Retirement Security: Public Perceptions and Misperceptions

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MATHEW GREENWALD & ASSOCIATES, INC.

SOCIETY OF ACTUARIES

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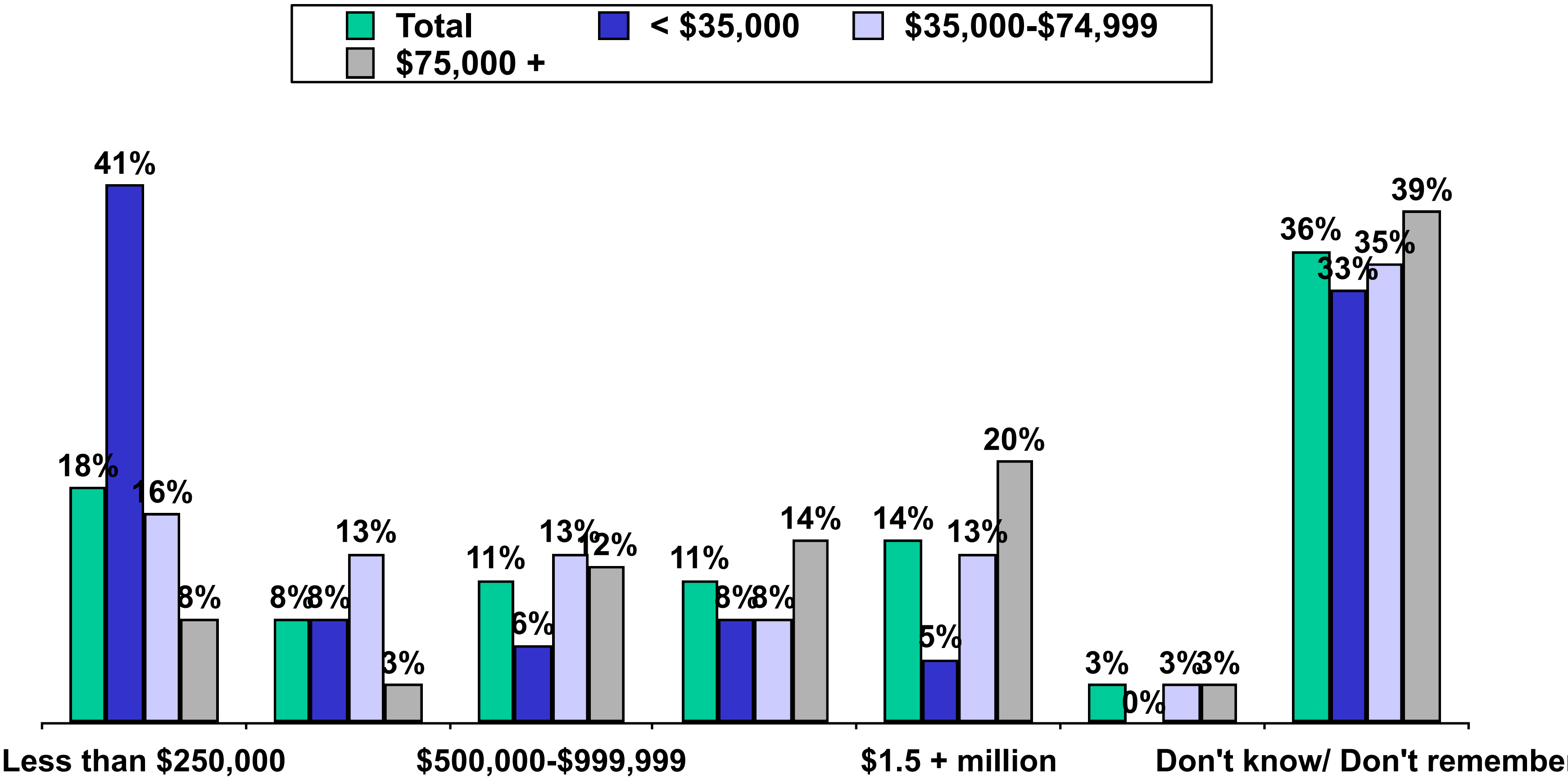
Context

- Variety of studies show misinformation, but no prior source unified data
- SOA Committee on Post-Retirement Needs and Risks led 3-way partnership to:
  - Identify documented areas of misinformation
  - Organize into unified paper
- Three partners: SOA, LIMRA, Mathew Greenwald & Associates
- 10 key issues identified
- These should be considered together with findings on behavioral finance

Savings Goals

- A majority have not tried to estimate how much money they will need for retirement.
- Many of those who have calculated this amount appear to underestimate how much money they will need to accumulate.

Savings Needed for Retirement



Source: EBRI/ASEC/Greenwald, 2004 Retirement Confidence Survey

Replacement Ratios

What People Need*		What People Think They Need**	
Pre-Retirement Income	Replacement Ratio (%)	Replacement Ratio	% of Workers
$20,000	89	Less than 50%	10
$40,000	80	50%–70%	28
$60,000	75	70%–85%	28
$80,000	77	85%–95%	11
$150,000	85	95%–105%	8
$200,000	88	105% or more	7
$250,000	88	Don't know	7

*Source: AON Consulting/Georgia State University, 2004 Replacement Ratio Study

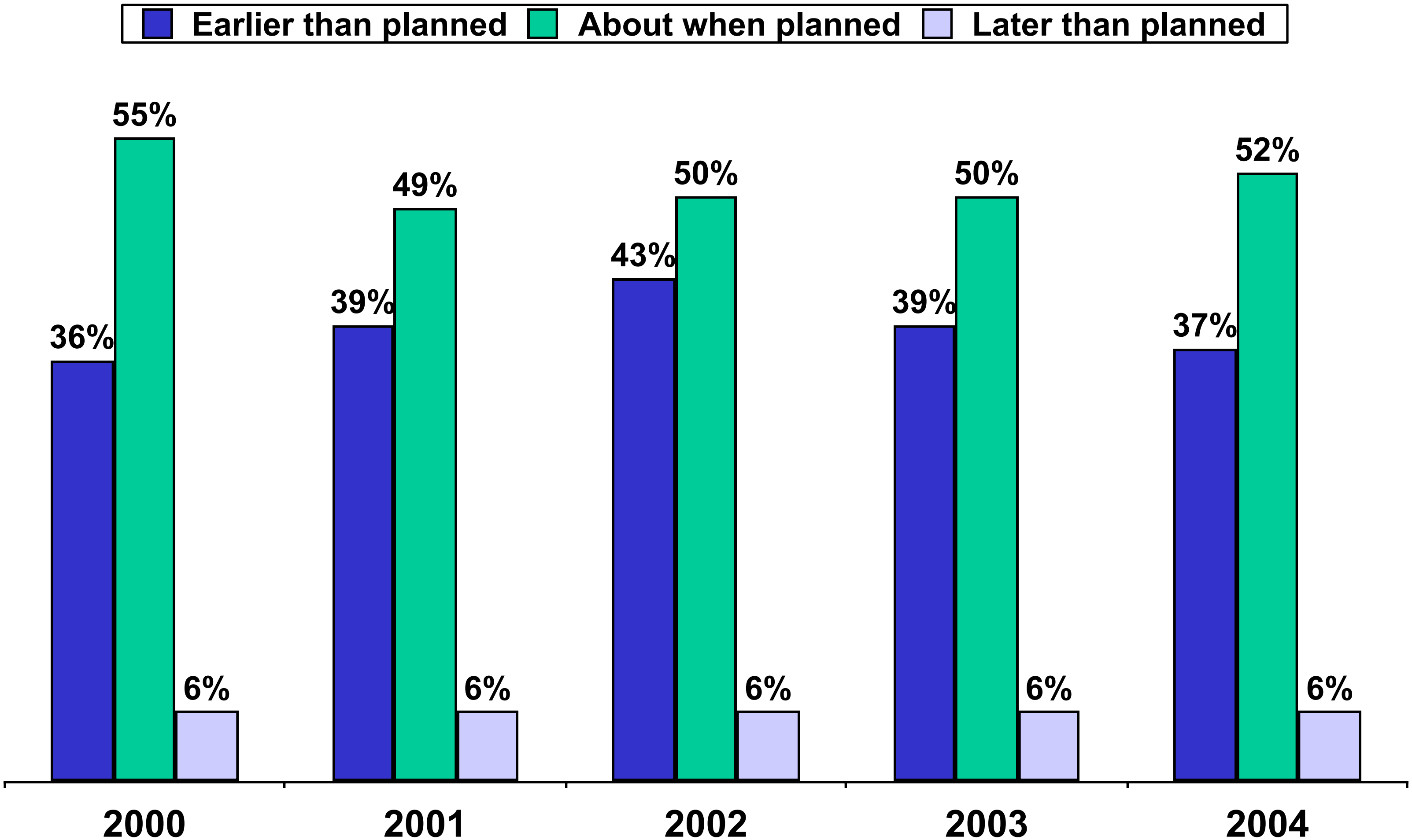
**Source: EBRI/ASEC/Greenwald, 2004 Retirement Confidence Survey

Retirement Age and Working in Retirement

- The chances are high that some workers will retire before they expect to.

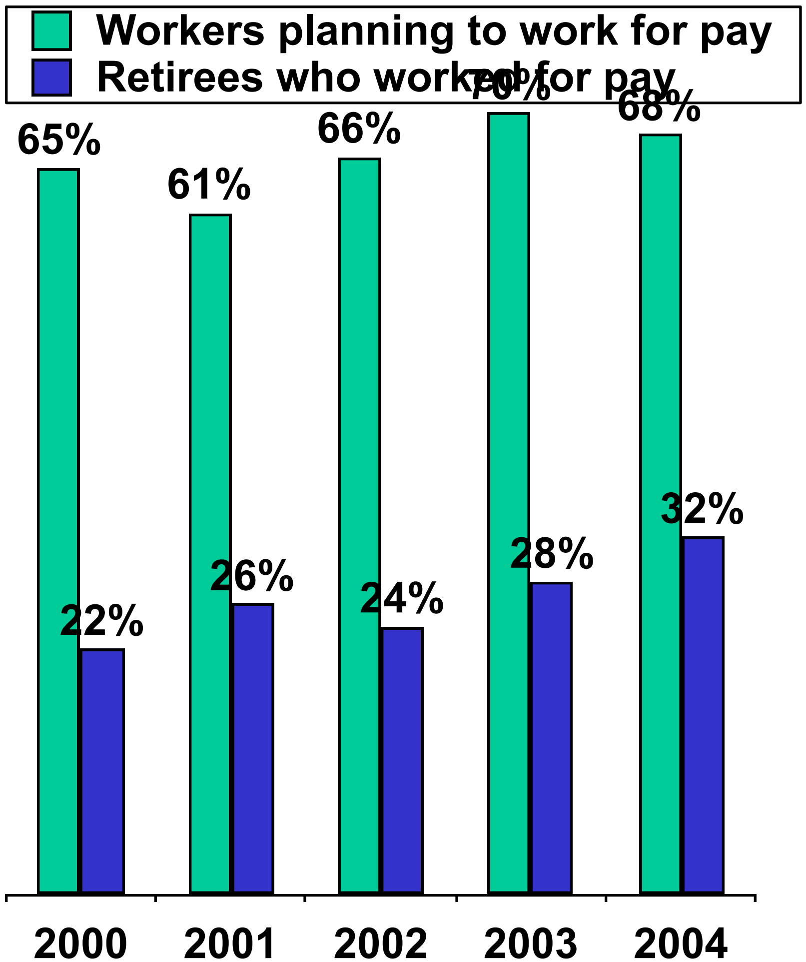
- Many workers expect to supplement their retirement income with earned income.

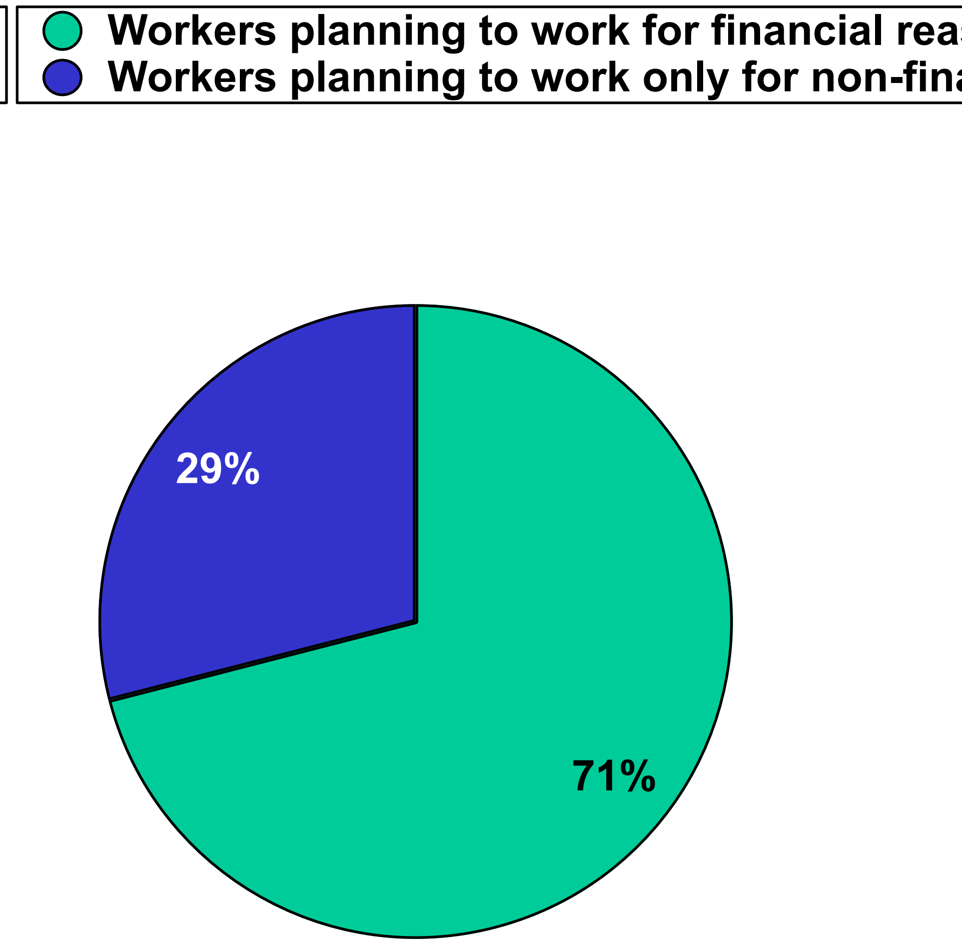
Timing of Retirement Among Retirees



Source: EBRI/ASEC/Greenwald, 2000-2004 Retirement Confidence Surveys

Working in Retirement





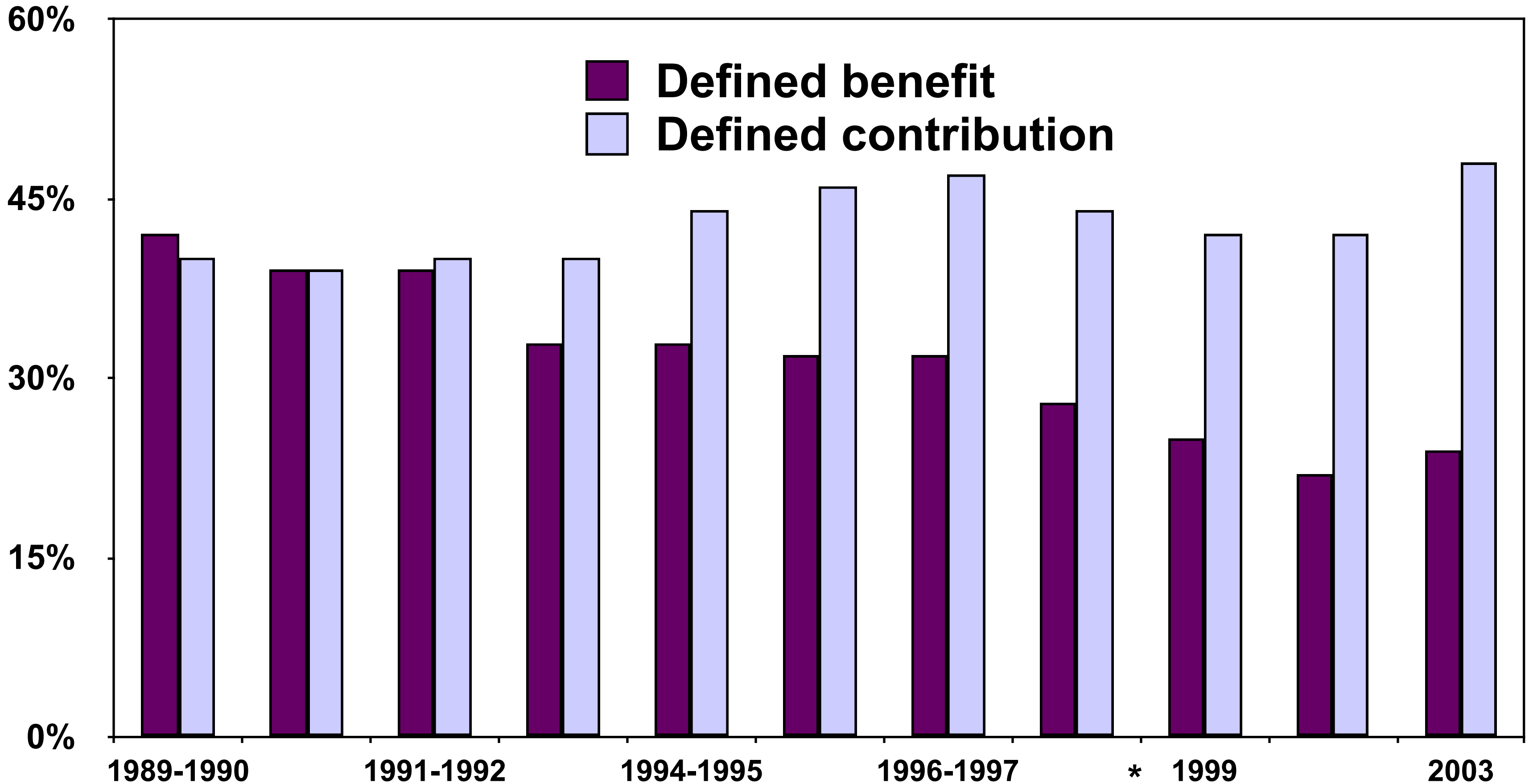
Source: EBRI/ASEC/Greenwald, 2004 Retirement Confidence Survey

Longevity Risk

- A confluence of trends is placing longevity risk squarely on the shoulders of retirees.

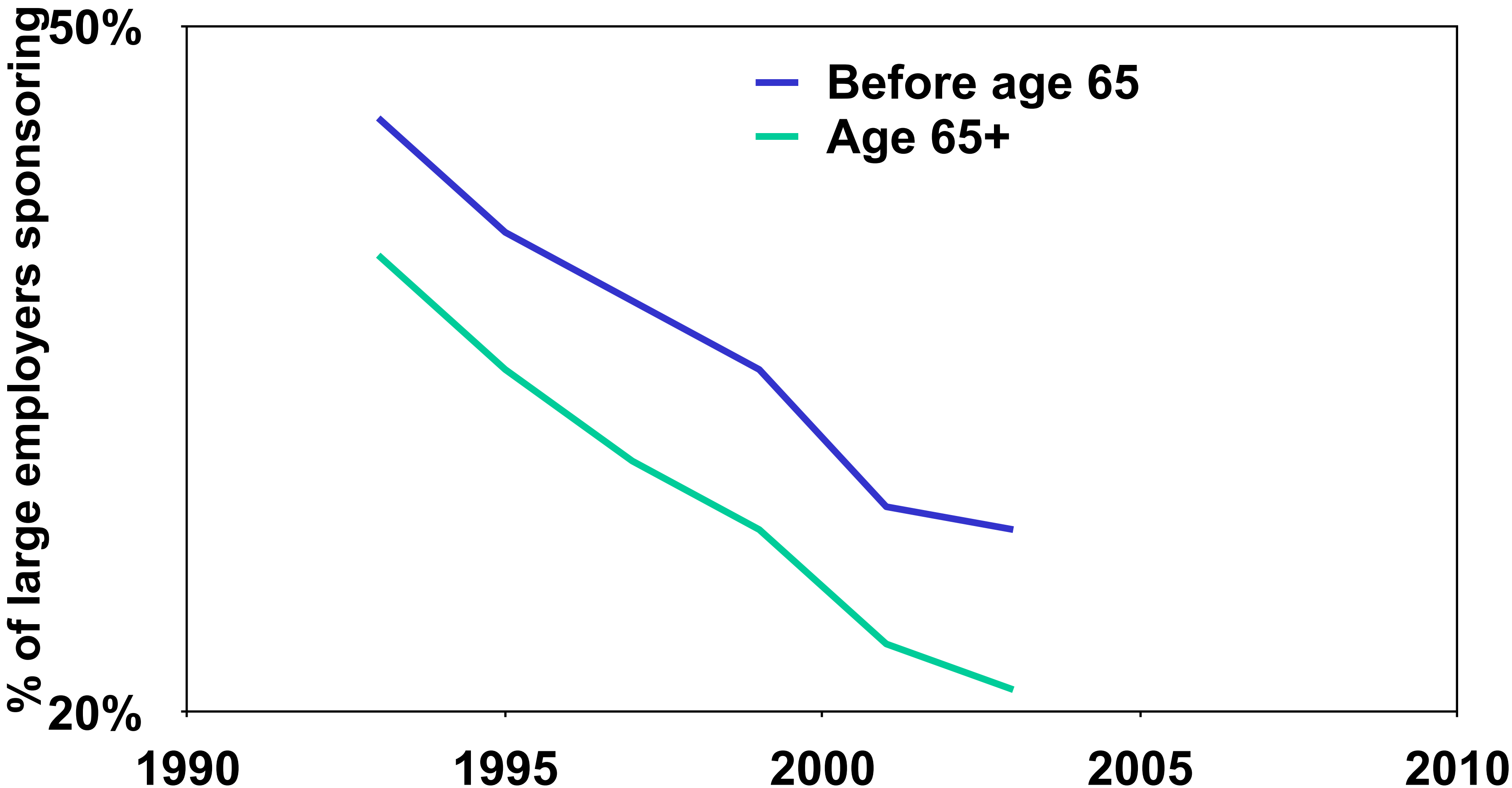
- Many people plan to live to life expectancy yet do not understand they could live much longer.

DB on the Decline:
Percent of Workers Participating in a Plan



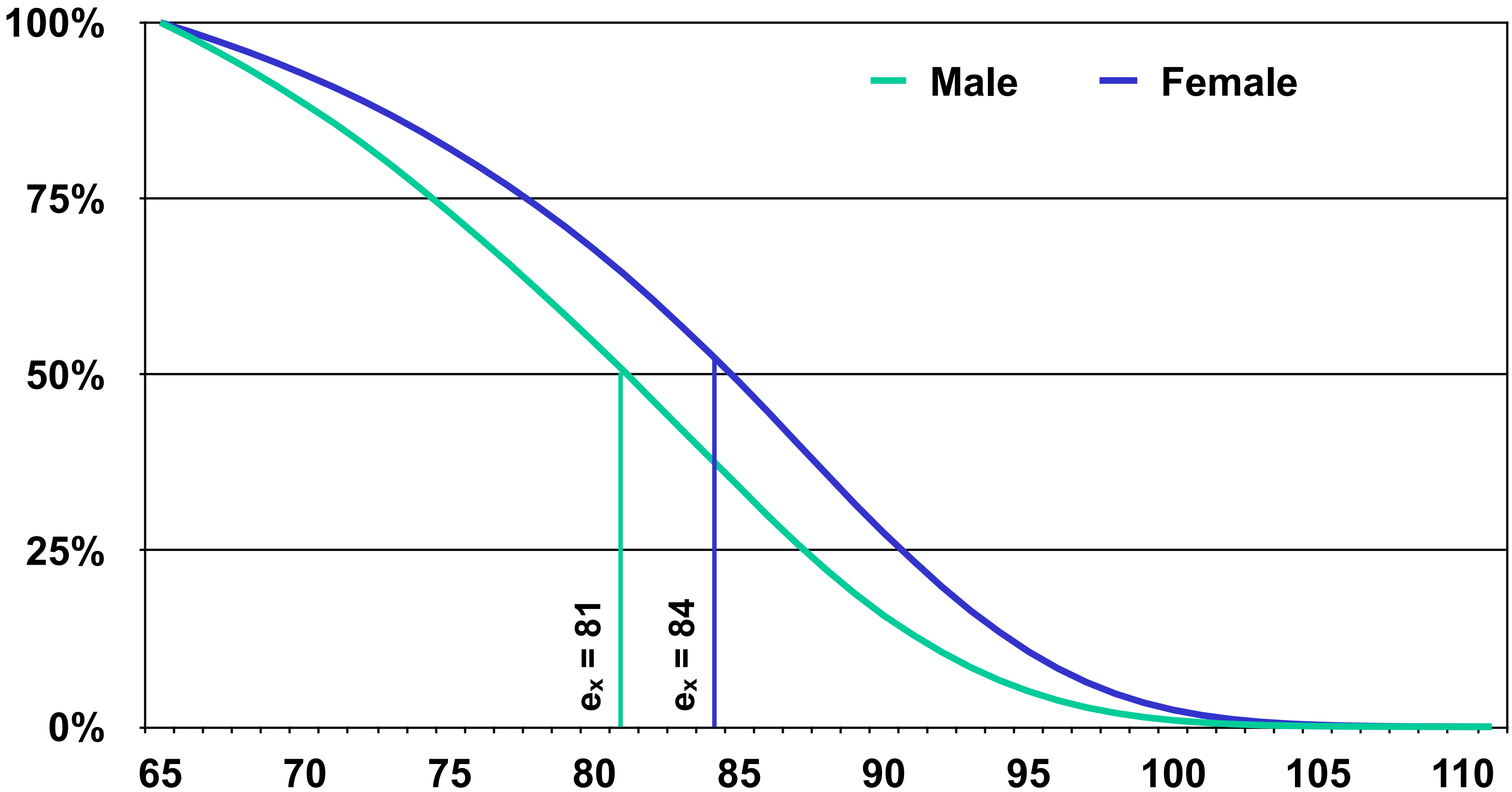
***Interpolated**
Figures represent private industry only. Source: U.S. Department Of Labor, Bureau of Labor Statistics

Employer-Sponsored Retiree Health Benefits Disappearing



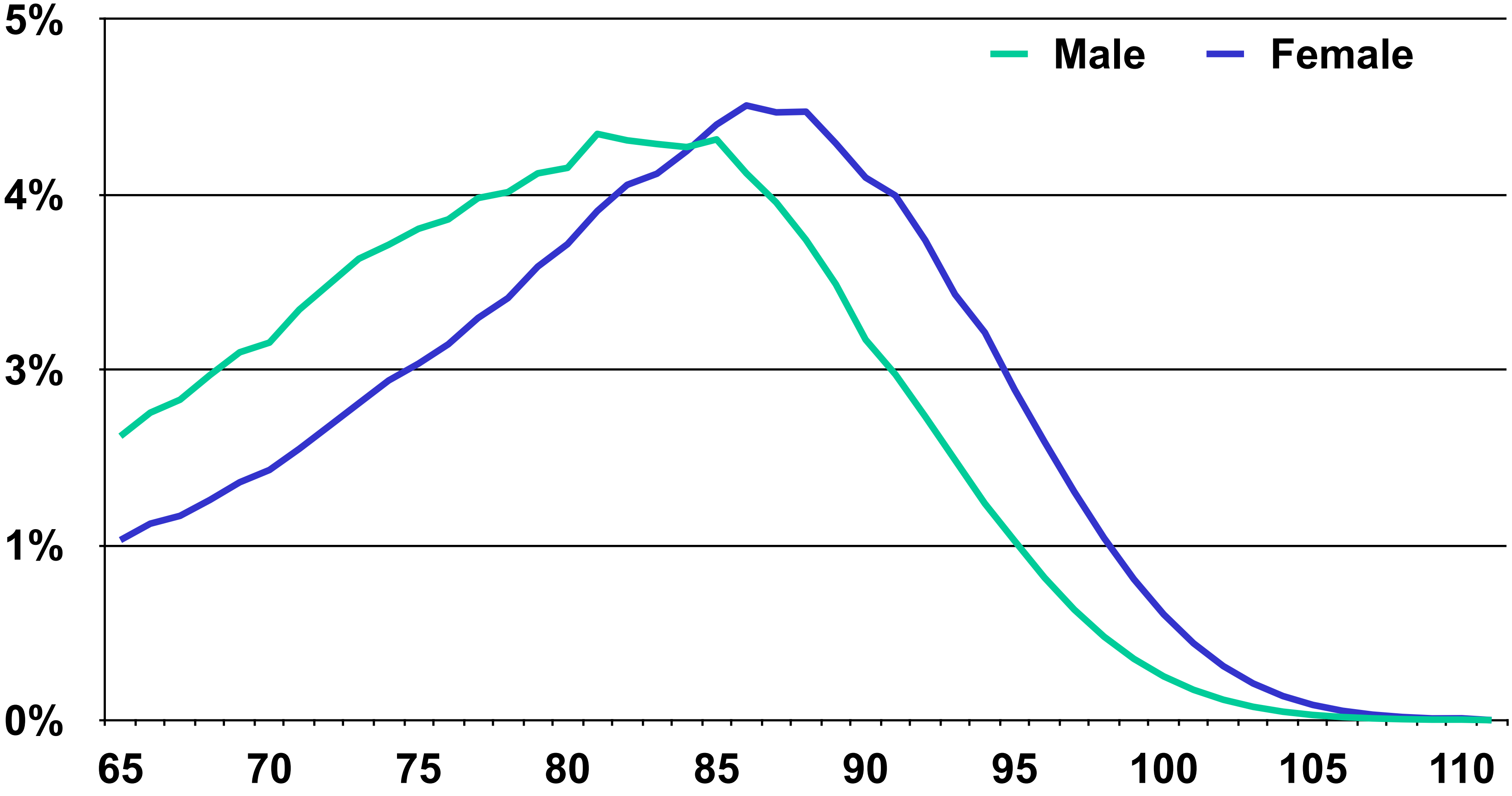
Source: Mercer Human Resource Consulting

Survival of 65-year olds



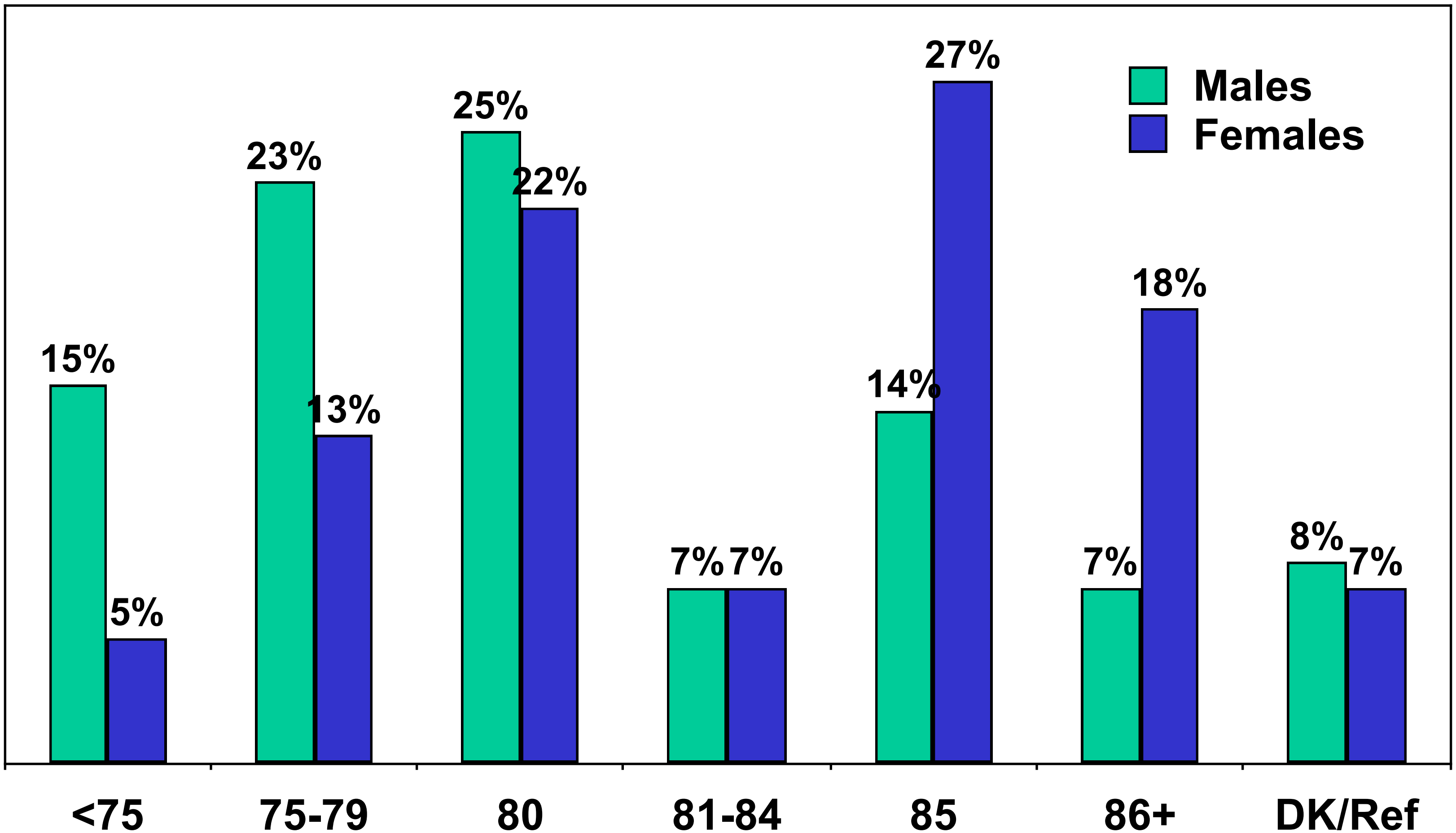
Source: Human Mortality Database, University of California, Berkeley (USA), and Max Planck Institute for Demographic Research (Germany). Mortality rates based on 1999 experience.

Probability Distribution of Deaths



Source: Human Mortality Database, University of California, Berkeley (USA), and Max Planck Institute for Demographic Research (Germany). Mortality rates based on 1999 experience.

Life Expectancy at Age 65



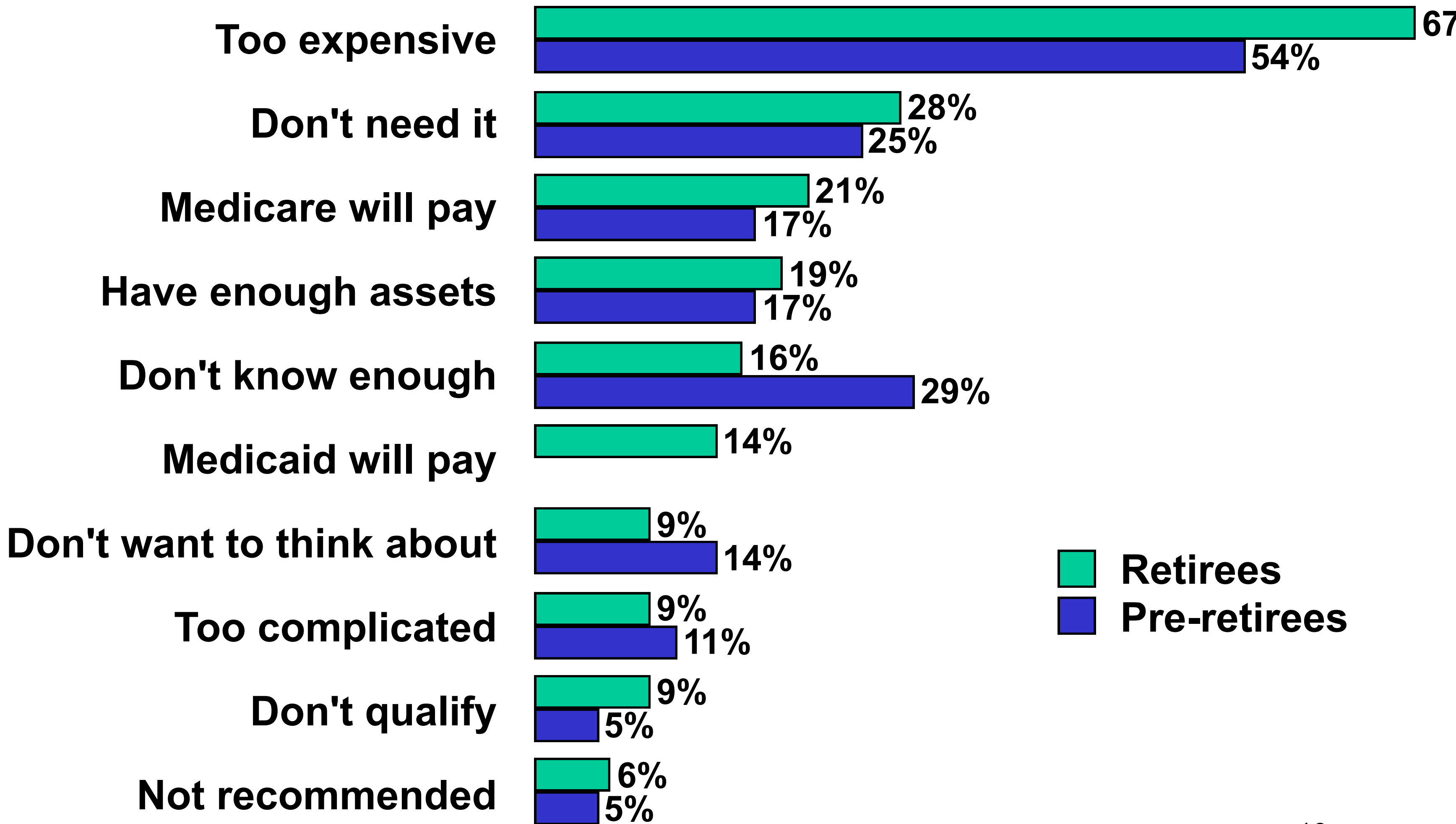
Source: Society of Actuaries, 2003 Risks and Process of Retirement Survey

Long-Term Care

- Many people underestimate their chances of needing long-term care.

- The percent of people owning long-term care insurance or that could self-insure an extended long-term care situation is low.

Why Don't You Own LTC Insurance?

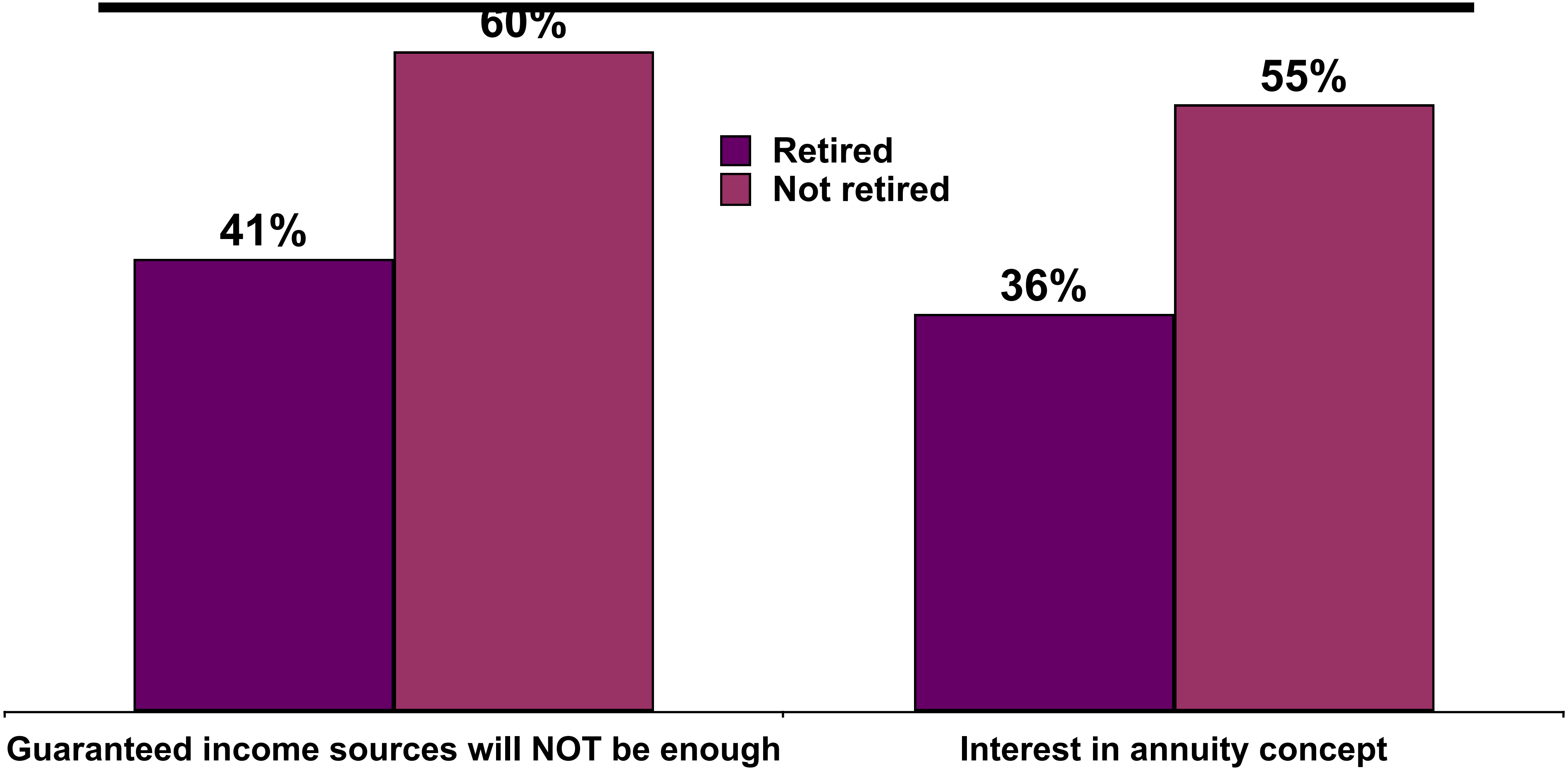


Source: LIMRA International, 2002, Retirement Risks – How They Are Viewed and Managed

Lump Sums and Payout Annuities

- Guaranteed lifetime income has many positive effects
- A majority of people desire guaranteed lifetime income in retirement
- Retirement benefits increasingly available in lump sum form
- Election of lifetime income options is low.

Demand for Annuitization is Significant



Source: LIMRA International, 2004, Retirement Planning – Activities, Advisors, and Risk Management
Note: Respondents have at least $50,000 in investable financial assets

Investment Returns

- Workers have more responsibility than before for managing investments for retirement.
- Many workers misunderstand investment returns and how investment vehicles work.

5-Year Average Annual Return

	Anticipated 5-Year Average Annual Return (mean %)
Stocks on the New York stock exchange	10.9
Bonds issued by large corporate entities	8.1
Money market funds	7.7
Stable value funds	7.6

Source: John Hancock, 2002 Defined Contribution Survey

Investment Risk

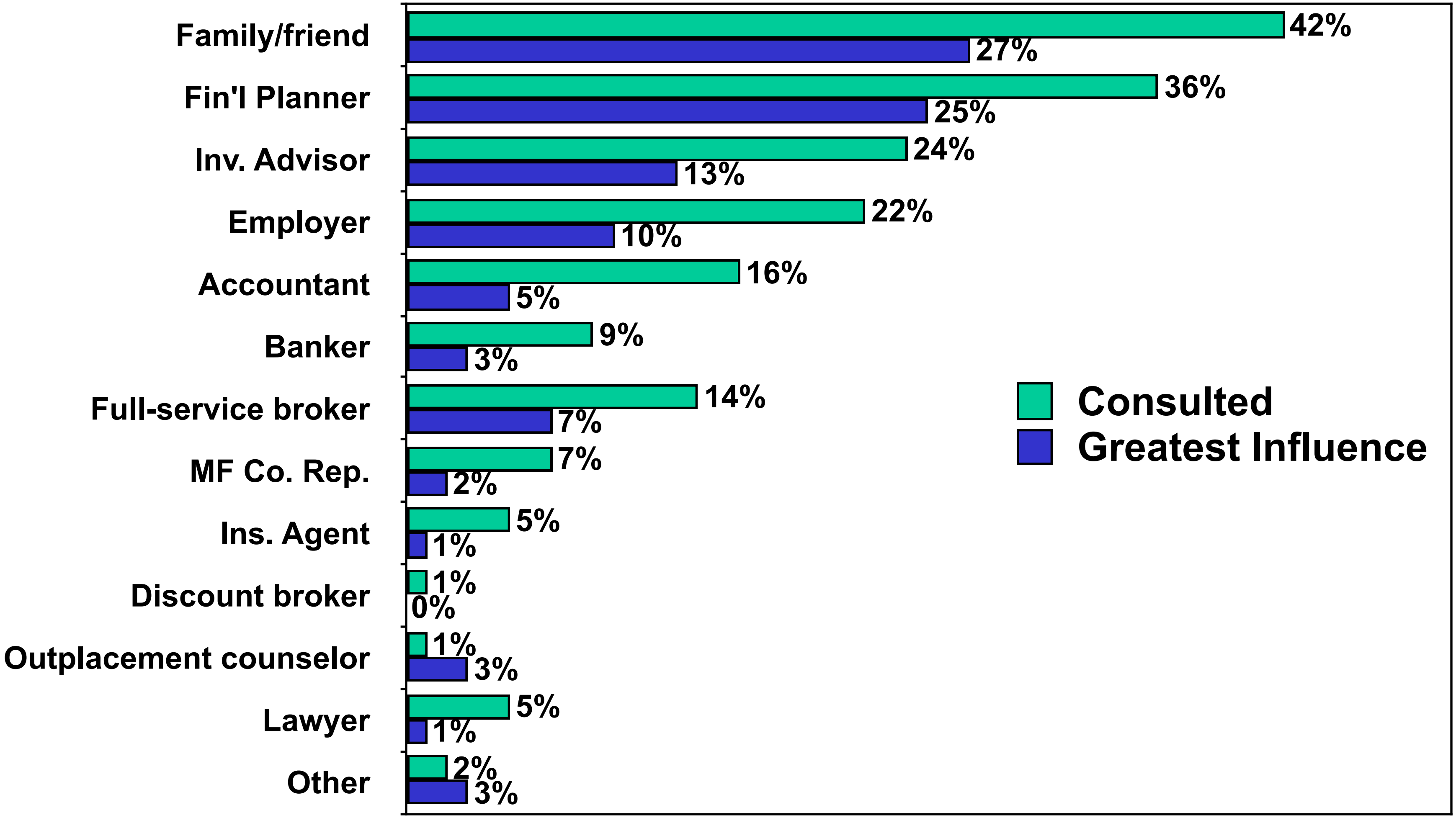
	Average Rating of Investment Risk (5-point scale)
International/global stock funds	4.1
Domestic, diversified stock funds	3.6
Company stock	3.1
Money market fund	2.5
Domestic bond fund	2.4

Source: John Hancock, 2002 Defined Contribution Survey

Financial Planning Help

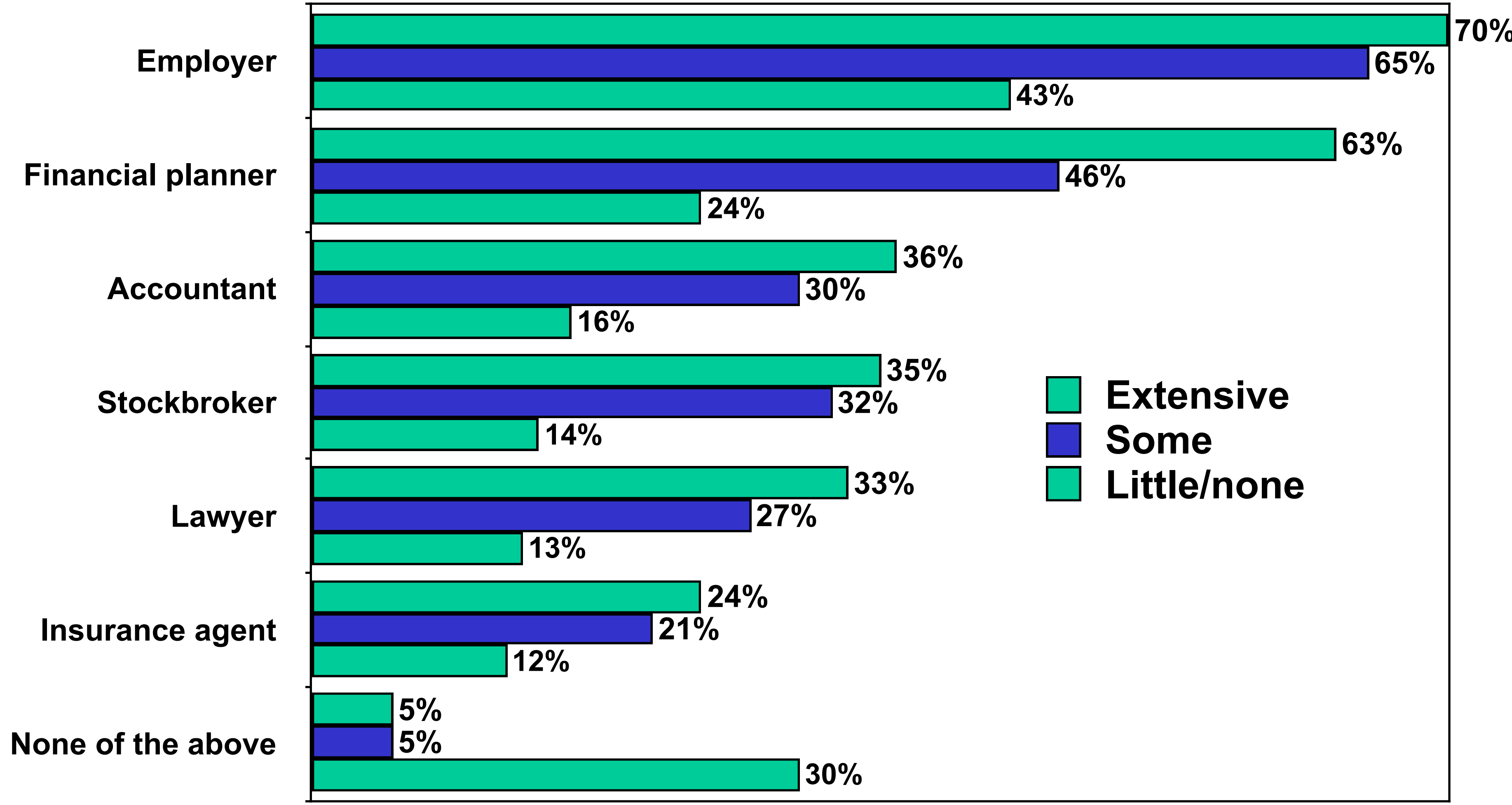
- A significant portion of retirees and pre-retirees do not seek the help of a "qualified professional."
- There are no standards for "qualified professional."
- Yet, there is strong desire to work with a financial professional.

Individuals Consulted for Rollover Decision – Retirees



Source: LIMRA International, 2002, Opportunities in the Pension Rollover Market – Employee Perspective

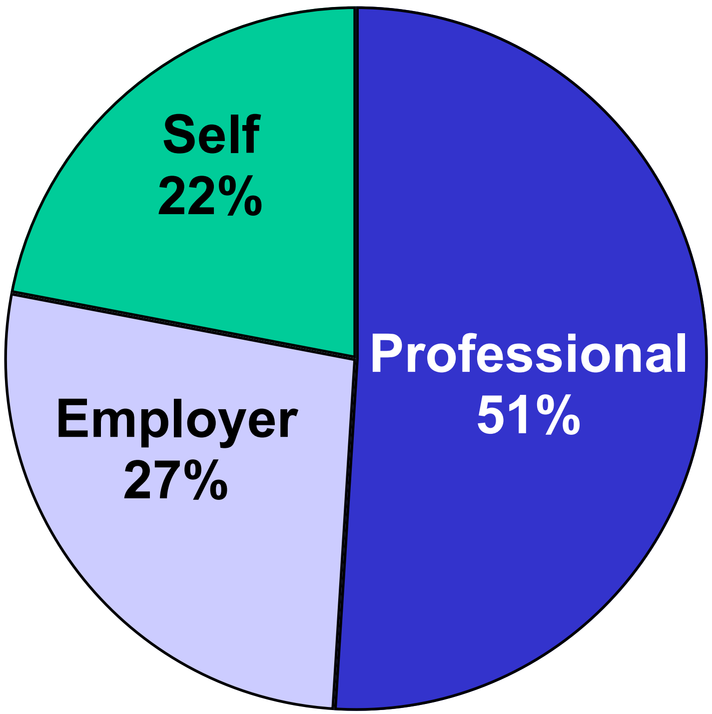
Advisors Used to Plan Retirement – Retirees



Source: LIMRA International, 2004, Retirement Planning – Activities, Advisors, and Risk Management
Note: Respondents have at least $50,000 in investable financial assets

Exclusive Preference for Planning Sponsorship

- **Professionals** preferred overall, especially for **financial risks**
- **DB plan income recipients** prefer **employer-sponsored** planning

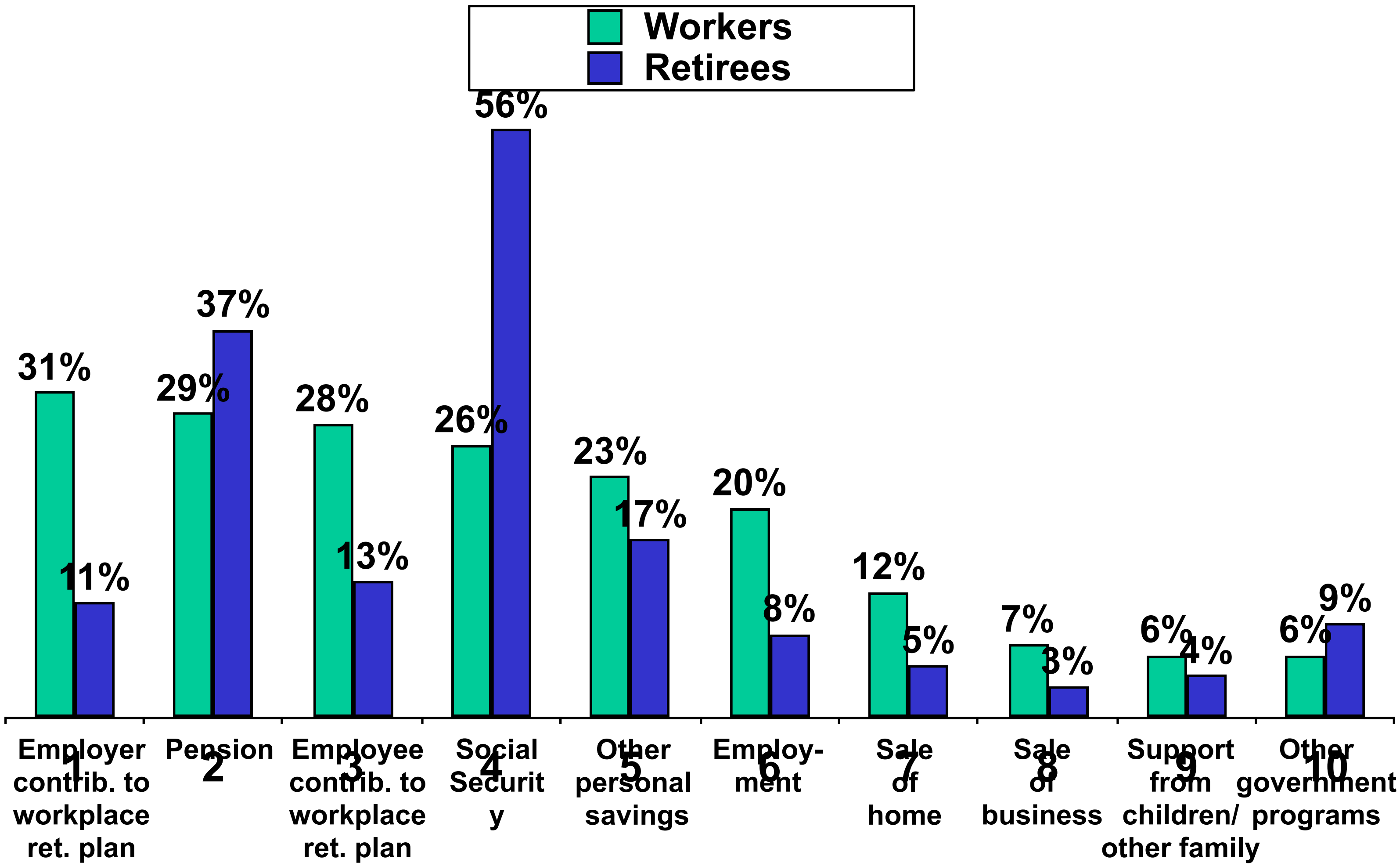


Base = Respondents with exclusive preference for one type of sponsor
Source: LIMRA International, 2004, Retirement Planning – Activities, Advisors, and Risk Management
Note: Respondents have at least $50,000 in investable financial assets

Sources of Retirement Income

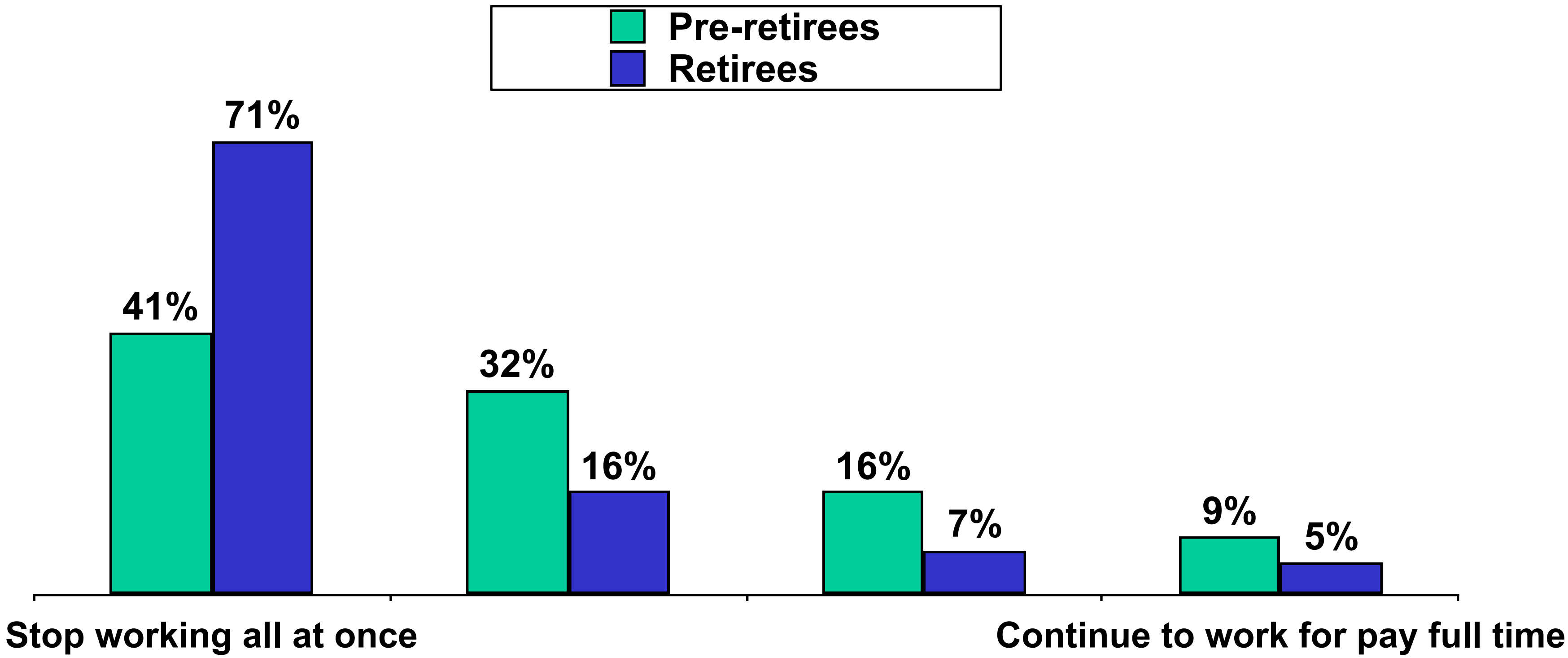
- Workers misunderstand what their primary sources of income will be in retirement.

Expected and Actual Major Sources of Retirement Income



Source: EBRI/ASEC/Greenwald, 2003 Retirement Confidence Survey

Process of Retirement



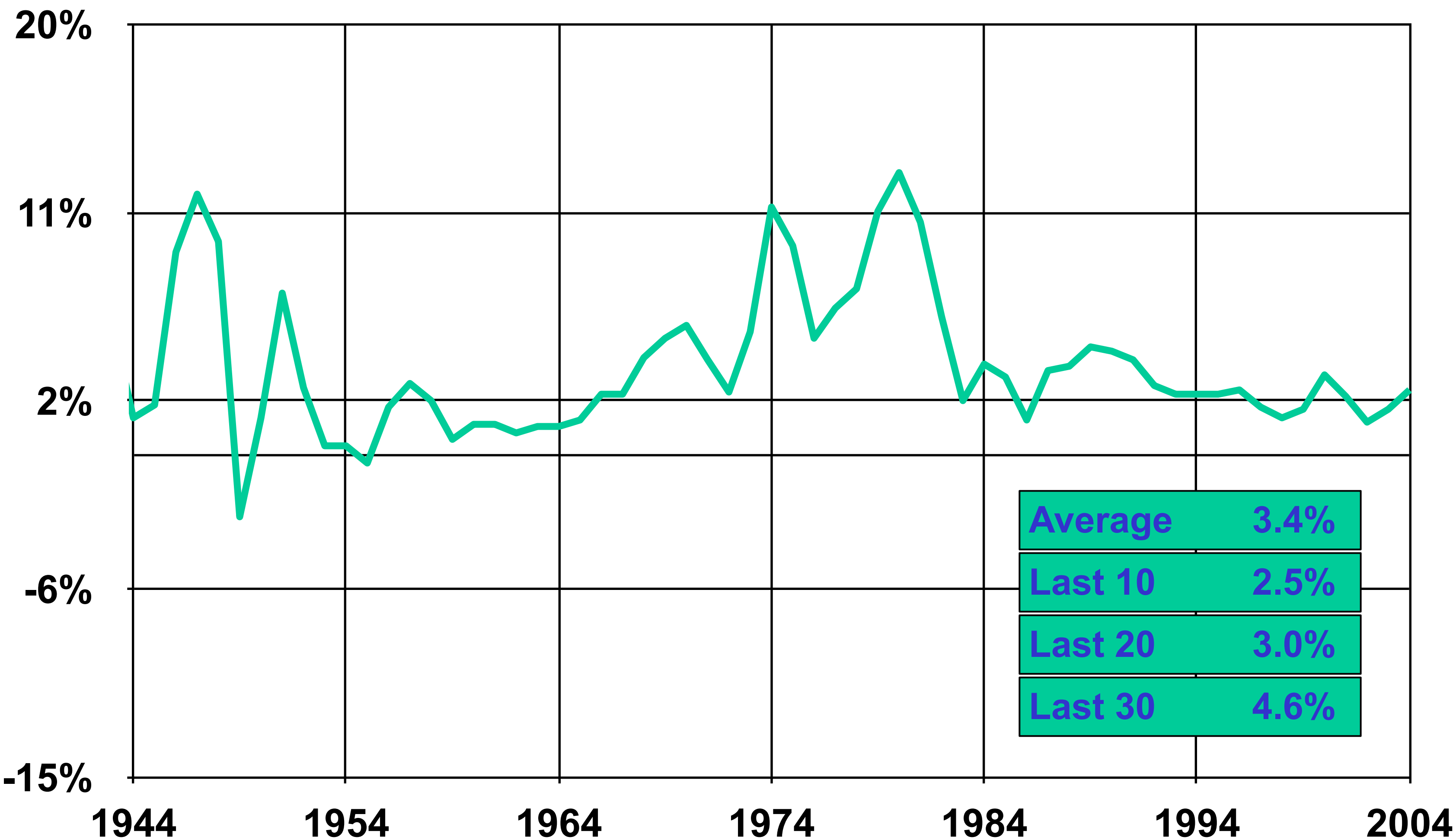
Source: SOA, 2003 Risks and Process of Retirement Survey

Inflation

- Inflation has become a fact of life that for most has been managed through pay increases.

- While many pre-retirees and retirees are concerned about inflation, few have adequate means of managing their incomes on an inflation-adjusted basis.

Inflation Facts – Last 60 years

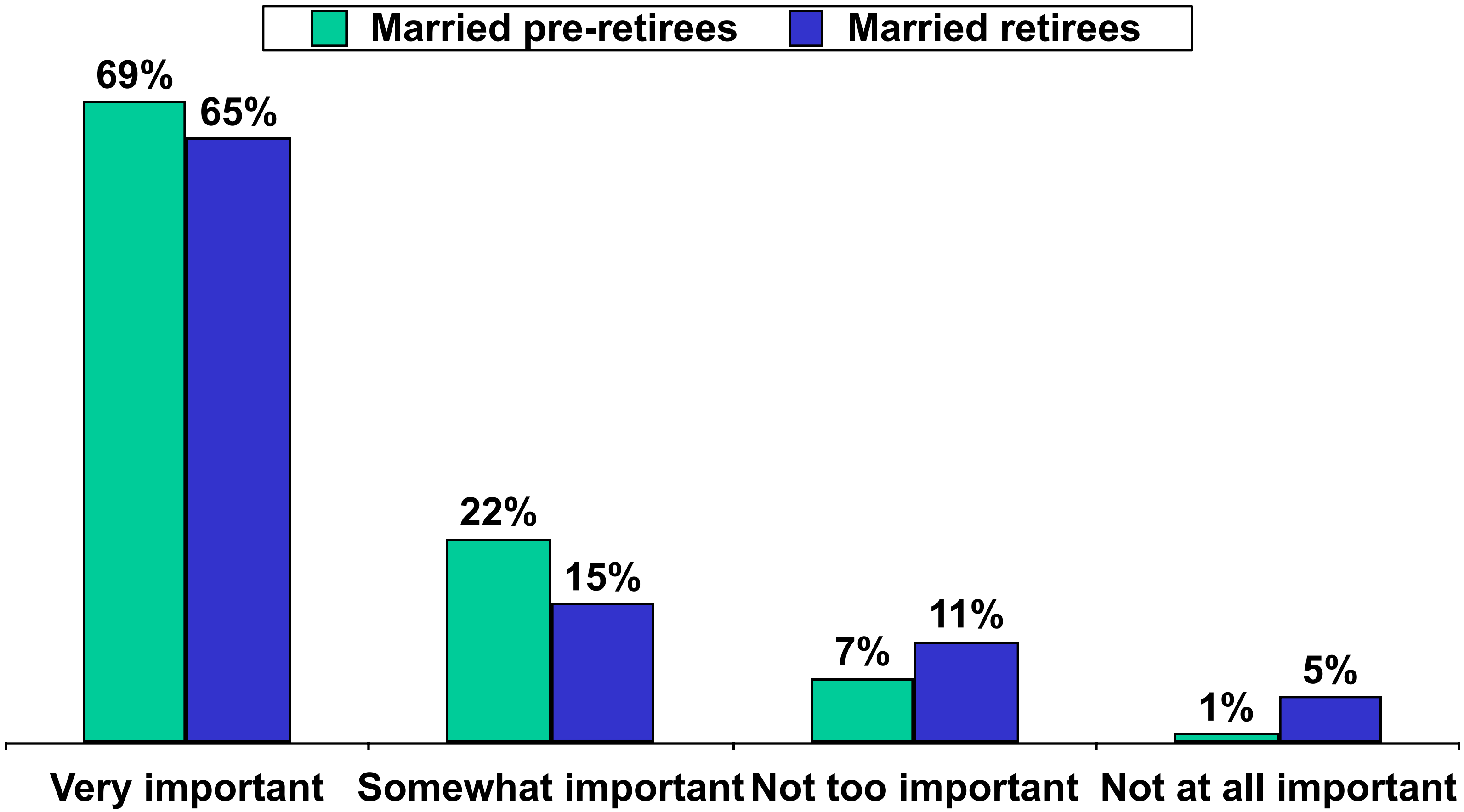


Source: U.S. Bureau of Labor Statistics, CPI-U (all urban consumers), derived from July index values

Impact of a Spouse’s Death

- Many married couples fail to plan for the eventuality that one spouse will die before the other.
- The consequences of not planning can have serious consequences, especially when the survivor is the wife.

Importance of Guaranteed Income for Spouse in Payout Decision



Source: SOA/Academy of Actuaries, 2003 Retirement Plan Preferences Survey

2001 Poverty Rates Among the Elderly

	Poor (%)	Near Poor (%)
Married persons	4	4
Nonmarried men	14	9
Nonmarried women	18	10

Source: Munnell, Alicia H., "Why Are So Many Older Women Poor?," Center for Retirement Research at Boston College, *Just the Facts,* No. 10, April 2004

What Questions Does This Raise?

- What can individuals be expected to do on their own?
- How much choice is desirable?
- How much can education help?
- How important are employer plans?
- How important is a safety net?

Where Should We Go Next?

- Advice to individuals?
- Advice to plan sponsors?
- Policy?