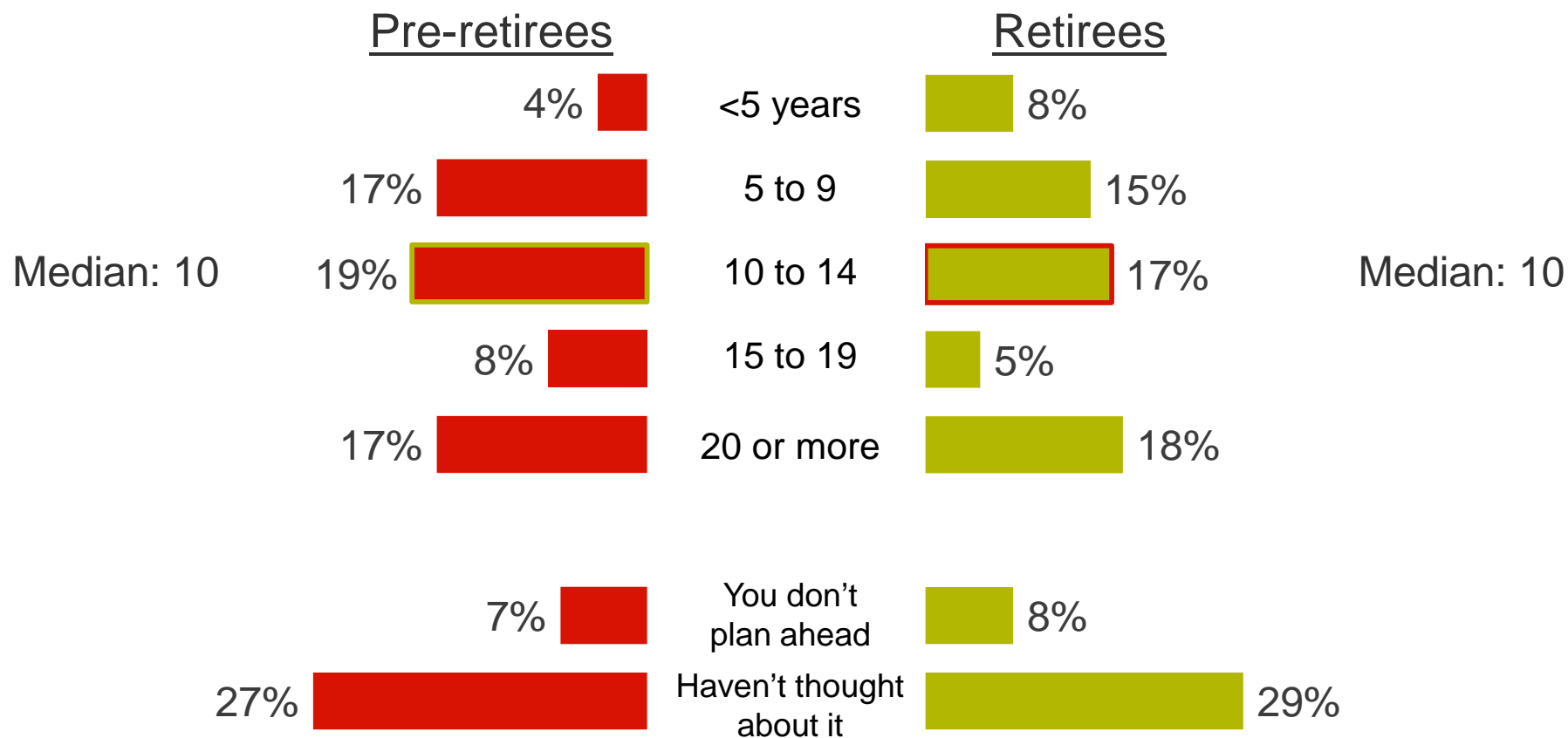
Female, Chattanooga

You never know, really, when enough is enough. You don't. You can consult or you can talk to people and advisors or whatever, but that's just opinions.

Male, Chicago

Three in ten have not thought about how far to look ahead in planning finances

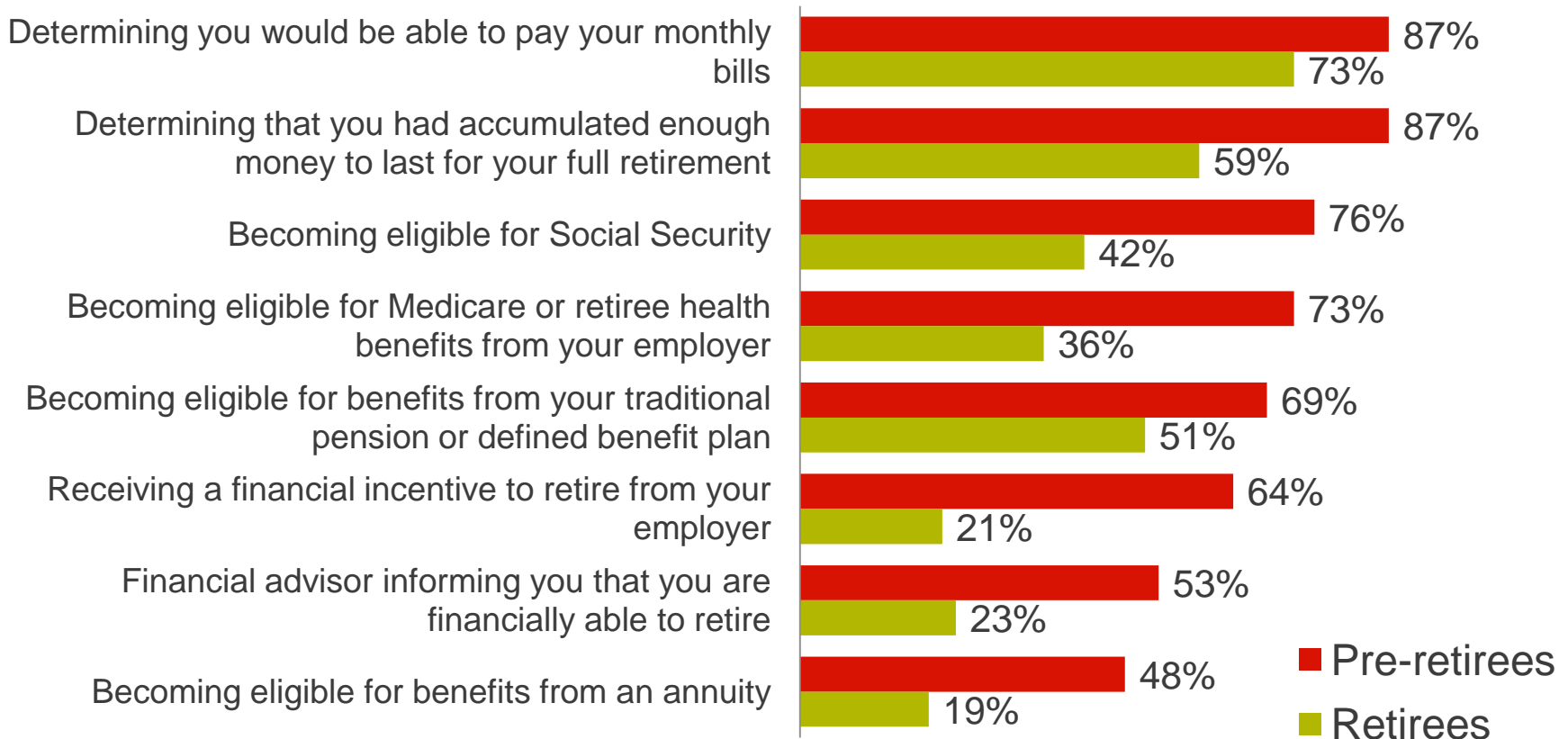
When you (and your spouse/partner) make important financial decisions, such as when you think about whether you can afford to retire (your retirement finances) or to purchase a new home (or a large purchase), about how many years do you look into the future? (*Pre-retirees n=1,000; Retirees n=1,000*)



Most common financial reason for retiring is determination of ability to pay monthly bills

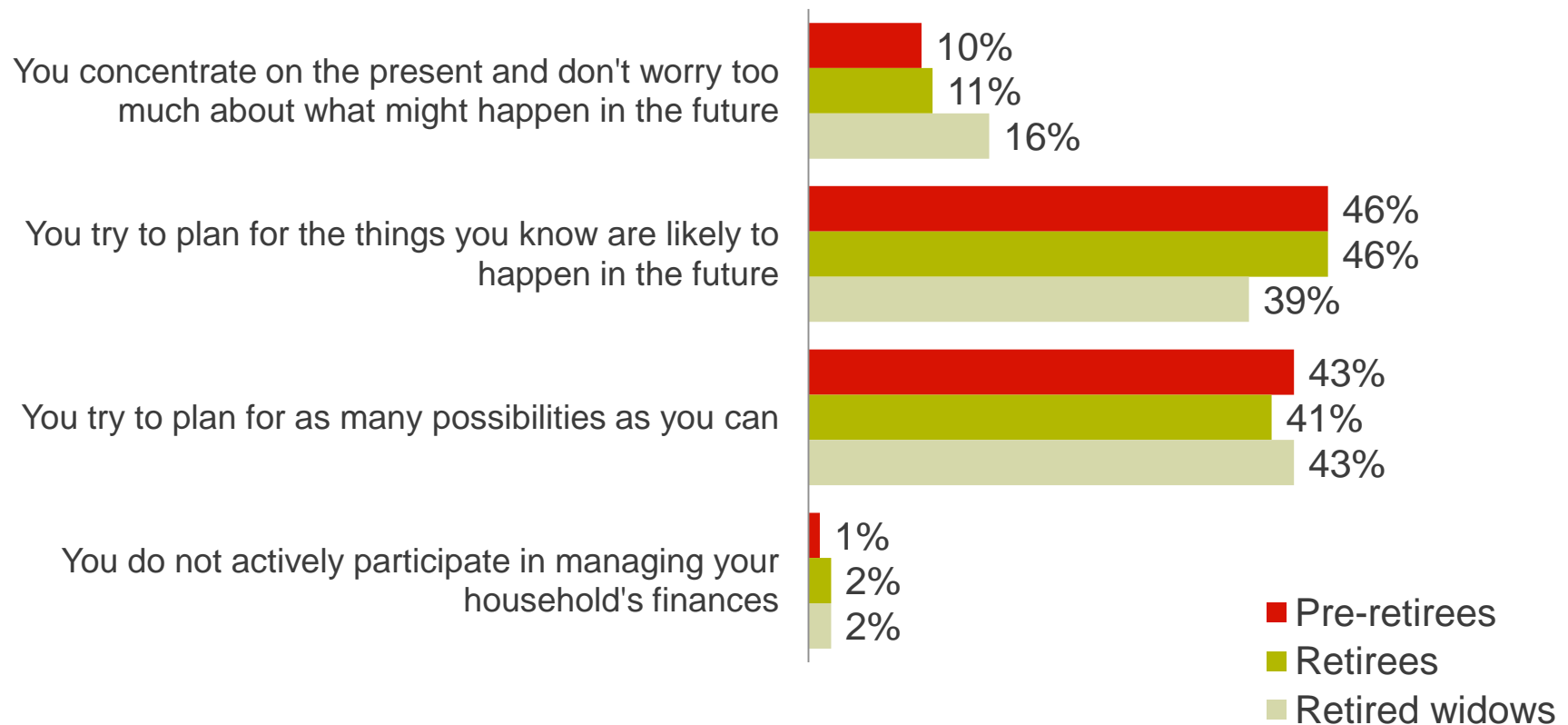
How much do you think each of the following financial issues will (did) affect your decision to retire when you do (did)? (Gave a retirement age, Pre-retirees n=847; Retirees n=946)

Percent Responding A Great Deal or Somewhat



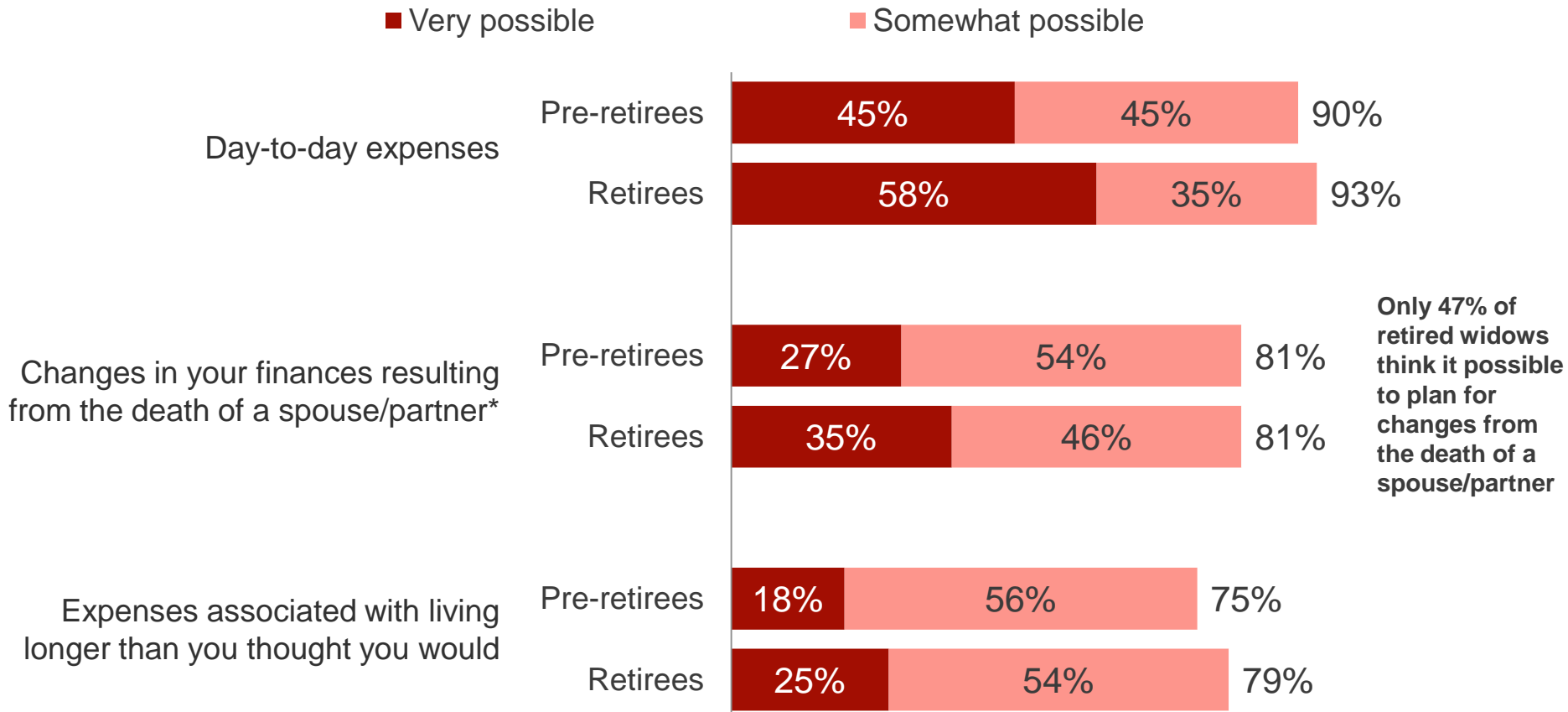
Two in five say they try to plan for as many possibilities as they can

Which one of the following best describes your attitude about managing your finances in retirement? (*Pre-retirees n=1,000; Retirees n=1,000; Retired widows n=271*)



Except for day-to-day expenses, few think planning for key issues is very possible

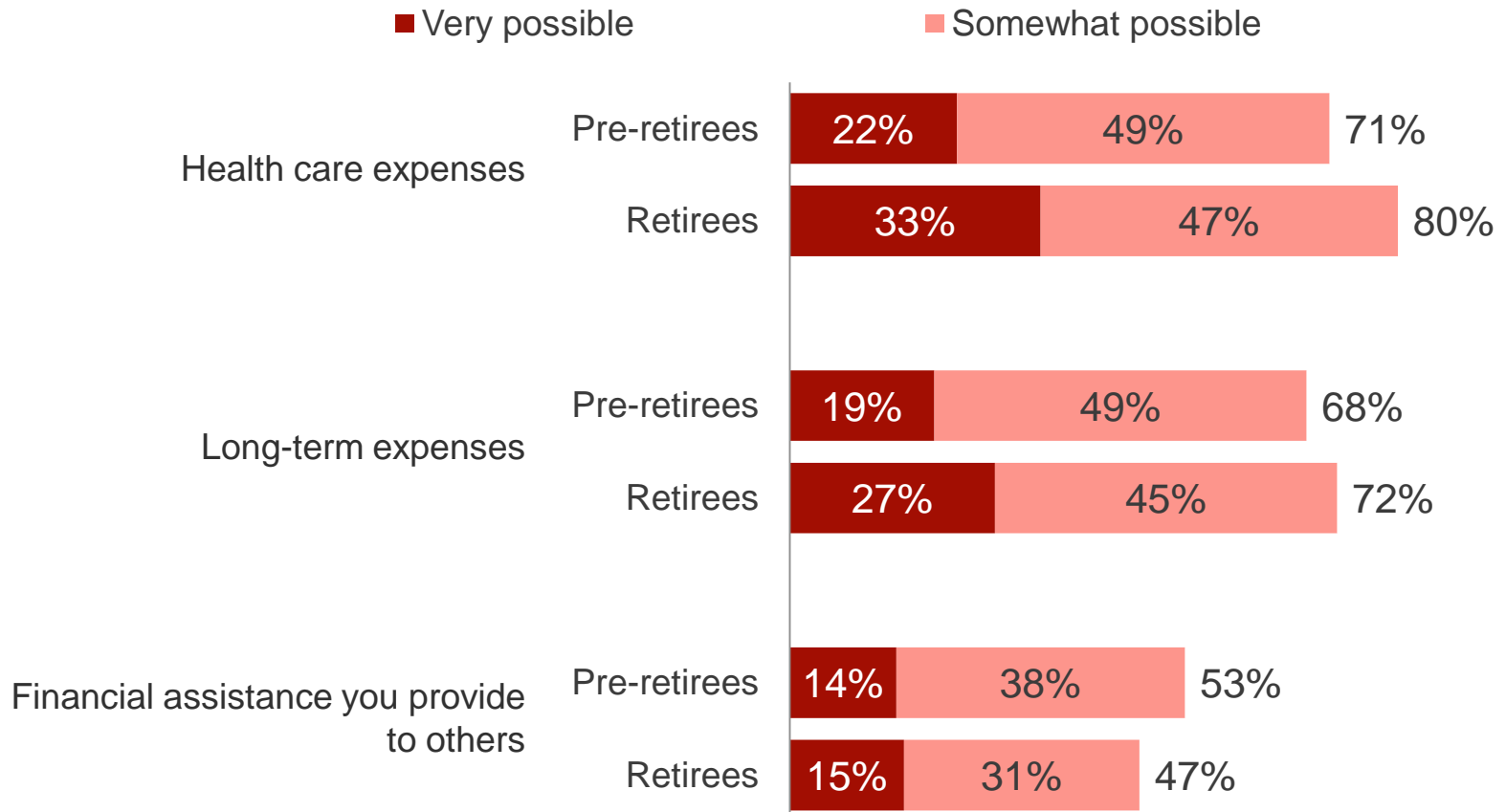
How possible do you think it is to plan for the following in retirement? (*Pre-retirees n=1,000; Retirees n=1,000; Retired widows n=271*)



*Pre-retirees n=709; Retirees n=837)

Only a third of retirees think planning for health care expenses is very possible

Possibility of Planning for the Following, Cont.

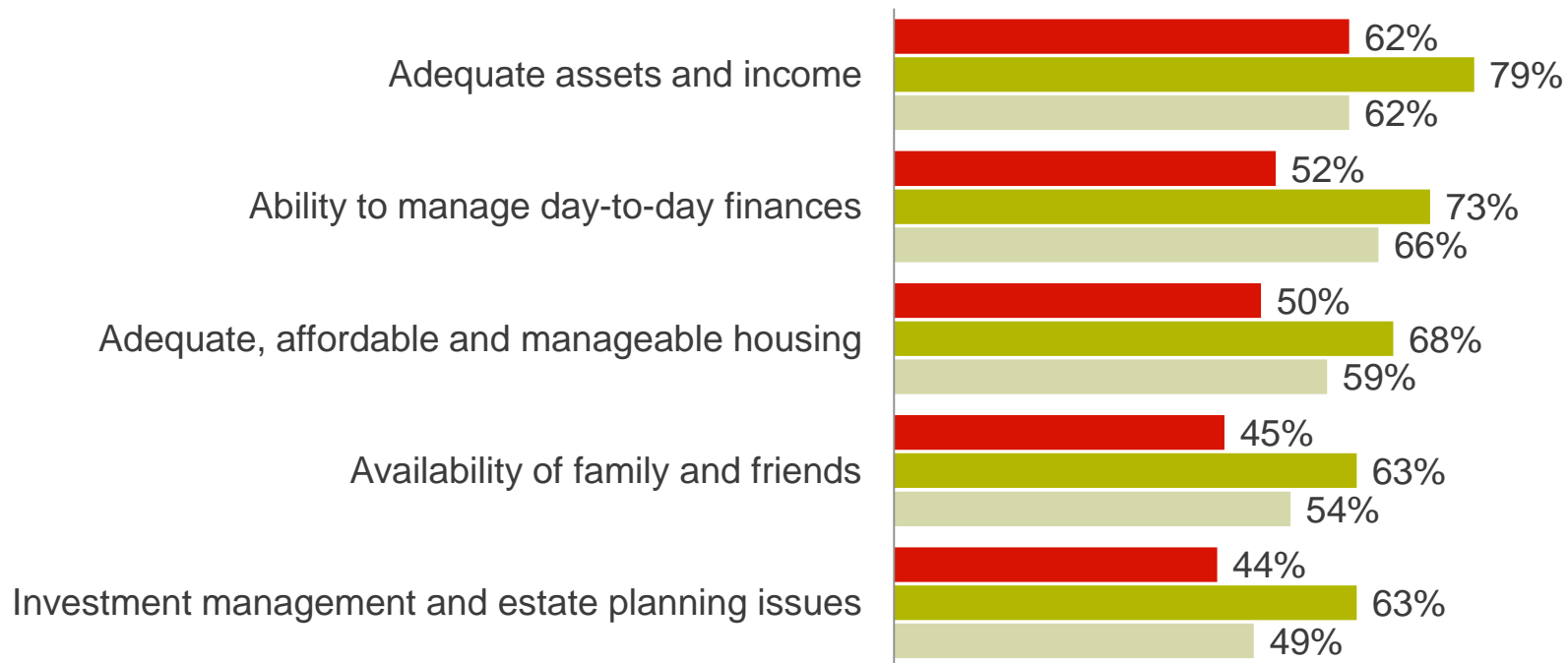


Many retired widows did not plan for issues that arose after death of a spouse

To what extent have you and your spouse/partner planned for the following issues that often arise in retirement after the first person in a couple dies? (*Has spouse/partner, Pre-retirees n=731; Retirees n=837; Retired widows n=271*)

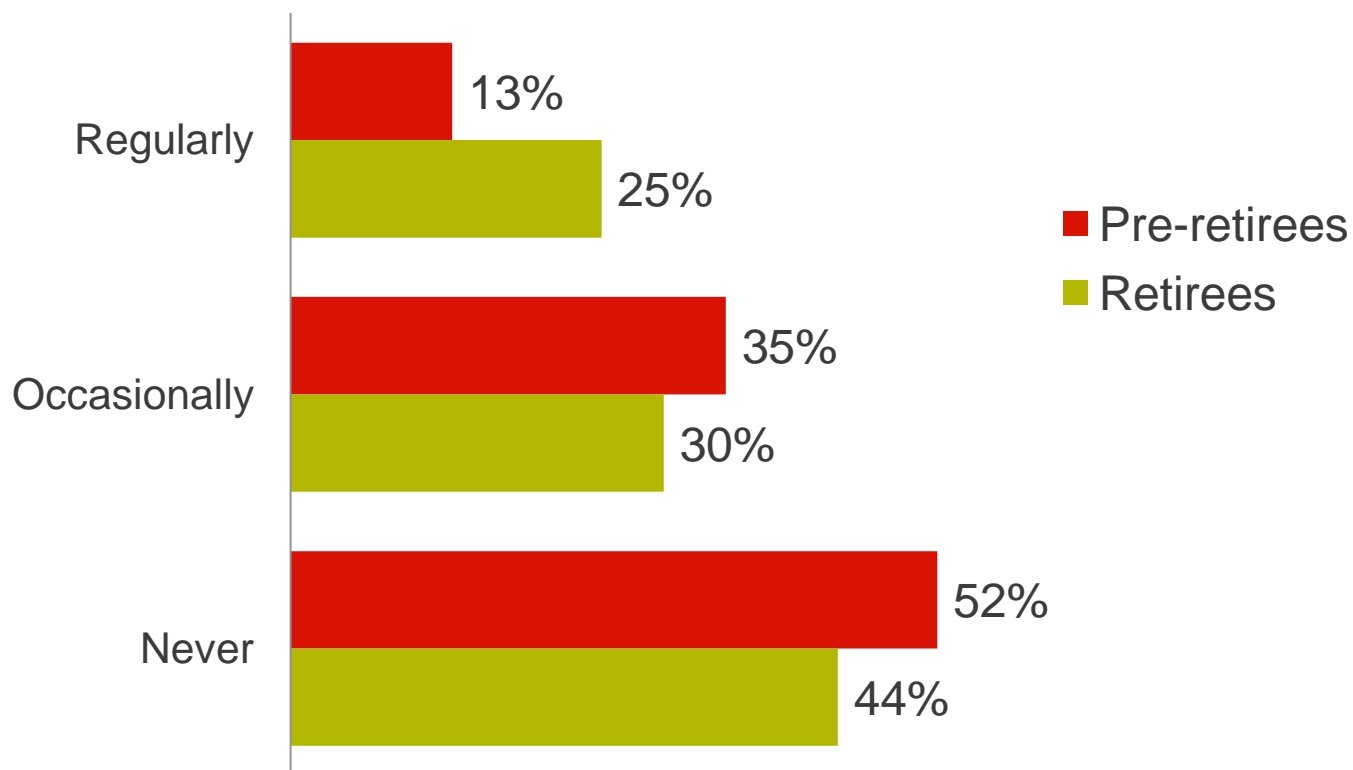
Percent Responding A Great Deal or Moderately

■ Pre-retirees ■ Retirees ■ Retired widows



Retirees twice as likely to use financial advisor regularly

About how often do you (and your spouse/partner) consult with a financial planner or advisor who helps you make decisions about your retirement (financial) planning and is paid through fees or commissions? (*Pre-retirees n=1,000; Retirees n=1,000*)



Retirees show little long-term planning, except for some with financial advisors

- Social Security often claimed at age 62
 - Breakeven analysis often used to assess time of claiming benefits
 - No consideration of impact of claiming on spousal benefits

- Little ability to calculate how much needed to afford to retire
 - Many calculate current ability to pay monthly bills
 - Inflation and other risks not incorporated into assessments

- Little planning effort or development of written retirement or financial plans
 - Financial advisors typically not asked to calculate financial ability to retire

Observations of the Researchers

- The case has not been effectively made for several tactics that appear likely to increase financial security:
 - A financial plan
 - Delayed Social Security claiming
 - Long-range planning and risk management
- Asset allocation strategies often appear sub-optimal
- Although systematic withdrawal and consistent spending (4% rule) is often recommended by financial experts, these ideas are rejected by most retirees, especially those with constrained resources
- Education appears needed on methods of contingency planning
- Women more likely to have financial difficulties
- Focus groups suggest sub-optimal strategies used for home equity
- New financial products that deal with financial contingencies and home equity may help enhance financial security of significant proportion of retirees

Observations of Project Oversight Group

- For many Americans: no ideal solution
 - Working longer is important, but may not work
- Big areas for improved analysis, planning:
 - Social Security claiming
 - Impact of retiring at different times
- For resource constrained common pragmatic approach: adjust expenses down to income and try to retain assets
- Number of challenges can be overwhelming
- Better packaging/advice models needed for middle market

Conclusions and Future Opportunities

Recurring and New Findings

Expect challenging future for older Americans

- Retirement described as voluntary often a result of being pushed out
 - Women more often pushed by family/caregiving
- Major risk concerns continue: inflation, health care, long-term care

Pre-retirees expectations and retirees actions differ

- Pre-retirees more concerned about risks (similar to past findings)
- Pre-retirees expect to work 7 years longer than retirees actually did
- Pre-retirees intend to do more financial planning than retirees actually do

Gaps in knowledge, retirement preparation persist

- Not enough long-term planning
- Housing is not being considered for retirement income
- Social Security claiming strategy/options are not understood

Financial and Risk Management Conclusions

- Women much more concerned about finances than men and more cautious in their planning
- Budgeting is cash flow and short-term oriented
- Expense reduction and debt management are major strategies for avoiding running out of money
- Resource constrained retirees are resilient and resigned to reduced standard of living when needed
- Spending strategy is to preserve principal and spend investment and pension income only
- Little use of financial risk management products
- Early Social Security claiming driven in part by loss aversion; not rigorous long-term analysis

Opportunities for Actuaries

- Actuaries are responsible for asking the right questions, assessing the risks and helping clients think about better solutions
 - What happens when employees can't retire or retire too early?
 - How can current systems be modified to improve risk options?
 - What products can better meet retiree needs?
- How should risk-protection systems change to meet the evolving work and retirement landscape?
- What planning tools can we design to assist people in accumulating assets, deciding when to retire, claiming benefits and spending down assets?
- Can we improve risk-protection products?
- Given how people make decisions, how do we help them better manage pools of assets prior to and in retirement?
- What expertise can we share with and adapt from other financial planning professionals for motivating individuals to plan for retirement?