Risky Business: Living Longer Without Income for Life

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Chair, Post Retirement Needs & Risks

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SOA Research

- SOA Committee on Post-Retirement Needs and Risks
  - Focus on risks and needs of individuals during the post–retirement period
  - *Survey of the Risks and Process of Retirement* series provides insights into:
    - How Americans decide to retire
    - How they perceive post-retirement risks
    - How they manage financial resources in retirement
    - Completed every 2 years, 2013 version is 7th in series
  - Many other studies
    - *The Decision to Retire and Post-Retirement Financial Strategies: A Report on Eight Focus Groups* (2013)

Why this topic is important

- Gaps in financial literacy and retirement planning
  - Planning tends to be cash flow focused and relatively short term – median period among those who plan is ten years
- About ¼ do not plan
- Differences between pre-retiree expectations and retiree experiences
  - In 2013 survey, retirees had retired at median age of 58, while pre-retirees expected to retire at age 65
- Many more people expect to work in retirement than actually do
- A great deal of "voluntary" retirement is "pushed"
- Many people do not understand and/or underestimate the impact of widowhood

Source of Findings: SOA Risk Survey series and 2013 Decision to Retire focus groups

Perceptions about post-retirement risks

- Pre-retirees are more likely than retirees to say they are concerned about most retirement risks
- Inflation, health care, and long-term care continue to head the list of retirement risks that retirees and pre-retirees are concerned about (after 7 surveys)
- Median life expectancy reported by retirees and pre-retirees matches fairly closely to the median life expectancy from actuarial tables
  - Sizeable minorities say they don't know and few are prepared for the financial consequences of outliving median life expectancy
- Longevity risk is not well understood or managed
- Many people indicate that they will deal with risks as they occur
- Women much more concerned about finances than men and are more cautious in their planning

Source of Findings: SOA Risk Survey series and 2013 Decision to Retire focus groups

Insights into risk management

- Three primary risk management strategies used by both pre-retirees and retirees are
  - Eliminating debt
  - Saving as much as possible
  - Reducing spending
- Only a minority use insurance products other than health insurance to help manage risks
- Many in mid-market have low financial assets
- Resource-constrained retirees are resilient and resigned to reduced standard of living when needed
  - Spending strategy is to preserve assets and spend Social Security, investment and pension income only
- Early Social Security claiming is driven in part by loss aversion and not rigorous long-term analysis

Source of Findings: SOA Risk Survey series and 2013 Decision to Retire focus groups