

Managing Life and Spending Changes During Retirement: Insights from Research

Moderated by

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SOCIETY OF ACTUARIES

Agenda

- Roundtable overview
- Context and current situation
- 2007 Survey of Post-Retirement Risks and Process of Retirement
- Other SOA research and initiatives
- Summary and dreams for the future



Roundtable goals

- Share 2007 research results
- Provide insights on change during retirement – several sources
- Focus on what people say versus what they do
- Link insights together
- Help attendees identify/access this new work

Note: views presented are those of the presenters and not the Society of Actuaries



Roundtable presenters

- Anna Rappaport – SOA research: what people say
- Barbara Butrica – Activities during retirement (using HRS): what people do
- Zenaida Samaniego – Insights from papers – Spending and needs during retirement



SOA Committee on Post-Retirement Needs and Risks

- Focus is on understanding of distribution phase and mechanisms to assist in managing it
- Work
 - Risk Chart
 - Risks and Process of Retirement Surveys
 - ◆ 2001, 2003, 2005 and 2007
 - ◆ Select issues for special focus
 - Retirement Plan Preferences (with Academy)
 - Misperceptions Papers
 - Focus Groups on Financial Management in Retirement
 - Research on retirement planning software



Methodology: Risks and Process of Retirement Survey

- Sponsored by the Society of Actuaries
- 801 19-minute telephone interviews conducted in June and July 2007
- Interviewed Americans ages 45 to 80
 - Considered retirees and pre-retirees separately
- Margin of error at 95% confidence level is ± 5 percentage points for all retirees and all pre-retirees
- Conducted by Mathew Greenwald & Associates and Employee Benefit Research Institute (EBRI)



Context: 21st century challenges

- Growing conflict over values and security
- Demographics: aging population + low fertility = increasing dependency ratios
 - People need/want to work longer
 - Fewer entrants to labor force
- Adjusting to evolving definition of retirement
- Global competition: increased pressure on labor costs > increased pressure on employer spending for health benefits
- Pressure on government and private security programs + regulatory + accounting uncertainty/litigation
- Low savings rates and financial literacy
- Health care coverage is big national issue



How individuals think about retirement

- Focus is on investments: not risk transfer
- Planning time horizon and mindset
 - Relatively short/take things as they come
 - Many use intuitive rather than mathematical approach
 - Fatalistic – events are out of their control
- Perceptions
 - Can manage better on their own (Problems: they overestimate safe withdrawals and don't focus on longevity risk)
 - Annuity products have poor image (reinforced by advisors)
Inability to change mind later is big negative for annuities
 - Mistrust of advisors and financial planners
- Main risk reduction strategy is to reduce spending
- More likely to chose investment advisor than broad based planner



Focus on post-retirement risk

Overview: Public understanding

- Continue to be major gaps in risk understanding
- Health care, long-term care and inflation continue to lead list of concerns
- Differences between retirees and pre-retirees
- Consistency in what we are hearing over time and across surveys

Bottom line—many challenges/many opportunities



Potential disruptions to stability: Risks Americans face in old age

Transferable risks

- Longevity: individual and spouse
- Loss of income due to disability and long-term care costs
- Cost of acute health care
- Economic loss on death of spouse
- Investment risk and interest rate risk

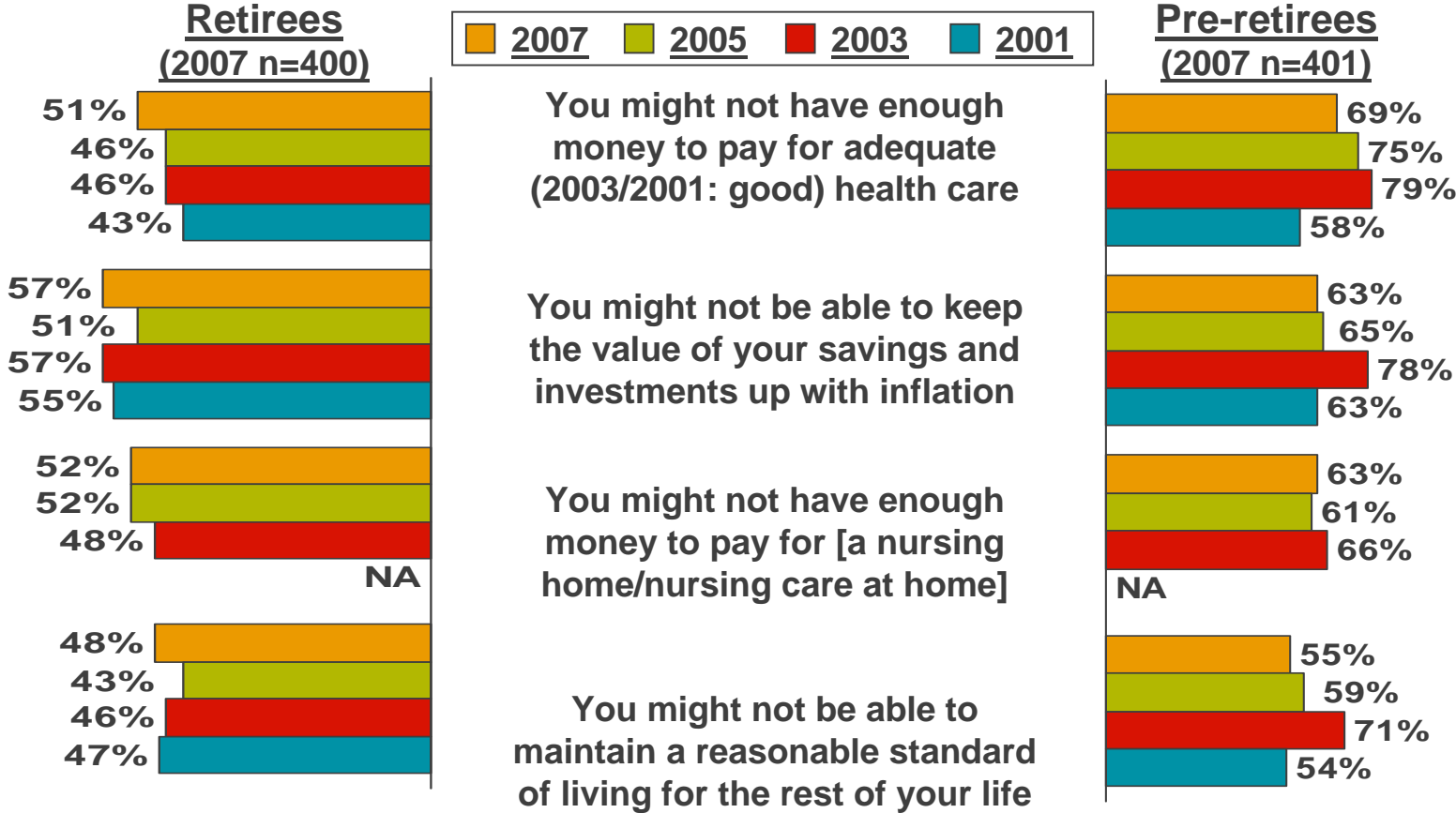
Examples of other risks

- Inability to find job, earn expected income
- Premature retirement risk
- Family members needing care
- Inflation risk (sometimes transferred)
- Change in value of real estate



Concerns about risk are fairly constant

How concerned are you that...? (Percentage very or somewhat concerned)



Source: Society of Actuaries, 2001–2007 Risks and Process of Retirement Surveys



Emerging values/ideas about risk

“The Great Risk Shift is not just an economic change; it is also an ideological change. For decades, Americans and their government were committed to a powerful set of ideals that combined a commitment to economic security with a faith in economic opportunity. Today the message is starkly different, *you are on your own.*”

Jacob S. Hacker, The Great Risk Shift, 2006

- Social Security reform options driven by values
- Benefit structures influenced by values
- Huge amounts of risks have shifted to the individual



Stages of retirement

- Different way to think about retirement
- Can be defined by activity level, employment status, age, health status
- Survey defines stages based on abilities and associated needs
- Planning often focused on first stage
- Pre-retirees expect to retire differently than current retirees
 - Ignoring premature retirement risk
 - Unexpected high percentage says retirement does not apply



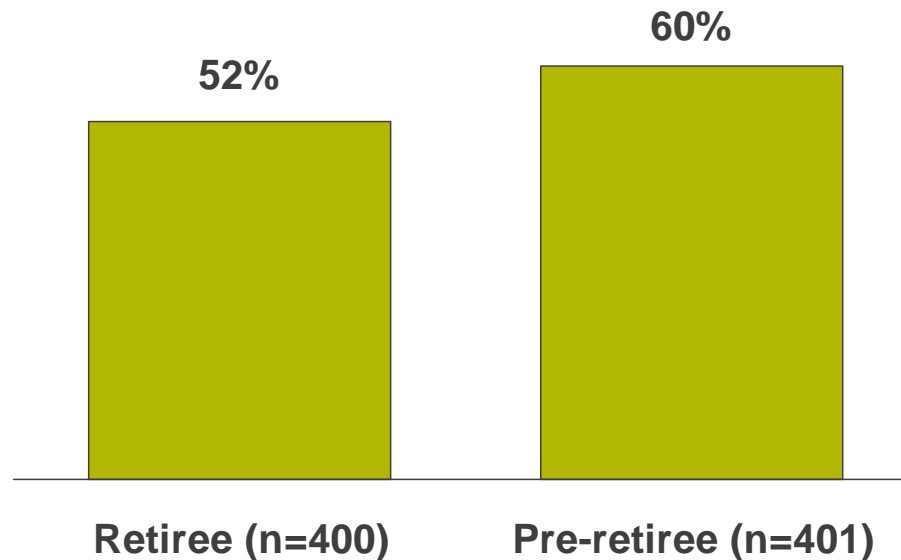
Stages of retirement

- Those who expect to work are unlikely to do so after age 75
- Couple issues
 - Timing of retirement
 - Changes at death of spouse
- Other research shows changes in activities, time use
 - Papers will be available in SOA monograph



Only half of retirees have or expect an active stage of retirement

Do you think you will have a time in retirement when your abilities and needs are about the same as before you retired?



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



Pre-retirees expect to retire later than retirees, 1 in 3 say it doesn't apply

How old were you when you retired or began to retire from your primary occupation?/At what age do you expect to retire from your primary occupation?

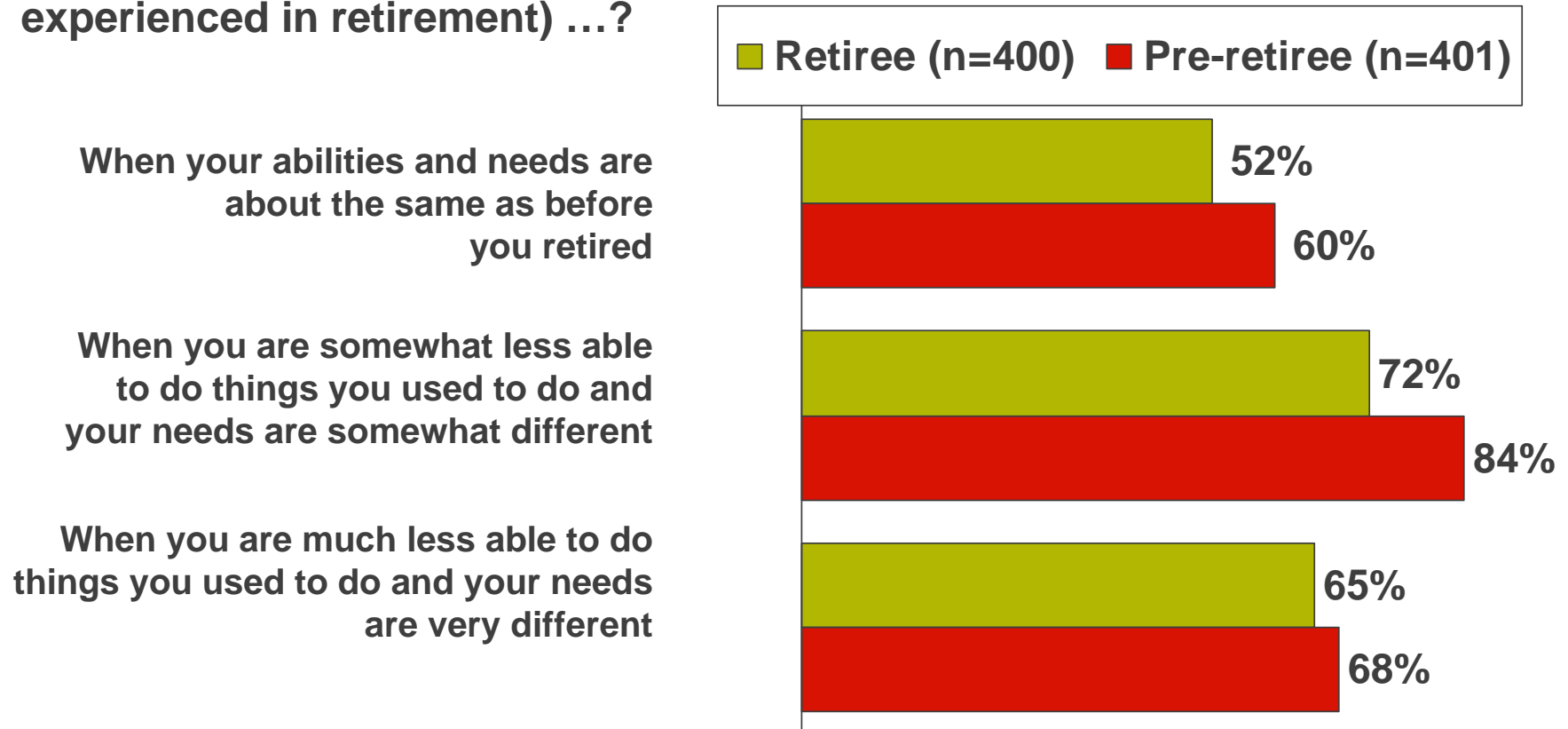
Age category	Retirees (%) (n=400)	Pre-retirees (%) (n=401)
Under age 55	31	1
55 to 61	30	16
62 to 64	16	12
65 to 69	13	27
70 or older	4	6
Will not retire	1	1
Doesn't apply	3	32
Don't know	2	6

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



A majority expect to experience some level of incapacity

Do you think you will have a time in retirement (or have experienced in retirement) ...?



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



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)

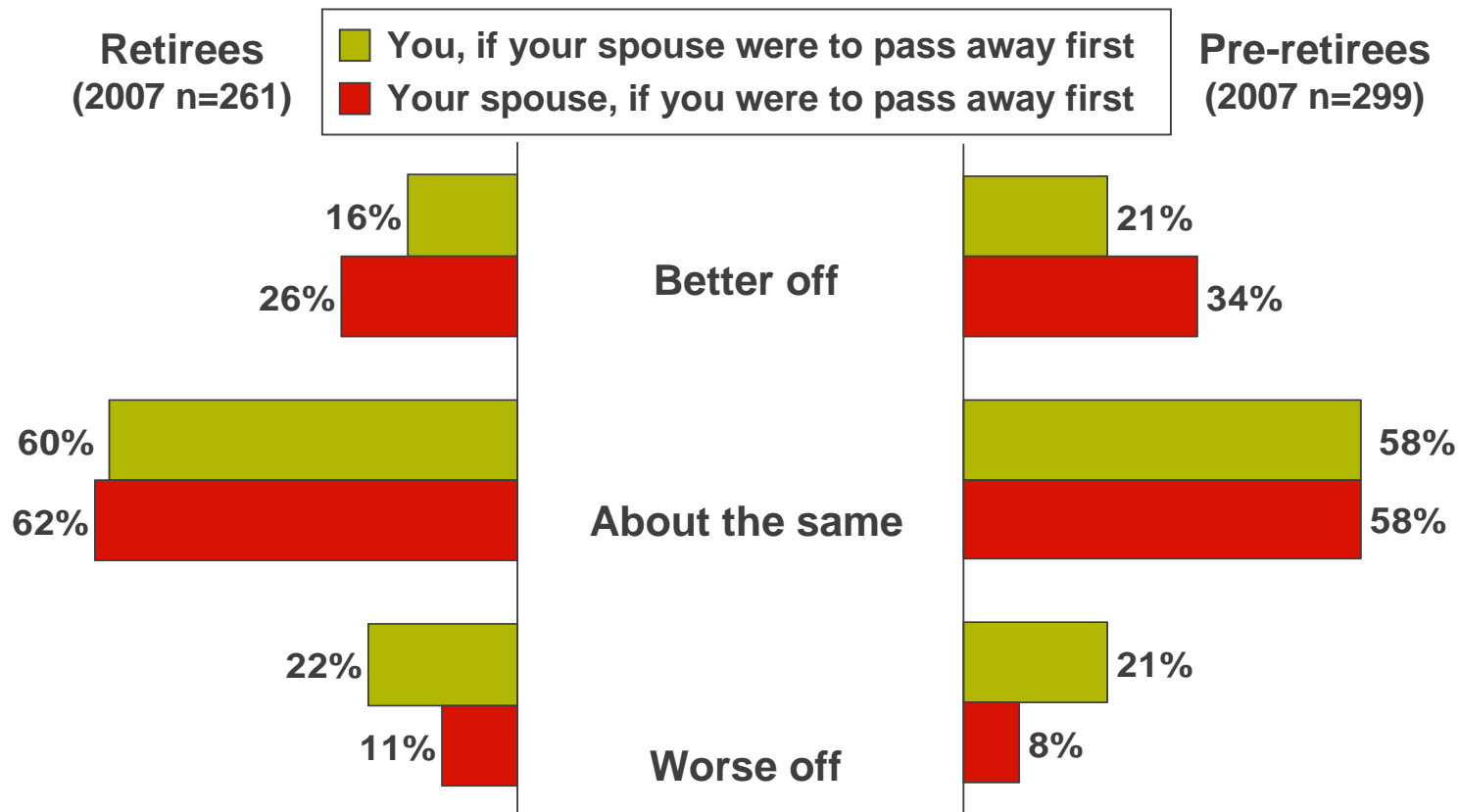
Top Mentions (multiple responses accepted)	Retirees (%) (n=330)	Pre-retirees (%) (n=353)
Save (more) money	16	37
Invest to make assets last	15	19
Buy long-term care insurance	11	8
Make home modifications	6	4
Cut back on spending	6	4
Stay healthy/improve health	4	4
Pay off debts	2	5
Nothing	28	15
Don't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

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



Few believe they will suffer financially by their 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 and pre-retirees)



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



In summary

- Continue to find major gaps in risk understanding
- Longer term risk management very difficult for individuals
- Widows and very old will continue to be vulnerable
- Research documents gaps in strategies, understanding of stages of retirement. Best retirement programs are those that work without individual action
- Education is desirable, but there are limits on what it can accomplish



Anna's dreams for the future

- General awareness of variability and length of life and focus on longer term planning
- General understanding of retirement timing and implications
- Strong safety net
- Default options (with the chance to make other choices) in DC plans that include some timed purchase of life income
- Risk protection products that offer a portfolio of options to protect from different risks
 - Potential to use these with retirement resources directly in employer sponsored plans
 - Opportunities to purchase on group basis
- Software that handles post-retirement period well, is user-friendly and offers clear recommendations



Appendix



How well do individuals handle risk?

- Little longer term planning
- Gaps and misperceptions in what people know
- Lifestyle choices often lead to poorer health
- Don't recognize that long-term care risk applies to them
- Much more confidence in future retirement security than assets to back it up
- Underestimate importance of Social Security, overestimate what they will receive from savings and employer plans
- Savings reduction is much bigger focus than use of financial products

Bottom line—many gaps in decisions/planning



Inflation continues to be a top concern of retirees

How concerned are you that...?
(Retirees, n=400; Pre-retirees, n=401)

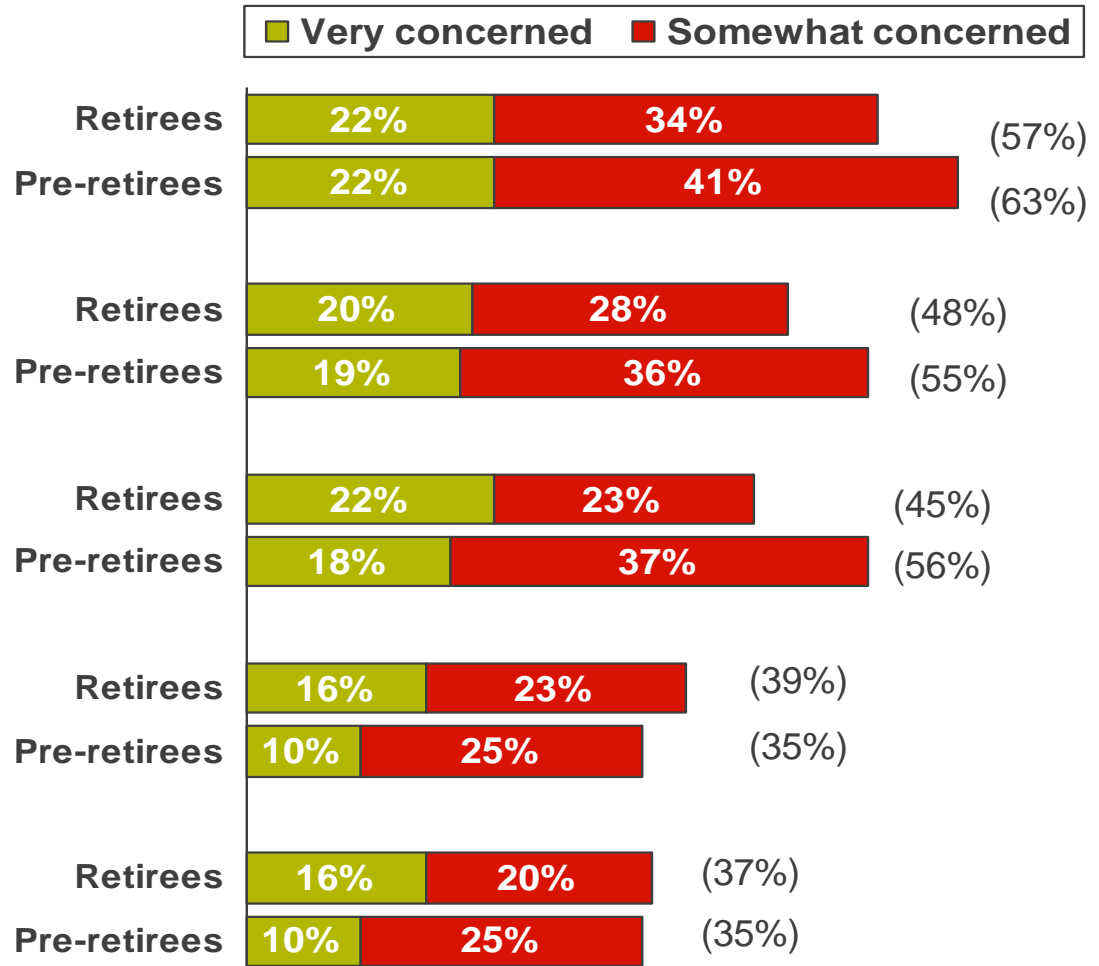
You might not be able to keep the value of your savings and investments up with inflation

You might not be able to maintain a reasonable standard of living for the rest of your life

You might deplete all of your savings

Your spouse may not be able to maintain the same standard of living after your death
(retirees n=261; pre-retirees n=299)

You might not be able to afford to stay in your current home for the rest of your life



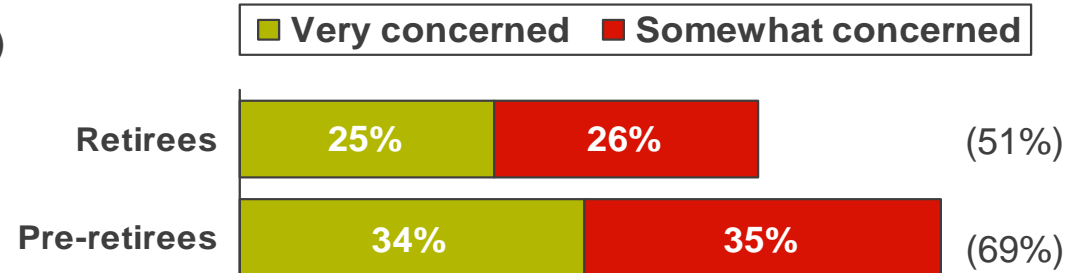
Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey



Health and long-term care risks are most likely to worry pre-retirees

How concerned are you that...?
(Retirees, n=400; Pre-retirees, n=401)

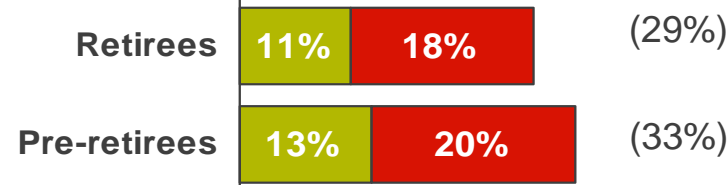
You might not have enough money to pay for adequate health care



You might not have enough money to pay for a long stay in a nursing home or long period of home health care



You might not be able to rely on children or other family members to provide assistance



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



Learnings from behavioral finance

- Motivating individuals to plan for retirement is extremely difficult
 - The payoff for behavioral change is quite uncertain
 - Workers do not easily buy the idea of payoffs in the distant future
 - The promise of pleasure tomorrow means pain today
 - The wrong decision yields instant gains
 - There is no immediate tangible reward for saving now
 - The savings decision can be postponed without immediate penalty
 - There are no functional deadlines for action.

Source: Gary Selnow, "Motivating Retirement Planning," from Mitchell and Utkus, *Pension Design and Structure*, Oxford University Press, 2004



Focus groups: Recent retirees with good 401(k) balances

- Goal – understand how people make decisions after retirement
- Concerned that people say they want income but rarely choose it
- Findings –
 - Short term focus
 - Intuition often guide with little analysis
 - Big gaps in knowledge about risk products, investments
 - Changes in investment strategy if new advisor
- Phase II work scheduled for 2008 – survey sponsored by SOA, LIMRA and INFRE
- Full report noted on list of SOA research reports



Resources – research and information

- List provided of Society of Actuaries key studies from actuarial profession
 - Risks study series, 2001, 2003, 2005, 2007
 - Retirement 20/20
 - Several other studies
- Actuarial Foundation Consumer Education active in literacy for retirement
 - Several Projects with WISER
 - DOL Project – Take the Mystery Out of Retirement Planning
 - Supported AARP tip sheets
- For information on policy issues
 - American Academy of Actuaries Issue Briefs

