

SOA Research: Misperceptions and Management of Retirement Risks

Actuaries' Clubs of Boston and
Hartford & Springfield Joint Meeting

November 14, 2013

Presenter: Carol Bogosian, ASA
President of CAB Consulting



Agenda

- Background
- Overview of Research
 - SOA Risk Chart
 - Post-Retirement Needs and Risks
 - Bi-Annual Survey
 - Other Areas of SOA Research
 - Retirement Decision Issue Briefs
 - Focus Groups on Retirement Decisions
 - Retirement Income Solutions
- Research Results by Issue
 - Post Retirement Risk Concerns
 - How and When We Retire
 - Work as Part of Retirement
 - Planning for Retirement
 - Understanding Longevity
 - What Changes During Retirement
- Conclusions and Future Insights
- Opportunities for Actuaries



Background

- Personal responsibility for and complexity of retirement security increasing
- Changing US retirement systems – more employer sponsored savings (DC) and fewer traditional pension plans (DB); less employer sponsored retiree health; many DB plans frozen; de-risking of current DB plans
- Social Security and Medicare subject to economic and political issues – may decrease benefits or increase taxation
- Economic instability and turmoil
- Uncertainty surrounding taxation policies
- Definition of “retirement” changing
- As population ages, needs of the very old become more important to the nation and economic stability of government

Important SOA Research About Retirement

3



Overview of Research Overview of Risks – SOA Risk Chart

Longevity, outliving assets, and changes in family structure

Longevity
 Death of a spouse
 Change in marital status
 Unforeseen needs of family members

Financial and economic

Inflation
 Interest rate
 Stock market
 Bad advice, fraud, theft

Health care, long term care and housing

Unexpected health care needs and costs
 Loss of ability to live independently
 Lack of available facilities or caregivers
 Change in housing needs

Business and employment

Public policy

Important SOA Research About Retirement

4



Overview of Research Post-Retirement Needs and Risks

- SOA Committee provides ongoing research: 15+ year effort
- Foundation: Managing post-retirement risks
- Focus: Middle income individual aged 50+
- Members: Broad range of expertise in various fields
- Many gaps in knowledge about retirement
 - Few think long term: planning horizons are short
 - Assets vs. expectations: out of step
 - Major problems with math and financial literacy – lack of investment knowledge
 - Little focus on systematic risk management
- Major method of managing risks
 - Reduce spending
 - Little focus on risk management products
 - Personally assuming retirement risks

Important SOA Research About Retirement

5



Overview of Research Bi-Annual Survey Focused on Post-Retirement Risk Perceptions

- Society of Actuaries Post Retirement Risk Surveys:
 - Every two years in U.S. since 2001
 - CIA conducted similar Canadian survey in 2010
- Core repeated questions
 - Importance of various risks
- Issues of focus in each survey
 - Working in retirement – 2005 and 2011
 - Longevity – 2005 and 2011
 - Impact of economic conditions/decline – 2009 and 2011
 - Women – 2005 and 2009
 - Phases of retirement – 2007
 - Health and long-term care – 2007
- Reports bring in other related research

Important SOA Research About Retirement

6



Overview of Research Other Areas of SOA Research

- Segmenting the Middle Market: Parts I and II
 - Updated to 2010 data
 - Insights from Financial Planners
- Retirement Decision Issue Briefs for Individuals
- Focus Groups on Retirement Decisions (2013)
- Retirement Income Solutions (2013)
- Running Out of Money in Retirement (2012)
- MetLife Family Structures (2012)
- Investing assets in retirement
 - Focus groups
 - On-line surveys in 2008, 2009, 2011
- Monographs and paper calls
- Misperceptions papers
- Projects under development:
 - Risk Survey 2013

Important SOA Research About Retirement

7



Overview of Research Retirement Decision Issue Briefs for Individuals

- Provides guidance for major retirement decisions
- Prepared by retirement professionals for individuals to use
- Eleven issue briefs written in everyday language at <http://www.soa.org/research/research-projects/pension/research-managing-retirement-decisions.aspx>
 - Big Question: When Should I Retire?
 - When Retirement Comes Too Soon
 - Women Take the Wheel: Destination Retirement
 - Deciding When to Claim Social Security
 - Designing a Monthly Paycheck for Retirement
 - Treating Asset Allocation Like a Roadmap
 - Securing Health Insurance for the Retirement Journey
 - Taking the Long-Term Care Journey
 - Where to Live in Retirement
 - Estate Planning: Preparing for End of Life
 - Finding Trustworthy Financial Advice for Retirement and Avoiding Pitfalls

Important SOA Research About Retirement

8



Overview of Research Focus Groups on Retirement Decisions

- Goal was to gain insights into:
 - Why people retire when they do
 - How they assess financial risks in making their decision
- Research conducted in 2013 using:
 - Middle market retirees
 - Ages 63 to 75
 - Retired “voluntarily” within last 10 years
 - Retirees deemed financially resource constrained
 - Household Income: \$25,000 to \$100,000
 - Financial Assets: \$50,000 to \$150,000 and \$200,000 to \$400,000
 - Rental and Pension Income: under \$2,500 per month
- Selected 8 focus groups in 4 geographical regions
- Conducted groups for men versus women separately
- Report published at <http://www.soa.org/research/research-projects/pension/the-decision-to-retire.aspx>

Important SOA Research About Retirement

9



Overview of Research Focus Groups on Retirement Decisions Summary of Key Findings

- Decision to retire based on career or life events (“pushed out”) rather than review or process of “going to” new life stage
 - Many informed spouse who did not discourage them
- Analysis of retirement financial adequacy is basic rather than careful consideration of risks and resources for income
 - Budgeting is cash flow and short term oriented
 - Expense reduction and debt management are major strategies for avoiding running out of money
 - Social Security claiming based on simplified “break-even” analysis
 - Spending strategy is to preserve principal and spend investment, Social Security and pension income only
- Significant differences for women versus men in concerns, expectations and attitudes were observed
 - Caregiving of others primary consideration for retiring – but do not expect caregiving for themselves will be provided
 - More concerned about retirement financial adequacy – but rely on others for financial advice

Important SOA Research About Retirement

10



Overview of Research

Focus Groups on Retirement Decisions Comments from Retirees

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



Overview of Research

Focus Groups on Retirement Decisions 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



Overview of Research Retirement Income Solutions

- Joint research with Stanford Center on Longevity
- Published “The Next Evolution in Defined Contribution Retirement Plan Design: A Guide for DC Plan Sponsors To Implementing Retirement Income Programs”
<http://www.soa.org/research/research-projects/pension/research-2013-next-evol-dc-design.aspx>
- Written for employers and plan sponsors when implementing, administering and communicating retirement income program for DC plan participants
 - Understand existing options
 - Educate about potential issues, solutions and processes
- Develops the case for employers to provide more support for retirement income solutions

Important SOA Research About Retirement

13



Overview of Research Retirement Income Solutions

- Provides information:
 - Available retirement income generators: investment earnings, systematic withdrawals, annuity purchase
 - Key elements of a successful program
 - Key steps for building a retirement income strategy
 - Questions for employers to consider
 - Factors to consider about the income provider
 - Employee advantages from employer-offered retirement income plans

Important SOA Research About Retirement

14



Overview of Research Retirement Income Solutions

- Includes stochastic forecast models on tradeoffs of different retirement income generators
 - Shows annual inflation-adjusted retirement income generated from \$100,000 of retirement savings
 - Considers six retirement income generators readily available to plan sponsors
 - Demonstrates that retirement income generators
 - Produce different amounts of income initially and during retirement
 - Produce different remaining and accessible wealth throughout retirement
 - Demonstrates effect when real results do not meet expected assumptions
 - Produce different results under favorable versus unfavorable economic scenarios

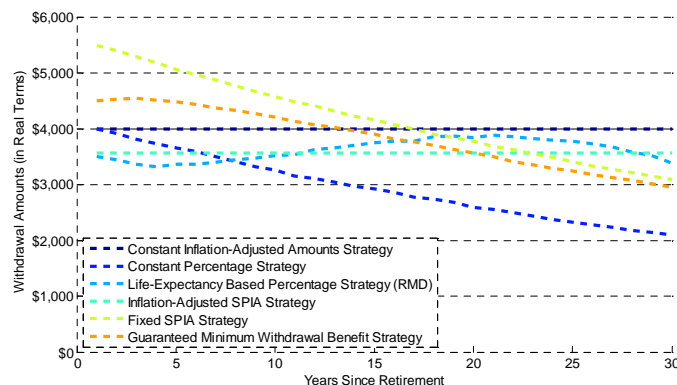
Important SOA Research About Retirement

15



Overview of Research Retirement Income Solutions

Projections of Retirement Income
Real retirement incomes – *expected* scenario 50th percentile
Flat line keeps pace with inflation



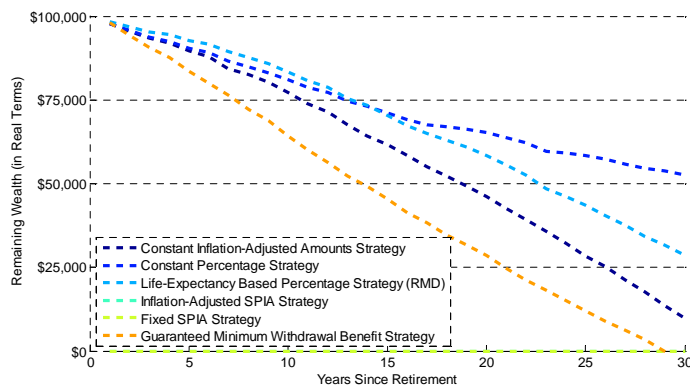
Source: Society of Actuaries, The Next Evolution in Defined Contribution Retirement Plan Design

16



Overview of Research Retirement Income Solutions

Projection of Remaining Wealth
Expected scenario - 50th percentile



Source: Society of Actuaries, The Next Evolution in Defined Contribution Retirement Plan Design

17



Research Results by Issue Overview of 2001-2011 Risk Survey Results

- Persistent gaps in knowledge and understanding
- Significant similarity to Canadian results
- Top risk concerns over entire period: inflation, health and long term care
- Lot of stability after six surveys
- Overall consistent with other research
- Pre-retirees more concerned than retirees in all years
 - In 2011, retirees seem more concerned than in prior years
- Since the surveys started in 2001, two major periods of stock market decline – results seemed affected for the next survey after the decline
- Interest in buying financial products other than supplemental health insurance over age 65 and health insurance at all ages seems low

Important SOA Research About Retirement

18



Research Results by Issue Preview of 2013 Risk Survey Results

- Similar findings and same top risk concerns
- Differences between pre-retiree expectations and retiree actions persist
- Several areas of new or more extensive exploration
 - More on reasons for making retirement decisions
 - More on housing and retirement
 - What would encourage changing residence
 - New questions about what people are planning for and challenges faced in retirement planning
 - New insights on differences by gender
- Will provide relevant insights for planning and education
- Watch for release within next 2-3 months

Important SOA Research About Retirement

19



Post Retirement Risk Concerns Results: Risk Perceptions

- Biggest areas of concern: health care, long-term care, inflation
- Retiree concerns about risk increased in 2011
- Pre-retirees more concerned about risk

Important SOA Research About Retirement

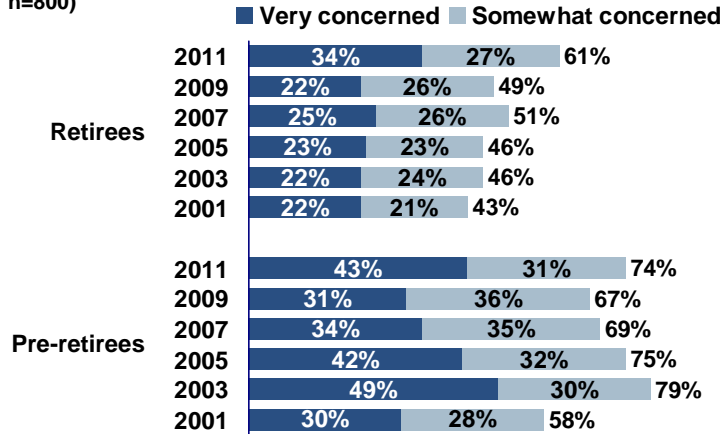
20



Post Retirement Risk Concerns

Retiree concern about health risk increased in 2011

How concerned are you that you might not have enough money to pay for adequate health care (in retirement)? (Retirees, 2011 n=800; Pre-retirees, 2011 n=800)



Source: Society of Actuaries, 2001-2011 Risks and Process of Retirement Surveys

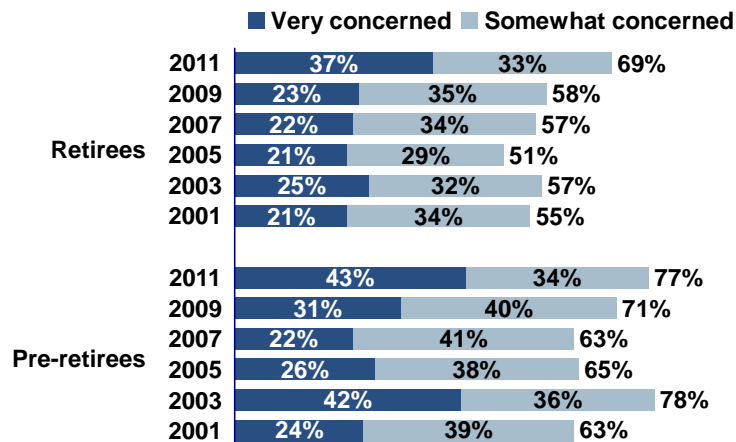
21



Post Retirement Risk Concerns

Retiree concern about inflation risk is up in 2011

How concerned are you that the value of your savings and investments might not keep up with inflation (in retirement)?



Source: Society of Actuaries, 2001-2011 Risks and Process of Retirement Surveys

22



How and When We Retire

- Retirement ages gradually increasing
- Evolving thinking about the life cycle: third age – period of easing into retirement
- Gap between retiree action/pre-retiree expectation
- Many retire involuntarily
- Disability: key issue in thinking about this
- Big question: how will retirement patterns change

Important SOA Research About Retirement

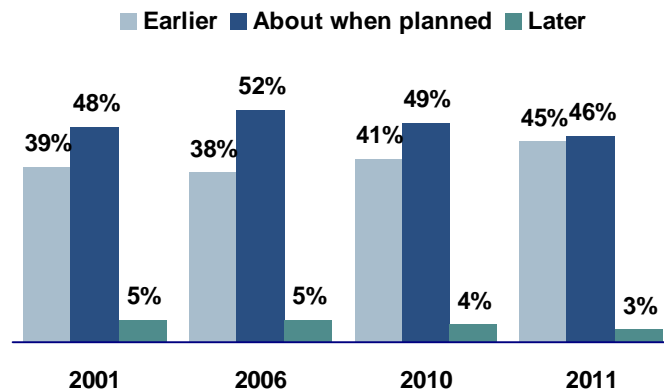
23



How and When We Retire

Many may be ignoring possibility of involuntary early retirement

Did you retire earlier than you planned, later than you planned, or about when you planned? (Retirees, 2011 n=252)



Source: EBRI/Greenwald, 2001-2011 Retirement Confidence Surveys

24



How and When We Retire

Pre-retirees expect to retire later than retirees

At what age did/do you expect to retire from your primary occupation?
 (Retirees retired from primary occupation, 2011 n=765; Pre-retirees expecting to retire, 2011 n=498)

Age category	2009 Retirees (%)	2011 Retirees (%)	2009 Pre-retirees (%)	2011 Pre-retirees (%)
Under 55	28	31	1	1
55 to 61	33	30	24	21
62 to 64	20	21	16	16
65 to 67	12	12	35	38
68 or older	4	4	16	17
Don't know	2	2	8	7

Source: Society of Actuaries, 2009-2011 Risks and Process of Retirement Survey

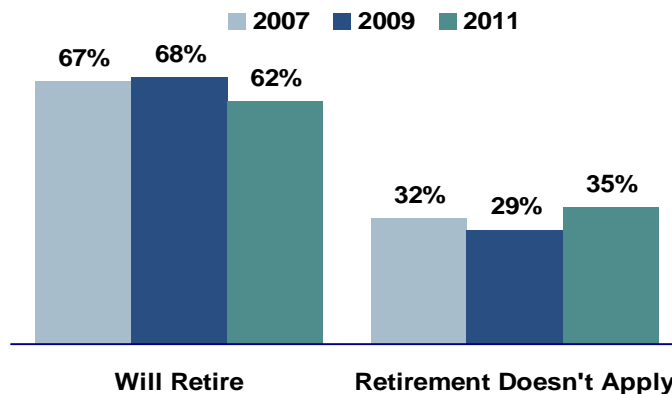
25



How and When We Retire

More than one in three pre-retirees feel retirement won't apply to them

Do you think there will come a time when you begin to think of yourself as retired or doesn't retirement really apply to your situation?
 (Pre-retirees, 2011 n=800)



Source: Society of Actuaries, 2007-2011 Risks and Process of Retirement Surveys

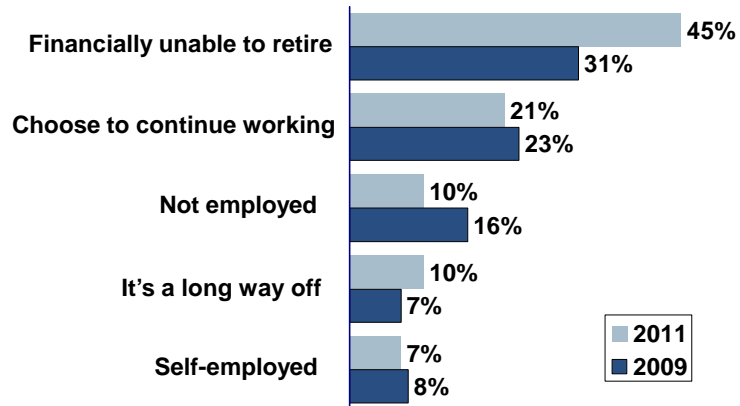
26



How and When We Retire

Mostly this is due to finances or desire to continue working

Why do you say that? (Open-ended question)
(Pre-retirees, 2011 n=302)



Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey

27



Work as Part of Retirement

- About 50% of retirees work in retirement or have bridge jobs
 - Often different roles or schedules
 - Virtually no formal phased retirement (private sector)

Important SOA Research About Retirement

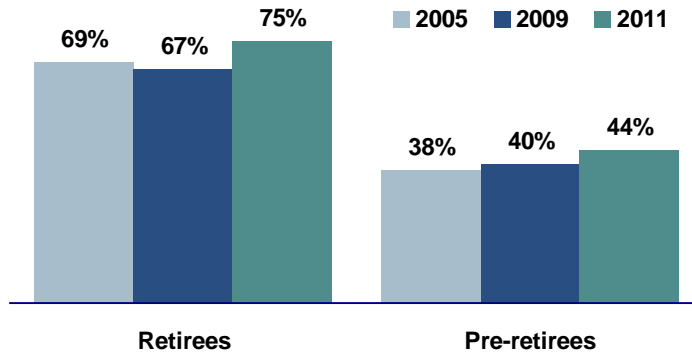
28



Work as Part of Retirement

Less than half of workers plan on stopping work “all at once”

Which statement comes closest to describing how you retired/plan to retire from your primary occupation? (Percent saying stopped/will stop work all at once) (Retirees retired from primary occupation, 2011 n=762; Pre-retirees expecting to retire, 2011 n=497)



Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey

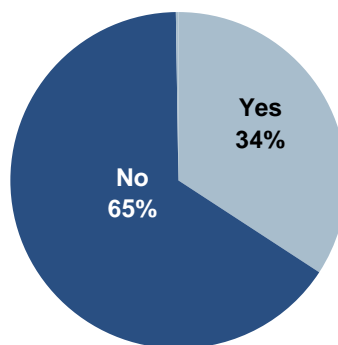
29



Work as Part of Retirement

One-third of retirees who stop all at once return to work

After you retired, did you ever return to paid employment? (Retirees stopping work all at once, n=579)



Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey

30



Planning for Retirement

- Planning horizon is concern
- Little focus on risk management products
- Gaps in understanding – death of spouse
- Gaps in understanding – impact of working longer
- Gaps in understanding – Social Security claiming
- Many people do not understand longevity
 - Particularly variability
 - Tend to underestimate longevity
- People who live longest will have problems
- Housing, a significant portion of middle income assets, is excluded in retirement planning

Important SOA Research About Retirement

31



Planning for Retirement

Half of retirees, fewer pre-retirees have planning horizon < 10 years

When you make important financial decisions, about how many years do you look into the future? (Retirees, 2011 n=800; Pre-retirees, 2011 n=800)

	2009 Retirees (%)	2011 Retirees (%)	2009 Pre-retirees (%)	2011 Pre-retirees (%)
Less than 1 year	10	7	1	3
1 to 4 years	20	15	12	7
5 to 9 years	19	26	24	22
10 to 19 years	16	23	37	37
20 years or more	7	11	13	19
Don't know	27	16	12	10

Source: Society of Actuaries, 2009-2011 Risks and Process of Retirement Surveys

32



Planning for Retirement

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

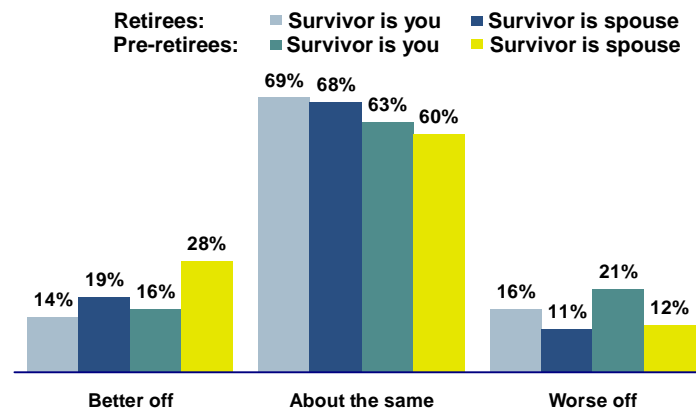
33



Planning for Retirement

Few believe they will suffer financially by 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, 2009 n=249); Pre-retirees, 2009 n=293)



Source: Society of Actuaries, 2009 Risks and Process of Retirement Survey

34



Planning for Retirement

Importance of Housing

Wealth of Middle Income Households Age 55 to 64

Analysis based on 2010 Survey of Consumer Finances

Household Type	Number of Households	Median Income	Est. Median Net Worth	Non-Financial Assets	Financial Assets	Non-Financial Assets %
Middle Mass Households (25% to 75% of households by income)						
Married	5.7 million	\$82,000	\$277,000	\$181,000	\$96,000	65%
Single Female	2.7 million	\$32,000	\$41,000	\$34,000	\$7,000	83%
Single Male	1.8 million	\$44,000	\$76,000	\$63,000	\$13,000	83%
Middle Affluent Households (75% to 85% of households by income)						
Married	1.1 million	\$146,000	\$1,241,000	\$671,000	\$570,000	54%
Single Female	0.5 million	\$64,000	\$185,000	\$117,000	\$68,000	63%
Single Male	0.4 million	\$85,000	\$339,000	\$214,000	\$125,000	63%

Note: Financial assets exclude the value of defined benefit pensions and Social Security.
 Source: Society of Actuaries – Segmenting the Middle Market: Retirement Risks and Solutions, Update to 2010 Data.

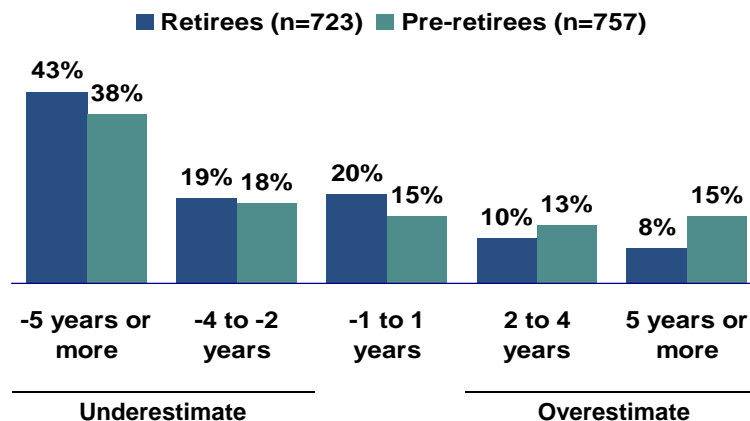
35



Understanding Longevity

People tend to underestimate population life expectancy

Difference between respondent estimate of population life expectancy and actual population life expectancy (among those providing an estimate)



Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey

36

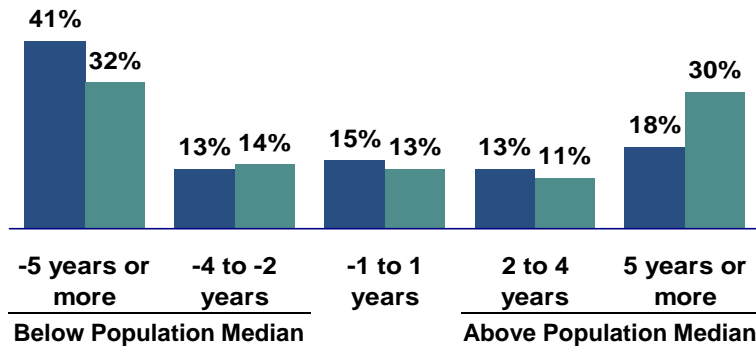


Understanding Longevity

But they do a slightly better job of estimating personal life expectancy

Difference between respondent estimate of personal life expectancy and actual population life expectancy (among those providing an estimate)

■ Retirees (n=708) ■ Pre-retirees (n=739)



Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey

37

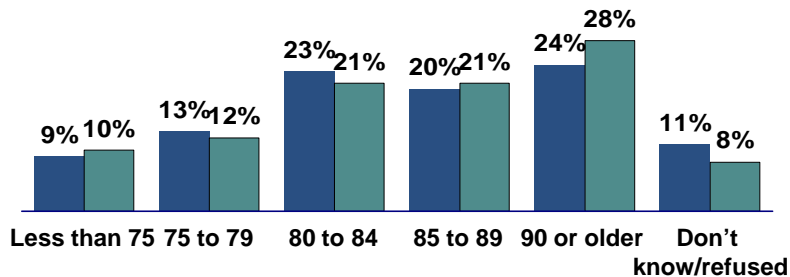


Understanding Longevity

Many expect to live well into their 80s

Until what age do you think that you, yourself, can expect to live?

■ Retirees (n=800) ■ Pre-retirees (n=800)



Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey

38



What Changes During Retirement Phases of Retirement

- Income
- Health status and life expectancy
- What people say and expect
 - Expectations about change and planning for it
 - Special focus of 2007 SOA Risks and Process of Retirement Survey
- What people do
 - Urban Institute analysis looks at time use and types of activity
 - Analysis of HRS Data by Barbara Butrica of Urban Institute

Important SOA Research About Retirement



What Changes During Retirement What changes by age: Percentage of individuals by marital status, sex and age

	Age 65-74	Age 75-84	Age 85 +
MALES			
% Married	78%	74%	60%
% Widowed	8%	17%	34%
FEMALES			
% Married	57%	38%	15%
% Widowed	26%	52%	76%

Source: Rappaport, Anna, Risk Management Issues for Individuals with Special Emphasis for Women, Exhibit VI, Society of Actuaries Living to 100 Monograph, 2011



What Changes During Retirement

What changes by age: Median total income and reliance on Social Security

	Age 65-69	Age 70-74	Age 75-79	Age 80+
Median Total Income				
Married	\$47.3	\$39.9	\$33.3	\$30.6
Not married	\$19.0	\$16.1	\$15.9	\$14.7
Percent relying on Social Security for more than				
50% of income	41%	55%	63%	71%
90% of income	20	27	32	37

Note: Income is in thousands

Source: Rappaport, Anna, Risk Management Issues for Individuals with Special Emphasis for Women, Exhibit III, Society of Actuaries Living to 100 Monograph, 2011

41



What Changes During Retirement

Division of Life Expectancy (in years) by Health Status (U.S. Data)

Age	Non-Disabled	Mild or moderate disability	More severely disabled	Total Life Expectancy
		MALES		
65	12.34	1.50	1.50	15.33
75	6.77	1.37	1.61	9.76
85	2.89	1.04	1.75	5.68
95	.81	.61	1.91	3.34
		FEMALES		
65	13.65	2.97	2.83	19.44
75	6.99	2.55	2.96	12.50
85	2.47	1.74	3.03	7.24
95	.52	.78	2.54	3.84

Source: Rappaport, Anna, Risk Management Issues for Individuals with Special Emphasis for Women, Exhibit VIII, Society of Actuaries Living to 100 Monograph, 2011

42



What Changes During Retirement

Half think their increasing needs will require more income

During this time, do you think you will need less money, more money, or about the same amount of money as before to cover your expenses? (Among those experiencing each stage)

	Less Active Stage		Least Active Stage	
	Retirees (%) (n=284)	Pre-retirees (%) (n=337)	Retirees (%) (n=260)	Pre-retirees (%) (n=266)
More money	50	42	56	55
About the same amount of money	40	38	33	34
Less money	6	17	6	9
Don't know	4	3	5	3

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

43



Conclusions and Future Insights

- Misperceptions still exist after 25+ years of experience with DC plans and IRAs
- Lot of stability in risk perceptions in spite of investment market instability and move away from DB plans
- Unclear if the economic downturn will lead to better longer-term management/planning
- Longer-term risk management is very difficult for individuals
- Few workers are prepared for the risk of a sudden and unplanned early retirement
- Low appetite for guaranteed income products and persistent feeling that people can do it on their own
- Widows and very old will continue to be vulnerable

Important SOA Research About Retirement

44



Conclusions and Future Insights (continued)

- Women's retirement security has changed slowly but not improved very much
- Working longer is very important for many people
- A strong retirement system must include programs that work for those who will not take the initiative
- Education is important, but it cannot be the primary strategy and there are limits to what it can accomplish
- Big unresolved policy issues exist – but little immediate expectation of moving forward
 - Key to keep Social Security and Medicare strong
 - Support for employer plans mixed but plans important
 - Little focus on supporting longer work and its importance
 - Taxation policy may have detrimental effects on retirees
- Individual action will continue to grow in importance

Important SOA Research About Retirement

45



Opportunities for Actuaries

- Joining in SOA committee work
- Sharing SOA research with your clients/employer and using it in your work
- Introducing retirement concepts to interested education and community groups
- Sharing expertise with other professionals servicing the employee and retiree population
- Assisting clients and human resource professionals to understand the issues and develop employee programs that build long-term retirement security

Important SOA Research About Retirement

46



Opportunities for Actuaries (continued)

- 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?
 - 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 expertise can we share with financial planning professionals as motivating individuals to plan for retirement is extremely difficult?
- Given how people make decisions, how do we help them better manage pools of assets prior to and in retirement?

Important SOA Research About Retirement

47



For SOA Research Reports and More Information

- All of the reports discussed are available on the Society of Actuaries website at:
 - <http://www.soa.org/research/research-projects/pension/research-post-retirement-needs-and-risks.aspx>
- For more information about SOA Research – contact SOA Research Actuary Steve Siegel at
 - 847-706-3578
 - ssiegel@soa.org
- For information about the Post Retirement Needs and Risks Committee – contact Anna Rappaport, Chairman at anna@annarappaport.com
- For more information about this presentation – contact Carol Bogosian at cbogosian@aol.com

Important SOA Research About Retirement

48

???

Questions

???

Presenter: Carol Bogosian, ASA
President of CAB Consulting

